AAS GJENSIDIGE BALTIC

Financial Statements
for the year ended 31 December 2015

CONTENTS

INFORMATION ON THE COMPANY

Name of the Company	AAS Gjensidige Baltic
Legal status	Insurance joint stock company
Registration number and date	50003210451, 15 August 1994, re-registered with the Commercial Register on 29 December 2004, re-registered on 28 December 2007
Address and contact details	Brīvības iela 39, Riga, Latvia, LV – 1010 Phone +371 6711 2222, Fax +371 6710 6444 E-mail: info@gjensidige.lv www.gjensidige.lv
Management Board members and their positions	Kaare S. Østgaard, Chairman of the Management Board, from 05.02.2015 Mats Gottschalk, Member of the Management Board, from 28.03.2014 Hans Hanevold, Member of the Management Board, from 05.02.2015 Martin Danielsen, Member of the Management Board, from 05.02.2015 Sigurd Austin, Member of the Management Board, from 05.02.2015 Tor-Erik Silset, Member of the Management Board, from 05.02.2015 Kim Rud Petersen, Chairman of the Management Board, till 04.02.2015 Allan Kragh Thaysen, Member of the Management Board, till 04.02.2015 Thomas Berg, Member of the Management Board, till 04.02.2015 Cecilie Ditlev-Simonsen, Member of the Management Board, till 04.02.2015
Supervisory Board members and their positions	Helge Leiro Baastad, Chairman of the Supervisory Board Jorgen Inge Ringdal, Member of the Supervisory Board Catharina Elisabeth Hellerud, Member of the Supervisory Board
Reporting year	01.01.2015 – 31.12.2015
Information on shareholder	Gjensidige Forsikring ASA (100%) Reg No. 938741700 Address: Schweigaards gate 21 NO-0191 Oslo, Norway
Information on branches	Lithuanian branch of Gjensidige Baltic Address: T. Ševčenkos g. 21 LT-03111 Vilnius, Lithuania Estonian branch of Gjensidige Baltic Address: Sõpruse pst 145, 13417 Tallinn, Estonia
Auditors	SIA KPMG Baltics Vesetas street 7 Riga, Latvia, LV – 1013 Licence No 55

REPORT OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

In 2015 AAS Gjensidige Baltic (the Company) continued to strengthen its position on the Baltic non-life insurance market.

The Company's mission is to safeguard health and assets for customers in the private and commercial markets by offering competitive insurance products. The Company in 2015 continued working on product development, more efficient operations, claims handling. A number of IT investment projects were launched to replace outdated operating systems and comply with highest security standards. The main focus has been to quality and profitability of insurance portfolio, working within defined insurance risk appetite. Strategic focus of set of activities has been to strengthen foundation for profitable growth in the Baltics. The Company operates on the basis of a multi-channel strategy to ensure cost efficiency and customer satisfaction. The distribution models enable customers to choose whether they wish to have contact with Gjensidige by telephone, online, or in person. Customer satisfaction is measured systematically. External surveys showed increased satisfaction among Gjensidige's customers. Continuous customer focus will ensure service quality and customer loyalty.

In recent years non-life insurance market in the Baltic countries has grown consistently. The Lithuanian non-life insurance market grew by 6.0% in 2015 (source: Central Bank of the Republic of Lithuania). The Latvian non-life insurance market grew by 6.9% in 2015 (source: Latvian Insurers Association). The Estonian non-life insurance market has shown an increase of 6.7% in 2015 (source: Statistics Estonia).

The Company's gross written premiums for general insurance operations in the Baltics amounted to EUR 65.5 million in 2015, compared with EUR 61.1 million in 2014, which corresponds to increase of 7.2%. There has been increase in written premiums in the reporting year for target products leading to higher profitability - accident insurance (11.7%), travel insurance (21.7%), general liability insurance (4.6%) and property insurance (24.2%). There has been a slight decrease in motor lines - MTPL (1%), motor own damage insurance (CASCO) (5%) due to unacceptable general price level in the market – well below technical price level.

The most important distribution channels have been direct sales and sales through insurance agents and brokers. The importance of online sales as a distribution channel continues to increase in the Baltic markets. The Company is focusing on development of technology based distribution channels, like internet sales, call centres and creation of new partnerships for product distribution. The Company has focused to consistent development of the key product lines, improvement and development of the information system software, improvement of risk assessment in major lines underwriting. During the year 2015 45% (2014: 43%) of the total gross written premiums were written in Latvia, 41% (2014: 42%) – in Lithuania and 14% (2014: 15%) – in Estonia.

The largest share of the Company's insurance portfolio in 2015 is comprised of motor third party liability insurance 33%, followed by motor own damage insurance (CASCO) – 21%. Property insurance is the third largest line in the Company's insurance portfolio and represents 20%.

The loss of the reporting year amounts to EUR 7.45 million. Earned premiums for general insurance operations amounted to EUR 59.2 million in 2015, compared with EUR 62.3 million in 2014, which corresponds to a decrease of 5%. Claims incurred for the general insurance operations amounted to EUR 45.2 million, compared with EUR 42.8 million in 2014, an increase of 6%. During the reporting year, the Company has paid gross claims to its customers in amount of EUR 40.7 million which is a 6% decrease over the last year (EUR 45.1 million). The net operating expenses amounted to EUR 21.7 million, compared with EUR 19.3 million in 2014, an increase of 12%.

In order to optimize insurer's risk taking, strengthen the protection of policy holders' interest, and based on legal requirements, the Company has paid significant attention to reinsurance and co-insurance. In the 2015 updated reinsurance program with the parent company Gjensidige Forsikring increased the Company's risk underwriting capacity which resulted in a better competitive position.

The combined ratio was 112.5%, compared with 100.2% in 2014. Significant influence on portfolio profitability in 2015 was from previously reported MTPL cases and reserve strengthening measures taken.

The Company's net income from investments was EUR 1.4 million in 2015, compared with EUR 1.9 million the year before. The return on financial assets was 2.1 % in 2015. The return on financial assets is calculated as net financial income and expenses as a percentage of the average investment portfolio. The corresponding figure for the year 2014 was a return on financial assets of 2.9%. At the end of 2015, the value of the Company's investment portfolio was EUR 66.9 million (2014: EUR 66.3 million). In 2015 the Company continued successful investment activities in cooperation with SEB Wealth Management IPAS which is responsible for investment portfolio management. The Company's investment portfolio is allocated between bank deposits, fixed income securities of different countries and investment certificates of investment funds.

During the reporting year, the Company's specialists continued marketing of insurance products in their markets of operation, through advertisement in mass media and catalogues, and by participating in other public activities. The Company's specialists have performed regular analysis of the Baltic insurance markets which enabled them to perform current and prospective planning and formulate the Company's development strategy and tactics.

Cooperation partners

As a result of the Company's activities during 2015, cooperation with insurance brokers and commercial banks was continued, that contributed greatly to the Company's overall results. The Company cooperated with all largest brokers acting in the Baltic markets.

Car service and dealership network can be mentioned as the second largest co-operation partners group with whom client service co-operation in motor insurance is created receiving claims applications in the service.

In 2015, the Company has focused on setting up new partnerships with representatives of various industries (travel, trade etc.) and provided insurance products tailored to specific needs of customer segments.

Strategy

In October 2015, Gjensidige Forsikring ASA completed the acquisition of part of PZU's business in Lithuania. The acquisition will contribute to Gjensidige achieving critical mass and a significantly stronger position in the Baltic markets. Short term and long term restructuring initiatives were started to be implemented in 2015. The target is to have clear product and distribution strategy with focus on long-term effects.

The strategic target for Baltic operations is to deliver profitable growth in long term. A number of activities in reporting year primarily focused on underwriting and cost discipline have brought the Company closer to ambitious financial targets towards 2018.

Accordingly, it is expected that the number of contracts signed by the Company and the amount of written premiums will increase. Such a goal calls for loyal relationship with staff, clients, partners and the society.

The Company's operations are implemented through pan-Baltic organizational structure. The Baltic shared functions are established for Claims, IT, Finance, Legal, HR, Underwriting.

The achievement of budget goals for 2016 will be focussed on the basic product lines, efficiency of sales channels, and improvement of targeted processes and development of customer loyalty programs. Further improvements are planned in the claims settlement process in order to make this process available to customers and transparent, increase the claims reporting opportunities and the efficiency of claims administration. The focus is going to be investment in IT systems to create possibilities to use CRM system potential for development of sales and customer service and streamlining of internal processes.

The strategy is to invest into technological and human platform to be ready to maximize profits in coming years.

