The Baltic Way 30

BTA Baltic Insurance Company AAS

Annual report

For the year ended
31 december 2019

Contents

Information about the Company

Name of the company	BTA Baltic Insurance Company
Legal status of the company	Joint Stock Insurance Company
Number, place and date of registration	40103840140, registered in Riga, Latvia on 28 October 2014
Address	Sporta 11, Riga, Latvia, LV-1013
Management Board members and their positions	**Wolfgang Stockmeyer** – Chairman of the Management Board **Oskars Hartmanis** – Deputy Chairman of the Management Board **Evija Matveja** – Member of the Management Board **Tadeuš Podvorski** – Member of the Management Board
Supervisory Board members and their positions	**Peter Franz Höfinger** – Chairman of the Supervisory Board from 27.05.2019 **Franz Fuchs** – Deputy Chairman of the Supervisory Board from 27.05.2019; until then Chairman of the Supervisory Board **Elisabeth Stadler** – Deputy Chairlady of the Supervisory Board **Jan Bogutyn** – Member of the Supervisory Board **Artur Borowinski** – Member of the Supervisory Board
Reporting period	01.01.2019 – 31.12.2019
Auditors	KPMG Baltics AS Vesetas iela 7, Riga, Latvia, LV-1013 Licence No 55

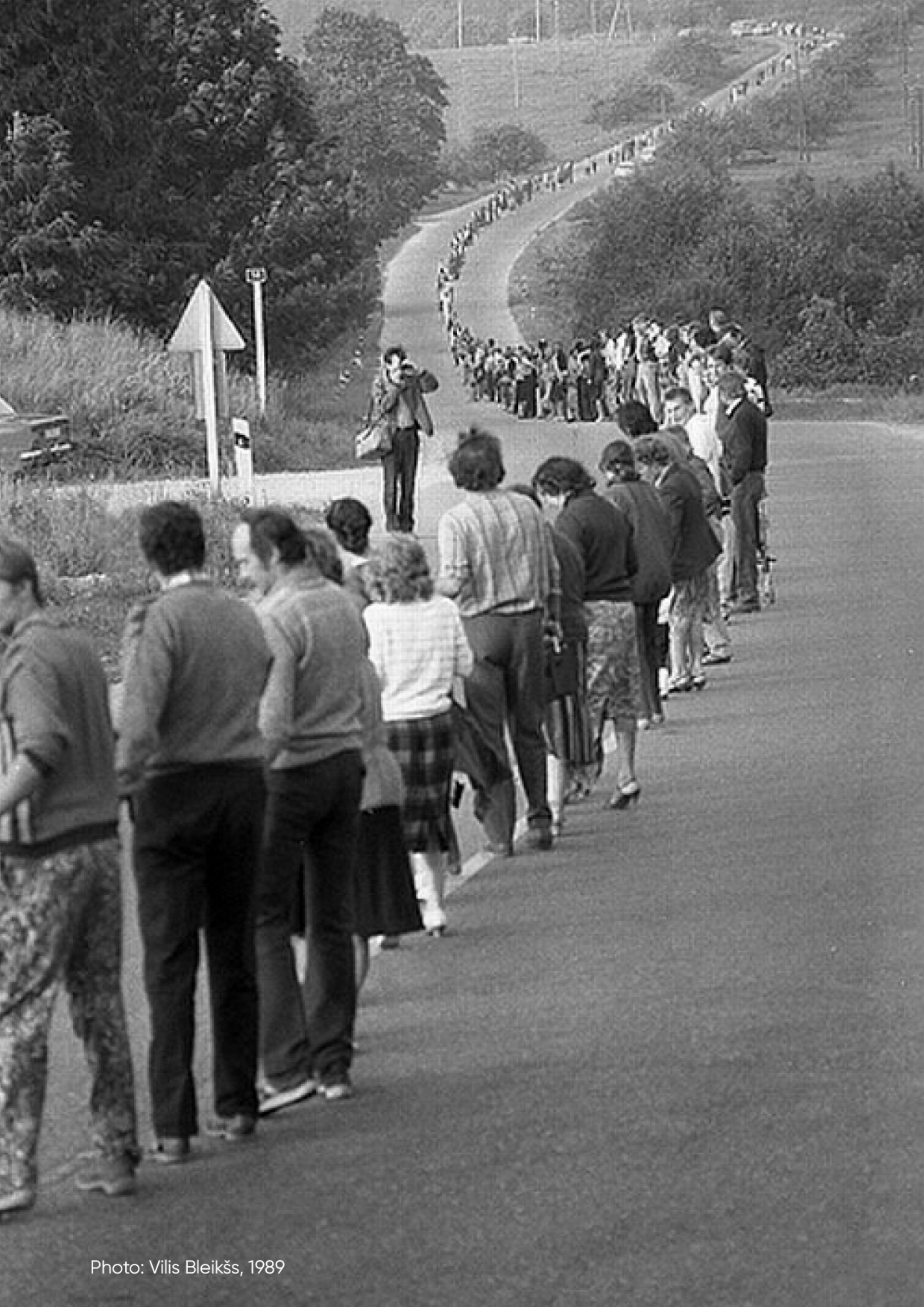


Photo: Vilis Bleikšs, 1989

Baltic country independence and unity symbol – **unified road we are taking**

In 2019 all three Baltic countries commemorated 30 year anniversary of an important event. This symbol of regaining of independence is **the Baltic Way**. On 23 August 1989 approximately 2 million inhabitants of Latvia, Lithuania and Estonia joined hands in 600km long **Baltic Way**, that passed through all three Baltic countries, asking to allow Baltic countries to gain independence.

That was a mighty proof that all three nations could join hands and certify a unified strive for freedom. **The Baltic Way** was the most remarkable and significant activity undertaken by the three countries that concluded successfully – Latvia, Lithuania and Estonia gained free country status and encouraged similar events in other parts of the world.

The Baltic Way is an affirmation of Baltic country inhabitants' ability to believe in common goal, democratic ideas and unified achievement. **The Baltic Way** did not leave behind indifferent people in any of the nations as almost in all families there is someone who stood in the human chain, shoulder to shoulder with people they didn't know, but their fellow countrymen. The feelings were unique and indescribable, but there was certainty that it is the right time to act as the future happiness is in each person's own hands. This is not the first nor will be the last time when Latvians, Lithuanian and Estonians joined their efforts to achieve something great.

Management Report

BTA Baltic Insurance Company AAS (BTA or the Company) is one of the leading insurance companies in the Baltic States with stable and positive growth. BTA offers the broadest range of non-life insurance services in the Baltic States – Latvia, Lithuania and Estonia. The largest shareholder of the Company is Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) with close to 200 years of experience in the insurance business. VIG has more than 25,000 employees in 50 insurance companies and is represented in 25 countries. VIG is a prominent leader in its core markets in Europe with a high financial stability rating – Standard & Poor's A + (stable outlook), listed on the Vienna and Prague stock exchanges.

About BTA

In 2019, the Company continued its steady development in the Baltic market, pursuing its business strategy's goal – being the first choice for insurance policy holders. Along with defining the drivers of its strategy – innovation and people – the Company has been purposefully improving its internal processes to create an environment that would promote faster development of innovation and of its employees. The Company's emphasis is on high value and good reputation of the its brand, firmly holding on to the existing Company values – accessibility, humanity and credibility – while offering high-quality insurance services that meet customer requirements, by means of the cutting-edge technologies employed to promote the Company development, thereby ensuring stability and safe compliance with the Company's commitments. The Company is characterized by enthusiastic and professional team that believes in technologic development, giving BTA the competitive edge in terms of speed, productivity and comfort. The mission of BTA is the Company's growth sustained by fair cooperation with our customers and business partners. Responsibility made simple!

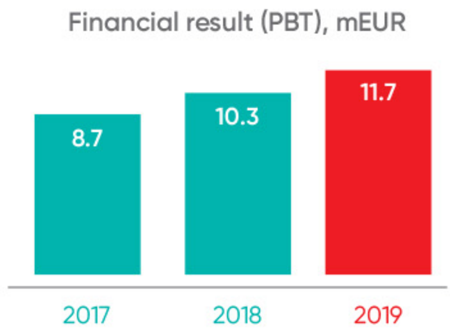
The Company's Management Board represented by the Chairman Wolfgang Stockmeyer, Deputy Chairman Oskars Hartmanis, and Members Evija Matveja and Tadeuš Podvorski, set forward development and reinforcement of the Company positions in the Baltic markets as the Company's main tasks for 2019.

The Company's main focus in year 2019 remained on increasing its business volume while maintaining profitability in all insurance segments in the Baltic States. The Company achieved these goals by seeking new and innovative ways how to meet customer and partner demand for easy and fast everyday insurance services, simplifying internal processes, strengthening and further diversifying its insurance portfolio, improving business processes in all operational areas, strengthening customer service and further development of online communication channels. Increased attention was paid to the development of information technology solutions, which contributed to reduction of the administrative costs and had a positive effect on the Company's financial results. A number of major improvements to information technology systems have been launched, unifying the solutions used across the Baltic countries so that they can be used by the Company's employees on a day-to-day basis.

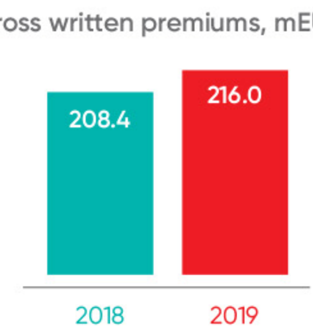
BTA team consists of excellent insurance industry specialists, who are able to agree on common goals and move towards them at the Baltic level. Unity is a tradition of the nations of the Baltic States that has been around for centuries. One of the most striking events of the last decades, which once again proved the ability of the Baltic nations to move bravely and steadfastly towards the goal, was the Baltic Way. Also in 2019, celebrating 30 years since this landmark event, residents of Latvia, Lithuania and Estonia are proud to remember their experiences on the Baltic Way. It reminds us of our common position in day-to-day life and helps us move forward faster, achieving even greater success.

Financial information

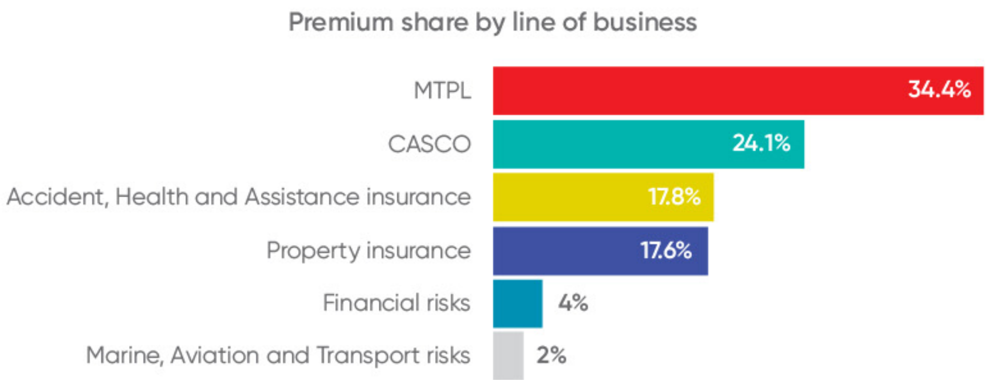
In year 2019 the Company succeeded in achieving its financial goals by demonstrating both strong growth of business volumes and excellent financial results.



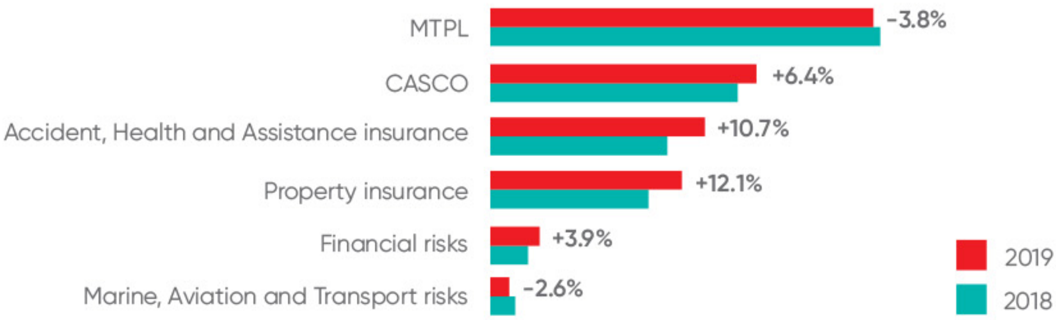
Thanks to the business growth, improvements in pricing of insurance products, further development of internal processes and information technology solutions, the Company succeeded in achieving impressive financial results. The total profit before tax reached EUR 11.7 million while net profit in the year 2019 amounted to EUR 10.6 million, an increase by 16% compared to 2018.



The Company's gross written insurance premiums (after mandatory fees) amounted to EUR 216 million in the Baltic States, showing an increase by 4% compared to the results of year 2018. The Company achieved significant premium growth in all main voluntary insurance lines of business, particularly in Property insurance (+12%), Accident, Health and Assistance insurance (+11%), Motor insurance line (CASCO) (+6%). The volume of motor third party liability insurance (MTPL) premiums decreased by 4% in the reporting year compared to 2018 due to intense competition.

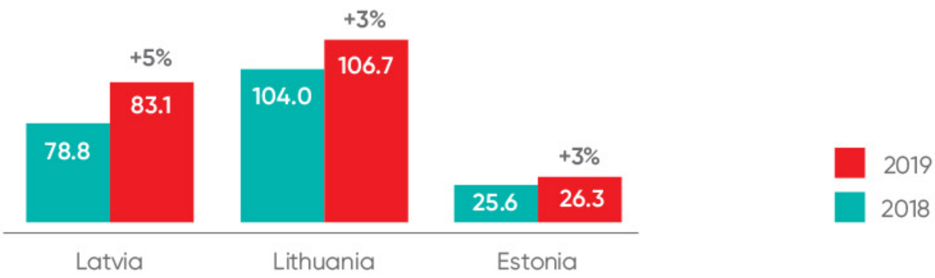


Premium growth by line of business



The Company steadily increased its premium volume in year 2019 in all Baltic countries – in Estonia to EUR 26.3 million (+3% compared to year 2018 volume), in Lithuania to EUR 106.7 million (+3%) and in Latvia to EUR 83.1 million (+5%).

Gross written premium



In voluntary insurance lines of business, the Company outperformed the market in 2019, which allowed the Company to strengthen its market position and increase its market share in important lines of business in all three Baltic countries, particularly Property and CASCO. The Company was firmly the second biggest insurance company in Latvia and Lithuania with market shares of 19% and 16%, respectively. On the highly segmented Estonian insurance market the Company was steadily gaining on the market leader group and ranked on sixth position with the market share of 7%.

In year 2019 the Company strengthened its position as a leading insurance company on the Baltic insurance market and proved that it is a key market player in the main market segments – Motor insurance lines in Lithuania and Latvia, Health and other Personal risk insurance in Latvia, Financial risk insurance in Latvia and Lithuania, General third party liability insurance in Lithuania.

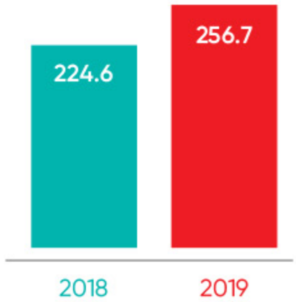
One of the major keys for these achievements was the increase of number of customers in the Baltics in the year 2019 compared to the previous year by 3%, to 490 thousand private and corporate customers. This achievement was possible thanks to both, the continuous development of online communication channels and strengthening of its regional customer service networks in Latvia and Lithuania, which allows the Company to service its customers in the way that most suits them and builds a firm foundation for the future growth. Significant investments were made in strengthening cooperation with corporate partners – brokers, tourism companies and agents throughout the Baltic States.

Following the growth of the insurance premiums volume, the volume of insurance claims paid out by the Company, increased by 18% in 2019 and reached EUR 138.8 million. The Company paid out about EUR 555 thousand on average during every business day in 2019, which is approximately EUR 70 thousand every business hour – an increase by EUR 11 thousand compared to 2018.

The increase in volume of insurance claims was significantly affected by market trends – such as increasing prices for car repair works and medical services, increased expectations of future price inflation, indexations of pensions, and increased costs for claims outside of the Baltic States caused by increased mobility of the population. In order to mitigate the impact of these events and to be able to offer its customers prices that adequately reflect the risks the Company assumes, the Company set even more careful pricing for insurance products.

The total size of investment assets under management of the Company increased to EUR 256.7 million by the end of 2019. In the reporting year, the Company exercised conservative approach towards the investment policy based on low risk assets. The Company mostly invested in government debt securities with high investment rating (between A and AAA according to international rating agency Standard & Poor's classification). The ratio of such investments constituted 67% of the total volume of the Company's investments at 31 December 2019.

Investment assets under management, mEUR



Insurance market profile

The development of the Baltic insurance market in 2019 is characterized by fierce competition in all types of insurance, especially MTPL and CASCO. This factor limited the growth of premiums in both types of motor insurance, which according to the Company's estimation reached only 2% in MTPL and 3% in CASCO against 2018. Despite the fact that, in 2019, MTPL and CASCO were the largest types of insurance in the Baltic non-life insurance market in terms of premiums, their total share decreased to 56% of the total premium volume in the market.

In contrast, several forms of voluntary insurance showed much more active development. According to the Company's estimates, gross written premiums in Property insurance increased by 10% compared to the previous year. The share of Property insurance in the total volume of premiums in the Baltic market increased to 20% in 2019, and the Company expects that this type of insurance will increase in importance in the coming years as the purchasing power of the population and a better understanding of the importance of insurance increase.

In the reporting year, high growth rates were also achieved in personal risk insurance lines of business - Health insurance, Assistance and Accident insurance, which increased by 11% compared to 2018.

Market premium volume in Health insurance grew in the Baltics by 12% compared to last year, showing that employers more frequently complement motivation and social guarantee programme packages for their employees with health insurance coverage. In 2019, particularly active Health insurance developed in the Lithuanian and Estonian markets. In 2019 in Latvia, the Company continued to operate as a leader in the health insurance market with a market share of 23%.

The same increase in premiums in the Baltic market in 2019 was achieved by Assistance insurance, where the volume of premiums increased by 12% compared to 2018 according to the Company's estimations. Among other types, general liability insurance also showed significant growth rates: + 10% compared to the premium volume in 2018.

Major events and development

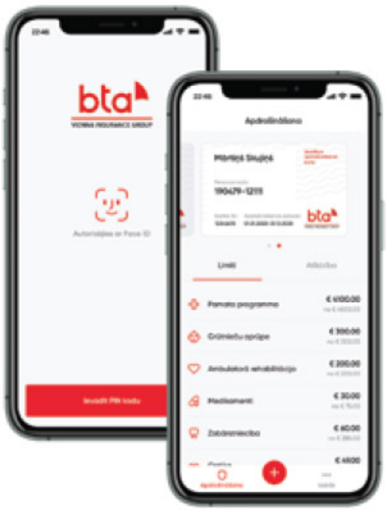
Digitalisation of BTA

In 2019, BTA actively worked on the development of internal information systems and digital channels. One of the projects was developed thanks to a major prize in the VIG Xelerate program, which aims to encourage group companies to develop digital innovation projects. BTA received this award for its initiative to improve the claims regulation process. Since the end of 2019, the process of handling claims for Assistance insurance submitted on the BTA Client Portal is automated, thus reducing the time for decision making and allowing the client to receive a claim disbursement even on the same day as application.

Similarly, one of the most ambitious projects launched in 2019 is the replacement of the insurance system at the Company's Lithuanian branch and the improvements of the related systems and processes. The Company also continues to make continuous improvements at the Baltic level in the development of other digital channels and systems, improving the efficiency, speed and quality of BTA.

Health insurance application

In 2019, continuing the development of the priorities set by the BTA's strategy, the Company focused on improving active, innovative and thoughtful internal processes across the Baltic countries. One of the most significant events at the end of 2019 was the BTA Management's presentation to employees of the new solution for Health Insurance Policy in 2020. Company's employees now have access to digital health insurance cards in the BTA application, which makes it easy to review the limits of the insurance policy granted to the respective person and to quickly apply for insurance claims. It is with its simplicity, speed and capabilities that the BTA application solution stands out in the insurance market.



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Improvements in process of local decision-making and creation of new departments

In 2019, the composition of the Executive Board of the Company`s Lithuanian Branch, which can take local decisions individually, were strengthened. Thus, making local decision-making process faster, and consequently enhancing the Company's ability to be more flexible and responsive to the changes in the market.

An Investigation Department was created in order to comply with the established practice in the shareholders' companies – for dealing with preventing and detecting fraudulent claim cases – and to unify this system across all VIG Group companies in the Baltics.

One of the driving forces of BTA Strategy 2019-2021 is certain innovations. They are promoted by BTA by simplifying processes, advancing new projects and developing the digital sphere. To this end, the Business Innovation Department was established with the main task of designing and managing various projects to promote BTA's innovative cultural development, new and modern approach to customizing insurance services and simplifying processes.

New Director for the Company's Estonian Branch and renovated office

On 1 February 2019, Hiljar Kõiv took over the position of Director of the Company's Estonian branch. Until then, the duties of this positions was performed by Deputy Chairman of the Board Oskars Hartmanis. However, in 2018 the Management Board decided to look for an insurance professional in Estonia in order to further strengthen the unity of the team and transfer the management of the branch entirely to local Estonian colleagues. Hiljar Kõiv has over 15 years of considerable insurance experience. In addition, at the beginning of 2019, the renovated office of the Estonian branch was opened, which strengthened the loyalty of the employees as well as the recognition of customers and partners.

New member of the Executive Board of the Company`s Lithuanian Branch

In December 2019, Laima Sereičikaitė, a new member of the Executive Board of the Company`s Lithuanian Branch, started to work. She has accumulated more than 20 years of insurance experience in various positions. Laima Sereičikaitė is responsible for customer service and corporate customer service in the BTA's Lithuanian Branch.

Approval of the BTA Baltic Corporate Social Innovation Strategy 2020-2022

As a responsible company with a forward-looking perspective on its own development and that of the community as a whole, the Company has supported several significant projects in the Baltics each year. At the end of 2019, the Company approved the Corporate Social Innovation (CSI) strategy with several directions in order to strengthen the overall direction and work in specific directions that would be clear to potential beneficiaries.

The main goal of the strategy is to support initiatives that contribute to the citizens and entrepreneurs of the Baltic States and, in the long run, to the development of BTA's business. The Company provides support to individuals or businesses across the Baltics in one of the three areas: health, social responsibility and the arts. CSI strategy is driven by innovation, which means the Company's focus is on innovative and creative solutions with long-term impact on citizens and BTA's business; as well as on people, with an emphasis on addressing social challenges, developing new initiatives with governmental institutions, non-governmental organizations, clients and / or collaborators in any area of health, social responsibility or the arts. In each of these areas, the Company wants to support ideas that promote people's physical and mental health, develop a paperless concept in other companies, and contribute to the development of the Baltic art industry. Already in 2018, the Company released its contemporary art collection BTA Art, which currently includes more than 48 masterpieces by 21 Latvian, Lithuanian and Estonian artists. All masterpieces of the collection are located at BTA Baltic headquarter and the head offices of the Company's branches.

BTA BALTICS CORPORATE SOCIAL INNOVATION STRATEGY

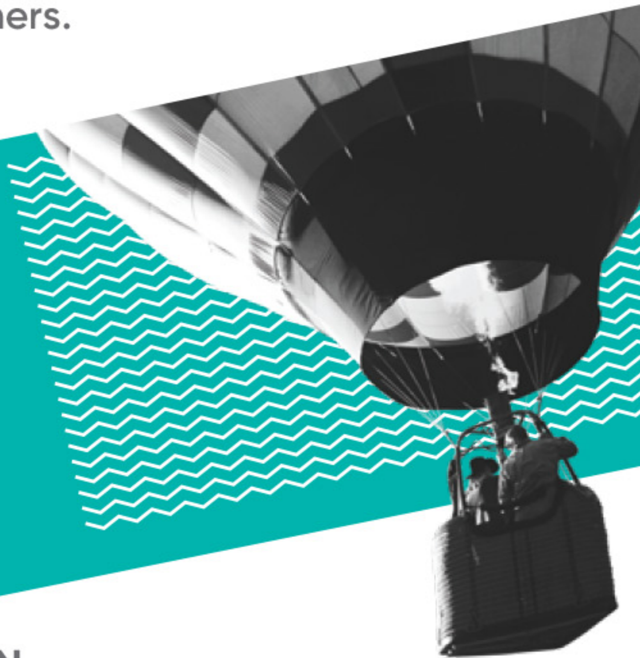
2020 – 2022

CORPORATE STRATEGY

To be the most preferred insurance company for customers and partners.

CSI STRATEGY

To create sustainable Corporate Social Innovation (CSI) initiatives that contribute to the society and, over the long-term, to our business as well. We are supporting up to three CSI initiatives for private and corporate clients throughout the Baltics in one of these focus areas: health, social development and art.



STRATEGY DRIVERS

Innovations

We are developing innovative and creative solutions that have a long-term and scalable impact on society and our business by combining our knowledge of insurance market trends and our business assets.

People

We are solving recognisable problems in society with our CSI initiatives by establishing partnerships with government, Non-Governmental Organizations, customers and/or our partners in accordance to our focus areas: health, social development and art.

INITIATIVES IN FOCUS AREAS

Health

Initiate CSI activities for private customers (potential and existing) and/or our employees in the areas of physical and/or mental health. In focus for physical health initiatives: promotion of helmet wearing to children on bicycles; in focus for mental health initiatives: our employee engagement through mental health promotion activities.

Social development

Fully implement the paperless office concept. Afterwards, educate and challenge the leading employers of the region (our corporate customers and partners) to go paperless in their offices.

Art

Fund and support the Baltic art scene. In order to continue the activities regarding the BTA ART collection: support artists from the Baltics to stay at international Artist Residencies to promote artistic development and international collaborations, or support artists from VIG Group's countries to come to Baltic Art Residencies and become a patron for development of art residencies or institutions and attract more international artists to the Baltic art scene.

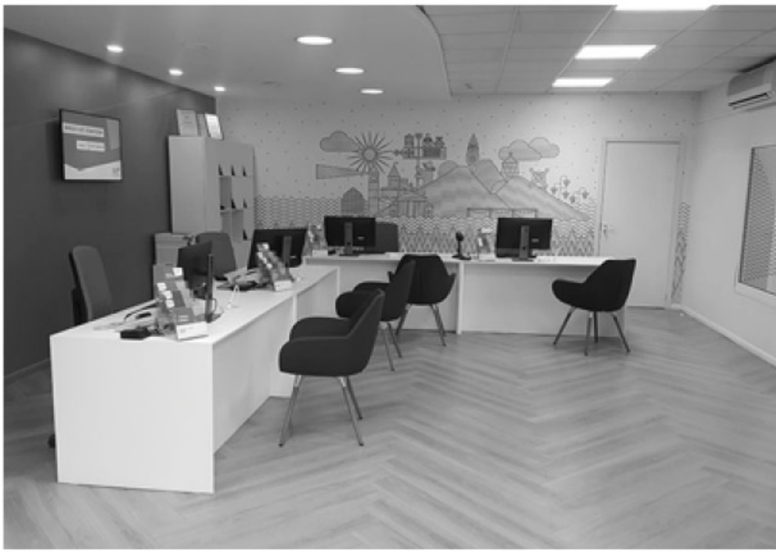
Support for the restoration of Baltic natural resources

For the third year in a row, the Company provides support for the corporate social responsibility activity in cooperation with the World Wildlife Fund (WWF) associated partner in Latvia, the Pasaules Dabas Fonds and other WWF partner organizations in Lithuania and Estonia. The purpose of this activity is to promote the restoration of natural processes in nature. Not only did the Company support the Pasaules Dabas Fonds and the Nature Conservation Agency of Latvia's "Do Good for Nature" website, where the general public of Latvia can find out about nature restoration opportunities, it also continued the tradition started in 2017 to invite BTA employees to go to various sites in nature in Latvia, Lithuania and Estonia with the aim of cleaning them up, thus restoring natural processes. In total, more than 450 participants have participated in 22 nature conservation parks and important places in Latvia, Lithuania and Estonia over 3 years. In parallel, the Company also reached out to clients and partners in all Baltic countries, offering the opportunity to purchase Property insurance policies, donating EUR 0.25 to nature restoration processes.

Completion of re-branding project in Customer Service Centres

In 2019, the major rebranding project of BTA was completed, resulting in the completion of work on the renovation and improvement of more than 175 Customer Business Centers and BTA head offices in Latvia, Lithuania and Estonia, which took place over almost two years. The goal of this impressive project was to improve customer and partner satisfaction, as well as to support sales staff to improve sale of BTA insurance products. The ideas of the contemporary art collection "BTA Art" were also integrated in the Company's renovated Customer Business Centers and head offices, placing the artwork of the collection in the head offices of all the Baltic States, while clients can enjoy one of the art works created by local artists specifically for BTA in Customer Business Centers on a daily basis.

Stylistics of the new brand highlights the Company's main values – accessibility, humanity and credibility. At the same time it maintains the inherent reliability and stability of BTA, which is further supported by the Company's major shareholder VIG.



Compliance with the Whistleblowing law

In accordance with the requirements of the new Whistleblowing law, which imposes an obligation on companies with more than 50 employees, in 2019, the Company introduced an internal whistleblowing system that applies to all three Baltic States. Its purpose is to cover public safety or health threats, environmental threats, threats to safety at work, human rights violations, tax evasion, fraud, corruption, the financing of illegal activities and other violations affecting society as a whole. A special reporting system has been implemented for the Company's employees, which ensures confidential and impartial handling of issues.

Employees

The Company continued to invest in employee education in 2019 with the aim of improving their professionalism in customer service and improving their knowledge of the services offered by the Company, as well as improving the knowledge of heads of departments and promoting team unity.

In an effort to promote professional development of the employees, the Company provided more than 7 000 training hours of internal and more than 3 000 hours of external training programmes in 2019. More than 60% of employees in Baltic States have participated in at least one internal or external training programme. Employees were offered additional professional development opportunities through the e-learning system. In 2019, the exchange and acquisition of information for employees within the internal information network was improved, in order to enhance this process and enable employees to use the training opportunities provided by BTA.

Staff loyalty to the Company is evidenced by the average length of service of the employees, which remains – more than 6 years. In order to improve internal employee satisfaction with BTA, several improvements were made to the personnel management processes, such as the introduction of a transparent and convenient self-service employee portal. Likewise, the Company has continued to develop a number of employee support processes and activities to promote qualitative enhancement and development of a responsible employer image that enhances employee confidence and participation in BTA development.

Participants in professional and sales skills development trainings

625 121

Total 746

Participants in new employees trainings

178 33

Total 211

According to the largest annual employee survey run by the recruitment company CV-Online Latvia, in 2019 BTA repeatedly gained the leading position in the list of the best and most attractive employers among insurance companies in Latvia. Overall, BTA ranks 26th/27th in this rating. The high ranking in the chart proves that the Company's employees, as well as the public in general, welcomes the Company's selected strategy and its development in a longer term.

Development of leadership program for heads of department

In order to further strengthen one of the drivers in the Company's strategy – people, attention was also paid to the development of the skills of the heads of departments. Continuous investments were made to develop sales channels and to improve the working environment and equipment of sales and support staff. With a particular focus on developing leadership skills, the Company implemented a Leadership Program that saw head of the departments across the three Baltic States, both locally and in joint events, learn team leadership skills from professional trainers, enhance their professionalism, and improve leadership skills to encourage their team cohesion.

Online customer service improvement

In 2019, several significant projects for the development of the Company's clients' online services were implemented and started. Improvements were made to the operation of the BTA Customer Portal through changes to claims' application and handling processes, such as for Travel and Accident Insurance. In addition, it is important to note that changes were made not only to customer-accessible platforms, but also internally within the Company to streamline employee routines and enable the customer to receive a decision on their

claim application more quickly. BTA Customer Portal attendance increased by 35% last year compared to 2018. The share of mobile users also continues to grow – to an average of 40% of the total BTA customer traffic. Therefore, it is only natural that BTA focuses its attention, both in 2019 and beyond, on the development of the website and the Customer Portal at the Baltic level.

Although customer habits are changing and people are more likely to want to buy the insurance they need online, BTA also has strong customer remote communication channels in order to offer its clients wide choice of ways to contact BTA.

In 2019, 93% of the total number of claims received by the Latvian Customer Support Department were registered via remote communication channels – telephone and e-mail. 55% of all property insurance claims were settled upon an accelerated/simplified procedure and 31% of all CASCO cases were settled as rapid cases. In Lithuania, in 2019, 99% of the total number of claims received were remotely registered by the Customer Support Department. In Estonia, by contrast, in 2019, 96% of claims received were registered remotely, and 67% of the registered claim cases in CASCO were settled overnight.

The Company continues to purposefully develop not only remote communication channels, but also to be a leader in customer-facing customer service by developing one of the largest networks of Customer Business Centers with more than 61 offices in Latvia and 128 in Lithuania.

Compliance with solvency requirements and increase of eligible own funds

In accordance with the Company's risk strategy the target solvency ratio level should range above 125%. The solvency ratio was steadily above this level in 2019 and was more than 136% (unaudited) as at 31 December 2019.

Business development in Latvia, Estonia and Lithuania

The Company's persistent and determined efforts to keep up with changes in the Baltic insurance market have contributed to gross written premiums growth in 2019 in all three Baltic countries, totalling EUR 216 million, or 4% more than in 2018. The most significant growth overall in the Baltics in 2019 was recorded in Property insurance, where gross premiums written were 12% higher than in 2018, reaching EUR 29 million.

In Latvia, in 2019, the line of business with the largest gross written premiums of EUR 22.1 million was Health insurance – an increase of 7% compared to 2018. The second and third largest lines of business were CASCO and MTPL insurance with gross written premiums of EUR 17.7 million (+ 4%) and EUR 14.1 million (-12%), respectively. The largest growth in gross written premiums was in Property insurance, where the volume of premiums increased by 24%, and in Surety insurance's line of business, which grew by 25%. Gross premiums written in Property insurance amounted to EUR 15.5 million last year and to EUR 3.4 million in Surety insurance.

In Lithuania BTA's largest line of business by gross written premiums is MTPL – EUR 52.2 million (-2% compared to 2018), while the second largest in 2019 was CASCO, reaching EUR 24.7 million gross written premiums or 9% more than in 2018. While in the third place – Property insurance with EUR 10.2 million in gross written premiums, up by 1% compared to year earlier. The fastest growth was seen in Health insurance, where premiums grew by 51% to EUR 3.2 million.

In 2019, the BTA's Estonian branch continued its steady development, paying special attention to the quality of underwritten risks. In Estonia, the line of business with the highest gross written premiums were CASCO insurance, amounting to EUR 9.6 million, which is 3% more than in 2018. The second largest insurance line in Estonia in 2019 was MTPL with gross written premiums of EUR 7.9 million (+ 1%), while the third was Property insurance with gross written premiums of EUR 3.3 million (+ 1%).

Changes in Supervisory Board

In May 2019, the composition of the Supervisory Board was changed in the Register of Enterprises of the Republic of Latvia – a new member of the Supervisory Board Peter Franz Höfinger was registered, who at the same time was approved as the Chairman of the Supervisory Board. In Supervisory Board re-elected were Franz Fuchs, who is now Deputy Chairman of the Supervisory Board, as well as Deputy Chairlady of the Supervisory Board Elisabeth Stadler and the Supervisory Board members Jan Bogutyn and Artur Borowinski.

Risk management

The nature of the insurance business is the deliberate assumption and management of diverse risks to achieve profit. One of the primary responsibilities of BTA risk management is to ensure that the obligations assumed under insurance policies can be satisfied at all times.

The Company's risk management system is tailored to the scale and complexity of its operations and includes effective risk identification, measurement and evaluation, as well as monitoring and control to ensure the Company's sustainability and strategic objectives. When developing the risk management system, the Company complies with the requirements set out in the VIG Group policies and guidelines.

Risks related to the investments made by the Company are controlled in accordance with the Company's Investment and Risk Strategy, which sets limitations on transactions with a single business partner, as well as thresholds on credit ratings of debt securities obtained by the Company.

In addition to the above mentioned risks, BTA is exposed to a number of other risks, including operational risk. Risk control measures are used to avoid, reduce, diversify, transfer and accept risks and opportunities.

Transparent and verifiable decisions are essential to ensuring an effective risk management system. The Company pays special attention to developing and strengthening the risk awareness culture among its employees.

Proposal on distribution of profits

Taking into account the Company's planned development path, the Management Board recommends to pay out a dividend of EUR 19.19 per share, that is a total amount of EUR 7 984 843.86 equal to rounded 75% of the net profit for the financial year 2019. The remaining part of the net profit in the amount of EUR 2 663 915.12 is proposed to be accumulated for increase of the Company's equity.

Subsequent events

As of the last day of the reporting period until the date of signing these separate financial statements (hereinafter - financial statements) there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Further development

Despite the fierce competition in the Baltic market, the Company discerns a high growth potential in several types of insurance, voluntary insurance in particular.

Proceeding with improvement of its insurance products and customer service, the Company plans to increase the volume of operations in 2020 in the Baltic States, achieving more than 7% growth in gross written insurance premiums total for the Baltic region. The Company expects that the stabilization of the market will allow to achieve higher growth rates in all countries compared to 2019.

The Company plans to strengthen its insurance portfolio, proceeding with its diversification and increasing the share of voluntary insurance types, specifically in Property, CASCO and Assistance insurance lines of business.

Meanwhile the Company is going to proceed with the started initiatives on improvement of processes and management efficiency in all realms of operations, which includes improvement of private and corporate customer service standards and developing online sales.

The Company will further sustain its quick and high-quality decision-making, with a particular focus on improvement of insurance claims handling processes. The Company's Board is going to enable the professional development of its staff, meanwhile keeping on with improvement of its insurance products, increasing their quality, thus maintaining and improving the Company's long-term capacity to operate at profit.

We hereby thank our employees, our customers and our cooperation partners for the work accomplished aimed at meeting our common goals – thank you for your loyalty and trust!

Wolfgang Stockmeyer Chairman of the Management Board	**Oskars Hartmanis** Deputy Chairman of the Management Board	**Evija Matveja** Member of Management Board	**Tadeuš Podvorski** Member of Management Board

12 March 2020

VIENNA INSURANCE GROUP

COMPANY PROFILE

"We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times. "

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

EXPERTISE AND STABILITY

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

LOCAL MARKET PRESENCE

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local brands as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

STRONG FINANCES AND CREDIT RATING

VIG has an A+ rating with stable outlook from the well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

ALBANIA

SIGMA INTERALBANIAN VIENNA INSURANCE GROUP

INTERSIG VIENNA INSURANCE GROUP

AUSTRIA

WIENER STÄDTISCHE VIENNA INSURANCE GROUP

Donau VIENNA INSURANCE GROUP

BELARUS

КУПАЛА VIENNA INSURANCE GROUP

BOSNIA-HERZEGOVINA

WIENER OSIGURANJE VIENNA INSURANCE GROUP

vienna osiguranje VIENNA INSURANCE GROUP

BULGARIA

BULSTRAD VIENNA INSURANCE GROUP

Life BULSTRAD VIENNA INSURANCE GROUP

novains VIENNA INSURANCE GROUP

PENSION ASSURANCE COMPANY DOVERIE VIENNA INSURANCE GROUP

CROATIA

WIENER OSIGURANJE VIENNA INSURANCE GROUP

CZECH REPUBLIC

Kooperativa VIENNA INSURANCE GROUP

ČPP VIENNA INSURANCE GROUP

VIG Re

CZECH REPUBLIC (Headquarter)
GERMANY (Branch)
FRANCE (Branch)

ESTONIA

bta VIENNA INSURANCE GROUP

COMPENSA VIENNA INSURANCE GROUP

Seesam VIENNA INSURANCE GROUP

GEORGIA

GPI VIENNA INSURANCE GROUP

IRAO VIENNA INSURANCE GROUP

GERMANY

InterRisk VIENNA INSURANCE GROUP

HUNGARY

UNION VIENNA INSURANCE GROUP

ITALY

WIENER STÄDTISCHE VIENNA INSURANCE GROUP

LATVIA

bta VIENNA INSURANCE GROUP

COMPENSA VIENNA INSURANCE GROUP

Seesam VIENNA INSURANCE GROUP

LIECHTENSTEIN

VIENNA-LIFE VIENNA INSURANCE GROUP

LITHUANIA

bta VIENNA INSURANCE GROUP

COMPENSA VIENNA INSURANCE GROUP

Seesam VIENNA INSURANCE GROUP

MOLDOVA

DONARIS VIENNA INSURANCE GROUP

MONTENEGRO

Život WIENER STÄDTISCHE VIENNA INSURANCE GROUP

NORTH MACEDONIA

WINNER VIENNA INSURANCE GROUP

Life WINNER VIENNA INSURANCE GROUP

ОСИГУРУВАЊЕ МАКЕДОНИЈА VIENNA INSURANCE GROUP

POLAND

COMPENSA VIENNA INSURANCE GROUP

InterRisk VIENNA INSURANCE GROUP

Vienna Life VIENNA INSURANCE GROUP

wiener VIENNA INSURANCE GROUP

ROMANIA

OMNIASIG VIENNA INSURANCE GROUP

Asirom VIENNA INSURANCE GROUP

BCR ASIGURARI DE VIATA VIENNA INSURANCE GROUP

SERBIA

WIENER STÄDTISCHE VIENNA INSURANCE GROUP

WIENER RE Beograd VIENNA INSURANCE GROUP

SLOVAKIA

Kooperativa VIENNA INSURANCE GROUP

KOMUNÁLNA POISŤOVŇA VIENNA INSURANCE GROUP

SLOVENIA

WIENER STÄDTISCHE VIENNA INSURANCE GROUP

TURKEY

RAY SİGORTA VIENNA INSURANCE GROUP

UKRAINE

КНЯЖА VIENNA INSURANCE GROUP

life КНЯЖА VIENNA INSURANCE GROUP

ГЛОБУС VIENNA INSURANCE GROUP

УКРАЇНСЬКА СТРАХОВА ГРУПА VIENNA INSURANCE GROUP

Status: December 2019

WE ARE THE **NUMBER ONE** IN AUSTRIA, CENTRAL AND EASTERN EUROPE

VIG VIENNA INSURANCE GROUP

Protecting what matters.

Statement of management responsibility

In 2019 the Management Board of BTA Baltic Insurance Company AAS (the Company) was responsible for the management of the Company. The Management regularly informed the Supervisory Board about key developments in the Company and provided necessary explanations.