Risk Management

The Company focuses on risk management and internal control, and this is an integral part of the Company's systematic work. The Company has adopted a policy for risk management and internal control. Among other things, the document describes the main principles for risk management and internal control, in addition to describing the division of responsibility. The main purpose of risk management and internal control is to provide reasonable assurance of goal achievement through the following methods:

- Goal-oriented, efficient and expedient operations,
- Reliable internal and external reporting,
- Compliance with laws and regulations, and internal regulations.

Preparations for the Solvency II regulations have been prioritised in 2014 and 2015. Solvency II entails new rules for calculating capital requirements and qualifying capital, risk management and internal control requirements and requirements for the reporting of the risk and capital situation. The regulations enter into force on 1 January 2016. The Solvency IIs entail requirements for a higher capitalisation level than under previous capital adequacy regulations.

The requirements will ensure good risk management in general, and the reporting to the authorities and the market could make a positive contribution to highlighting the Company's value creation. The Company have made active use of the legislative changes to further strengthen overall risk management in the Company. The Company is well-prepared for the regulatory changes, both from governance and capital requirement perspective.

Personnel

The Company had 608 employees at the end of 2015 (2014: 617), 232 of whom work in Latvia, 332 in Lithuania, 44 in Estonia.

In view of the growing insurance market, the Company has learned to appreciate the importance of personnel in the achievement of goals. Therefore, the Company has commenced development of a personnel motivation policy, talents are developed purposefully and career opportunities for more successful staff are promoted. The Company pays significant attention to recruiting in order to achieve the goal of the Company having motivated, professional, loyal and positively minded employees.

Another priority for the Company is increasing the personnel competency. During the reporting period, the Company organized appropriate staff training which helped achieve the operational results reflected in this annual report. The Company's operations throughout the Baltic region have significantly facilitated the exchange of experience and improvement of staff competencies.

Statement of the Supervisory Board

The Supervisory Board of the Company has reviewed the Management Board's report and the proposed financial statements for 2015. The Supervisory Board has also assessed the work of the Management Board and Supervisory Board of the Company in 2015.

The Supervisory Board has concluded that the Management Board has operated in accordance of the Company's strategy and guidelines provided by the Supervisory Board. The Supervisory Board has regularly reviewed the Company's interim accounts and important key figures. The Supervisory Board finds the Management Board's assessment of the financial position of the Company to be accurate and recommends that the proposed accounts are adopted as the Company's annual accounts for 2015, including the proposal for the coverage of the annual loss.

The Supervisory Board and the Management Board have separately and collectively ensured good corporate governance, risk management and internal control of the Company, and execution of the strategy.

No significant subsequent events have occurred that would materially impact the financial statements presentation.

On behalf of AAS Gjensidige Baltic management, we would like to express our gratitude to our clients, shareholder, partners and staff for their contribution to achieving our common goals in the reporting period. The Company will continue to set realistic and challenging goals for meeting the interests of all stakeholders.

Helge Leiro Baastad Chairman of the Supervisory Board	Kaare S. Østgaard Chairman of the Board of Directors

7 March 2016

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

In 2015 the insurance joint stock company Gjensidige Baltic was managed by a board consisting of five Management Board members. The Management Board informed the Supervisory Board on the Company's activities on a regular basis.

The Company's management assumes the responsibility that the Company's transactions were recorded in accordance with the requirements of Latvian law and regulations and in accordance with appropriate and relevant accounting principles. The Company's management is responsible for maintaining the Company's resources and preventing fraud or other unfair dealings.

The Company's management assumes responsibility for the preparation of the Company's financial statements for 2015 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union to reflect the activities of AAS Gjensidige Baltic from 1 January 2015 to 31 December 2015.

The Company's management confirms that the Company's financial statements for 2015 have been prepared in accordance with the effective requirements of legislation and the Financial and Capital Market Commission of the Republic of Latvia, and give a true and fair view of the Company's financial position at the end of the reporting year as well as the operating results and cash flows for the year ended 31 December 2015 in accordance with IFRS as adopted by the European Union.

The Company's financial statements for the year 2015 have been prepared on the basis of prudent decisions and assumptions of management.

Management confirms that the financial statements have been prepared on a going concern basis.

Helge Leiro Baastad Chairman of the Supervisory Board	Kaare S. Østgaard Chairman of the Board of Directors

7 March 2016

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 EUR'000	2014 EUR'000
Earned premiums	6	**59,233**	**62,303**
Gross written premiums	5	65,524	61,056
Reinsurer's share in written premiums	5	(2,560)	(1,622)
Changes in gross unearned premium and unexpired risk technical reserves	7	(4,121)	2,869
Change in the unearned premium and unexpired risk technical reserves, reinsurer's share	7	390	-
Other technical income, net	8	**345**	**270**
Claims incurred, net	11	**(45,157)**	**(42,751)**
Claims paid, net	9	**(40,218)**	**(42,647)**
Gross claims	9	(40,708)	(45,138)
Claims paid		(40,681)	*(45,356)*
Loss adjustment expenses		(2,776)	*(2,707)*
Recovered losses		2,749	*2,925*
Reinsurer's share in claims paid	9	490	2,491
Change in claim technical reserves	10	(5,093)	1,539
Change in claim technical reserves, reinsurer's share	10	154	(1,643)
Net operating expenses		**(21,701)**	**(19,328)**
Client acquisition costs	12	(13,847)	(11,890)
Change in deferred client acquisition costs	13	939	(197)
Administrative expenses	14	(9,017)	(7,238)
Reinsurance commission income and profit share		224	(3)
Other technical expenses, net		**(108)**	**(1)**
Investment management expenses and commission fee payments		(55)	(64)
Net interest income	15	1,508	1,730
Net gain/losses from financial assets classified at fair value through profit and loss		(94)	203
Foreign exchange revaluation loss		(81)	(47)
Depreciation and amortisation		(468)	(682)
Impairment	18	(1,500)	-
Other income		36	56
Other expenses		(440)	(321)
Profit before corporate income tax		**(8,482)**	**1,368**
Corporate income tax	16	(58)	(238)
Change in deferred income tax	16	1,094	29
Profit/(loss) of the reporting year		**(7,446)**	**1,159**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kaare S. Østgaard
Chairperson of the Management Board

Marius Jundulas
The Member of the Board of Directors - Procurator

Agita Nitiša
Chief Accountant

7 March 2016

STATEMENT OF COMPREHENSIVE INCOME (continued)
For the year ended 31 December 2015

	Note	2015 EUR'000	2014 EUR'000
Profit/(loss) for the year		**(7,446)**	**1,159**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**(7,446)**	**1,159**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kåare S. Østgaard Chairperson of the Management Board	Marius Jundulas The Member of the Board of Directors - Procurator	Agita Nitiša Chief Accountant

7 March 2016

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

ASSETS

	Note	2015 EUR'000	2014 EUR'000
Property and equipment	17	956	842
Intangible assets	18	9,295	9,725
Total non-financial assets		**10,251**	**10,567**
Financial assets designated at fair value through profit or loss			
Investment certificates of investment funds	19	25	30
Debt securities and other fixed income securities	20	11,489	8,054
Held-to-maturity investments			
Debt securities and other fixed income securities	21	41,664	47,480
Term deposits with credit institutions	22	13,708	10,754
Total financial investments		**66,886**	**66,318**
Direct insurance receivables from policy holders and intermediaries	23	9,704	8,429
Reinsurance receivables	24	220	240
Other receivables		740	182
Total loans and receivables		**10,664**	**8,851**
Deferred client acquisition costs	13	4,363	3,424
Other prepaid expenses and accrued income		82	170
Total accrued income and deferred expenses		**4,445**	**3,594**
Deferred tax asset	27	1,437	343
Corporate income tax asset	30	610	504
Reinsurer's share in technical reserves for unearned premium	7	390	-
Reinsurer's share in technical reserves for outstanding claims	10	3,420	3,266
Total reinsurance assets		**3,810**	**3,266**
Cash and cash equivalents	25	**3,403**	**3,317**
TOTAL ASSETS		**101,506**	**96,760**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kåare S. Østgaard Chairperson of the Management Board	Marius Jundulas The Member of the Board of Directors - Procurator	Agita Nitiša Chief Accountant