The Management assumes responsibility for the preparation of the accounting records, compliance in the process of recording transactions under the regulative norms applicable to accounting, safekeeping of the assets of the Company as well as the prevention of fraud and other dishonest activities.

The Company's Management assumes responsibility for the preparation of the Company's separatefinancial statements (hereinafter - financial statements) for the year ended 31 December 2019 prepared in accordance with IFRS as adopted by the European Union to reflect fairly the activities and cash flows of BTA Baltic Insurance Company AAS for the year ended 31 December 2019, as well as its financial position as at 31 December 2019.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2019 have been prepared in accordance with the effective requirements of legislation and the Financial and Capital Market Commission of the Republic of Latvia, and IFRS as adopted by the European Union.

The Company's financial statements for the year ended 31 December 2019 have been prepared on the basis of prudent decisions and assumptions of the Management.

The Company uses exemption rules from the obligation to prepare non-financial statements according to the Regulations of the Financial and Capital Market Commission No. 201 "Statutory provisions for the preparation of the annual report and the consolidated annual report of insurance and reinsurance companies and non-member country insurers' branches" (paragraph No 16 of the above Regulation) as "Vienna Insurance Group AG" is publishing a separate consolidated non-financial report for financial year 2019.

The Management confirms that the requirements of Latvian legislation and applicable legislation in other European Union countries have been met and that the financial statements have been prepared on a going concern basis.

The Management is not aware of any significant events after the year-end, which are not reflected in these financial statements and that might have a material impact on activities of the insurance company and the assessment of the financial statements.

Wolfgang Stockmeyer
Chairman of the
Management Board

Oskars Hartmanis
Deputy Chairman of
the Management Board

Evija Matveja
Member of
Management Board

Tadeuš Podvorski
Member of
Management Board

12 March 2020

Separate Statement of Comprehensive Income

	Note	2019 EUR'000	2018 Restated* EUR'000
Earned premiums			
Written premiums			
Gross written premiums	5	215 995	208 364
Reinsurers' share in written premiums	5,19	(51 227)	(50 503)
Net written premiums	5	**164 768**	**157 861**
Change in unearned premium and unexpired risk reserves			
Gross change	7	(8 800)	(6 296)
Reinsurers' share	7,19	1 492	373
Change in net unearned premium and unexpired risk reserves	7	**(7 308)**	**(5 923)**
Net earned premiums	6	**157 460**	**151 938**
Other technical income, net	8	**398**	**350**
Paid claims, net			
Paid claims	9	(140 695)	(118 505)
Loss adjustment expenses	9	(7 193)	(6 985)
Recovered losses	9	9 070	8 027
Gross claims paid	9	(138 818)	(117 463)
Reinsurers' share of claims paid	9,19	36 537	26 367
Net paid claims	9	**(102 281)**	**(91 096)**
Change in outstanding claim reserve			
Change in gross outstanding claim reserve	10	(9 280)	(28 177)
Reinsurers' share	10,19	4 140	14 511
Change in net outstanding claim reserve	10	**(5 140)**	**(13 666)**
Net incurred claims	11	**(107 421)**	**(104 762)**
Operating (expenses)/income			
Client acquisition costs	12	(38 498)	(37 419)
Change in deferred client acquisition costs	12	955	368
Administrative expenses	13	(14 924)	(12 972)
Depreciation and amortisation	20,21a,22	(3 040)	(1 157)
Impairment	21a	-	(369)
Reinsurance commission income, net	14,19	13 498	13 405
Change in unearned reinsurance commission	14,19	(453)	(708)
Net operating expenses		**(42 462)**	**(38 852)**

Continued table

	Note	2019 EUR'000	2018 Restated* EUR'000
Other technical expenses, net	15	**(489)**	**(299)**
Investment management charges		(279)	(285)
Depreciation of investment property	21b	(69)	(191)
Impairment of investment property	21b	(34)	(92)
Interest income	16	2 082	1 775
Interest expense	17	(493)	(104)
Gain from financial assets and liabilities measured at fair value, net	46	2 443	63
Gain/(loss) on foreign currency fluctuation		132	(97)
Other income		1 575	1 536
Other expenses		(1 104)	(686)
Profit before tax		**11 739**	**10 294**
Income tax expense in Latvia and Lithuania	18	(1 090)	(1 142)
Net profit for the period		**10 649**	**9 152**
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets – net change in fair value	46	6 742	(1 421)
Other comprehensive income/(expense) for the period		**6 742**	**(1 421)**
Total comprehensive income for the period		**17 391**	**7 731**

* See Notes 2(f) and 2(g)(iii).
The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The comparative information is restated on account of correction of an error regarding the accounting for multi-year policies issued by BTA's branch in Lithuania.

The accompanying notes on pages 30 to 88 form an integral part of these separate financial statements.

Separate Statement of Financial Position

Assets	Note	31.12.2019 EUR'000	31.12.2018 Restated* EUR'000
Property and equipment	20	**2 649**	**1 846**
Land and buildings			
Land and buildings for own use	21a	6 945	1 775
Investment property	21b	1 007	875
Total land and buildings		**7 952**	**2 650**
Assets held for sale	21b	**63**	**-**
Intangible assets	22	**1 538**	**1 542**
Investment in subsidiary	23	**506**	**-**
Financial investments			
Financial instruments at fair value through profit or loss	46	1 779	1 796
Available-for-sale instruments	46	211 704	199 827
Held-to-maturity financial instruments	46	1 774	1 778
Deposits with banks	25	-	3 008
Total financial investments	24,25	**215 257**	**206 409**
Inventory		**107**	**137**
Loans and Receivables			
Loans	26,42	11 701	1 509
Receivables from direct insurance activities			
Due from policy holders		40 434	37 807
Due from intermediaries		820	954
Total receivables from direct insuranceactivities	27	**41 254**	**38 761**
Receivables from reinsurance activities		2 535	1 012
Other receivables	28	555	796
Total loans and receivables		**56 045**	**42 078**
Accrued income and deferred expenses			
Deferred client acquisition costs	12	10 407	9 452
Other accrued income and deferred expenses		895	582
Total accrued income and deferred expenses		**11 302**	**10 034**
Deferred tax asset	34	**244**	**207**
Prepaid corporate income tax in Latvia	35	**4**	**75**
Reinsurers' share of insurance contract liabilities			
Reinsurers' share in unearned premium reserves	7,43	19 840	18 348
Reinsurers' share in outstanding claim reserve	10,43	50 735	46 595
Total reinsurers' share of insurance contract liabilities	43	**70 575**	**64 943**
Cash and cash equivalents	29	**26 825**	**15 850**
Total assets		**393 067**	**345 771**

Equity and liabilities	Note	31.12.2019 EUR'000	31.12.2018 Restated* EUR'000
Equity			
Share capital	31	41 609	41 609
Revaluation reserves	31	6 796	54
Other reserves		(1 605)	(1 605)
Retained earnings		8 086	4 884
Profit for the period		10 649	9 152
Total equity		**65 535**	**54 094**
Liabilities			
Insurance contract liabilities			
Gross unearned premium and unexpired risk reserves	7,43	104 638	95 838
Gross outstanding claim reserves	10,43	138 846	129 566
Total insurance contract liabilities		**243 484**	**225 404**
Reinsurers' deposit	32,42	37 297	31 277
Subordinated loan	42	7 000	7 000
Lease liabilities	33	5 839	-
Payables from direct insurance activities			
Due to policy holders		4 516	4 154
Due to intermediaries		2 243	1 828
Total direct insurance creditors		**6 759**	**5 982**
Payables from reinsurance activities	36	5 257	4 007
Other creditors	37	10 755	8 310
Provisions	38	1 852	1 802
Taxes and social insurance contributions	35	787	620
Accrued liabilities	38	6 129	5 342
Unearned reinsurance commission income	14	2 372	1 919
Deferred next period income		1	14
Total liabilities		**327 532**	**291 677**
Total equity and liabilities		**393 067**	**345 771**

* See Notes 2(f) and 2(g)(iii).
The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The comparative information is restated on account of correction of an error regarding the recognition for multi-year policies issued by BTA's branch in Lithuania.

The accompanying notes on pages 30 to 88 form an integral part of these separate financial statements.

Separate Statement of Cash Flows

	Note	2019 EUR'000	2018 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		222 213	201 986
Claims paid in direct insurance		(140 739)	(111 286)
Payments received from reinsurers		12 753	5 097
Payments made to reinsurers		(7 500)	(6 414)
Income tax paid in Latvia and Lithuania	35	(1 437)	(1 131)
Obligatory payments	30	(2 564)	(2 336)
Payments to employees		(14 429)	(12 994)
Payments to intermediaries		(14 597)	(13 004)
Other payments made:		(24 838)	(23 072)
Other tax paid	35	*(11 164)*	*(10 290)*
Payments to other suppliers		*(13 053)*	*(12 346)*
Other payment made		*(621)*	*(436)*
Other payments received		139	–
Total cash flows from operating activities		**29 001**	**36 846**
Cash flows from/(used in) investing activities			
Purchase of property and equipment and intangible assets		(2 117)	(1 548)
Acquisition of investments		(89 650)	(70 757)
Disposal of investments		77 684	15 778
Investment income received		3 704	3 093
Total cash flows (used in) investing activities		**(10 379)**	**(53 434)**
Cash flows from/(used in) financing activities			
Paid dividends		(5 950)	(6 624)
Received subordinated loan	42	–	5 500
Payment of lease liabilities		(1 697)	–
Total cash flows (used in) financing activities		**(7 647)**	**(1 124)**
Cash and cash equivalents net increase/(decrease)		**10 975**	**(17 712)**
Cash and cash equivalents at the beginning of the period		**15 850**	**33 562**
Cash and cash equivalents at the end of the period	29	**26 825**	**15 850**

The comparative information has not been restated on account of correction of an error regarding the recognition for multi-year policies issued by BTA's branch in Lithuania as this change did not have impact on the Company's cash flows.

The accompanying notes on pages 30 to 88 form an integral part of these separate financial statements.

Separate Statement of Changes in Shareholders' Equity

	Share capital EUR'000	Other reserves EUR'000	Revaluation reserve EUR'000	Retained earnings EUR'000	Total Equity EUR'000
31.12.2017	41 609	(1 605)	1 475	11 508	52 987
Total comprehensive income					
Profit for the period	–	–	–	9 152	**9 152**
Other comprehensive income	–	–	(1 421)	–	**(1 421)**
Transactions with shareholders recorded directly in equity					
Dividends paid	–	–	–	(6 624)	**(6 624)**
31.12.2018	41 609	(1 605)	54	14 036	54 094
Total comprehensive income					
Profit for the period	–	–	–	10 649	**10 649**
Other comprehensive income	–	–	6 742	–	**6 742**
Transactions with shareholders recorded directly in equity					
Dividends paid	–	–	–	(5 950)	**(5 950)**
31.12.2019	41 609	(1 605)	6 796	18 735	65 535

The comparative information has not been restated on account of correction of an error regarding the recognition for multi-year policies issued by BTA's branch in Lithuania as this change did not have impact on the Company's shareholders' equity.

The accompanying notes on pages 30 to 88 form an integral part of these separate financial statements.

Notes to the Separate Financial Statements

(1) General information

(a) Principal activities

BTA Baltic Insurance Company AAS (BTA or the Company) is a company domiciled in the Republic of Latvia (Latvia). The Company was registered on 28 October 2014 in Riga, Latvia as a Joint Stock Insurance Company. The headquarter is located in Riga, Sporta Street 11, Republic of Latvia.

On 10 June 2015 the Company obtained the following insurance licenses in Latvia:
• accident insurance;
• health insurance (insurance against illnesses);
• motor transport (except railway transport) insurance (CASCO);
• railway rolling stock insurance;
• aircraft insurance;
• marine vessel insurance;
• freight insurance;
• property insurance against damage by fire and natural disasters (damages caused to property, except for motor transport, railway rolling stock, aircraft, marine vessel and freight, by fire, explosion, nuclear power, subsiding of land and other disasters);
• property insurance against other damage (damages caused to property, except for motor transport, railway rolling stock, aircraft, marine vessel and freight, by hail, frost, theft and other accidents, except fire, explosion, nuclear power, subsiding of land and other disasters);
• motor vehicle owner third party liability insurance (MTPL);
• aircraft owner third party liability insurance;
• ship owner liability third party insurance;
• general third party liability insurance (TPL);
• credit insurance;
• surety insurance;
• miscellaneous financial loss insurance;
• legal expenses insurance;
• assistance insurance.

The Company operates in Latvia, Lithuania and Estonia, and it offers a wide range of non-life insurance products to legal entities and individuals in the abovementioned insurance lines.

Insurance services are offered through the network of branches, intermediaries and client customer centres in Latvia, Lithuania and Estonia.

(b) Branches

A branch is an economical entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of a branch. The accounts of foreign branches are maintained separately. Branches prepare their financial information for the same periods and using the same accounting policies, see Note 2(f) for additional information. Any balances, income, expenses, gains and losses arising from intra-company transactions are eliminated in full.

The Company has two foreign branches – in Estonia and Lithuania. Business is conducted through permanent establishments (branches) within the European Union. The registered address of the branch in Estonia – Lõõtsa 2B, Tallinn 11415; in Lithuania – Viršuliškių skg. 34, LT-05132 Vilnius.

(c) Subsidiary

The Company has not consolidated the financial information of the subsidiary SIA Urban Space because the subsidiary's revenue and assets account for an immaterial share of the Company's respective figures. SIA Urban Space is consolidated at the Company's parent company's – Vienna Insurance Group AG Wiener Versicherung Gruppe – level.

(d) Shareholders

Information on the shareholders:

	31.12.2019	
	Number of shares	Shareholding
Vienna Insurance Group AG Wiener Versicherung Gruppe	377 920	90.83 %
Balcia Insurance SE	38 174	9.17 %
	416 094	**100.00 %**

	31.12.2018	
	Number of shares	Shareholding
Vienna Insurance Group AG Wiener Versicherung Gruppe	377 920	90.83 %
Balcia Insurance SE	38 174	9.17 %
	416 094	**100.00 %**

(2) Basis of preparation

(a) Statement of compliance

The accompanying separate financial statements (hereinafter - financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia (FCMC) in force as at the reporting date.

The financial statements were authorised for issue by the Management Board on 12 March 2020. The shareholders have the right to reject the financial statements and request that new financial statements are prepared and issued.

(b) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR'000), unless stated otherwise.
The functional currency of the Company and its branches in Estonia and Lithuania is Euro.

(c) Reporting period

The reporting period comprises the 12 months from 1 January 2019 to 31 December 2019. The comparative period is from 1 January 2018 to 31 December 2018.

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are carried at fair value:
- derivatives,
- other financial assets and liabilities designated at fair value through profit or loss,
- available-for-sale assets.

(e) Changes in accounting policies

Except for the changes below, see Note 2(f) and 2(g)(iii), the Company has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

(f) Change in recognition of multi-year policies issued by BTA's branch in Lithuania

Until 2019 BTA's branch in Lithuania recognized multi-year policies in accordance to Lithuanian legislation – on annual basis, i.e., only 1 year worth of premium, client acquisition cost and respective reinsurance part was recognized on each anniversary of the policy's start date.

However, in 2018 BTA's branch in Lithuania requested the opinion of and received an answer from the Bank of Lithuania on the matter that as it does not supervise branch offices of EU insurance companies it cannot impose them to follow Lithuanian legislation regarding the recognition of such policies.
Hence, BTA's branch in Lithuania can recognize such multi-year policies in accordance to the BTA's accounting policy – all premium, client acquisition cost and respective reinsurance part is recognized upon issuance of policy. Consequently, this change in accounting policy for BTA's branch in Lithuania was made in 2019 and is reflected in these financial statements as correction of an error by restating each of the affected financial statement line items for prior periods. The nature of restatement affected presentation of certain financial statement captions with no impact on the Company's net profits.

The following tables summarise the impact on the Company's financial statements.

(i) Statement of financial position

	Impact of correction of an error		
31 December 2017	**As previously reported EUR'000**	**Adjustments EUR'000**	**As restated EUR'000**
Assets			
Due from policy holders	28 550	4 474	33 024
Receivables from reinsurance activities	1 029	(100)	929
Deferred client acquisition costs	8 402	682	9 084
Reinsurers' share in unearned premiums technical reserves	19 164	151	19 315
Others	231 926	-	231 926
Total assets	**289 071**	**5 207**	**294 278**
Equity and Liabilities			
Equity	52 987	-	52 987
Liabilities			
Technical reserves for unearned premiums and unexpired risks	84 029	5 513	89 542
Due to policy holders	7 040	(1 039)	6 001
Due to intermediaries	1 035	682	1 717
Unearned reinsurance commission income	1 160	51	1 211
Others	142 820	-	142 820
Total liabilities	**236 084**	**5 207**	**241 291**
Total equity and liabilities	**289 071**	**5 207**	**294 278**

	Impact of correction of an error		
31 December 2018	**As previously reported EUR'000**	**Adjustments EUR'000**	**As restated EUR'000**
Assets			
Due from policy holders	32 683	5 124	37 807
Receivables from reinsurance activities	1 190	(178)	1 012
Deferred client acquisition costs	8 613	839	9 452
Reinsurers' share in unearned premiums technical reserves	18 081	267	18 348
Others	279 152	-	279 152
Total assets	**339 719**	**6 052**	**345 771**
Equity and Liabilities			
Equity	54 094	-	54 094
Liabilities			
Technical reserves for unearned premiums and unexpired risks	89 153	6 685	95 838
Due to policy holders	5 715	(1 561)	4 154
Due to intermediaries	989	839	1 828
Unearned reinsurance commission income	1 830	89	1 919
Others	187 938	-	187 938
Total liabilities	**285 625**	**6 052**	**291 677**
Total equity and liabilities	**339 719**	**6 052**	**345 771**

(ii) Statement of comprehensive income

For the year ended 31 December 2018	Impact of correction of an error		
	As previously reported EUR'000	Adjustments EUR'000	As restated EUR'000
Gross written premiums	207 192	1 172	208 364
Reinsurers' share in written premiums	(50 387)	(116)	(50 503)
Change in unearned premium reserves, gross	(5 124)	(1 172)	(6 296)
Reinsurers' share in changes in unearned premiums technical reserves	257	116	373
Client acquisition costs	(37 262)	(157)	(37 419)
Change in deferred client acquisition costs	211	157	368
Reinsurance commission income, net	13 367	38	13 405
Change in unearned reinsurance commission	(670)	(38)	(708)
Others	(118 432)	-	(118 432)
Net profit for the period	**9 152**	-	**9 152**
Total comprehensive income for the period	**7 731**	-	**7 731**

There is no impact on the Company's result for 2018 and earlier. Further, there is no impact on the Company's statements of cash flows and changes in shareholders' equity for the years ended 31 December 2018 and earlier.

(g) New Standards and Interpretations

Standards and interpretations effective in the reporting period

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2019 or earlier.

(i) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2022; to be applied prospectively)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard (IFRS 17) for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the IFRS 17.

The Company, as an insurance provider, has applied the temporary exemption from adopting IFRS 9, Note 2(g)(ii).

(ii) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. The IASB implemented an amendment to IFRS 4 Insurance contracts that permits insurance companies to apply IAS 39 instead of IFRS 9 until IFRS 17 is implemented in 2022.)

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

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

A financial asset is measured at amortised cost if the following two conditions are met:
• the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,

• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.
For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

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

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

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

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

It is expected that the new Standard, when initially applied, may have an impact on the financial statements, since the classification and the measurement of some of the Company's financial instruments are expected to change.

Based on its preliminary assessment the Company expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9.

At this stage it is still unclear what portion of the Company's debt securities exactly will be measured at FVTPL, at FVOCI or amortised cost as this determination will depend on the outcome of the business model test and will be subject to an election to be made by the Company at the date of initial application.

Following the decision of Vienna Insurance Group as a group to make use of the temporary exemption, see Note 2(g)(i), and postpone application of IFRS 9, the Company does not plan to adopt this standard until adoption of IFRS 17. Therefore, the Company has provided additional disclosures which are obligatory, when exercising the temporary exemption, starting with 31 December 2018 until the date of initial application of IFRS 9:

Fair Value Analysis of the financial assets:

	31.12.2019			31.12.2018		
	SPPI*	Other**	Total	SPPI*	Other**	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans	11 863	-	**11 863**	1 635	-	**1 635**
Other investments	-	-	**-**	3 008	-	**3 008**
Other securities						
Bonds	193 361	1 779	**195 140**	188 031	1 796	**189 827**
Shares	-	2 226	**2 226**	-	697	**697**
Investment funds	-	18 142	**18 142**	-	12 945	**12 945**
Total other securities	**193 361**	**22 147**	**215 508**	**188 031**	**15 438**	**203 469**
Non-underwriting receivables	438	-	**438**	409	-	**409**
Cash and cash equivalents	26 825	-	**26 825**	15 850	-	**15 850**
	232 487	**22 147**	**254 634**	**208 933**	**15 438**	**224 371**

* Financial instruments with constractual cash flows that are solely payments of principal and interest on the principal amount outstanding except for those reported under "Other"
** Financial instruments that meet the SPPI criteria (SPPI pass) but are held for trading or managed on a fair value basis have to be reported under "Other" and not under SPPI.

SPPI financial assets rating categories – carrying amount:

	31.12.2019 SPPI EUR'000	Other EUR'000	Total EUR'000	31.12.2018 SPPI EUR'000	Other EUR'000	Total EUR'000
Loans and other investments						
A	-	-	-	1 509	-	**1 509**
BBB	5 695	-	5 695	3 008	-	**3 008**
No rating	6 006	-	6 006	-	-	-
Total loans and other investments	**11 701**	**-**	**11 701**	**4 517**	**-**	**4 517**
Other securities						
AAA	14 148	-	**14 148**	14 009	-	**14 009**
AA	6 191	-	**6 191**	13 293	-	**13 293**
A	152 642	-	**152 642**	141 855	-	**141 855**
BBB	18 764	1 779	**20 543**	18 297	1 796	**20 093**
BB and lower	742	-	**742**	-	-	**-**
No rating	537	20 454	**20 991**	506	13 645	**14 151**
Total other securities	**193 024**	**22 233**	**215 257**	**187 960**	**15 441**	**203 401**
Non-underwriting receivables						
No rating	438	-	**438**	409	-	**409**
Total non-underwriting receivables	**438**	**-**	**438**	**409**	**-**	**409**
Cash and cash equivalents						
AA	1	-	**1**	1	-	**1**
A	31	-	**31**	5 526	-	**5 526**
BBB	5 392	-	**5 392**	3 519	-	**3 519**
BB and lower	2 019	-	**2 019**	743	-	**743**
No rating	19 382	-	**19 382**	6 061	-	**6 061**
Total cash and cash equivalents	**26 825**	**-**	**26 825**	**15 850**	**-**	**15 850**
	231 988	**22 233**	**254 221**	**208 736**	**15 441**	**224 177**

SPPI financial assets with significant* credit risk

	31.12.2019 Carrying amount	Fair value	31.12.2018 Carrying amount	Fair value
Loans and other investments	6 006	6 006	-	-
Other securities	1 279	1 279	506	506
Non-underwriting receivables	438	438	409	409
Cash and cash equivalents	21 401	21 401	6 804	6 804
	29 124	**29 124**	**7 719**	**7 719**

* BB and lower and no rating

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

The Company initially applied IFRS 16 Leases from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.10.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Company leases many assets mainly property, e.g. premises for the headquarter and head offices of branches, most of customer service centres. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:
• did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
• did not recognise right-of-use assets and liabilities for leases of low value assets;
• excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
• used hindsight when determining the lease term.

Leases classified as finance leases under IAS 17

The Company did not have such leases as at 1 January 2020.

As a lessor

The Company leases out its investment property. The Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Company has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Impact on financial statements
*Impact on transition**

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, there were no difference that would be recognised in retained earnings. The impact on transition is summarised below.

	01.01.2019 EUR'000
Right-of-use assets – property and equipment	284
Right-of-use assets – land and buildings for own use	6 029
Lease liability	6 313

*For the impact of IFRS 16 on profit or loss for the period, see Note 44. For the details of accounting policies under IFRS 16 and IAS 17, see Note 3.10.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted future lease payments using its incremental borrowing rate at 1 January 2019.

Lease term	**Incremental borrowing rate**
Up to 1 year	0.4342%
1 to 5 years	0.9152%
5 to 10 years	1.8487%

Comparison of lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements for the year ended 31 December 2018 and discounted lease liability that was accounted on 1 January 2019:

	01.01.2019 EUR'000
Operating lease commitments at 31.12.2018 as disclosed under IAS 17 in the Company's financial statements	**2 620**
Recognition exemption for leases with less than 12 months of lease term at transition	(1)
Adjustment for different assessment of lease term	4 355
VAT part of operating lease commitments at 31.12.2018 as disclosed under IAS 17 in the Company's financial statements	(449)
Lease liability as of 01.01.2019 (undiscounted)	**6 525**
First time discounting effect	(241)
Previously undisclosed operating lease commitments at 31.12.2018 (discounted)	29
Lease liability as of 01.01.2019 (discounted)	**6 313**

A number of other new standards and guidance are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

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 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company is planning to implement IFRS 17 for statutory statements and group consolidation starting from 1 January 2022 based on Vienna Insurance Group guidance. The Company expects that this new standard, when initially applied, will have a material impact on the financial statements of the Company as the Company concludes insurance contracts, however, the Company management has not yet started the assessment of the quantitative impact.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

(ii) Amendments to References to Conceptual Framework in IFRS Standards;
(iii) Amendments to IAS 1 and IAS 8: Definition of Material;
(iv) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.

(h) Reclassification of balances in the financial statements

In addition, certain balances for 2019 were classified differently from the prior year, due to management's judgment. The reclassification has no impact on the financial result. The comparative information for 2018 disclosed in these financial statements was classified in line with the principles used in 2019 and is comparable. The opening balances before reclassification agree with the prior year closing balances.

(3) Significant accounting policies

3.1 Foreign currency

Foreign exchange transactions are translated to the functional currency of the Company in accordance with the exchange rate set by the European Central Bank on the date of the respective transaction.

Monetary assets and liabilities, including commitments and contingencies denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the European Central Bank on the last date of the reporting period.

Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Foreign exchange rates at the end of the reporting period are as follows:

	31.12.2019	**31.12.2018**
USD	1.1234	1.1450
PLN	4.2568	4.3014
GBP	0.8508	0.8945
DKK	7.4715	7.4673

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency is recognised in the profit or loss.

3.2 Insurance contracts

(a) Classification of insurance contracts

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policyholder to the insurer. All contracts concluded by the Company are classified as non-life insurance contracts and the Company does not conclude any investment contracts.

Non-life insurance includes contracts:
• in which the insurer assumes substantial insurance risk on behalf of the other contracting party – the policyholder, by agreeing to compensate losses to the policyholders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impacts the policyholder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract is not known:

1. whether the insured occurrence will occur;
2. when it will occur;
3. how much the insurer will have to pay if it occurs.

• in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract;
• in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term;
• which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurer from the adverse development of claims already reported by the policy holder;
• which require or permit payment in kind, e.g., the insurer directly replaces a stolen object rather than compensates the claim to the policy holder in money;
• which stipulate a fixed charge service, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be determined on whether some specific equipment will not function;
• in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (assignor).

Recognition and evaluation of insurance contracts

A contract, which is deemed to be an insurance contract, remains an insurance contract, until all rights and liabilities are paid off or their validity period has expired. A contract, if in form and substance an insurance contract, may not be reclassified to another contract.

When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:
• accident insurance;
• assistance insurance;
• insurance against property damage or thefts;
• motor vehicle insurance;
• general third party liability insurance.

Each of these contract groups may be divided in more detail by taking into account the substance of the transferred insurance risk.

(b) Insurance premium and premium income

Written premiums are insurance premiums for the insurance contracts signed during the reporting period, that have come into force in the reporting period irrespective whether these premiums have become due or not. Premiums written are decreased by premiums cancelled and terminated during the reporting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are recognised as earned according to the assumed risk exposure over the term of the related policy coverage and are reported as earned premiums.

The unearned portion of premiums is recognised as an unearned premium reserves.

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.

(c) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the reporting period. Reserves are calculated for each insurance policy under the 365 – day Pro Rata Temporis method based on the period in force for a particular policy, except for insurance of warranties and performance bonds within surety insurance line of business. Starting from 2019 UPR for these policies are calculated based on exponential trend approach which is typical for this insurance type because claims are reported and paid at the end of policy term.

Unexpired risk reserve (URR)

Unexpired risk reserve (URR) 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 premiums reserve in relation to such policies.

(d) Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial period, the corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recovered through cession, sales of salvage or subrogation. Recovered losses are recognised on a cash basis when they are recovered.

Claim amounts recoverable under reinsurance contracts are assessed on each reporting period end date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the reinsurer.

(e) Outstanding claim reserves

Outstanding claim reserves comprise reserves for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the period end date whether reported or not, and the related internal and external claims handling expenses. Reserves outstanding are not discounted, with the exception of annuities which may arise from third part liability insurance.

Reported but not settled claims reserve (RBNS)

The RBNS claims reserve is calculated on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled (including loss adjustment expenses) as at the reporting date.

Incurred but not reported claims reserve (IBNR)

Both, gross and net IBNR reserves are calculated together for InterRisk Vienna Insurance Group AAS portfolio and the Company's portfolio, except for MTPL which is calculated separately and later counted together.

The chain-ladder method is used in the calculation of the IBNR reserve for following lines of business:
• accident insurance;
• motor transport (except railway transport) insurance (CASCO);
• property insurance against other risks;
• general third party liability insurance;
• credit insurance;
• surety insurance;
• motor vehicle owner third party liability insurance (MTPL).

Where available statistics are considered to be insufficient, e.g. lack of historical data, both IBNR reserves are calculated as a maximum from a percentage of premiums (5%) written during the last 12 months in the respective line of business or at least initial reserve or from triangle in the following lines of business:
• health insurance in Lithuania and Estonia;
• railway rolling stock insurance;
• aircraft insurance;
• marine vessel insurance;
• freight insurance;
• property insurance against damage by fire and natural disasters;
• aircraft owner third party liability insurance;
• ship owners' third party liability insurance;
• miscellaneous financial losses insurance;
• legal expenses insurance;
• assistance insurance.

In order to calculate IBNR reserve for Latvian health insurance line of business, the Company analyses claims that are reported late for every month within the last two years before the respective reporting period end.

Based on this analysis IBNR reserve is set.

(f) Ceded reinsurance

The Company cedes risks to reinsurance limiting its potential net loss through the diversification of the risks. Assets, liabilities, 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 (re)insurance companies in respect of claims paid and the reinsurance share in the insurance contract liabilities.

Reinsurance commissions and profit participations include commissions received or receivables from reinsurers and profit participations based on the reinsurance contracts. Reinsurance commissions are deferred in a manner consistent with the deferred client acquisition costs.

(g) Client acquisition costs

Client acquisition costs include commissions paid to intermediaries and other expenses related to the acquisition of insurance policies.

Deferred client acquisition (DAC) costs, primarily consisting of intermediary commissions are deferred to the extent that they are recoverable out of future premiums and are recognised as expenses over the life of the insurance policies, except for insurance of warranties and performance bonds within surety insurance line of business. Starting from 2019 DAC for these policies are calculated based on the same principles as UPR, see Note 3.2(c).

(h) Allocation of administration expenses among cost centres and insurance types

The allocation of administrative expenses to loss adjustment expenses, client acquisition costs and investment management expenses is based on the expenses incurred in different cost centres.

Administration expenses, which are not directly referred to in a specific type of insurance, are distributed among types of insurance mainly in proportion to the volume of the gross premiums written.

(i) Outstanding claim reserves

Forecast inflation and discount rates are one of the key assumptions used in the estimates of the outstanding claim reserves for annuities. Every year the Company evaluates the adequacy of its previous year provisions by preparing run-off tests. Additionally sensitivity of main assumptions is checked. Below are the results of sensitivity analysis as at 31 December 2019 for inflation:

EUR'000	Projected annual inflation increased by 1%	Projected annual inflation decreased by 1%
Increase/ (decrease) in outstanding claim reserves (including annuities)	3 168	(2 721)

(j) Insurance receivables and payables

Amounts due to and from policyholders, intermediaries and reinsurers are financial instruments and are included in receivables and payables from direct insurance activities and reinsurance activities, and not in insurance contract liabilities or reinsurers' share of insurance contract liabilities.

3.3 Financial instruments

(a) Classification

At inception, all financial instruments are classified into one of the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss. These include groups of financial assets designated at fair value through profit and loss, which are managed, and performance evaluated on a fair value basis, in accordance with the Company's documented investment strategy and information about the Company internally on that basis is provided to key management personnel.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.

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

Financial liabilities carried at amortised cost represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors balances.

Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in net gains and losses on financial instruments designated at fair value through profit or loss.

(b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities other than financial liabilities designated through profit or loss and all loans and receivables are measured at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

All instruments, excluding investments at fair value through profit and loss, are subject to revaluation when impaired.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the profit or loss. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income, except for impairment, which is recognised in profit or loss. For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the profit or loss when the financial asset or liability is derecognized.

3.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Director of Finance department.

Specific controls include:
• Verification of observable pricing;
• Regular re-performance of model valuations;
• A review and approval process for new models against observed market transactions;
• Analysis and investigation of significant daily valuation movements;
• Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the statement of comprehensive income depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When applicable, the Company measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and

measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Company assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:
• Verifying that equity broker or pricing service is approved by the Company for use in pricing the relevant type of financial instrument;
• Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
• When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

Further analysis of basis for fair value and fair value determination principles are disclosed in Notes 21 and 46.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
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).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.5 Impairment

(a) Financial assets

At each reporting period end date the Company assesses whether there is objective evidence that the 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.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables.

Other debtors are stated at the recoverable amount. Impairment allowances are recognised on doubtful receivables.

(b) Non-financial assets

Non-financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Property and equipment

Property and equipment are disclosed at cost less accumulated depreciation and impairment. Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment	20% per year
Computers, electrical equipment	33% per year
Vehicles	20% per year
Buildings for own use	5% per year

Land and buildings used for the Company's operating activities are initially stated at cost. Subsequently buildings for own use are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and is carried at a cost less any accumulated impairment losses.

Maintenance costs of property and equipment are recognised in the profit or loss as incurred. Costs of capital repairs of property and equipment (leasehold improvements) are added to the value of the respective asset and written off over the useful lifetime of the asset. Capital repair costs on leased property and equipment are written off on a straight-line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Profit or loss from disposal of property and equipment is calculated as the difference between the carrying amount of the asset and income generated from sale, and reflected as profit or loss in the profit or loss when disposed.

When revalued fixed assets are disposed, the related revaluation reserve is transferred to retained earnings.

Depreciation methods, useful lives and residual values are reviewed annually.

3.7 Intangible assets

Software licences

Software licences are capitalised. Software licences are recorded at cost including acquisition and implementation costs less accumulated amortisation and impairment. Amortisation is calculated using the linear method over the entire useful life of the respective asset in order to write their value down to the estimated residual value at the end of the useful life based on a 20% per year rate.

3.8 Investment property

Land and buildings held either to earn rental income or for capital appreciation or both are classified as investment property and are measured at cost less accumulated depreciation and impairment.

Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Buildings	5% per year

Land is not depreciated and is carried at a cost less any accumulated impairment losses.

Transfers to or from investment property are made when there is a change in use.

When an item of land and buildings is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in gain or losses.

If an investment property becomes owner-occupied, it is reclassified as property and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting, any differences arising are recognised directly in gain or losses.

3.9 Assets held for sale

Non-current assets are classified as held-forsale if it is highly probable that their carrying value will be recovered through sale rather than through continuing use and if they meet the following two classification criteria:
• these items, in their current state, are available for immediate sale and subject only to the normal conditions of sale of such items;
• their sale is reliable (based on the management's decision to sell these items, the sale process has been initiated and there is assurance that it will be completed within one year of the date of commencement of this process).

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. If the facts or events indicate a decrease in the value of non-current assets held for sale, the assets are tested for impairment and the resulting losses are assessed and recognized in the profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

3.10 Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

<u>As a lessee</u>

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The incremental borrowing rates are determined by the Vienna Insurance Group AG Wiener Versicherung Gruppe Group's accounting department based on interest rates from various external financing sources and making certain adjustments to reflect the terms of the lease and type of the asset leased.

After the commencement date, the lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.
The amount of the remeasurement of the lease liability shall be recognised as an adjustment to the right-of-use

asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, any remaining amount of the remeasurement shall be recognised in profit or loss.

The Company presents right-of-use assets that meet definition of land and buildings in "Land and Building for own use" while those assets that do not – in "Property and equipment" and lease liabilities in 'Lease liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset. In the reporting period the Company has only operating lease agreements.

Rental income from an investment property leased out under an operating lease is recognised on a straight-line basis over each lease term.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases. In the comparative period(s) the Company had only operating lease agreements.

The Company as a lessor

Rental income from an investment property leased out under an operating lease is recognised on a straight-line basis over each lease term.

The Company as a lessee

Operating lease payments are recognised in the profit or loss on a straight-line basis over the lease term. Discounts received are recognised in the profit or loss as a significant part of the total lease expenses.

3.11 Corporate income tax

(a) Payable tax

On 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia came into effect, setting out a conceptually new regime for paying taxes. The tax rate is 20%, the taxation period is one month and the taxable base, determined by dividing the value of the taxable item by a factor of 0.8, includes:
• distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
• conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering into transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or Management board and Supervisory Board members regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it is possible to utilise these losses to decrease the amount of tax calculated on dividends in the reporting period by no more than 50%. It is possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

(b) Deferred tax

Lithuania

Deferred tax is recognised providing for temporary differences between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for tax purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The carrying amount of deferred tax asset was reviewed at 31 December 2019 and changes were charged to profit or loss in the reporting period.

Latvia

IAS 12 Income taxes requires that, if there is a difference between the tax rate applicable to distributed profit and undistributed profit, deferred tax assets and liabilities shall be recognized at the tax rate applied to retained earnings.

The new Law on Corporate Income Tax of the Republic of Latvia applies 20% tax rate to distributed profit while the applicable tax rate for profit that is added to retained earnings is 0%. Consequently, the deferred tax asset and liabilities are to be recognized in zero amount.

(c) Contingent assets that derive from the calculation of the Company's Corporate Income Tax for periods prior to 31 December 2017

The Company has tax losses brought forward from reorganisation in the amount of EUR 7.6 million as at 31 December 2019 and 2018. In accordance with the new Corporate Income Tax Law referred to above, the Company will be able to utilise these losses to decrease up to 50% of corporate income tax calculated on dividends payable exclusively from profit for 2018-2021 and distributed as dividends by the end of 2022, as well as from profit for 2022 which will be distributed as extraordinary dividends in 2022.

The potential benefits described above as at 31 December 2019 and 2018 that may arise from the potential possibility to decrease the amount of tax in the future are treated as contingent assets and are not recognised on the balance sheet.

(d) Tax relief

A corporate income tax relief has been applied due to amounts donated to budget institutions, and public, cultural, science, sports, charity, health and environment protection organisations registered in Latvia, as well foundations and religious organisations which are permitted to accept donations in accordance with Article 8 and 12 of the Corporate Income Tax Law.

3.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash in hand, demand deposits, overnight deposits and term deposits with banks with the initial maturity term of less than three months. In the statement of cash flows, cash flows are presented using the direct method.

3.13 Dividends

Dividends are reflected as an appropriation of retained earnings in the period in which they are declared.

3.14 Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the services are provided. The Company pays fixed social security contributions to State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

3.15 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.16 Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.
a) A person or a close member of that person's family is related to a reporting entity if that person:
i) has control or joint control over the reporting entity;
ii) has significant influence over the reporting entity;
iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
iii) Both entities are joint ventures of the same third party.
iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi) The entity is controlled, or jointly controlled by a person identified in (a).
vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
viii) The entity, or any member of a group to which the entity belongs provides management personnel services to the entity or to the parent of the entity.

Related party transaction – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a consideration is determined.

3.17 Significant accounting estimates and judgement in applying accounting policies

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and 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.

Key sources of estimation uncertainty:

Outstanding claim reserves

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The reserves are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The reserve estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The most judgemental estimation is related to incurred-but-not-reported (IBNR) reserves. The key assumptions in respect of sufficiency of outstanding claim reserves are monitored regularly through claims reserves run-off analyses and liability adequacy testing, performed for each line of business.

The key methods, which are used and have remained unchanged from prior year, are:
• Chain Ladder methods, which use historical data to estimate potential claims incurred in future;
• frequency-severity method;
• or analysed premium trend.

Starting from the 1 January 2018 the Company is calculating IBNER (incurred but not enough reported) reserve for large claims incurred but not enough reported for each country separately in MTPL line of business on a net basis. Calculation assumptions among others include frequency, net premium amount and reinsurance retention for each country separately. If a large claim occurs in any given quarter the difference between the net claim and certain treashold is subtracted from IBNER reserve. IBNER reserve is included under IBNR reserve position in the financial statements.

In addition, IBNR reserve volume for MTPL and Property line of business is reviewed by using stochastic methods – Bootstrapping Chain Ladder, Mack Chain Ladder.

The actual method or mix of methods used varies by line of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:
• changes in processes that affect the development/ recording of claims paid and incurred (such as changes in claim reserving procedures);
• economic, legal, political and social trends (resulting in different than expected levels of inflation);
• changes in mix of business;
• random fluctuations, including the impact of large losses.

Valuation of investment property, land and buildings for own use

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss is recognized in the profit or loss.

Impairment of loans and receivables

Loans and receivables, or those amounts that are overdue, or for which there are indications of impairment are assessed for objective evidence of impairment individually. The Company assesses probability of the debtor fulfilling its obligations in the future and timing of fulfilment of those obligations, to be able to assess recoverable amount of the assets.

Loans and receivables for which no individual impairment loss is measured are assessed on collective level using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred. These are then adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. They will, however, always include uncertainty and may change depending on financial position of customers or general economic environment.

Measurement of fair values

More detailed description of fair value measurement is disclosed in Note 3.4.

(4) Risk management

4.1 General principles

The Company's risk management is an integral part of the governance and decision-making system, and a systematic set of measures – ensuring risk identification, assessment, monitoring and control of the individual exposure level.

The risk management system ensures three levels of defence:
• the first level is daily risk management within the business unit (following "four eyes" principle; documentation of critical processes etc.);
• the second level is ensured by risk management, compliance function, as well as actuarial function by creation and maintenance of overall risk management system, regular risk profile monitoring, supporting business units and having a direct access to the Company's Management Board;
• the third level is carried out by Internal Audit activities providing independent assurance on risk management and control processes and having a direct access to Company's Management Board, Audit Committee and the Supervisory Board.