7 March 2016

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

LIABILITIES AND EQUITY

	Note	2015 EUR'000	2014 EUR'000
Equity			
Share capital	26	31,950	31,950
Reserve capital and other reserves		841	841
Retained earnings carried forward from previous years		8,084	6,925
Profit of the reporting period		(7,446)	1,159
Total equity		**33,429**	**40,875**
Liabilities			
Insurance liabilities			
Unearned premium and unexpired risk technical reserves	7	29,364	25,243
Technical reserves for outstanding claims	10	30,261	25,168
Total insurance liabilities		**59,625**	**50,411**
Creditors			
Direct insurance liabilities			
Policy holders		4,690	2,981
Intermediaries		76	101
Reinsurance liabilities	29	440	3
Taxes and social contributions	30	373	319
Other creditors	31	733	450
Total creditors		**6,312**	**3,854**
Provisions	28	**235**	**225**
Accrued expenses and deferred income	32	**1,905**	**1,395**
Total liabilities		**68,077**	**55,885**
TOTAL LIABILITIES AND EQUITY		**101,506**	**96,760**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kaare S. Østgaard Chairperson of the Management Board	Marius Jundulas The Member of the Board of Directors - Procurator	Agita Nitiša Chief Accountant

7 March 2016

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital EUR'000	Reserve capital and other reserves EUR'000	Retained earnings EUR'000	Profit/ (loss) for the reporting year EUR'000	Total EUR'000
Balance as at 31 December 2013	**32,015**	**841**	**5,872**	**5,968**	**44,696**
Total comprehensive income					
Decrease in share capital	(65)	-	65	-	-
Comprehensive income for the year	-	-	-	1,159	**1,159**
Dividends to equity holders	-	-	(4,980)	-	**(4,980)**
Transfer of 2013 profit to retained earnings	-	-	5,968	(5,968)	-
Balance as at 31 December 2014	**31,950**	**841**	**6, 925**	**1,159**	**40,875**
Total comprehensive income					
Comprehensive income for the year	-	-	-	(7,446)	**(7,446)**
Transfer of 2014 profit to retained earnings	-	-	1,159	(1,159)	-
Balance as at 31 December 2015	**31,950**	**841**	**8,084**	**(7,446)**	**33,429**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kaare S. Østgaard
Chairperson of the
Management Board

Marius Jundulas
The Member of the Board of Directors
- Procurator

Agita Nitiša
Chief Accountant

7 March 2016

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	Note	2015 EUR'000	2014 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		67,354	61,158
Claims paid in direct insurance		(43,457)	(48,064)
Payments received from reinsurers		490	2,491
Payments made to reinsurers		(2,560)	(1,622)
Profits tax	30	(555)	(140)
Obligatory payments	33	(198)	(138)
Payments to employees		(3,384)	(3,253)
Payments to intermediaries		(12,381)	(10,740)
Other payment made		(9,138)	(7,615)
Other payments received		3,130	3,251
Net cash flows from operating activities		**(699)**	**(4,672)**
Cash flows from investing activities			
Acquisition of investments:			
Debt securities and other fixed income securities		(10,191)	(18,692)
Term deposits with credit institutions		(13,615)	(11,640)
Total acquisition of investments:		**(23,806)**	**(30,332)**
Disposal of investments:			
Debt securities and other fixed income securities		20,462	21,895
Term deposits with credit institutions		1,550	13,371
Total disposal of investments:		**22,012**	**35,266**
Investment income:			
Debt securities and other fixed income securities		2,632	5,199
Term deposits with credit institutions		6	103
Total investment income:		**2,638**	**5,302**
Investment management expenses and commission fee payments		(55)	(64)
Net cash flows from/ (used in) investing activities		**789**	**10,172**
Financing activities			
Dividends paid		-	(4,980)
Net cash used in financing activities		**-**	**(4,980)**
Net increase/(decrease) of cash and cash equivalents		**90**	**520**
Impact of currency exchange rate fluctuations on cash and cash equivalents		(4)	(6)
Cash and cash equivalents at the beginning of the year		**3,317**	**2,803**
Cash and cash equivalents at the end of the year	25	**3,403**	**3,317**

The accompanying notes on pages 14 to 58 form an integral part of these financial statements.

The Supervisory Board and the Management Board of the Company approve for issue to the shareholder these financial statements on 7 March 2016, and the financial statements are signed on behalf of the Supervisory Board and the Management Board of the Company by:

Kaare S. Østgaard Chairperson of the Management Board	Marius Jundulas The Member of the Board of Directors - Procurator	Agita Nitiša Chief Accountant

7 March 2016

NOTES TO THE FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

AAS Gjensidige Baltic ("the Company") was founded in Riga, Latvia, in 1994 as a closed Insurance Joint Stock Company. The Company was re-registered with the Commercial register on 29 December 2004 and on 28 December 2007.

The Company provides insurance services to legal entities and individuals. The headquarters of the Company is located in Riga, Brīvības iela 39, Latvia, and insurance services are provided in branch offices and sales locations in Latvia, Lithuania and Estonia.

Information about the shareholder	*Name:* Gjensidige Forsikring ASA *Address:* Schweigaards gate 21 NO-0191 Oslo, Norway *Shareholding:* 100 % *Ultimate controlling party:* Gjensidige Foundation (Gjensidigestiftelsen), owned by policyholders, holds 62.8 % shares of Gjensidige Forsikring ASA.
Information about the branches	*Name:* Gjensidige Baltic Estonian branch, *Address:* Sõpruse pst 145, 13417 Tallinn, Estonia *Name:* Gjensidige Baltic Lithuanian branch, *Address:* T. Ševčenkos g.21/Vytenio g.12, LT-03111 Vilnius, Lithuania

The financial statements were authorized for issue by the Board of Directors on 7 March 2016. The financial statements will be presented to the annual shareholder's meeting which has the power to request amendment and reissue of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(7) BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as required by the regulation *On the preparation of annual reports and consolidated annual reports of insurance companies, branches of non-EU insurance companies, reinsurance companies, and branches of non-EU reinsurance companies* and other regulations relevant to insurance companies issued by the Financial and Capital Market Commission (FCMC) of the Republic of Latvia relevant for preparation of these financial statements.

Functional and Presentation Currency

The financial statements are presented in thousands of Euro (EUR), which is the Company's functional currency.

Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

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

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

(ii) Annual Improvements to IFRSs

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

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

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The Company is not a party to any joint arrangements.

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

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

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

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Company's financial statements, as the Company does not apply revenue-based methods of amortisation/depreciation.

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

NOTES TO THE FINANCIAL STATEMENTS

These amendments result in bearer plants being in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*, to reflect the fact that their operation is similar to that of manufacturing.

NOTES TO THE FINANCIAL STATEMENTS

(2) BASIS OF PREPARATION (continued)

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no bearer plants.

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

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Company does not expect the amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

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

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Company does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Company does not have any investments in subsidiaries, associates or joint ventures.

(vii) Annual Improvements to IFRSs

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Company.

Basis of measurement

The financial statements have been prepared on the historical cost basis except the following items which are carried at fair value: financial assets carried at fair value through profit or loss and buildings which are measured at revalued amount, being fair value at date of valuation less subsequent accumulated amortization value.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are reflected in the income statement in the period of reporting.

In particular, information about significant areas of estimation uncertainty and critical judgments made by management in applying accounting policies are described in the following notes:

- Insurance liabilities – Note 4 Insurance risk management (iv),
- Reinsurance share in technical reserves – Note 3 Reinsurance contracts,
- Impairment of financial instruments – Note 3 Impairment,
- Impairment of intangible assets – Note 3 Intangible assets,
- Allowance for overdue debtors – Note 3 Classification of insurance contracts (iii), Note 23

Reporting period

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

NOTES TO THE FINANCIAL STATEMENTS

(8) SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. Consistent accounting principles have been applied to the financial years disclosed in these financial statements.

Foreign currency

Foreign exchange transactions are translated into the functional currency of the country of operation in accordance with the exchange rate set by the European Central Bank on the date of the respective transaction. Monetary assets and liabilities 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 are translated at the exchange rate as at the date fair value was determined. Non-monetary items that measured in terms of historical cost or revalued amount in foreign currency are translated using the exchange rate at the date of transaction or the date of revaluation.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the statement of comprehensive income in the period in which the fluctuation occurs. Foreign exchange rates for the key currencies at the end of the reporting period were the following:

	31.12.2015	**31.12.2014**
PLN	4,2639	4,3103
USD	1,0887	1,2141

Classification of insurance contracts

(i) Recognition and measurement 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 policy holder to the insurer. All the Company's insurance contracts are classified as insurance contracts and none contain unit linked or another investment element.

When classifying insurance contracts, the basis is the substance of transfer of insurance risk, such as

- insurance of persons against personal accidents
- travel insurance
- insurance against property damage or thefts
- motor vehicle insurance
- general third party liability insurance.

(ii) Insurance premium and premium income

Written premiums include insurance premiums receivable by the Company under insurance contracts where the insurance year starts in the reporting year irrespective of when the payment is due. Written premiums are decreased by the amount of premiums cancelled during the reporting year.