The business of insurance represents the transfer of risk from the policyholder to the insurer and management of this risk. Consequently, the largest risks result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to signed insurance contracts. The Company is also exposed to financial risks incurred during investment activities and operational risk arising in day-to-day operations.

The Company monitors its risk profile regularly. The calculation of the required solvency capital is carried out once per quarter, as well as regular stress tests, sensitivity tests are done if the actual indicators differ from the own risks and solvency assessment forecast. The use of the standard formula corresponds to the Company's risk profile, which is assessed in the own risk and solvency assessment, the impact on the solvency from these changes are tested.

The results of the own risk and solvency evaluation are used in strategic and operational planning, budgeting process. In cases when significant changes in the Company's activities are planned.

In order to ensure the reliability of the risk management system; risk measurement, analysis and control functions are separated from business functions, e.g. the Company ensures that those who affect the risk profile are not simultaneously assigned risk monitoring and risk control, as well as the Company regularly and systematically educates its employees in order to raise their awareness of the risks.

4.2 Insurance risks

Insurance risk is the most significant risk faced by the Company in day-to-day activities. The main components of the insurance risk are premium and reserve risk, lapse risk and catastrophe risk.

In order to manage insurance risk, the Company has developed different control and management tools. For all insurance types, insurance terms and conditions have been developed and are binding both for the Company, as well as for the customers. Product methodologies have been developed for all insurance types and should be followed when assessing and accepting the risk assumed by the Company. The Company has established Baltic Risk Underwriting Department which employees are responsible for development of insurance products, insurance terms and conditions and risk assessment methods. In addition, limits have been fixed, up to which each of the employees is allowed to make a decision on risk underwriting. When fixing limits, the hierarchy principle is observed; employee with higher the level of responsibility has higher risk underwriting authority.

The Company has developed and uses the quality management system, which describes the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed. Quality measurements can be carried out in any process and identify whether this process is being carried out in accordance with the Company's interests and described procedures to provide high quality service to the customers and to minimise the risk that is connected with the insurance processes.

(a) Underwriting strategy

Underwriting risk means the risk of loss or adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. To mitigate underwriting risk the Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The underwriting strategy is set out in an annual business plan.

This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by insurance line, class of business and industry in order to enforce appropriate risk selection within the portfolio.

Risk diversification is assumed as highly important through the same risk underwriting process across all Baltic countries.

Stress tests and analysis of the critical situation are used for underwriting strategy assessment.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Company's Management Board.

(b) Basic products

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

Motor transport (except railway transport) insurance (CASCO)

Product features

The insurance indemnifies for losses, which arise from damage to, destruction, or loss of vehicle. Several additional insurance covers may also be purchased which are related to the insured vehicle. The largest losses arise from theft or destruction.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk.

CASCO premiums are determined on the basis of the bonus-malus system, driver's driving experience period, insurance territory and other criteria, which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. The sums insured rarely exceed EUR 70 000. Insurance premiums are set in line with applicable insurance methodology. Vehicles are divided into four risk groups with different insurance premiums. CASCO usually contains a retention element by the policyholder.

Motor vehicle owner third party liability insurance (MTPL)

Product features

This insurance is a compulsory insurance which policy conditions and indemnification rules are prescribed by the respective regulations on Motor Vehicle Owner Third Party Liability Insurance. MTPL insurance covers physical injury claims and property claims in countries where the policies has been issued as well as claims caused abroad by insured motorists under the Green Card system. Most of the motor vehicle owner third party liability insurance indemnities are for property damage and lump sum personal injuries, mostly medical treatment costs, and temporary absence from work. However, long-term indemnities may also be possible, such as pensions and permanent inability to work which may be paid out over a long term as annuities.

Even if according to previous statistics the claims have been notified promptly and can be settled without delay, the situation can change and claims arising from motor vehicle owner third party liability insurance are classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. For determining the premiums of motor vehicle owner third party liability insurance, a bonus-malus system is used which reduces the insurance premium upon the absence of losses created by the insured persons and increases the insurance premium upon the existence of losses created by the insured persons.

Health insurance

Product features

The health insurance product is offered to companies that purchase health insurance for their employees. Health insurance indemnifies against expenses such as doctor visits, laboratory and diagnostic tests and hospital treatment.

Management of risks

The Company monitors and reacts to changes in the prices for medical services, monitors the claim ratios on employer's bases and adjusts insurance premiums accordingly each year when renewal takes place.

Property insurance

Product features

Property insurance indemnifies, subject to any specified limits or deductibles, the insured against loss or damage of property. The risks covered by property insurance include fire risk, pipe leakage, explosion, third party illegal activities, and natural disasters. The most frequently occurring risks for property include pipe leakages and fire. Most often larger losses result from fire.

Generally, claims in the property insurance line are notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

In addition to property insurance, customer can get the indemnity of business interruption arising from insured property damage, as well as to purchase liability insurance with insuring real estate assets.

Business interruption insurance covers lost business profits and fixed costs incurred that arise from the realisation of any risk covered by the property insurance of the Company. Upon the sale of that insurance type, it is considered to be particularly important to take into account the transparency of the financial statements.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk.

In order to charge appropriate premiums different specifics of properties are assessed. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be more complex.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. Therefore, the Company monitors and reacts to changes in the general economic and business by changing pricing or product conditions.

(c) Insurance risk concentration

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Risk concentration may occur as a result of different coincidences and regularities. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an industry in total, for which several risks are insured. When insuring such risks, a precondition is the assessment of the company's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the trends of economic growth and the risks that might impact this area are studied.

In order to minimise losses that could occur because of risk concentration, the Company uses reinsurance effectively – by protecting risks proportionally and non-proportionally. Placing reinsurance, the Company's net retention for one risk is defined per one object and per one event, when losses happen simultaneously for several objects. The Company follows the Reinsurance policy, which has been approved by the Management Board.

The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to accept the risks unless the expected profits are commensurating with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various insurance lines of business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

The Company sets out the total aggregate exposure that it is prepared to accept in relation to the concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports, which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor risk accumulation in order to measure the effectiveness of the reinsurance programme and the Company's net retention.

Concentration risk is tested and evaluated within different scenario tests. Stress test results are used for decision making to understand what concentration risk the Company may undertake.

Geographic concentration of risks

To reduce the concentration risk in one country, the Company continues to develop operations in all Baltic countries. As a result, in the reporting period, 40.2% of all business (by net earned premiums) was conducted in Latvia, 47.2% in Lithuania and 12.6% in Estonia.

Concentration of risks by industry

The concentration of insurance risks by industry does not exceed 20% for an industry, therefore the Company's management considers that the risk concentration is at an acceptable level.

(d) Catastrophes

The Company's management is aware that catastrophe risks are possible. In the Company's geographic position these risks are mostly connected with meteorological phenomena: storms, floods, hail, snow, freezing, etc. Large fires and earthquakes are unlikely, but they may occur. The most characteristic catastrophes in Baltics are floods and storms while the largest claims usually are because of a fire. In order to minimise the impact of catastrophe risk on the Company, reinsurance is arranged – both proportionally and non-proportionally. In addition, facultative reinsurance is purchased for large risks. The retention is specified and reviewed in accordance with business needs, involving the Management Board and Actuarial Department, and taking into account maximum allowed net Retention of 3% of the Company's equity. According to the management, the measures taken sufficiently reduce the impact of catastrophe risk on the Company.

(e) Liability adequacy test

A liability adequacy test is carried out by line of business in Latvia, Lithuania and Estonia at each reporting date and assesses 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. The test takes into account potential decrease of claims paid due to regress and it is performed after the deduction of any deferred acquisition and administration costs from unearned premium reserve. However, it does not take into account reinsurance. If the assessment indicates a deficiency in the carrying amount of liabilities, the deficiency is recognised in the profit or loss by set up of additional unexpired risk reserve.

Liability adequacy test as at 31 December 2019 and 2018 did not identify any deficiency that would require setting of unexpired risk reserve.

Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of claim reserves made for these insurance claims by accident year.

The following table shows how the Company estimates total claims for each accident year have developed over time and reconciles the cumulative claims to the amount included in the Statement of the Financial position.

Claim development analysis, EUR'000

	Year of insured occurrence					
	2015 year and before	**2016 year**	**2017 year**	**2018 year**	**2019 year**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross claim provision at the end of thereporting period						
At the end of accident year	55 700	27 996	41 382	56 158	55 282	
-one year later	31 326	14 390	17 692	20 160		
-two years later	45 617	9 881	12 049			
-three years later	45 835	8 652				
-four years later	42 703					
Gross claims paid in subsequent years						
-one year later	20 903	16 765	28 415	37 089	-	
-two years later	5 494	5 017	2 687			
-three years later	4 720	1 802				
-four years later	4 277					
Gross claims paid	**35 394**	**23 584**	**31 102**	**37 089**	**-**	**127 169**
Current year (deficiency)/ redundancy	**(1 145)**	**(573)**	**2 955**	**(1 090)**	**-**	**147**

(f) Sensitivity analysis assumptions

The estimated amount of IBNR reserve could be influenced by inflation, the risk that significantly large claims will be reported with delay, seasonality of the reporting of claims and other risks.

As at 31 December 2019 78% of IBNR reserve consists of the following lines of business: MTPL and general third party liability insurance. Considering the current market situation, the Company believes that the most volatile assumption, which stands in one line with average claim amount, is inflation.

The table below presents the change in IBNR reserve as at 31 December 2019 – if the annual inflation used in the IBNR reserve estimation would change as a result of a 1 percentage point (p.p.) change in projected annual inflation, the IBNR reserve would change respectively:

EUR'000 Line of business	IBNR, as at 31.12.2019	IBNR if projected annual inflation increased by 1 p.p.	IBNR without using inflation
MTPL	20 410	21 208	18 304
General TPL	4 170	4 272	3 881

EUR'000 Line of business	IBNR, as at 31.12.2018	IBNR if projected annual inflation increased by 1 p.p.	IBNR without using inflation
MTPL	16 169	16 784	14 546
General TPL	3 044	3 112	2 852

Assumptions used for estimation of MTPL insurance claim reserves

IBNR reserve estimation for MTPL insurance claims is performed for the main part of claims incurred excluding annuities and another bodily injury claims for which a separate calculation is performed. Chain coefficients are calculated separately for material claims incurred triangle for each Baltic state.

RBNS reserves for annuities are calculated based on mathematical formulas used in life insurance. The main assumptions in these calculations are mortality tables, inflation and discount rates. General Latvian mortality tables are used for RBNS reserve calculations. Special disabled person mortality tables are used for first or second group disabled persons. Cash flows are calculated until the end of life or until age of retirement. EIOPA (The European Insurance and Occupational Pensions Authority) given discount rates are used for discounting cash flows. In addition, RBNS reserve for cases involving government social insurance agencies and private persons are calculated using specific indexation inflation coefficients set by each country separately.

4.3 Financial risk management

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

The Company's financial assets and liabilities, including investments, deposits with banks, loans, insurance receivables and receivables from reinsurance activities, are exposed to financial risk as follows:

- Market risk: risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments, including interest rate risk, price risk and currency risk;
- Credit risk: risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Company is exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations;
- Liquidity risk: risk that Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due.

Market risk

All financial instruments and positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. The Company is subject to potential market risks and can incur losses from financial assets and financial liabilities as the result of changes in interest rates, currency exchange rates and changes in price of equity instruments.

In order to limit investment risk, investments are made in different financial instruments. When choosing financial instruments, the requirements of the insurance company and solvency capital requirements are observed.

When carrying out investing activities, the employees of Financial Department are guided according to the approved Investment and risk strategy, which regulates issues related to control and the minimisation of investments risk.

The reduction of investments risk is carried out in two ways – firstly, by diversifying the investments portfolio, and secondly, by analysing the specific asset before the purchase of this asset and following the available information on this asset. On quarterly basis, the Company performs mismatch analysis of asset and liabilities' currencies, duration and cash flows during solvency capital requirement calculations.

(a) Currency (foreign exchange rate) risk

Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Some insurance liabilities are denominated in foreign currencies. The Company's policy is to restrict the currency risk with respect to known and expected transactions in foreign currencies. Currency risk management is based on investments in the respective currencies. The Company is not engaged in any speculative transactions that may increase the currency risk.

The Company held an open currency position in DKK in the equivalent of EUR 14 018 thousand, primarily invested into covered fixed income securities. Taking into account that DKK is pegged to EUR, the Company believes that the underlying currency risk is insignificant and acceptable, and does not require any risk mitigation measures.

An analysis of sensitivity of the Company's net income for the period and equity to changes in the foreign currency exchange rates based on currency positions from assets and liabilities denominated in foreign currency existing as at 31 December 2019 and 2018 and a simplified scenario of a 10% change in PLN, GBP, USD to EUR exchange rate is as follows:

	2019	**2018**
EUR'000	**Net income**	**Net income**
10% depreciation of PLN against EUR	66	34
10% appreciation of PLN against EUR	(66)	(34)
10% depreciation of GBP against EUR	49	37
10% appreciation of GBP against EUR	(49)	(37)
10% depreciation of USD against EUR	48	41
10% appreciation of USD against EUR	(48)	(41)

The split of financial assets and liabilities and insurance contract liabilities by currencies in EUR equivalent as at period end were as follows:

31 December 2019	**EUR EUR'000**	**USD EUR'000**	**DKK EUR'000**	**PLN EUR'000**	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Financial and insurance related assets							
Debt securities and other fixed income securities	179 189	447	14 148	1 019	-	-	**194 803**
Non-fixed income securities	20 454	-				-	**20 454**
Loans	11 701	-	-	-	-	-	**11 701**
Receivables	44 227	-	-	-	-	-	**44 227**
Cash and cash equivalents	23 570	651	26	619	1 896	63	**26 825**
Total financial assets	**279 141**	**1 098**	**14 174**	**1 638**	**1 896**	**63**	**298 010**

Continued table

Insurance contract liabilities, net and financialliabilities							
Unearned premium and unexpired risk reserves, net	83 388	1 410	-	-	-	-	**84 798**
Outstanding claim reserves, net	82 807	163	138	2 298	2 383	322	**88 111**
Financial liabilities	34 450	-	-	-	-	-	**34 450**
Reinsurers' deposit	37 297	-	-	-	-	-	**37 297**
Total insurance contract liabilities, net and financial liabilities	**237 942**	**1 573**	**138**	**2 298**	**2 383**	**322**	**244 656**
Open currency position	**41 199**	**(475)**	**14 036**	**(660)**	**(487)**	**(259)**	**53 354**

31 December 2018 (restated*)	**EUR EUR'000**	**USD EUR'000**	**DKK EUR'000**	**PLN EUR'000**	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Financial and insurance related assets							
Debt securities and other fixed income securities	173 627	456	14 009	1 664	-	-	**189 756**
Non-fixed income securities	13 645	-	-	-	-	-	**13 645**
Deposits with banks	3 008	-	-	-	-	-	**3 008**
Loans	1 509	-	-	-	-	-	**1 509**
Receivables	40 182	-	-	-	-	-	**40 182**
Cash and cash equivalents	13 190	407	81	5	2 107	60	**15 850**
Total financial assets	**245 161**	**863**	**14 090**	**1 669**	**2 107**	**60**	**263 950**
Insurance contract liabilities, net and financial liabilities							
Unearned premium and unexpired risk reserves, net	76 566	924	-	-	-	-	**77 490**
Outstanding claim reserves, net	77 819	346	72	2 010	2 481	243	**82 971**
Financial liabilities	24 425	-	-	-	-	-	**24 425**
Reinsurers' deposit	31 277	-	-	-	-	-	**31 277**
Total insurance contract liabilities, net and financial liabilities	**210 087**	**1 270**	**72**	**2 010**	**2 481**	**243**	**216 163**
Open currency position	**35 074**	**(407)**	**14 018**	**(341)**	**(374)**	**(183)**	**47 787**

* See Note 2(f).

(b) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

A significant share of the Company's financial investments was accounted for as available-for-sale instruments. Changes in securities prices for available-for-sale instruments is reported through other comprehensive income for the period. A simplified scenario of 5% change in investment funds' prices would result in the following effect on the other comprehensive income as at 31 December 2019 and 2018:

	2019 EUR'000	**2018 EUR'000**
5% increase in non-fixed income securities prices	907	647
5% decrease in non-fixed income securities prices	(907)	(647)

An analysis of the sensitivity of the Company's profit or loss to changes in securities prices based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 5% change in all fair value through profit and loss instruments prices is as follows:

	2019 EUR'000	2018 EUR'000
5% increase in securities prices	88	89
5% decrease in securities prices	(88)	(89)

(c) Interest rate risk

Interest rate risk is defined as the loss in value resulting from a change in interest rates and is viewed both from the asset-only perspective and in relation to the interest-rate sensitivity of the liabilities.

Measures for management of the interest rate risk in the Company are based on the assessment of the impact of the interest rate risk on the Company's financial indices. The Company is using EIOPA given discount rates for long-term liabilities (annuities).

The Company is exposed to a moderate interest rate risk. The duration matching of assets and liabilities is analysed quarterly.

	31.12.2019		31.12.2018	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10 bp parallel increase	(272)	(1 164)	(169)	(1 163)
10 bp parallel decrease	279	1 164	173	1 163

Changes in fair value that impact changes of interest rate of financial assets with fixed interest rate are reflected in price risk sensitivity analysis.

The following table present the Company's financial assets analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing. The interest rate repricing profile of the Company's assets as at end of the period:

31 December 2019	Up to 12 months EUR'000	1-5 years EUR'000	Over 5 years EUR'000	Non-interest bearing EUR'000	Total EUR'000	Of which subject to fixed rates EUR'000
Financial assets						
Investments at fair value through profit or loss	397	1 382	-	-	**1 779**	**1 779**
Available-for-sale instruments	3 558	44 601	143 091	20 454	**211 704**	**191 250**
Held-to-maturity instruments	30	-	1 744	-	**1 774**	**1 774**
Loans	6	-	11 695	-	**11 701**	**11 701**
Receivables	-	-	-	44 227	**44 227**	**-**
Cash and cash equivalents	-	-	-	26 825	**26 825**	-
Total financial assets	**3 991**	**45 983**	**156 530**	**91 506**	**298 010**	**206 504**

31 December 2018 (restated*)	Up to 12 months EUR'000	1-5 years EUR'000	Over 5 years EUR'000	Non-interest bearing EUR'000	Total EUR'000	Of which subject to fixed rates EUR'000
Financial assets						
Investments at fair value through profit or loss	21	1 775	-	-	**1 796**	1 796
Available-for-sale instruments	3 451	36 042	146 689	13 645	**199 827**	186 182
Held-to-maturity instruments	30	-	1 748	-	**1 778**	1 778
Deposits with banks	3 008	-	-	-	**3 008**	3 008
Loan	9	-	1 500	-	**1 509**	1 509
Receivables	-	-	-	40 182	**40 182**	-
Cash and cash equivalents	-	-	-	15 850	**15 850**	-
Total financial assets	**6 519**	**37 817**	**149 937**	**69 677**	**263 950**	**194 273**

* See Note 2(f).

Liquidity risk

The Company understands liquidity as the ability to meet its current liabilities in timely and comprehensive manner.

In order to mitigate any short-term liquidity risks, the Company carries out regular cash flow planning and continuously maintains a minimal cash position. As a long-term liquidity risk mitigation, the Company invests primarily into highly liquid investments.

Highly liquid investments are deemed to be the following assets:
1) claims on demand to credit institutions;
2) other claims to solvent credit institutions (term deposits, etc.) whose remaining repayment term does not exceed 30 days, and deposits with another term if the agreement stipulates an option to withdraw money before the due date (less the amount of contractual penalty for preterm withdrawal of deposits if such is provided);
3) investments in securities if they have a constant, unrestricted market, i.e., they can be sold in a short time without considerable losses or can be used as a collateral for receipt of loan.

The tables below shows the allocation of the Company's assets and liabilities to maturity groups based on the time remaining from the reporting period end date to the maturity dates or expected dates of settlement. While the tables below reflect the liquidity risk, it is based on time to contractual maturity. Investments classified as financial instruments at fair value through profit and loss and available for sale instruments, are considered as highly liquid financial assets and management has the ability to sell them earlier than the contractual date, thereby helping to manage its liquidity gap, if needed.