If insurance premiums are expected to be paid in several instalments during the insurance period, written premiums include the premiums that related to the entire insurance year. If an insurance contract is signed for several insurance years, the received premium of the respective year is reflected in each year. Except for certain cases, the Company's contracts are short term.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of commencement of risk, over term of the insured period. Unearned premium is recognised in liabilities under technical reserves.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Amounts that are overdue are reversed against premium income once the policy is cancelled. Allowances are recognized for overdue insurance receivables. Allowances are recognized for the outstanding amounts depending on the number of days outstanding. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables. Allowances for doubtful debts are recognized when the Company's management believe that the recoverability of these assets is uncertain. Receivables are written off when their recovery is considered impossible.

Reinsurance contracts

During the course of its business, the Company enters into reinsurance contracts to restrict the potential net loss through diversification of risks. Reinsurance contracts do not relieve the Company from its direct liabilities to policy holders.

A reinsurance contract is an insurance contract where the potential risk of insurance loss is transferred to a reinsurer. During the course of business, the Company signs reinsurance contracts that transfer risk to reinsurers and accepts risk from other insurers.

Reinsurance contracts are concluded for a period of one year. The prevailing form of reinsurance contract is the obligatory non-proportional contract. Risks that exceed the limits of obligatory reinsurance contracts or fall outside the scope of obligatory reinsurance by their nature are reinsured facultatively.

Premiums on reinsurance assumed are recognised as revenue and accounted as if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

A reinsurers' share in written premiums is calculated in accordance with reinsurance contracts in force. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and reinsurance expenses attributable for future periods are recognised as assets under reinsurance part of unearned premium reserve.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims technical reserve or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers. Reinsurance assets are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company recognizes an allowance for estimated irrecoverable reinsurance assets, if any.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as loans and receivables and are included within insurance and other receivables in the statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting period end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities.

Premium refunds

Premium refunds represent a proportion of premium that becomes contractually refundable to policy holders in the event that no claims are made under the respective insurance contract.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recoverable through cession salvage, or subrogation.

The claims 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.

Technical reserves

The Company establishes technical reserves to reflect the estimate of liabilities arising from insurance contracts: unearned premium reserve, unexpired risk reserve and outstanding claim technical reserve.

(i) Unearned premium and unexpired risk reserves

Unearned premium technical reserve (UPR) represents written insurance premiums that relate to the period of time from the reporting date until the expiry date of the insurance policy, and is maintained in order to cover future insurance claims and expenses arising on valid policies. Technical reserves are calculated for each insurance policy based on its period in force.

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 premium reserve in relation to such policies after the deduction of any deferred acquisition costs.

On each reporting date, the Company prepares a *Liability adequacy test* (LAT) by assessing whether the insurance liabilities recognized during the reporting year for valid policies are adequate by comparing the insurance reserves established to the present value of the estimated future cash flows arising on existing insurance policies.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve. The test is performed on a “whole insurance portfolio” basis and the test is applied to the gross amounts of reserves, i.e., the effect of reinsurance is not taken into account.

(ii) Outstanding claim technical reserves

Outstanding claims technical provision at the year end reflects the estimated amount of claims reported but not paid (RBNS) as at the reporting date and statistically the estimated amount of claims incurred but not reported date (IBNR) as at reporting date.

The *RBNS* reserve is created to cover claims for insurance cases that have occurred and have been reported to the Company by the reporting date.

The *IBNR* reserve provision is calculated in respect of claims incurred but not reported as at the end of reporting period. The *IBNR* reserve has been calculated using triangulation methodology.

Statistical methods (Chain-Ladder) were used for the larger lines of business such as compulsory motor third part liability insurance (CMTPL), CASCO, property, health, accident, general third part liability and assistance insurance. Due to small number of incurred insurance claims, for some small lines of insurance (marine, aircraft, cargo, railway and other) *IBNR* reserves were calculated using a maximum calculated amount of 5% of GWP of the previous 12 months and the expected losses, calculated applying the proportion of losses method).

Outstanding claims technical reserves include direct loss adjustment expenses that will be necessary in order to manage claims incurred during the reporting and previous years. Outstanding claims technical reserves are reduced by the estimated income from salvage to be received in future reporting periods on the insurance claims incurred during the reporting and previous years that are unpaid.

The reinsurer’s share in the technical reserves is disclosed under assets in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

(i) Classification

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

Financial instruments designated at fair value through profit or loss are financial assets and liabilities initially classified by the Company as assets and liabilities designated at fair value through profit or loss and financial instruments held for trading. 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. Held for trading financial instruments are those instruments that the Company holds only for generating profit from short term fluctuations in the value of financial instruments. Derivatives are also categorised as held for trading unless they are designated as hedging instruments for hedge accounting purposes.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed term with respect to which the Company has a positive intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading. Loans and receivables include loans, term deposits with banks and debtors. Insurance receivables are classified in this category.

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

(ii) Recognition

Financial instruments are recognized when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognized 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.

(iii) Measurement

Financial instruments are initially measured at fair value and, except for financial assets at fair value through profit and loss account, include transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss are measured at fair value. Profit or loss arising from changes to the fair value of financial instruments designated at fair value through profit and loss is recognized in the profit or loss statement.

All other the Company's financial assets and liabilities including loans and receivables, held-to-maturity assets and financial liabilities carried at amortised cost are measured at amortized 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.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments that have a quoted market price in an active market is determined based on the bid prices on the reporting date or the last working date of the respective market. Where reference to an active market for a financial instrument is not possible, use is made of discounted cash flows models available in the respective market provided the use of such models ensures a reliable estimate of the fair value.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

Determining fair values

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. For the financial instruments carried at fair value analysis by valuation method refer to Note 39.

(iv) Derecognition

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.

(v) Derivative financial instruments

Derivatives financial instruments are held for risk management purposes and include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The Company does not have derivative instruments at the date of reporting (2014: none).

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Company accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

During 2015 and 2014, the Company did not apply hedge accounting.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Property and equipment

(i) Owned assets

Property and equipment include buildings, office equipment and vehicles. Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts less accumulated depreciation and impairment losses as described below. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Costs of capital repairs and reconstruction of property, plant and equipment that prolong the useful life of the asset are added to the value of the respective asset and written off over the useful lifetime of the asset. When capitalizing the costs of installed spare parts, the book value of the spare parts is written off in the income statement.

Maintenance costs of property and equipment are recognized in the statement of comprehensive income as incurred.

All the Company’s buildings are classified as used for operating activities (own use).

Profit or loss from disposal of property, plant and equipment is calculated as the difference between the book value of the asset and the proceeds generated from the sale and are reflected to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Revaluation

Buildings of the Company are subject to revaluation on a regular basis. An external, independent valuation expert, having an appropriate recognised professional qualification and experience in the location values each property in order to reflect market conditions at the reporting period end date.

The fair values are based on observable market values, being the estimated amount at which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing.

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

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

(iii) Depreciation

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depreciation is calculated in accordance with the straight-line method to write down the asset over its useful life based on the following depreciation rates per annum:

Buildings for own use	2%
Computers and equipment	33%
Other office equipment	7 – 50%
Vehicles	33%

Intangible assets

Intangible assets include software, goodwill and other intangible assets acquired in business combination (client relations and software).

Intangible assets, except for goodwill, are stated at cost less accumulated amortisation and impairment losses.

Intangible assets acquired in business combination in the prior years are initially recognised at fair value. The fair value of software acquired in a business combination is determined using the replacement value method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method.

Amortisation is calculated in accordance with the straight-line method to write down the asset over its useful life based on the following amortisation rates per annum:

Software	20%
Client relations	10%
Other software	33%

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill recognised relates to a subsidiary that was subsequently merged with the Company as a result of reorganization. Goodwill is included in intangible assets.

Goodwill is allocated to cash-generating units (CGUs) and is stated at cost less impairment losses. The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

(i) Financial assets

At each reporting period end date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Company considers evidence of impairment for loans and advances and held-to-maturity investment securities at a specific asset level. All loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired assets, where applicable, continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income statement.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting period end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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.

Cash on hand and demand deposits with credit institutions

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

Interest income

Interest income is included in the statement of comprehensive income for all cash generating financial instruments using the effective interest rate method. Interest income includes coupon payments earned on fixed-income securities, interest earned on investments in bank deposits and loans, current account balances and discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Client acquisition costs

Client acquisition costs include commissions paid to intermediaries and other expenses related to the acquisition of insurance policies. Client acquisition costs that cannot be allocated to a specific line of insurance are allocated in proportion to earned premiums. Intermediary commissions that form a part of client acquisition costs are allocated to each specific line of insurance.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred client acquisition costs

Deferred client acquisition costs reflect the portion of commissions paid to intermediaries that are attributable to future reporting periods and are recognized pro rata with the proportion of unearned premium technical reserves to gross written premiums for each insurance contract.

Reinsurance commissions

Reinsurance commissions include commissions received or receivable from reinsurers based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

Unearned reinsurance commission

Unearned reinsurance commission includes calculated commissions from reinsurers in accordance with reinsurance contracts that are deferred and attributed to revenues in accordance with the insurance period of the respective policies.

Allocation of indirect income and expenses by insurance lines

Indirect income and expenses are allocated by insurance lines in following way:

- 50% of the total amount of administrative expenses is allocated proportionally to gross written premiums
- 50% of the total amount of administrative expenses is allocated proportionally to number of policies written, workload coefficients have to be applied.

For health insurance a coefficient of 0.5 is applied, as the calculation is based on the number of persons covered by group policies.

Income tax

Corporate income tax comprises of current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized other comprehensive income or equity, in which case the related income tax is also recognized in other comprehensive income or equity.

Current income tax expense reflected includes the current tax expense on the taxable profit. In respect of Latvia, income tax at the rate of 15% is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period. The financial result of the Estonian branch is included in the corporate income tax calculation in accordance with Latvian tax regulations on corporate income tax. The corporate income tax for the Lithuanian branch is calculated separately in accordance with Lithuanian tax regulations at a tax rate of 15%.

Taxable profit derived through the Lithuanian branch is taxed in Lithuania and is not taxed in Latvia.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property, plant and equipment and accruals.

Deferred tax assets are only recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

Leases

The Company is a lessee for the rent of premises. Lease payments and prepayments for lease are included in the statement of comprehensive income on a straight-line basis over the period of lease.

Provisions

A provision is recognized if, as a result of 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.

NOTES TO THE FINANCIAL STATEMENTS

(3) SIGNIFICANT ACCOUNTING POLICIES (continued)

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 services are provided. The Company pays fixed social security contributions to social fund of the state 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 to pensions.

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; or
   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).

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.

NOTES TO THE FINANCIAL STATEMENTS

(9) RISKS AND RISK MANAGEMENT

The Company focuses on risk management and internal control, and this is an integral part of the Company's systematic operations. The Company has adopted a policy for risk management and internal control. Among other things, the document describes the main principles for risk management and internal control, in addition to describing the division of responsibility. Identification, assessment, management and control of the risk exposure as well as analyses of the effects of potential strategic decisions on the risk profile is an essential part of the operations to ensure that the level of risk-taking is within the approved risk limits.

An overall management of risks ensures that risks are assessed and handled in a consistent way throughout the Company. Risk management in the Company has two main objectives. First, the risk exposure should not exceed capacity. Secondly, but equally important, a comprehensive risk management should help create value for customers and owners. Through a strong risk management process, risks are identified, analysed, measured and managed not only with the purpose of reducing uncertainty and avoiding extreme losses, but also to maximize the return relative to the risk.

The main purpose of risk management and internal control is to provide reasonable assurance of goal attainment through the following methods:

- Goal-oriented, efficient and expedient operations;
- Reliable internal and external reporting;
- Compliance with laws and regulations, and internal regulations.

The Board carries out an annual review of the Company's most important risk areas and internal controls. The Board also receives quarterly reports on the risk situation in the Company. The division of responsibility between the Board and the CEO is as follows:

The Board's responsibilities:

- The Board has overall responsibility for ensuring that Company has established expedient, effective processes for risk management and internal control in accordance with recognised frameworks.
- The Board shall ensure that such processes are satisfactorily established, implemented and followed up, among other things by considering reports prepared by the Compliance function and the Risk Management function that are submitted to the Board by the CEO and the Internal Audit function as direct reports to the Board.
- The Board shall ensure that risk management and internal control are integrated in the Company's strategy and business processes.

The CEO's responsibilities:

- The CEO shall ensure that the Company's risk management and internal control are implemented, documented, monitored and followed up in an adequate manner. The CEO shall issue instructions and guidelines for how the Company's risk management and internal control shall be carried out in practice and establish expedient control processes and functions.

The Company's risk control functions are organised on the basis of the principle of three lines of defence. The Company has centralized risk control functions that are independent of business operations, such as Risk Management, Compliance and Actuarial functions. In addition, the Company has an independent internal audit function, which monitors risk management and internal control to ensure that they function properly, and reports directly to the Board.

Capital risk management

The core function of insurance is the transfer of risk, and the Company is exposed to risk in both its insurance and investment operations. Identification, measurement and management of risk are essential parts of the operations. Risk and capital are, and must be interlinked. Any insurance company must adapt its risk exposure to its capital base. On the other hand, solvency capital, or equity, has a cost. A key objective of capital management is to balance these two aspects. Company's overall capital management objectives are firstly to ensure that the capitalization of the Company can sustain an adverse outcome without creating a financially distressed situation and secondly that the Company's capital is used in the most efficient way.

The Company's solvency margin (minimum capitalization) is determined as the larger of amounts calculated based on written premiums or claims paid and the result cannot be smaller than the adjusted solvency margin of the prior year or the minimum amount of guarantee fund announced by the FCMC. The Company has a very strong capitalization from all three of these perspectives. In accordance with capital adequacy rules as at 31 December 2015, the solvency margin was EUR 13,351 thousand (2014: EUR 12,524 thousand) and excess capital was EUR 18,229 thousand (EUR 17,467 thousand), own funds EUR 31,580 thousand (2014: EUR 29,991 thousand), equivalent to a capital adequacy ratio of 237% (2014: 239%).

(4) RISKS AND RISK MANAGEMENT (continued)

	31.12.2015 EUR'000	31.12.2014 EUR'000
Solvency margin based on claims	13,351	12,524
Solvency margin based on premiums written	11,756	11,346
Adjusted solvency margin at the end of the previous reporting period	12,524	11,988
Minimum guarantee fund (EUR)	3,700	3,700
Solvency margin (the largest of amounts)	**13,351**	**12,524**

Equity and solvency compliance	**31.12.2015 EUR'000**	**31.12.2014 EUR'000**
Insurer's paid up share capital	31,950	31,950
Reserve capital and other reserves	841	841
Audited retained earnings	8 084	6,925
Intangible assets	(9,295)	(9,725)
Total capital for capital adequacy (own funds)	**31,580**	**29,991**
Solvency margin	**13,351**	**12,524**
Capital surplus	**18,229**	**17,467**

The insurer's own funds are also directly related to the insurer's ability to accept risk which is characterised by the amount of own funds compared to the insurer's key ratios. Own funds versus written premiums and paid claims characterize the insurer's ability to manage various insurance risks, while its proportion to technical reserves characterizes the insurer's ability to sustain losses that may occur in the event of a mistake in the calculations of technical reserves.

	2015 EUR'000	% of key financial statement captions to owned funds %	2014 EUR'000	% of key financial statement captions to owned funds %
Own funds	31,580	-	29,991	-
Claims incurred, net	45,157	70	42,751	70
Earned premiums, net	59,233	53	62,303	48
Total technical reserves, net	55,815	57	47,145	64
Total investments	66,886	47	66,318	45

The necessary capital for the insurance business is allocated to the products in order to set a more accurate cost of capital for pricing and assessments of profitability. The excess capital relative to the most binding of the capital requirements is regarded as an additional buffer and is available to finance the Company's strategic growth targets.

The Company is adapting to the upcoming Solvency II rules, which will both replace the current capital rules and specify requirements for robust risk management and reporting. One of the elements in the new rules is that it allows for the utilization of a standard model or the Company's internal model for calculating the capital requirements according to clearly defined criteria.

Insurance risks

The risk under any insurance contract is the probability that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and must therefore be estimated.

The Company operates in Latvia, Lithuania and Estonia. The core business of the Company is acceptance and management of insurance risks. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and/or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level calculated using statistical techniques.

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

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its steering documents for insurance risk to diversify the types of insurance risks and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company has an overall underwriting policy, approved by the Board, with more detailed underwriting guidelines for each of the product segments, supported by strictly defined authorisation rules. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

General insurance

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The different factors will depend on the products, or lines of business (LOB) considered.

An increase in the frequency of claims can be due to seasonal effects and more sustainable effects. During the winter season snow and cold weather will cause an increase in the frequency of claims in Motor insurance. In Property insurance cold winter will cause an increase in the frequency of claims due to frozen water pipes and increased use of electrical power and open fire places for heating of the houses. More permanent shifts in the level of frequency of claims may occur due to e.g. change of customer behaviour and new types of claims. The effect on the profitability of a permanent change in the level of the frequency of claims will be significant.