31 December 2019	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial and insurance related assets					
Financial instruments at fair value through profit or loss	397	1 382	-	-	**1 779**
Available-for-sale instruments	3 558	44 601	143 091	20 454	**211 704**
Held-to-maturity instruments	30	-	1 744	-	**1 774**
Loans	6	-	11 695	-	**11 701**
Receivables from direct insurance activities	41 254	-	-	-	**41 254**
Receivables from reinsurance activities	2 535	-	-	-	**2 535**
Other receivables	438	-	-	-	**438**
Cash and cash equivalents	26 825	-	-	-	**26 825**
Total financial assets taking into account maturity	**75 043**	**45 983**	**156 530**	**20 454**	**298 010**
Total financial assets taking into account liquidity	**284 571**	**-**	**13 439**	**-**	**298 010**

Continued table

31 December 2019	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Insurance contract liabilities, net and financial liabilities					
Insurance contract liabilities, net	143 898	8 831	20 180	-	**172 909**
Financial liabilities	23 332	4 085	7 033	-	**34 450**
Reinsurers' deposit	37 297	-	-	-	**37 297**
Total Insurance contract liabilities, net and financial liabilities	**204 527**	**12 916**	**27 213**	**-**	**244 656**
Maturity gap	**(129 484)**	**33 067**	**129 317**	**20 454**	**53 354**
Maturity gap taking into account liquidity	**80 044**	**(12 916)**	**(13 774)**	**-**	**53 354**
Accumulated maturity gap taking into account liquidity	**80 044**	**67 128**	**53 354**	**53 354**	**53 354**

31 December 2018 (restated*)	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial and insurance related assets					
Financial instruments at fair value through profit or loss	21	1 775	-	-	**1 796**
Available-for-sale instruments	3 451	36 042	146 689	13 645	**199 827**
Held-to-maturity instruments	30	-	1 748	-	**1 778**
Deposits with banks	3 008	-	-	-	**3 008**
Loan	9	-	1 500	-	**1 509**
Receivables from direct insurance activities	38 761	-	-	-	**38 761**
Receivables from reinsurance activities	1 012	-	-	-	**1 012**
Other receivables	409	-	-	-	**409**
Cash and cash equivalents	15 850	-	-	-	**15 850**
Total financial assets taking into account maturity	**62 551**	**37 817**	**149 937**	**13 645**	**263 950**
Total financial assets taking into account liquidity	**260 702**	**-**	**3 248**	**-**	**263 950**
Insurance contract liabilities, net and financial liabilities					
Insurance contract liabilities, net	134 731	7 528	18 202	-	**160 461**
Financial liabilities	17 425	-	7 000	-	**24 425**
Reinsurers' deposit	31 277	-	-	-	**31 277**
Total insurance contract liabilities, net and financial liabilities	**183 433**	**7 528**	**25 202**	**-**	**216 163**
Maturity gap	**(120 882)**	**30 289**	**124 735**	**13 645**	**47 787**
Maturity gap taking into account liquidity	**77 269**	**(7 528)**	**(21 954)**	**-**	**47 787**
Accumulated maturity gap taking into account liquidity	**77 269**	**69 741**	**47 787**	**47 787**	**47 787**

* See Note 2(f).

The Company carries out regular analysis of maturity structure of assets and liabilities, including evaluation of potential effect of mismatches in the maturity structure of such assets and liabilities on the Company's financial results and financial position. Effects of investments on maturity structure of assets are evaluated prior to investments.

Credit risk

The Company takes on exposure to credit risk which is the risk that a 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 regularly.

Credit risk mainly arising from direct insurance debtors, intermediaries and reinsurance debtors in case the counterparty fails to fulfil its payment obligations.

Maximum credit risk	2019		2018 Restated*	
	EUR'000		EUR'000	
	Gross	Net	Gross	Net
Government bonds	146 787	146 787	142 836	142 836
Corporate bonds	33 868	33 868	32 911	32 911
Mortgage bonds	14 148	14 148	14 009	14 009
Deposits with banks	-	-	3 008	3 008
Loans	11 701	11 701	1 509	1 509
Due from policy holders	41 169	40 434	38 296	37 806
Due from intermediaries	899	820	1 113	955
Receivables from reinsurance activities	2 535	2 535	1 012	1 012
Other debtors	739	438	710	409
Cash	26 825	26 825	15 850	15 850
	278 671	**277 556**	**251 254**	**250 305**

* See Note 2(f).

Credit risk arises on the financial investments, direct insurance amounts receivable and the reinsurance amounts receivable and is the risk the counterparty defaults on the payment of the amount due. Except for due from policy holders, intermediaries and other debtors, no financial assets are overdue or with impairment allowances.

Management of Financial investments

The Company manages credit risks by investing most of the investments in markets and investments with high ratings. Deposits are invested in Latvian, Lithuanian and Estonian commercial banks that are subsidiaries of foreign banks and that do not have separate ratings.

Investment analysis by ratings:

2019	Rating	Government bonds	Listed debt securities	Mortgage bonds	Total
		EUR'000	EUR'000	EUR'000	EUR'000
Agency: S&P, Fitch, Moody's					
	AAA	-	-	14 148	**14 148**
	AA	2 777	3 414	-	**6 191**
	A	140 656	11 986	-	**152 642**
	BBB	3 354	17 189	-	**20 543**
	BB and lower	-	742	-	**742**
	No rating	-	537	-	**537**
		146 787	**33 868**	**14 148**	**194 803**

2018	Rating	Government bonds	Listed debt securities	Mortgage bonds	Total
		EUR'000	EUR'000	EUR'000	EUR'000
Agency: S&P, Fitch, Moody's					
	AAA	-	-	14 009	**14 009**
	AA	9 915	3 378	-	**13 293**
	A	130 287	11 568	-	**141 855**
	BBB	2 634	17 459	-	**20 093**
	No rating	-	506	-	**506**
		142 836	**32 911**	**14 009**	**189 756**

Insurance receivables

Direct insurance amounts receivable are monitored by management on a periodic basis and policies are cancelled if appropriate notification has been provided to the policy holder and the amounts due are not paid.

Reinsurance

The Company reinsures a part of underwritten risks in order to control its exposure to losses and protect own capital. It purchases the obligatory and facultative reinsurance coverage to reduce the net exposure and not to exceed the actual margin of solvency. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after deductions for known counterparty insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

Risks are ceded to the (re)insurance companies with a sound reputation taking into account internal and VIG guidelines. The decision of choosing a cooperation partner with a rating below A- level by Standard and Poor's, Moody, Reuters, A.M. Best and Fitch, upon evaluating all risks, is coordinated with the Management Board and VIG Security Committee.

Reinsurance companies settle their obligations in the time period of 30 days. Reinsurance agreements also stipulate for cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.

During the reporting period, there have been no cases where a reinsurance company has not fulfilled its obligations to the Company.

	31 December 2019	
Rating	**Reinsurance debtors EUR'000**	**Reinsurers' share of insurance contract liabilities EUR'000**
AA	474	11 621
A	2 040	57 341
No rating	21	1 613
	2 535	**70 575**

	31 December 2018 (restated*)	
Rating	**Reinsurance debtors EUR'000**	**Reinsurers' share of insurance contract liabilities EUR'000**
AA	74	13 364
A	113	50 068
No rating	825	1 511
	1 012	**64 943**

* See Note 2(f).

Taking into account the reinsurance agreements the Company's liability for each insurance risk per event for the main business lines is as follows:

	31 December 2019 EUR'000	**31 December 2018 EUR'000**
Accident insurance	50	50
Health insurance	Retained on net	Retained on net
CASCO	Retained on net	Retained on net
Railway rolling stock insurance	100	100
Aircraft insurance	100	100
Marine vessel insurance	800	800
Freight insurance	100	100
Property insurance	1 000	1 000
MTPL	600	600
Aircraft owner third party liability insurance	100	100
Ship owner third party liability insurance	800	800
General third party liability insurance	400	400
Credit insurance	800	800
Surety insurance	750	1 000
Miscellaneous financial losses insurance	1 000	1 000
Legal expense insurance	Retained on net	Retained on net
Assistance insurance	Retained on net	Retained on net

4.4 Operational risk management

The Company has determined that customers should receive high quality service. The most significant risk in the provision of these services has been defined to be qualified and knowledgeable employees. In order to attract and keep middle and top level qualified employees in the Company, the Company has implemented a competitive salary and motivation system thus achieving a very high retention on the top and middle management level.

In the definition of operational risk, the Company includes the risk of inadequate or incorrect internal procedures, mistakes of personnel or systems, or external events. To cover operational risk, the capital requirement is calculated using the standard formula. As a result of the annual assessment of risk profile and internal control system, the most material operational risk categories were defined:
• process and organizational risk;
• the risk of human error;
• business disruption risk;
• compliance risk (mainly related to the protection of personal data and competition law);
• IT software and security risk.

In order to minimize the operational risk, the Company chooses different control strategies – preventive, for example, by setting access/authorization levels, corrective (focused on early warning and mitigation of an operational risk event recurrence), and identifying ones that are targeted to detect operational risk events. The Company develops internal regulatory documents for essential processes and provides staff training.

The Company collects and registers the data on operational risk events, their causes, consequences and measures taken to prevent their recurrence. One of the objectives of operational risk management is to ensure that the control efficiency indicator is not less than 95% (calculated in the process of evaluating the internal control system).

In order to ascertain the conformity of the standard formula with the operational risk assessment, the Company also uses the operational risk self-assessment (risk assessment probability and potential impact assessment) to identify and evaluate operational risk. The Risk Management Function, in co-operation with each risk holder, expresses qualitative and quantitative assessments and classifies possible operational risk events, thus identifying the Company's operational risk level and the necessary controlling activities to reduce it.

The Company considers the capital requirement for operational risk calculated with the standard formula to be sufficient.

4.5 Capital adequacy requirements and Capital management

According to the requirements of the "Insurance and Reinsurance Law" of the Republic of Latvia, Directive 2009/138/EC of the European Parliament and of the Council and Commission Delegated Regulation 2015/35 which are in force for the reporting period, the Company should constantly have at its disposal eligible own funds, which should equal or be higher than a determined solvency capital requirement.

The Company has developed a capital management policy to be sure:
(a) that eligible own fund items, both at issue and subsequently, are classified according to the features in Articles 71, 73, 75 and 77 of Commission Delegated Regulation 2015/35.
(b) before issuance of any own fund items that it can satisfy the criteria for the appropriate tier on a continuous basis;
(c) that own funds items are not encumbered by the existence of any agreements or connected transactions, or as a consequence of a group structure, which would undermine their efficacy as capital;
(d) that the actions required or permitted under the contractual, statutory or legal provisions governing an own fund item are initiated and completed in a timely manner;
(e) that the contractual terms governing own fund item items are clear and unambiguous in relation to the criteria for classification into tiers;
(f) that any policy or statement in respect of ordinary share dividends is fully taken into account in consideration of the capital position and the assessment of the foreseeable dividends;
(g) that the manner in which items included in own funds under the transitional measures operate in times of stress, and in particular how the items absorb losses is assessed and taken into account in the ORSA (own risk solvency assessment).

Capital management

The Company has adopted the Solvency II regulation, which entered into force on 1 January 2016 and served as the main model for capital risk management in the reporting period. The Company has chosen to use the Standard formula for calculating and reporting the capital requirements according to principles described by the regulation.

(5) Gross written premiums

	2019 EUR'000			2018 Restated* EUR'000		
	Gross written premiums	Reinsurers' share in premiums	Net written premiums	Gross written premiums	Reinsurers' share in premiums	Net written premiums
Accident insurance	4 888	(38)	4 850	4 497	(35)	4 462
Health insurance	25 634	–	25 634	22 919	–	22 919
CASCO	52 057	(4)	52 053	48 947	(3)	48 944
Railway rolling stock insurance	341	(27)	314	320	(42)	278
Aircraft insurance	110	(13)	97	114	(24)	90
Marine vessel insurance	3 048	(2 751)	297	2 772	(2 491)	281
Freight insurance	928	(187)	741	1 358	(226)	1 132
Property insurance	28 935	(5 404)	23 531	25 819	(4 447)	21 372
MTPL**	74 292	(37 650)	36 642	77 229	(39 131)	38 098
Aircraft owner third party liability insurance	146	(40)	106	148	(54)	94
Ship owner third party liability insurance	103	(93)	10	87	(78)	9
General third party liability insurance	8 623	(1 106)	7 517	8 142	(1 097)	7 045
Credit insurance	275	(172)	103	206	(124)	82
Surety insurance	8 262	(3 586)	4 676	8 000	(2 597)	5 403
Miscellaneous financial losses insurance	448	(154)	294	502	(152)	350
Legal expenses insurance	17	–	17	29	–	29
Assistance insurance	7 888	(2)	7 886	7 275	(2)	7 273
Total	**215 995**	**(51 227)**	**164 768**	**208 364**	**(50 503)**	**157 861**

* See Note 2(f).
** The Company makes obligatory deductions in accordance with the law "On compulsory motor third party liability" and the related Cabinet of Ministers regulations of the Republic of Latvia. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions EUR 585 thousand (2018: EUR 624 thousand).

The Company makes obligatory deductions to the Motor Bureaus of Lithuania and Estonia in accordance with the statutory requirements. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions to the transport insurance offices of Lithuania and Estonia in the amount of EUR 1 280 thousand (2018: EUR 1 433 thousand).

According to the law "On Motor Vehicles Third Party Liability Obligatory Insurance" and the related Cabinet Regulations of the Republic of Latvia, during the reporting period the Company made the following obligatory deductions from gross premiums written in this insurance type:
• Co-financing of the activities of the Motor Insurers' Bureau of Latvia: EUR 0.41 (2018:0.48) per contract + EUR 2 755 (2018: EUR 2 908) per month;
• For the MTPL Guarantee Fund: payments are made in accordance to special calculation by taking into account the period of contract and the type of insured motor vehicle;
• For the Road Traffic Accidents Fund in Latvia: 2% from gross written premium.

Breakdown of gross written premiums by country:

	2019 EUR'000	2018 Restated* EUR'000
Latvia	83 059	78 841
Lithuania	106 679	103 969
Estonia	26 257	25 554
	215 995	**208 364**

* See Note 2(f).

(6) Net earned premiums

	2019 EUR'000			2018 EUR'000		
	Gross earned premiums	Reinsurers' share in premiums	Net earned premiums	Gross earned premiums	Reinsurers' share in premiums	Net earned premiums
Accident insurance	4 738	(39)	4 699	4 279	(35)	4 244
Health insurance	24 551	–	24 551	22 212	–	22 212
CASCO	50 495	(5)	50 490	47 365	(3)	47 362
Railway rolling stock insurance	326	(27)	299	308	(42)	266
Aircraft insurance	112	(12)	100	96	(24)	72
Marine vessel insurance	3 087	(2 775)	312	2 131	(1 936)	195
Freight insurance	989	(186)	803	1 387	(224)	1 163
Property insurance	25 963	(4 781)	21 182	22 282	(3 100)	19 182
MTPL	74 862	(37 945)	36 917	78 583	(40 995)	37 588
Aircraft owner third party liability insurance	149	(39)	110	139	(55)	84
Ship owner third party liability insurance	101	(91)	10	92	(83)	9
General third party liability insurance	8 318	(1 115)	7 203	8 504	(1 059)	7 445
Credit insurance	273	(171)	102	199	(119)	80
Surety insurance	4 946	(2 386)	2 560	6 530	(2 185)	4 345
Miscellaneous financial losses insurance	453	(161)	292	680	(268)	412
Legal expenses insurance	23	–	23	28	–	28
Assistance insurance	7 809	(2)	7 807	7 253	(2)	7 251
Total	**207 195**	**(49 735)**	**157 460**	**202 068**	**(50 130)**	**151 938**

(7) Unearned premium and unexpired risk reserves

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31.12.2017 (restated*)	**89 542**	**(19 315)**	**70 227**
Written premiums	208 364	(50 503)	157 861
Premiums earned	(202 068)	50 130	(151 938)
Changes during period	*6 296*	*(373)*	*5 923*
Reinsurers deposit	–	1 340	1 340
Balance at 31.12.2018 (restated*)	**95 838**	**(18 348)**	**77 490**
Written premiums	215 995	(51 227)	164 768
Premiums earned	(207 195)	49 735	(157 460)
Changes during period	*8 800*	*(1 492)*	*7 308*
Balance at 31.12.2019	**104 638**	**(19 840)**	**84 798**

* See Note 2(f).

	31.12.2019 EUR'000		31.12.2018 Restated* EUR'000	
	Gross	Net	Gross	Net
Unearned premium reserve	104 638	84 798	95 838	77 490
Unexpired risk reserve	–	–	–	–
	104 638	**84 798**	**95 838**	**77 490**

* See Note 2(f).

(8) Other technical income, net

	2019 EUR'000	2018 EUR'000
Fee for policy amendments and cancellation	278	209
Other technical income	120	141
	398	**350**

The Company acts as an agent when paying out insurance claims on behalf of other non-resident companies. The Company does not accept insurance risks and receives full reimbursement of claims paid on behalf of other insurance companies. The Company receives an agent fee for the services and it is included under "Other technical income" above.

(9) Gross claims paid

	2019 EUR'000			2018 EUR'000		
	Gross claims paid	Reinsurers' share in claim	Net claims paid	Gross claims paid	Reinsurers' share in claim	Net claims paid
Accident insurance	(1 848)	–	(1 848)	(1 787)	–	(1 787)
Health insurance	(19 708)	–	(19 708)	(16 245)	–	(16 245)
CASCO	(32 216)	–	(32 216)	(29 229)	392	(28 837)
Railway rolling stock insurance	(366)	–	(366)	(47)	–	(47)
Aircraft insurance	(22)	–	(22)	(2)	–	(2)
Marine vessel insurance	(4 222)	3 484	(738)	(1 436)	1 193	(243)
Freight insurance	(844)	9	(835)	(808)	–	(808)
Property insurance	(20 327)	6 368	(13 959)	(10 697)	878	(9 819)
MTPL	(47 031)	20 435	(26 596)	(45 429)	19 903	(25 526)
Aircraft owner third party liability insurance	(1)	–	(1)	(7)	3	(4)
Ship owner third party liability insurance	(14)	11	(3)	(2)	–	(2)
General third party liability insurance	(3 393)	966	(2 427)	(2 601)	54	(2 547)
Credit insurance	(6)	14	8	(376)	186	(190)
Surety insurance	(5 998)	5 250	(748)	(6 636)	3 758	(2 878)
Miscellaneous financial losses insurance	(291)	–	(291)	(1)	–	(1)
Legal expenses insurance	(1)	–	(1)	–	–	–
Assistance insurance	(2 530)	–	(2 530)	(2 160)	–	(2 160)
	(138 818)	**36 537**	**(102 281)**	**(117 463)**	**26 367**	**(91 096)**

Gross claims paid include:	2019 EUR'000	2018 EUR'000
Paid claims	(140 695)	(118 505)
Loss adjustment expenses*	(7 193)	(6 985)
Recovered losses	9 070	8 027
	(138 818)	**(117 463)**

*Loss adjustment expenses in the reporting period include EUR 4 425 thousand (2018: EUR 3 846 thousand) salaries and social contributions for employees dealing with claims handling and allocation of salaries and social contributions for back office employees.

(10) Outstanding claim reserve

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31.12.2017	**101 389**	**(32 084)**	**69 305**
Claims incurred during the period	145 640	(40 878)	104 762
Claims paid	(117 463)	26 367	(91 096)
Changes during period	*28 177*	*(14 511)*	*13 666*
Balance at 31.12.2018	**129 566**	**(46 595)**	**82 971**
Claims incurred during the period	148 098	(40 677)	107 421
Claims paid	(138 818)	36 537	(102 281)
Changes during period	*9 280*	*(4 140)*	*5 140*
Balance at 31.12.2019	**138 846**	**(50 735)**	**88 111**

	31.12.2019 EUR'000			31.12.2018 EUR'000		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	106 145	(40 419)	65 726	103 592	(39 676)	63 916
IBNR	32 701	(10 316)	22 385	25 974	(6 919)	19 055
	138 846	**(50 735)**	**88 111**	**129 566**	**(46 595)**	**82 971**

(11) Net incurred claims

	2019 EUR'000			2018 EUR'000		
	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred
Accident insurance	(1 914)	-	(1 914)	(1 816)	-	(1 816)
Health insurance	(19 659)	-	(19 659)	(17 100)	-	(17 100)
CASCO	(31 702)	-	(31 702)	(29 204)	25	(29 179)
Railway rolling stock insurance	(373)	-	(373)	(1 374)	225	(1 149)
Aircraft insurance	28	(8)	20	(44)	(6)	(50)
Marine vessel insurance	(4 966)	4 163	(803)	(3 598)	3 129	(469)
Freight insurance	(399)	25	(374)	(2 241)	60	(2 181)
Property insurance	(17 639)	3 652	(13 987)	(15 448)	4 409	(11 039)
MTPL	(57 042)	27 014	(30 028)	(62 742)	30 362	(32 380)
Aircraft owner third party liability insurance	1	(5)	(4)	-	(4)	(4)
Ship owner third party liability insurance	(36)	31	(5)	18	(18)	-
General third party liability insurance	(4 736)	708	(4 028)	(4 408)	411	(3 997)
Credit insurance	(44)	50	6	(82)	242	160
Surety insurance	(6 601)	5 051	(1 550)	(5 265)	2 053	(3 212)
Miscellaneous financial losses insurance	(426)	(4)	(430)	72	(10)	62
Legal expenses insurance	(2)	-	(2)	1	-	1
Assistance insurance	(2 588)	-	(2 588)	(2 409)	-	(2 409)
	(148 098)	**40 677**	**(107 421)**	**(145 640)**	**40 878**	**(104 762)**

(12) Deferred client acquisition costs

	EUR'000
Balance at 31.12.2017 (restated*)	**9 084**
Direct client acquisition costs	21 477
Deferred commissions allocated to the profit or loss	(21 109)
Changes during period	*368*
Balance at 31.12.2018 (restated*)	**9 452**
Direct client acquisition costs	22 240
Deferred commissions allocated to the profit or loss	(21 285)
Changes during period	*955*
Balance at 31.12.2019	**10 407**

* See Note 2(f).

Client acquisition costs:	**2019** **EUR'000**	**2018** **Restated*** **EUR'000**
Direct client acquisition costs		
Intermediaries' commissions payable	21 699	20 583
Agents' commissions payable	264	515
Other payable to intermediaries	277	379
Total direct client acquisition costs	**22 240**	**21 477**
Indirect client acquisition costs		
Salaries and social contributions of front office employees	12 741	11 647
Allocated salaries and social contributions of back office employees	201	157
Front office administrative expenses	3 316	4 138
Total indirect client acquisition costs	**16 258**	**15 942**
	38 498	**37 419**

* See Note 2(f).

(13) Administrative expenses

	2019 **EUR'000**	**2018** **EUR'000**
Salaries and social contribution expenses	8 185	7 015
Rent payments*	95	553
Computer programs rent and maintenance	2 576	1 563
Obligatory payments**	29	69
Business related costs	569	579
Utility expenses (electricity, heating, water)	182	216
Car maintenance costs	207	226
Telecommunication costs	207	202
Advertising expenses	560	444
Other personnel expenses	786	581
Presentation expenses	233	187
Legal expenses	8	19
Computer maintenance	26	79
Audit and consultant service expenses	358	240
Cleaning expenses	50	46
Public relations expenses	62	72
Typographic costs	45	48
Other administrative expenses	746	833
	14 924	**12 972**

* Rent payments in 2019 consists of expenses relating to short-term leases and leases of low-value assets, as well as VAT part of lease payments that are directly expensed and are not taken into account when assessing right-of-use asset and lease liability.

** According to the Latvian legislation, 0.20% of gross premiums in the MTLP line and 0.283% of gross premiums in other lines of insurance should be transferred to the FCMC. Payments to the Insured Interests Protection Fund are made in amount of 1% of premiums paid by private person policyholders for voluntary types of insurance.

Administrative expenses allocated by insurance types*:

	2019 EUR'000	2018 EUR'000
Accident insurance	330	268
Health insurance	1 608	1 397
CASCO	3 624	3 180
Railway rolling stock insurance	26	21
Aircraft insurance	9	6
Marine vessel insurance	210	145
Freight insurance	66	92
Property insurance	1 809	1 425
MTPL	5 520	4 871
Aircraft owner third party liability insurance	11	10
Ship owner third party liability insurance	8	7
General third party liability insurance	593	571
Credit insurance	18	13
Surety insurance	487	471
Miscellaneous financial losses insurance	35	27
Legal expenses insurance	1	2
Assistance insurance	569	466
	14 924	**12 972**

* See Note 3.2(h) for allocation principles.

(14) Unearned reinsurance commission income

	EUR'000
Balance at 31.12.2017 (restated*)	**1 211**
Written commissions	(13 405)
Deferred commissions allocated to the profit or loss	14 113
Changes during period	*708*
Balance at 31.12.2018 (restated*)	**1 919**
Written commissions	(13 498)
Deferred commissions allocated to the profit or loss	13 951
Changes during period	*453*
Balance at 31 December 2019	**2 372**

* See Note 2(f).

(15) Other technical expenses

	2019 EUR'000	2018 EUR'000
Impairment allowance for receivables from direct insurance and reinsurance operations	292	109
Expenses related to distribution of policies	115	69
Other	82	121
	489	**299**

(16) Interest income

	2019 EUR'000	2018 EUR'000
Interest income from financial assets at fair value through profit or loss	31	23
Interest income from held to maturity financial investments	35	35
Interest income from available for sale financial investments	1 613	1 372
Dividend income from available for sale financial investments	340	315
Interest income from deposits with credit institutions	1	21
Interest on loans	62	9
	2 082	**1 775**

(17) Interest expense

	2019 EUR'000	2018 EUR'000
Interest expense on subordinated loans	378	79
Interest expense on reinsurers' deposit	26	25
Interest expense on lease liabilities	89	-
	493	**104**

(18) Income tax expense

	2019 EUR'000	2018 EUR'000
Current corporate income tax	(1 127)	(1 168)
Deferred tax	37	26
	(1 090)	**(1 142)**

Effective tax rate reconciliation

	2019 EUR'000			
	Latvia	Lithuania	Estonia	Total
Profit before tax	**6 732**	**6 949**	**(1 942)**	**11 739**
Theoretical tax using the 15% or 20% rate*	1 346	1 042	-	**2 388**
Non-deductible expenses	27	54	-	**81**
Profit taxation on distribution	(1 373)	-	-	**(1 373)**
Donations	-	(6)	-	**(6)**
Tax expenses	**-**	**1 090**	**-**	**1 090**

	2018 EUR'000			
	Latvia	Lithuania	Estonia	Total
Profit before tax	**2 777**	**7 332**	**185**	**10 294**
Theoretical tax using the 15% or 20% rate*	555	1 100	37	**1 692**
Non-deductible expenses	6	53	-	**59**
Profit taxation on distribution	(555)	-	(37)	**(592)**
Donations	-	(17)	-	**(17)**
Tax expenses	**6**	**1 136**	**-**	**1 142**

* Theoretical tax rate in 2019 and 2018 for Latvia is 20%, for Lithuania – 15%, for Estonia – 20%.

According to the double taxation treaty between Latvia and Estonia income declared by the Estonian branch is taxable in Latvia. According to the treaty, the Company applies the credit method in order to avoid double taxation.

According to the double taxation treaty between Latvia and Lithuania income declared by the Lithuanian branch is taxable in Lithuania. According to the treaty, the Company applies the release method in order to avoid double taxation. When determining taxable income, income generated by the Company's branch in Lithuania is not taken into account. Taxable income is reduced by the Company's income for the taxation period that was generated in Lithuania and included in the profit or loss of the Company and the taxable amount has been increased by the amount of expenses that are connected with generating the above income and included in the profit or loss of the Company.

(19) Reinsurance cession result

	2019 EUR'000	2018 Restated* EUR'000
Reinsurance premiums	(51 227)	(50 503)
Changes in reinsurers' share in unearned premiums reserve	1 492	373
Reinsurers' share in claims paid	36 537	26 367
Changes in reinsurers' share in reserve for outstanding claims	4 140	14 511
Reinsurance commissions and profit participation	13 498	13 405
Change in unearned reinsurance commissions	(453)	(708)
	3 987	**3 445**

* See Note 2(f).

(20) Property and equipment

	Vehicles EUR'000	Art in BTA EUR'000	Other property and equipment EUR'000	Prepayments for fixed assets EUR'000	Right-of-use assets EUR'000	Total EUR'000
Cost						
31.12.2017	**1 909**	**-**	**3 485**	**15**	**-**	**5 409**
Purchased	257	161	675	-	-	1 093
Disposals	(381)	-	(548)	-	-	(929)
Transferred	-	-	15	(15)	-	-
Reclassification to low-value-inventory	-	-	(33)	-	-	(33)
31.12.2018	**1 785**	**161**	**3 594**	**-**	**-**	**5 540**
Balance at 01.01.2019	1 785	161	3 594	-	-	5 540
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	284	284
Adjusted balance at 01.01.2019	**1 785**	**161**	**3 594**	**-**	**284**	**5 824**
Purchased	328	-	469	590	12	1 399
Disposals	(264)	-	(339)	-	-	(603)
Reclassification to low-value-inventory	-	-	(153)	-	-	(153)
31.12.2019	**1 849**	**161**	**3 571**	**590**	**296**	**6 467**
Accumulated depreciation						
31.12.2017	**(1 353)**	**-**	**(2 530)**	**-**	**-**	**(3 883)**
Depreciation for the period	(166)	-	(433)	-	-	(599)
Depreciation on disposed assets	314	-	432	-	-	746
Reclassification to low-value-inventory	-	-	42	-	-	42
31.12.2018	**(1 205)**	**-**	**(2 489)**	**-**		**(3 694)**
Depreciation for the period	(193)	-	(519)	-	(88)	(800)
Depreciation on disposed assets	220	-	325	-	-	545
Reclassification to low-value-inventory	-	-	131	-	-	131
31.12.2019	**(1 178)**	**-**	**(2 552)**	**-**	**(88)**	**(3 818)**
Balance at 31.12.2018	**580**	**161**	**1 105**	**-**	**-**	**1 846**
Balance at 31.12.2019	**671**	**161**	**1 019**	**590**	**208**	**2 649**

Depreciation for the period is presented in the profit or loss under Depreciation and amortisation caption.

(21) Land and buildings and Investment property

(a) Land and buildings

	Land and buildings EUR'000	Right-of-use assets EUR'000	Total EUR'000
Cost			
31.12.2017	**4 260**	**-**	**4 260**
Reclassification to Investment Property	(1 192)	-	(1 192)
Impairment	(369)	-	(369)
31.12.2018	**2 699**	**-**	**2 699**
Balance at 01.01.2019	2 699	-	2 699
Recognition of right-of-use asset on initial application of IFRS 16	-	6 029	6 029
Adjusted balance at 01.01.2019	**2 699**	**6 029**	**8 728**
Additions	-	1 220	1 220
Disposals	-	(35)	(35)
Reclassification to Investment Property	(314)	-	(314)
31.12.2019	**2 385**	**7 214**	**9 599**
Accumulated depreciation			
31.12.2017	**(1 255)**	**-**	**(1 255)**
Depreciation for the period	(31)	-	(31)
Reclassification to Investment Property	362	-	362
31.12.2018	**(924)**	**-**	**(924)**
Depreciation for the period	(120)	(1 661)	(1 781)
Reclassification to Investment Property	16	-	16
Depreciation on disposed assets	-	35	35
31.12.2019	**(1 028)**	**(1 626)**	**(2 654)**
Balance at 31.12.2018	**1 775**	**-**	**1 775**
Balance at 31.12.2019	**1 357**	**5 588**	**6 945**

Depreciation for the period is presented in the profit or loss under Depreciation and amortisation caption.

Transfer to investment property

During 2019, part of a building and land located in Riga were transferred to investment property (see Note 21(b)), because they were no longer used by the Company and it was decided that the respective part of the building and land would be leased to third parties.

Impairment loss in 2018

During 2018, the Company encountered difficulty to lease out part of its property – 20% of building and land located in Riga that at the beginning of the year was transferred from own use to investment property (remaining part of 80% of property was still used by the Company in 2018). It was identified that the actual market rental price for such property is lower than the price used in the valuation of the property, as well as the actual occupancy rate is lower due to the lack of interest of the market in such property. Consequently, the Company performed impairment testing for this property and recognized an impairment loss of EUR 461 thousand which was then split between Land and buildings (80%) and Investment property (20%) in accordance with the split of the property between these positions.

The main asumptions used in the impairment testing were – average monthly rent price of EUR 6.3 sqm in the first year and annual 2% increase in subsequent years; gradual increase of occupation rate from 41% in first year, 65% in second year to 92% in the fifth year; discount factor – 9% and capitalization rate – 7%. During 2019 the Company managed to lease out 39% of property with average monthly rent price of EUR 6 per sqm, which overall are in line with the assumptions used in the impairment test.

(b) Investment property

	Investment property EUR'000
Balance at 31.12.2017	**446**
Reclassification from Land and Buildings	830
Disposals	(118)
Impairment	(92)
Depreciation for the period	(191)
Balance at 31.12.2018	**875**
Reclassification from Land and Buildings	298
Reclassification to Assets held for sale	(63)
Impairment	(34)
Depreciation for the period	(69)
Balance at 31.12.2019	**1 007**

Investment property comprises a number of commercial properties that are leased to third parties.

Rental income and operating expenses are recognized in the profit or loss under Other income.

All investment properties represent Level 3 fair value hierarchy.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Building and land located in Tukums	83	Discounted cash flows technique*	Rental income of EUR 3.50 per m² Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Building and land located in Talsi	19	Discounted cash flows technique*	Rental income of EUR 4.50 per m² Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)
Building located in Tallinn	269	The income capitalization and sales comparison approach	Rental income of EUR 10 per m² Discount rate 10%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)
Buildings and land located in Riga	159	Discounted cash flows technique*	Rental income of EUR 8.62 per m² Discount rate 9%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)
Building and land located in Daugavpils	115	Discounted cash flows technique*	Rental income of EUR 2.48 per m² Discount rate 11%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)
Building and land located in Riga**	607	Discounted cash flows technique*	Rental income of EUR 6.33 per m² Discount rate 9%	The estimated fair value would increase/ (decrease) if rental income per m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)

* Discounted cash flows technique is a model based on discounted cash flows from rental income.
** Property was impaired in 2018, see Note 21(a).

Transfer to Assets held for sale and impairment loss in 2019

In 2019, Management Board and Supervisory Board approved the sale of of two properties – building and land located in Ventspils and land located in Mārciena parish. Efforts to sell the these properties started in late 2019 and a sale of Ventspils property occurred in January 2020, while sale of Mārciena parish property is expected by the end of 2020.

Impairment loss of EUR 34 thousand was recognized upon transfer of Ventspils property from Investment property to Assets held for sale due to carrying value of the property being higher than its fair value less cost to sell.

All assets held for sale represent Level 3 fair value hierarchy.

(22) Intangible assets

	Software EUR'000	Unfinished long term intangible assets EUR'000	Total EUR'000
Cost			
31.12.2017	**4 577**	**-**	**4 577**
Purchased	455	-	455
Disposals	(185)	-	(185)
31.12.2018	**4 847**	**-**	**4 847**
Purchased	533	173	706
Disposals	(1 603)	-	(1 603)
31.12.2019	**3 777**	**173**	**3 950**
Accumulated amortisation			
31.12.2017	**(2 800)**	**-**	**(2 800)**
Amortisation for the period	(527)	-	(527)
Amortisation on disposed assets	22	-	22
31.12.2018	**(3 305)**	**-**	**(3 305)**
Amortisation for the period	(459)	-	(459)
Amortisation on disposed assets	1 352	-	1 352
31.12.2019	**(2 412)**	**-**	**(2 412)**
Balance at 31.12.2018	**1 542**	**-**	**1 542**
Balance at 31.12.2019	**1 365**	**173**	**1 538**

Amortisation for the period is presented in the profit or loss under Depreciation and amortisation caption.

(23) Investment in subsidiary

On 18 June 2019 BTA Baltic Insurance Company AAS acquired 100% share capital of and complete control over Urban Space SIA for EUR 406 thousand. At the moment of acquisition Urban Space SIA share capital was EUR 381 thousand, after the acquisition it was increased by EUR 100 thousand to EUR 481 thousand; consequently the Company's investment in Urban Space SIA increased to EUR 506 thousand. Since the business volume of Urban Space SIA is insignificant compared to the total assets and revenue of BTA, in the financial statements as at 31 December 2019 the subsidiary is accounted using the cost method.

(24) Financial instruments

	31.12.2019 EUR'000	31.12.2018 EUR'000
Fixed income securities	194 803	189 756
Investment funds	18 142	12 945
Investment in share capital of VIG Fund, a.s. (see Note 42)*	2 312	700
	215 257	**203 401**

* The portfolio of available-for-sale securities also includes shares held at cost of EUR 2 312 thousand (2018: EUR 700 thousand). These are unlisted equity securities in VIG group company – VIG Fund, a.s. – for which fair value could not be measured reliably due to the existence of significant transactions between the Company and this investee. The Company's investment strategy is to hold these securities for a long-term period. When sold, the carrying value of these assets will be charged to profit or loss.

Fixed income securities:

	31.12.2019 EUR'000 Purchase cost	Fair value	31.12.2018 EUR'000 Purchase cost	Fair value
Debt securities issued or guaranteed by central governments or municipalities	144 448	146 787	144 003	142 836
Debt securities and other securities with fixed income, which are listed in a regulated market	46 755	48 016	47 195	46 920
		194 803		**189 756**

Investment portfolio of fixed income securities by geographic split:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Latvia, Lithuania, Estonia	132 961	109 441
Poland	14 410	14 785
Other European Union countries	35 631	53 263
Other	11 801	12 267
	194 803	**189 756**

(25) Deposits with banks

Investment maturity structure:

	31.12.2019 EUR'000	31.12.2018 EUR'000
With original maturity from 6 to 12 months	-	3 008
	-	**3 008**

Investment structure by geographical split:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Lithuania	-	3 008
	-	**3 008**

(26) Loans

Loan maturity structure:

	31.12.2019 EUR'000	31.12.2018 EUR'000
With maturity in up to 12 months	6	9
With maturity in more than 5 years	11 695	1 500
	11 701	**1 509**

Loan structure by geographical split:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Latvia	6 006	-
Poland	1 350	1 358
Czech Republic	4 345	151
	11 701	**1 509**

(27) Receivables from direct insurance activities

	31.12.2019 EUR'000	31.12.2018 Restated* EUR'000
Due from policy holders	41 169	38 296
Due from intermediaries	899	1 113
Impairment allowance for bad debtors	(814)	(648)
	41 254	**38 761**

* See Note 2(f).

	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000	Total allowance for insurance debtors EUR'000
Allowance at 31.12.2017	**(646)**	**(136)**	**(782)**
Recovered debts	156	–	156
Impairment loss charge	–	(22)	(22)
Allowance at 31.12.2018	**(490)**	**(158)**	**(648)**
Recovered debts	–	79	79
Impairment loss charge	(245)	–	(245)
Allowance at 31.12.2019	**(735)**	**(79)**	**(814)**

	31.12.2019 EUR'000	31.12.2018 Restated* EUR'000
Other intermediaries	899	1 113
Allowances for doubtful debts	(79)	(158)
Intermediaries	**820**	**955**
More than 3 months overdue	*647*	*361*
Less than 3 months overdue	*4 334*	*4 544*
Overdue receivables	4 981	4 905
Outstanding receivables not yet due	36 188	33 391
Allowances for doubtful debts	(735)	(490)
Policyholders	**40 434**	**37 806**
Total direct insurance debtors	**41 254**	**38 761**

* See Note 2(f).

(28) Other receivables

	31.12.2019 EUR'000	31.12.2018 EUR'000
Financial assets		
Receivables for claims handling services provided	167	151
Other debtors	572	559
Impairment allowance	(301)	(301)
Total financial assets	**438**	**409**
Non-financial assets		
Advance payments	68	384
Tax prepayments	49	3
Total non-financial assets	**117**	**387**
	555	**796**

	Gross EUR'000
Allowance at 31.12.2017	**(305)**
Written off	4
Allowance at 31.12.2018	**(301)**
Allowance at 31.12.2019	**(301)**

(29) Cash and cash equivalents

	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash on hand	4	18
Current accounts with credit institutions	26 821	15 832
Cash and cash equivalents	**26 825**	**15 850**
Cash and cash equivalents as disclosed in the statement of cash flows	**26 825**	**15 850**

Credit institutions:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Latvian credit institutions	14 821	5 589
Lithuanian credit institutions	5 097	2 569
Estonian credit institutions	6 871	2 156
Austrian credit institutions	5	5 499
Other credit institutions	27	19
	26 821	**15 832**

Current account analysis by ratings:

	31.12.2019 EUR'000	31.12.2018 EUR'000
AA	1	1
A	31	5 526
BBB	5 392	3 519
BB and lower	2 019	743
Not rated	19 378	6 043
	26 821	**15 832**

(30) Obligatory payments disclosed in statement of cash flows

Payments made to:	31.12.2019 EUR'000	31.12.2018 EUR'000
Latvian Transport Insurance Bureau	626	712
Estonian and Lithuanian Transport Insurance Bureaus	1 296	1 071
FCMC commission	505	507
Estonian and Lithuanian insurance supervisory institutions	137	46
	2 564	**2 336**

(31) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2019 is EUR 41 609 400 (2018: EUR 41 609 400) comprised of 416 094 ordinary shares and is fully paid. Nominal value of one share is EUR 100.

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 rank equally with regard to the Company's residual assets.

Dividends

	2019 EUR'000	2018 EUR'000
Dividends declared	5 950	6 624
Dividends paid	5 950	6 624

	2019 EUR	2018 EUR
Dividends declared per share	14.30	15.92
Dividends paid per share	14.30	15.92

Revaluation reserve

The revaluation reserve relates to revaluation on property and equipment used by the Company for its own activities and investment property, and revaluation of available-for-sale instruments, net of deferred tax. Land and buildings revaluation reserve was taken over on 1 July 2015 when the Company took over the business portfolio related to Baltic countries from BTA Insurance Company SE (starting from 1 November 2016 – Balcia Insurance SE) and have not changed thereafter since the Company changed its accounting policy to cost less depreciation method.

	31.12.2019 EUR'000	31.12.2018 EUR'000
Land and buildings revaluation reserves	382	382
Other investment revaluation reserves	6 414	(328)
	6 796	**54**

	EUR'000
Balance at 31.12.2017	**1 475**
Changes of revaluation reserves	(1 421)
Balance at 31.12.2018	**54**
Changes of revaluation reserves	6 742
Balance at 31.12.2019	**6 796**

(32) Reinsurers' deposit

The reinsurance deposit is recognized in accordance with the reinsurance contract for motor vehicle owner third party liability insurance (MTPL) line of business. The basis for calculating the deposit is reinsurers' share of insurance contract liabilities:

- unearned premium reserves (UPR) at the end of the period;
- outstanding claim reserves (RBNS and IBNR) at the end of the period.

The interest on deposit is calculated quarterly based on the deposit balance at the beginning of the respective quarter multiplied by 1/4th of the annual interest rate of 3 month EURIBOR + 0.5% at the beginning of the quarter. Interest expense is recognized in Statement of Comprehensive Income under Interest expense caption.