The severity of claims is affected by several factors. In some LOBs, with relatively few claims, the severity may be heavily influenced by large claims. The number of incurred large claims during a year varies significantly from one year to another. This is typically for the commercial market. In most LOBs the underlying development of the severity of claims is influenced by inflation.

Growth in severity of claims may be driven by the development of consumer price index (CPI), salary increases, social inflation and the price for material and services purchased with claims settlement. In Property insurance the inflation will consist of CPI and an increase in building costs, which in the past has been slightly higher than CPI. For accident and health the insurance policies are divided into two main groups, one with fixed sum insured and another part were the compensation is adjusted by CPI in health care sector.

The Company manages these risks mainly through close supervision of the development for each LOB, underwriting guidelines and proactive claims handling. The monthly supervision of the results for each LOB contains an overview of both premium and loss development. If there is an adverse development of the profitability, sufficient measures will be put in place. This includes necessary premium increases to ensure that the profitability is within the accepted level. The analysis of the profitability can be tracked further to different groups of customers and portfolios. The underwriting guidelines attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and location of the risks. Underwriting limits are in place to enforce appropriate risk selection criteria and to ensure that accepted risks are within the limits of the reinsurance contracts.

Premiums, deductibles and elements in the conditions may be changed at the yearly renewal of policies. Insurance companies have the right to reject the payment of a fraudulent claim. The Company has the right not to renew individual policies in cases of insurance fraud, and in some instances legislation or policy conditions give the Company the right to terminate or not to renew individual policies in cases where special reasons indicate that such termination is reasonable. In cases where a claim has been paid, the Company is entitled to pursue any third parties liable for the damage, for payment of some or all costs (recourse claim). The underwriting policy and guidelines are within the Company’s approved risk appetite.

The claims handling procedures also include a clear strategy and routines for purchasing material and services in an optimal manner. The routines are to use purchase agreements to ensure the quality of our benefits to our customers and to reduce the inflation risk.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

(i) Basic product features

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.

Property insurance

This insurance covers losses incurred as a result of damage to the property of the insured if the cause is one of the following insured risks:

- Fire
- Natural disasters (storm, flood)
- Fluid leak or steam escape
- Illegal activities of third parties

The risk inherent under property insurance is the rapid increase in prices for construction and renovation, as a result of which the policy holder may not be able to fully restore the property using the claim proceeds. This has an indirect impact on the relationship between the Company and policy holders.

Risk management is carried out by precisely defined assessment of the insured property to determine which property should be insured, which should be insured on special terms and which should not be accepted for insurance at all in line with the authority of the underwriter in the respective line of insurance.

In terms of loss adjustment, the Company is exposed to the risk of unfair actions on the part of policy holders. In order to reduce this risk the Company has set claim settlement administration limits for separate units and introduced high requirements for review of claim supporting documents.

The claim will usually be notified promptly and can be settled in the short term. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

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

Underwriting risk is the risk that the Company does not charge premiums appropriate for the insurance contracts. The pricing processes for the different insurance products involve estimates of future frequency and severity of claims, based on statistics from internal and external sources. Even if the underwriting criteria are adequate and the premium calculations are performed on a good statistical basis, the claims cost may deviate from the expected level, due to large claims, natural catastrophes etc. 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 subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Motor own damage insurance (CASCO)

This insurance covers losses incurred as a result of damage to the vehicle if the cause is one of the following insured risks:

- road accident
- deeds of nature
- fire
- falling of various objects
- illegal activities of third parties
- theft and/or robbery
- glass insurance

Various extensions of cover are possible.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Insurance premiums are set in line with applicable insurance methodology. Motor vehicles are divided into four risk groups with different insurance premiums. Motor insurance usually contains a component of self borne risk.

The largest losses are incurred in the event of complete destruction and theft of the vehicle, but such cases are infrequent.

In order to prevent unfair dealing of policy holders, the Company performs detailed review of claim supporting documents, and ask competent institutions to perform additional investigation if necessary.

The claim will usually be notified promptly and can be settled in the short term. Casco is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

Motor compulsory third party liability (MTPL)

Motor compulsory third party liability insures the vehicle owner's or authorised user's liability for damages caused to third parties as a result of a road accident. The objective of this line of insurance is to protect the interests of third parties who have suffered in road accidents and this line of insurance is regulated by the laws on motor third party liability compulsory insurance that regulate the legal relationship between vehicle owners, authorised users and insurers in relation to the compulsory insurance of third party liability of the vehicle owners and authorised users.

In view of the risk of inflation which impacts the amount of claims paid, the Company performs tariff analyses for this line of insurance and the assessment of the impact on the financial ratios on a regular basis.

Even if statistics reflect that previous claims have been notified promptly and can be settled without undue delay, Motor third party liability insurance is classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

Health insurance

Health insurance is developing into a stable line of business. The Company's identified risk in this line of business is the weak health care system and the obscure government policy in this area as well as changes in economic environment.

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

Health insurance is short-tail business with regular short-term reporting delays.

(ii) Concentration of insurance risks

The concentration of insurance risks is one of the key risk factors in insurance which may have an adverse impact on the Company's liabilities under insurance contracts. The concentration of insurance risks may be caused by the occurrence of a single insurance event involving large liabilities or a number of separate insurance events which results in significant liabilities for the company towards the policy holders.

Since insurance risks will never be totally independent from each other, then irrespective of the portfolio size there is always a so-called non-diversified risk when the insurer generally pays more claims than planned. Non-diversified risk is related to changes in the external environmental factors such as stages of the country economic development which have a systematic impact on the frequency and amount of claims in certain lines of business. For example, the increase of the inflation rate will increase the amounts of claims in the majority of the portfolio while government amendments relating to one of the type of the compulsory insurance may suddenly increase the insurer's liabilities.

The Company has two key methods in managing these risks.

First, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed (refer to *Insurance risk management*).

Second, the residual risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its liability and property business. Management reviews the reinsurance program at least on an annual basis and determines the required changes. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Exposure to various business lines as at 31 December 2015	**Total insured amount EUR'000**	**Reinsurance amount EUR'000**	**Net retention (after reinsurance) EUR'000**
MTPL *)	-	-	-
Property insurance	16,469,240	(7,997,380)	8,471,860
CASCO	505,184	-	505,184
Health insurance	109,531	-	109,531
Other business lines	2,521,372	(987,657)	1,533,715
Total	**19,605,327**	**(8,985,037)**	**10,620,290**

*) gross insurance risk is unlimited. Losses in excess of EUR 400,000 are covered by reinsurance.

Exposure to various business lines as at 31 December 2014	**Total insured amount EUR'000**	**Reinsurance amount EUR'000**	**Net retention (after reinsurance) EUR'000**
MTPL *)	-	-	-
Property insurance	13,954,700	(6,535,635)	7,419,065
CASCO	518,336	-	518,336
Health insurance	81,280	-	81,280
Other business lines	2,136,918	(935,873)	1,201,045
Total	**16,691,234**	**(7,471,508)**	**9,219,726**

*) gross insurance risk is unlimited. Losses in excess of EUR 400,000 are covered by reinsurance.

Geographic and other type of concentration

The Company's insured risks are mainly located in Latvia, Lithuania and Estonia except for travel policies being effective only outside the residence country of the insured as well personal accident, CARGO, motor insurance policies covering insurance accidents in Baltics and abroad. The risk concentration in motor and property insurance is in the largest cities of Latvia, Lithuania and Estonia. The risk concentration in motor insurance is increasing due to the growing number of vehicles and traffic intensity, resulting in an indirect impact on claim amounts in this line of insurance. Insurance regulations and methodology determines the necessary risk assessment for property, claim amount limits and reinsurance regulations which ensure risk management in the respective insurance lines. The Company believes that it is not exposed to the risk related to the policy holders' social and professional status, age or similar.

(iii) Potential impact of catastrophic events

A significant insurance risk that the Company believes is necessary to evaluate and include in insurance methodologies is the risk of nature or man-made catastrophes which creates the likelihood of the risk of large liabilities. The Baltic market is characterized by a low risk of catastrophes. The most common natural catastrophes are storms and storm ravage, flood and spring inundation. Storm and flood exposed territories include forests, sea shore lines and territories adjacent to rivers.

(iv) Potential impact of individual events

The biggest possible losses resulting from single events relate to motor third party liability insurance and property insurance. In order to limit possible losses resulting from single events the Company has bought non-proportional reinsurance cover.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Insurance risk management

(i) Underwriting policy

The management of insurance risks is performed by the Company by underwriting risks in accordance with policy. In accordance with the underwriting policy, each line of insurance has a set methodology and rules regulating the risk assessment methods to be applied, thus decreasing the likelihood of accepting liabilities with respect to risks that are in conflict with the Company's risk insurance policy and internal regulations.

The insurance methodology and rules define criteria and additional information for risk assessment by ensuring a systematic approach to risk assessment. As a result, the Company obtains consistent information in line with its requirements, for regular risk underwriting and introducing the required changes in the documents regulating risk underwriting.

The Company has set insurance limits based on operational experience, market requirements and risk assessment for each line of insurance.

Insurance tariffs are analysed and reviewed based on insurance events and claims paid on a regular basis, and changes are made to the tariffs using actuarial methods which help ensure the ability to meet liabilities. The reinsurance rules regulate the transfer of insurance risks to reinsurers. The Company’s insurance type methodology and rules help insurance intermediaries and agents observe the Company’s insurance guidelines on all insurance products offered on the Baltic market. The methodology for calculating technical reserves determines that appropriate reserves be created for incurred claims.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk employing a substantial degree of experience and judgement. The level of such provisions has been set on the basis of information which is currently available.

(ii) Claims development

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

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of corrections made during the prior years. The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to change in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past surpluses or deficits in respect to the balance of unpaid claims of the current period.

	Year of insured occurrence					
	2011	**2012**	**2013**	**2014**	**2015**	**Total**
	EUR’000	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Estimate of cumulative claims at end of accident year	39,295	40,521	43,109	43,241	**42,083**	42,083
- one year later	38,709	39,728	42,173	**42,904**		42,904
- two years later	38,826	40,056	**42,641**			42,641
- three years later	39,502	**40,195**				40,195
- four years later	**40,084**					40,084
Cumulative payments to date	(38,406)	(37,923)	(40,265)	(38,998)	(29,259)	(184,851)
Outstanding claims reserves for 2011 -2015	1,678	2,272	2,376	3,906	12,824	23,056
Outstanding claim reserves for years before 2011						7,205
Total outstanding claim reserves as at 31.12.2015						**30,261**

*) In 2011 gross claims and gross claims reserves as at 31 December 2011 include insurance liabilities assumed from its subsidiary GF Försäkringsaktiebolag merged into the Company as a result of reorganization.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

(iii) Liability adequacy test

The estimation of technical provisions for an insurance portfolio represents an approximation of future cash flow for the claims payments, and there will always be an element of uncertainty in such calculations. Provision risks relate to this kind of uncertainty. The uncertainty depends on the nature of the risk. Risk with a short duration is less exposed to changes that will affect the future payments. Inflation is an underlying risk in most insurance products. The effect will be different, depending on the characteristics of each product and the terms and conditions that apply for the claims settlement.

On each reporting date, the Company prepares a liability adequacy test by assessing whether the insurance liabilities recognized during the reporting year for valid policies are adequate by comparing the insurance provisions established to the present value of the estimated future cash flows arising on existing insurance policies.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve.

The test is performed on whole insurance portfolio basis and test is applied to the gross amounts of provisions, i.e., the effect of reinsurance is not taken into account.

Forecast inflation and discount rates are key assumptions used in the estimates. The Company evaluates its provisions as adequate as at 31 December 2015 and 2014, respectively. After analysing sensitivity due to increased inflation by 1% and decreased discount rate by 1%, the Company assessed that the amount of technical provisions is adequate.

(iv) Sources of uncertainty in the estimation of future claims payments

The Company is liable for insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, and claims are paid according to the policy conditions valid at the time of occurrence. As a result, claims are settled over a long period of time, and there is an element of the claims provision that relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from the insurance contracts. These variables mainly relate to the characteristics of the different types of risks covered and the applied risk management procedures. The compensation paid is according to the terms specified in the insurance contract. Compensation for claims with respect of bodily injuries are calculated as the present value of lost earnings, rehabilitation expenses and other expenses that the injured party will incur as a result of the accident or disease.

The estimated cost of claims includes expenses to be incurred in settling claims, net of the expected recourse amount and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liabilities established. The liabilities in the financial statements related to these contracts comprise a provision for IBNR, a provision for reported claims not yet paid (RBNS) and a provision for unearned premiums and unexpired risks at the reporting date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified (RBNS), where information about the claim is available. There may be cases where certain claims may not be apparent to the insured until many years after the event that gave rise to the claims.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters, claims handlers and information about the costs of settling claims with similar characteristics in previous periods. All claims are assessed on a case-by-case basis by a claims handler. Claims with potential for distortive effects of their development are handled separately and projected to their ultimate by an additional provision. Where possible, the Company adopts multiple techniques to estimate the required level of provision. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Insurance contracts are often classified as risks that are short-tail and risks that are long-tail. Short-tail risk is characterized by that the period between the occurrences, reporting and final settlement of claims is short. Long-tail risk is the opposite; the period between the occurrence, reporting and settlement of claims is long. In Property and Motor hull insurance the claims are reported soon after occurrence, while bodily injury claims may be reported several years after the occurrence and settled several years after they were reported. The provisions for IBNR for short-tail risks are relatively small, while for long-tail risks the provisions for IBNR may constitute a substantial part of the total loss provision.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

The duration (average time between the date of loss until the claim is finally settled) differs significantly between the types of risk considered. Long duration will increase the company's exposure to inflation. The duration is used to estimate the provisions for IBNR with Chain-Ladder method. It is split by development quarters and measured with development factors. Each factor shows how many claims are reported after insurance occurrences. Changing the first development factor sensitivity analysis shows how IBNR provisions will change if reported claims during the first quarter will be as in the worst reporting quarter (Chain-Ladder with largest development factor) or they will be as in the average reporting quarter (Basic Chain-Ladder). All other variables remain constant.

The table below presents the provisions for IBNR sensitivity analysis as at 31 December 2015:

Sensitivity analysis of IBNR of the Company	**IBNR as at 31.12.2015 EUR'000**	**Chain-Ladder with largest development factor EUR'000**	**Basic Chain-Ladder EUR'000**
Motor compulsory third party liability in Latvia	2,853	4,277	2,853
Motor compulsory third party liability in Lithuania and Estonia	4,292	4,554	3,368
Motor own damage insurance (CASCO)	169	260	111
Property insurance	160	539	105
Other lines of business where IBNR estimated based on Chain-Ladder method	1,526	2,004	1,410
Other lines of business where IBNR estimated based on other statistical methods	135	192	64
Total	**9,135**	**11,826**	**7,911**

Sensitivity analysis of IBNR of the Company	**IBNR as at 31.12.2014 EUR'000**	**Chain-Ladder with largest development factor EUR'000**	**Basic Chain-Ladder EUR'000**
Motor compulsory third party liability in Latvia	2,193	3,027	2,025
Motor compulsory third party liability in Lithuania and Estonia	3,178	4,822	2,080
Motor own damage insurance (CASCO)	161	233	106
Property insurance	90	257	49
Other lines of business where IBNR estimated based on Chain-Ladder method	980	1,244	831
Other lines of business where IBNR estimated based on other statistical methods	168	212	153
Total	**6,770**	**9,795**	**5,244**

Although management believes that claim reserves and the related recoverable amounts are adequate, considering available information, the actual amount of liabilities may differ subject to receipt of further information on the developments which may result in significant adjustments required to the technical reserves. Adjustments to the claims technical reserves of previous years are disclosed in the respective financial statements, and, if material, such adjustments are disclosed separately. Methods and estimates are reviewed on annual basis and any changes are disclosed in financial statements if consider applicable.

In 2009, the State Social Insurance Agency (SSIA) started reporting claims to insurance companies on physical injuries sustained in traffic accidents and was planning to recover amounts paid by the State budget from the insurers of those who caused accidents in Latvia. The potential claims incurred but not reported to SSIA impact IBNR reserve estimates about MTPL insurance (Note 40).

Based on the Company's and MTPL market practice, on 31 December 2015 the Company calculates IBNR reserve for personal injury cases separate from other damages. There is used Chain-Ladder method for both calculations. And SSIA claims are included in these calculations.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Financial risks and risk management

Financial risk is a collective term for various types of risk related to financial assets. The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, may be exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate, equity, property, currency, spread and concentration risk.
- *Counterparty (credit) risk:* loss arising from an issuer defaulting on its obligations or because of increased risk premiums for bonds with credit risk, and failure of a counterparty to meet contractual obligations;
- *Liquidity risk*: under certain adverse conditions, the insurer may be forced to sell *assets at a lo*wer price than their fair value in order to be able to settle liabilities.

Below is a description of each of these financial risks and a summary of methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of business.

(i) Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios.