The Reinsurers' deposit consists of following reinsurers' share of insurance contract liabilities as at 31 December 2019 and 2018:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Unearned premium reserves	12 276	12 570
Outstanding claim reserve	25 021	18 707
	37 297	**31 277**

(33) Lease liabilities

	31.12.2019 EUR'000	31.12.2018 EUR'000
Less than one year	1 721	-
Between one and five years	4 085	-
More than five years	33	-
	5 839	**-**

Lease liability movement

	EUR'000
Balance at 31.12.2017	-
Balance at 31.12.2018	-
Balance at 01.01.2019	-
Recognition of lease liabilities on initial application of IFRS 16	6 313
Balance at 01.01.2019	**6 313**
Additions	938
Modification	374
Disposals	(1 786)
Balance at 31.12.2019	**5 839**

(34) Deferred tax assets/(liabilities)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2019 and 2018. These deferred tax assets have been recognised in these financial statements.

Deferred tax asset/(liabilities) attributable to:	2019 EUR'000	2018 EUR'000
Lithuania	244	207

Movement in temporary differences during the year ended 31 December 2019

				31 December 2019	
'000 EUR	Net balance 1 January 2019	Recognised in profit or loss	Net balance 31 December 2019	Deferred tax asset	Deferred tax liability
Provisions	207	37	244	244	-
Deferred tax assets/(liabilities) before set-off	**207**			**244**	**-**
Set off of tax				-	-
Net deferred tax assets/(liabilities)				**244**	**-**

Movement in temporary differences during the year ended 31 December 2018

				31 December 2018	
'000 EUR	Net balance 1 January 2018	Recognised in profit or loss	Net balance 31 December 2018	Deferred tax asset	Deferred tax liability
Provisions	181	26	207	207	-
Deferred tax assets/(liabilities) before set-off	**181**			**207**	**-**
Set off of tax				-	-
Net deferred tax assets/(liabilities)				**207**	**-**

(35) Taxes and social contributions

Tax type	Balance at 31.12.2018 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Reclassified EUR'000	Balance at 31.12.2019 EUR'000
Social contributions	260	6 462	(6 294)	-	428
Personal income tax	95	4 086	(3 945)	(75)	161
Value added tax	(3)	920	(783)	-	134
Real estate tax	4	4	(3)	-	5
Risk Duty	3	72	(69)	-	6
Other taxes	1	71	(70)	-	2
CIT in Latvia	(75)	-	(4)	75	(4)
CIT in Lithuania	257	1 127	(1 433)	-	(49)
	542	**12 742**	**(12 601)**	**-**	**683**

	31.12.2018 EUR'000	31.12.2019 EUR'000
Prepaid corporate income tax	(75)	(4)
Other tax prepayment, see Note 28	(3)	(49)
Other tax liabilities	620	736

	Tax payable 31.12.2018 EUR'000	Tax receivable 31.12.2018 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Tax payable 31.12.2019 EUR'000	Tax receivable 31.12.2019 EUR'000
Latvia	361	(75)	5 681	(5 286)	685	(4)
Lithuania	184	(3)	6 243	(6 507)	17	(100)
Estonia	75	-	818	(808)	85	-
	620	**(78)**	**12 742**	**(12 601)**	**787**	**(104)**

(36) Payables from reinsurance activities

	31.12.2019 EUR'000	31.12.2018 EUR'000
Reinsurance companies	5 257	2 678
Reinsurance brokers	-	1 329
	5 257	**4 007**

Reinsurance creditors by geographic split:

	31.12.2019 EUR'000	31.12.2018 EUR'000
European Union member countries	4 969	3 824
Europe other than EU	49	67
North America	-	4
Other	239	112
	5 257	**4 007**

(37) Other creditors

	31.12.2019 EUR'000	31.12.2018 EUR'000
Financial liabilities		
Financial pledge	8 349	7 068
Other creditors	1 246	368
Total financial liabilities	**9 595**	**7 436**
Non-financial liabilities		
Due to the Motor Insurers' Bureau of Latvia	77	102
Due to the Financial Capital and Market Commission, Latvia	159	126
Due to Motor Insurers' Bureau of Lithuania	236	262
Due to employees (remuneration)	688	384
Total non-financial liabilities	**1 160**	**874**
	10 755	**8 310**

(38) Provisions and accrued liabilities

Provisions

	31.12.2019 EUR'000	31.12.2018 EUR'000
Accrued staff bonuses	1 852	1 802
	1 852	**1 802**

	Gross EUR'000
Provisions at 31.12.2017	**1 420**
Paid	(993)
Increase of provisions	1 375
Provisions at 31.12.2018	**1 802**
Paid	(1 373)
Increase of provisions	1 423
Provisions at 31.12.2019	**1 852**

Accrued liabilities

	31.12.2019 EUR'000	31.12.2018 EUR'000
Accrualed liabilities for unused employee vacations	1 360	1 128
Accrued liabilities for intermediary commissions	3 942	3 518
Other accrued liabilities	827	696
	6 129	**5 342**

(39) Number of employees and information on branches

	At 31 December 2019	At 31 December 2018
Employees	1 079	1 035
Insurance agents	377	149
	1 456	**1 184**

Insurance agents are persons who pursue insurance mediation on behalf of and in the interests of only one insurance company, but are not employees of the Company.

Number of employees as at end of the period:

	At 31 December 2019	At 31 December 2018
Latvia	489	480
Branch in Lithuania	538	502
Branch in Estonia	52	53
	1 079	**1 035**

Number of client service centres:

	At 31 December 2019	At 31 December 2018
Customer service centres abroad	129	119
Customer service centres in Latvia	61	60

(40) Personnel expenses

	2019 EUR'000	2018 EUR'000
Remuneration	22 634	17 903
Social contribution expenses	3 082	4 911
	25 716	**22 814**

	2019 EUR'000	2018 EUR'000
Personnel expenses (included in administrative expenses in Note 13)	8 185	7 015
Personnel expenses (included in loss adjustment expenses in Note 9)	4 425	3 846
Personnel expenses (included in indirect client acquisition costs in Note 12)	12 942	11 804
Personnel expenses (included in investment management charges)	164	149
	25 716	**22 814**

(41) Information on the remuneration of the members of the Management Board and Supervisory Board

	2019 EUR'000	2018 EUR'000
Supervisory Board	50	33
Management Board	688	586
Social contribution expenses	160	145
	898	**764**

Remuneration to the Management Board and Supervisory Board members includes remuneration for their direct responsibilities.

(42) Related parties

Control relationships

Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) is the largest shareholder of the Company, representing 90.83% of the share capital of the Company. Balcia Insurance SE is minority shareholder of the Company representing 9.17% of the share capital of the Company with no control relationships in the Company.

Transactions with related parties

Transactions with related parties are conducted on arm's length bases.

The Company has the following related party transactions in 2019 and 2018 and debtors/creditors' balances as at 31 December 2019 and 2018:

Transactions with related parties

Reinsurance

	2019 EUR'000	2018 EUR'000
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Ceded reinsurance premiums	(36 974)	(38 014)
Change in reinsurers' share in unearned premium reserves	(294)	(1 864)
Reinsurers' share in claims paid	20 175	19 032
Change in reinsurers' share in outstanding claims reserves	6 315	9 789
Reinsurance commissions and profit participations	9 749	10 203
Interest expense for reinsurance deposit	(26)	(25)
Total	***(1 055)***	***(879)***
VIG Re zajišt'ovna, a.s.		
Ceded reinsurance premiums	(1 777)	(2 298)
Change in reinsurers' share in unearned premium reserves	(96)	206
Reinsurers' share in claims paid	1 414	725
Change in reinsurers' share in outstanding claims reserves	(345)	466
Reinsurance commissions and profit participations	159	219
Change in unearned reinsurance commission	31	(72)
Total	***(614)***	***(754)***
DONAU Versicherung AG Vienna Insurance Group		
Ceded reinsurance premiums	(2)	(1)
Total	***(2)***	***(1)***

Other transactions

	2019 EUR'000	2018 EUR'000
Vienna Insurance Group AG Wiener Versicheung Gruppe		
Interest expense for subordinated loans	(378)	(79)
Other income	68	-
Other expenses	(100)	(29)
Total	***(410)***	***(108)***
VIENNA INSURANCE GROUP POLSKA SP.Z.O.O		
Other expenses	15	-
Total	***15***	-
VIG FUND, a.s.		
Interest income from loan	4	1
Dividend income from investment in shares	17	-
Total	***21***	***1***

Continued table

	2019 EUR'000	2018 EUR'000
Atrium Tower Sp. z o.o.		
Interest income from loan	34	8
Total	***34***	***8***
KKB Real Estate SIA		
Interest income from loan	6	-
Total	***6***	-
Compensa Life insurance SE Lietuvos filialas		
Contributions to Health Insurance	(97)	(84)
Total	***(97)***	***(84)***
Compensa Vienna Insurance Group UADB (Lithuania)		
Other technical income	-	2
Claim handling costs	21	(1)
Total	***21***	***1***
Seesam Insurance AS Lietuvos filialas		
Claim handling costs	12	-
Total	***12***	-
Asigurarea Romaneasca - Asirom Vienna Insurance Group S.A.		
Other technical income	-	2
Total	-	***2***
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group		
Other technical income	-	1
Claim handling costs	(228)	(188)
Total	***(228)***	***(187)***
VIG Management Service SRL		
Claim handling costs	(8)	(2)
Total	***(8)***	***(2)***
Evija Matveja		
Income from insurance premiums	1	1
Total	***1***	***1***
Oskars Hartmanis		
Income from insurance premiums	*1*	1
Total	***1***	***1***
Tadeuš Podvorski		
Income from insurance premiums	1	2
Total	***1***	***2***
Jan Bogutyn		
Consulting expenses	-	(48)
Total	-	***(48)***

Balances with related parties

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

	31.12.2019 EUR'000	31.12.2018 EUR'000
Assets		
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Reinsurers' share of insurance contract liabilities	*37 297*	*31 276*
Receivables from reinsurance activities	*4*	*10*
Total Vienna Insurance Group AG Wiener Versicherung Gruppe	**37 301**	**31 286**
VIG RE zajišt'ovna a.s.		
Reinsurers' share of insurance contract liabilities	*810*	*1 251*
Receivables from reinsurance activities	*71*	*61*
Total VIG RE zajišt'ovna a.s	**881**	**1 312**
Compensa Life insurance SE Lietuvos filialas	-	7
VIG FUND, a.s.	2 462	852
Atrium Tower Sp. z o.o.	1 384	1 358
KKB Real Estate SIA	6 006	-
Urban Space SIA, see Note 23	506	-
	48 540	**34 815**
Liabilities		
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Reinsurers' deposit	*37 297*	*31 276*
Subordinated loan	*7 000*	*7 000*
Payables from reinsurance activities	*234*	*250*
Other liabilities	*352*	*6*
Total Vienna Insurance Group AG Wiener Versicherung Gruppe	**44 883**	**38 532**
VIG RE zajišt'ovna a.s.		
Reinsurers' deposit	*-*	*1*
Payables from reinsurance activities	*204*	*449*
Unearned reinsurance commission income	*96*	*127*
Total VIG RE zajišt'ovna a.s	**300**	**577**
Compensa Vienna Insurance Group, UADB	6	-
Seesam Insurance AS Lietuvos filialas	3	-
	45 192	**39 109**

Assets due from VIG FUND, a.s., Atrium Tower Sp. z.o.o. and KKB Real Estate SIA includes loans issued to these related parties in amount of EUR 146 thousand (2018: EUR 150 thousand), EUR 1 350 thousand (2018: EUR 1 350 thousand) and EUR 6 000 thousand (2018: EUR 0), see Note 26, and accrued interest EUR 0 thousand (2018: EUR 1 thousand), EUR 0 thousand (2018: EUR 8 thousand) and EUR 6 thousand (2018: EUR 0), respectively, which is included in the Statement of Financial Position under Loans caption. The payment terms of loans issued to VIG FUND, a.s. and Atrium Tower Sp. z.o.o.is 31 December 2030 and annual interest rate is 2.5%; while the payment terms of loan issued to V KKB Real Estate SIA.is 31 March 2030 and annual interest rate is 2.55%.

In addition, assets due from VIG FUND, a.s. include investment in the share capital of VIG FUND, a.s. in amount of EUR 2 312 thousand (2018: EUR 700 thousand), which is included in the Statement of Financial Position under Available-for-sale instruments caption, see Note 24.

Payables due to Vienna Insurance Group AG Wiener Versicherung Gruppe include:
• Subordinated loan in amount of EUR 1 500 thousand (2018: EUR 1 500 thousand) that has been acquired as a result of reorganisation of InterRisk Vienna Insurance Group AAS. The payment term of this loan is 28 December 2025 and annual interest rate is 5%. Accrued interest expense as at 31 December 2019 amounted to EUR 417 (2018: EUR 417);
• Subordinated loan in amount of EUR 5 500 thousand which was received on 27 December 2018 with annual interest rate of 5.5%. The loan shall be repaid on tenth anniversary of the receipt of the loan. Accrued interest expense as at 31 December 2019 amounted to EUR 3 315 (2018: EUR 3 315).

(43) Remaining maturities of insurance liabilities

	2019 EUR'000			2018 EUR'000		
	Gross liabilities	Reinsurance	Net liabilities	Gross liabilities	Reinsurance	Net liabilities
Unearned premium and unexpired risk reserves	104 638	(19 840)	84 798	95 838	(18 348)	77 490
Outstanding claim reserves	138 846	(50 735)	88 111	129 566	(46 595)	82 971
Total	**243 484**	**(70 575)**	**172 909**	**225 404**	**(64 943)**	**160 461**
Up to 1 year	194 687	(50 117)	144 570	181 856	(47 125)	134 731
1-5 years	12 634	(3 856)	8 778	10 648	(3 120)	7 528
Over 5 years	36 163	(16 602)	19 561	32 900	(14 698)	18 202
No fixed maturity	-	-	-	-	-	-

(44) Leases

(a) Leases as lessee (IFRS 16)

Over 170 customer service centres are located in leased premises, as well as the premises for the Company's headquarters and head offices of branches are leased. The contracts for these leases typically run for a period of 2 to 3 years after which a new contract might be renegotiated or the existing one prolonged, or the lease ends all together; over one third of the lease contracts do not have a set term, for such contracts the Company has elected to set a period of 2 years with review done at the end of each calendar year.

In addition to premises, the Company also leases IT equipment, vehicle and other miscellaneous items.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

	Land and buildings for own use (Note 21(a)) EUR'000	Property and equipment (Note 20) EUR'000	Total EUR'000
Balance at 31.12.2017	-	-	-
Balance at 31.12.2018	-	-	-
Balance at 01.01.2019	-	-	-
Recognition of lease liabilities on initial application of IFRS 16	6 029	284	6 313
Adjusted balance at 01.01.2019	**6 029**	**284**	**6 313**
Additions	1 220	12	1 232
Depreciation charge for the year	(1 661)	(88)	(1 749)
Balance at 31.12.2019	**5 588**	**208**	**5 796**

Amounts recognised in profit or loss

	2019 EUR'000
2019 – Leases under IFRS 16	
Interest on lease liabilities	89
Expenses relating to short-term leases	7
	96

	2018 EUR'000
2018 – Operating leases under IAS 17	
Lease expense	1 807
	1 807

Amounts recognised in statement of cash flows	2019
	EUR'000
Total cash outflow for leases	(1 786)

(b) Leases as lessor (IFRS 16)

The Company leases out its investment properties (see Note 21(b)). All leases are classified as operating leases from a lessor perspective, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Company during 2019 was EUR 71 thousand (2018: EUR 49 thousand).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

2019 – Operating leases under IFRS 16	**31.12.2019**
	EUR'000
Within one year	100
One to two years	98
Two to three years	39
Three to four years	26
Four to five years	26
More than five years	32
	321

At 31 December 2018, the future minimum lease payments under non-cancellable leases were receivable as follows.

2018 – Operating leases under IAS 17	**31.12.2018**
	EUR'000
Within one year	21
	21

(45) Contingent liabilities and commitments

General claims

In the normal course of the business the Company receives claims from policyholders. Management has reviewed such claims and believes that no material liabilities will arise from these cases other than already provided for.

(46) Fair value of financial instruments

(a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31 December 2019	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	–	1 779	–	**1 779**
Available-for-sale instruments	131 056	70 996	9 652	**211 704**
Held-to-maturity instruments	1 774	–	–	**1 774**
	132 830	**72 775**	**9 652**	**215 257**

31 December 2018	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	–	1 796	–	**1 796**
Available-for-sale instruments	147 576	45 740	6 511	**199 827**
Held-to-maturity instruments	1 778	–	–	**1 778**
	149 354	**47 536**	**6 511**	**203 401**

In the reporting period, financial instruments were not transferred into or out of Level 3.

Total gains or losses for the period of the financial instruments measured at fair value are presented in the statement of comprehensive income as follows:

Financial instruments at fair value	31.12.2019 EUR'000	31.12.2018 EUR'000
Total gains and losses included in profit or loss:		
Net unrealised gain/(loss) on financial instruments at fair value through profit or loss	(12)	6
Net realised gain/(loss) on available for sale financial assets	2 455	57
Interest income	1 984	1 745
Total gains and losses included in other comprehensive income:		
Available-for-sale financial assets – net change in fair value	6 742	(1 421)

(b) Financial instruments not measured at fair value

Financial assets and financial liabilities other than those reflected at their fair value and those classified as held to maturity (see Note 24), are deposits, loans issued, receivables, cash and cash equivalents, payables, lease liabilities, lease liabilities and subordinated loan.

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

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

The loans issued carry interest in line with market circumstances and terms and conditions of the respective loan (see Note 42). As there are no material transactions costs related to these loans, its fair value is deemed not to materially differ from its carrying amount.

The lease liabilities carry interest in line with market circumstances and terms and conditions of the respective lease. As there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

The subordinated loans carry interest in line with market circumstances and terms and conditions of the respective loan, including the increased risk due to subordination (see Note 42). As there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

(47) Subsequent events

As of the last day of the reporting period until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Wolfgang Stockmeyer
Chairman of the
Management Board

Oskars Hartmanis
Deputy Chairman of
the Management Board

Evija Matveja
Member of
Management Board

Tadeuš Podvorski
Member of
Management Board

12 March 2020

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Independent Auditors' Report

To the shareholders of BTA Baltic Insurance Company AAS

Report on the Audit of the Separate Financial Statements

Our Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of BTA Baltic Insurance Company AAS ("the Company") set out on pages 24 to 88 of the accompanying Annual Report, which comprise:

- the separate statement of comprehensive income for the year then ended,
- the separate statement of financial position as at 31 December 2019,
- the separate statement of cash flows for the year then ended, and
- the separate statement of changes in shareholders' equity for the year then ended,
- the notes to the separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of BTA Baltic Insurance Company AAS as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Separate Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Measurement of claims reserves

The Company's gross outstanding claims reserves as at 31 December 2019 amounted to EUR 138 846 thousand (31 December 2018: EUR 129 566 thousand).

Reference to the separate financial statements: Note 10 "Outstanding claim reserve" on page 68, Note 43 "Remaining maturities of insurance liabilities" on page 86 and Note 3 "Significant accounting policies" point 3.2 (e) "Outstanding claim reserves" on pages 40 to 41, point 3.2 (i) "Outstanding claim reserves" on page 41, point 3.17 "Significant accounting estimates and judgement in applying accounting policies" on page 49 and 50, and point 4.2 "Insurance risks" on pages 51 to 56.

Key audit matter

Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented within liabilities in the separate statement of financial position. The most significant claims reserves are associated with the mandatory motor third party liability, motor own damage and general third partly liability insurance.

Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not reported (i.e. IBNR). The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus, the completeness and accuracy of the data underlying the actuarial projections was our area of audit focus.

The estimation of the amounts of claims reserves generally involves a significant degree of Management Board's judgment, mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a material effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss rates, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, and the expected payment period.

Our response

Our audit procedures, performed, where applicable, with the assistance of our actuarial and information technology (IT) specialists, included, among others:

- Testing the design, implementation of controls and operating effectiveness of key controls related to the process of establishing and remeasuring outstanding claims reserves, including the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (including reports on claims paid and incurred, premiums written and earned) as well as testing of general controls in the IT environment regarding data extraction and validation.
- Assessing for reasonableness the actuarial methodologies and assumptions applied by the Company, including in particular the loss ratios, claim frequency and average size of claims, expected outcomes in court settlement, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period, by reference to the methodologies and assumptions applied by the Company in prior period and the prevailing industry practice, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards.
- For all insurance contract portfolios, performing a retrospective analysis of the

Due to the above factors, we considered measurement of the non-life insurance outstanding claims reserves to be our key audit matter.	accuracy and completeness of the Company's gross outstanding claims reserves recognized at the end of prior year, comparing this analysis to the Company's current actuals and seeking Management Board's explanations for any significant differences. • For all significant insurance contract portfolios, evaluating the adequacy of Company's gross outstanding claims reserves at the end of the reporting period for a sample of claim cases and developing an independent estimate of the gross outstanding claims reserves, comparing our amount to the Company's estimates and seeking Management Board's explanations for any significant differences.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the Annual Report,
- Introduction, as set on page 5 of the Annual Report,
- Management Report, as set out on pages 6 to 19 of the Annual Report,
- About Vienna Insurance Group, as set out on pages 20 to 21 of the Annual Report,
- Statement of management responsibility, as set out on page 23 of the Annual Report.

Our opinion on the separate financial statements do not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report are prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 201 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the shareholders' meeting on 18 April 2019 to audit the separate financial statements of BTA Baltic Insurance Company AAS for the year ended 31 December 2019. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2015 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of European Union Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit.

KPMG Baltics AS
Licence No. 55

Vilāns

Rainers Vilāns
Partner pp. KPMG Baltics AS
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
12 March 2020