Market risks comprise:

- interest rate risk;
- foreign exchange risk;
- price risk;

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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.

A change of 100 basis points would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

'000 EUR	31 December 2015		31 December 2014	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	(6,469)	34,406	1,259	40,975
100 bp parallel decrease	(8,423)	32,452	1,059	40,775

Measures for management of the interest rate risk in the Company are centralized and based on the assessment of the impact of the interest rate risk on the Company's financial indices. The Company does not have significant interest bearing liabilities and the largest share of interest bearing assets are at a fixed interest rate, therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest re-pricing profile of the Company's interest bearing assets and liabilities.

The overall exposure to interest rate risk is being reduced by matching a portfolio of fixed income instruments to the overall duration and the payout pattern of the insurance liabilities. Since the insurance liabilities are generally not discounted in the balance sheet, this implies that from an accounting perspective insurance liabilities will be exposed to changes in inflation (but not directly to interest rates). An economic perspective, however, argues for hedging interest rate risk, because the present value of the provisions will be exposed to changes in the real interest rate. From an accounting perspective, the risk from choosing this hedging strategy is reduced, because a major part of the bond portfolio is classified as held to maturity (hereafter only referred to as the amortized cost portfolio).

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Foreign exchange risk

The Company has assets and liabilities denominated in foreign currencies. Foreign exchange risk is defined as the financial loss resulting from a fluctuation in exchange rates.
Some insurance risks are denominated in foreign currencies. The Company's policy is to restrict the foreign exchange risk with respect to known and expected transactions in foreign currencies. Foreign exchange risk management is based on investments in the respective currencies. On 1 January 2015 the Republic of Lithuania joined the eurozone and the Lithuanian Litas was replaced by the euro. Profit and loss is therefore mainly sensitive to changes in USD rates and the risk is evaluated as low. The Company is not engaged in any speculative transactions that may increase the foreign exchange risk

The following tables provide the analysis of the Company's financial assets and financial liabilities as at 31 December 2015 and as at 31 December 2014 by currency profile:

Company's currency profile as at 31 December 2015

Financial assets	**EUR'000**	**PLN'000**	**LTL'000**	**Other**	**Total**
Investment certificates of investment funds	25	-	-	-	**25**
Debt securities and other fixed income securities	51,656	1,497	-	-	**53,153**
Term deposits with credit institutions	13,708	-	-	-	**13,708**
Loans and receivables	10,664	-	-	-	**10,664**
Cash and cash equivalents	3,213	-	-	190	**3,403**
Total	**79,266**	**1,497**	**-**	**190**	**80,953**
Financial liabilities					
Liabilities	5,939	-	-	-	**5,939**
Total	**5,939**	**-**	**-**	**-**	**5,939**
Open currency position	**73,327**	**1,497**	**-**	**190**	**75,014**

Company's currency profile as at 31 December 2014

Financial assets	**EUR'000**	**PLN'000**	**LTL'000**	**Other**	**Total**
Investment certificates of investment funds	30	-	-	-	**30**
Debt securities and other fixed income securities	36,978	1,482	17,074	-	**55,534**
Term deposits with credit institutions	10,754	-	-	-	**10,754**
Loans and receivables	6,336	-	2,515	-	**8,851**
Cash and cash equivalents	2,384	-	861	72	**3,317**
Total	**56,482**	**1,482**	**20,450**	**72**	**78,486**
Financial liabilities					
Liabilities	2,173	-	1,362	-	**3,535**
Total	**2,173**	**-**	**1,362**	**-**	**3,535**
Open currency position	**54,309**	**1,482**	**19,088**	**72**	**74,951**

Price risk

Price risk is defined as a 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.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

An analysis of sensitivity of the Company's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 5% change in all securities prices is as follows:

	2015 EUR'000 Net income	2014 EUR'000 Net income
5% increase in securities prices	584	404
5% decrease in securities prices	(584)	(404)

Sensitivity analysis of investment coverage of technical reserves

	31.12.2015 after change	31.12.2015 carrying amount
15% impairment of government securities	35,414	41,664
50% impairment of other fixed interest income securities	5,745	11,489
10% impairment of deposits	12,337	13,708
TOTAL	**53,496**	**66,861**
Amount required for covering the technical reserve	**53,815**	**55,815**
20% of unearned premium reserves that may be covered from receivables	**5,873**	**5,873**

Credit risk

Credit risk is defined as a risk that a counterparty is not able or willing to settle its liability at due date or the risk that the credit spreads will increase (credit risk premium). The Company is primarily exposed to credit risk in the investments, and through receivables from the insurance customers and reinsurers.

Credit risk is managed both via credit lines for named counterparties, from lines based on official credit ratings and from diversification requirements on mandates for corporate bonds. Credit risk in relation to reinsurance is handled through minimum rating requirements for the reinsurance companies and close follow-up of receivables.

For investments, risk limits are set for credit risk in several ways. As a point of departure there is a credit limit on designated counterparties. For issuers with an official credit rating from a recognised rating agency, this is generally utilized as a criterion. In addition, the asset allocation sets limits on global bonds, both bonds with high financial strength ratings (investment grade) and other bonds (high yield). Additionally, there is a maximum limit for credit duration measured as a one per cent change in credit spreads that include all fixed income assets in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

(i) Management of Financial investments

The Company manages credit risks by investing most of the investments in markets and investments with high ratings.

Investments by ratings for the Company as at 31 December 2015

Country	Rating[1]	Financial instruments designated at fair value through profit or loss EUR'000	Held to maturity debt securities issued or guaranteed by central governments or municipalities EUR'000	Term deposits with credit institutions EUR'000
Lithuania	A-	2,917	23,346	-
Latvia	A-	-	12,676	-
Latvia	Not rated	25	-	-
Latvia	A+	-	-	5,513
Latvia	AA-	-	-	7,186
Latvia	B	-	-	1,009
Luxembourg		8,572	-	-
Poland	A-	-	5,642	-
Total		**11,514**	**41,664**	**13,708**

Investments by ratings for the Company as at 31 December 2014

Country	Rating1	Financial instruments designated at fair value through profit or loss EUR'000	Held to maturity debt securities issued or guaranteed by central governments or municipalities EUR'000	Term deposits with credit institutions EUR'000
Lithuania	A+	8,054	26,843	-
Latvia	A+	-	14,869	9,751
Latvia	Not rated	30	-	-
Latvia	B2	-	-	1,003
Poland	A+	-	5,768	-
Total		**8,084**	**47,480**	**10,754**

[1] Loans due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

(ii) Insurance receivables from direct insurance operations

Credit risk related to clients' balances incurred due to unpaid insurance premiums exists only during the fixed period determined in the policy, during which the policy is paid or terminated. Insurance cover regulations and conditions are presented in insurance methodology.

	2015			
	Gross receivables EUR'000	**%**	**Allowances EUR'000**	**Net receivables EUR'000**
Overdue receivables				
More than 3 months	886	8	830	56
Less than 3 months	1,940	18	52	1,888
Outstanding receivables not overdue	7,760	74	-	7,760
Total direct insurance receivables from policy holders	**10,586**	**100**	**882**	**9,704**

	2014			
	Gross receivables EUR'000	**%**	**Allowances EUR'000**	**Net receivables EUR'000**
Overdue receivables				
More than 3 months	1,177	13	764	413
Less than 3 months	1,502	16	34	1,468
Outstanding receivables not overdue	6,548	71	-	6,548
Total direct insurance receivables from policy holders	**9,227**	**100**	**798**	**8,429**

The carrying amount of direct insurance receivables due from intermediaries in the amount of EUR 1,457 thousand represents the maximum credit exposure to intermediaries (2014: EUR 968 thousand). As at 31 December 2015 there were no impairment allowances recognised against receivables due from intermediaries EUR 729 thousands (2014: 616 TEUR) since there are no overdue balances and amounts are assessed as recoverable.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

(iii) Reinsurance

The Company purchases reinsurance to protect the Company's equity capital and reinsurance is thus a risk and capital management tool. The same models and methodology, as used for evaluation of the internal risk based capital allocation, are also used to analyse and purchase reinsurance.

The Company has approved a reinsurance program that determines the reinsurance principles and criteria for the selection of reinsurers. Management reviews the reinsurance program at least on an annual basis and determines the required changes. The Company's reinsurance programme primarily consists of non-proportional reinsurance. Decisions concerning the reinsurance programme are based on analysis of exposure, claims history, model simulations and the Company's capitalisation. The Company had cooperation with its parent company, Gjensidige Forsikring ASA.

Reinsurers' share in written premiums, claims paid, technical reserves and receivables by rating for the Company as at 31 December 2015:

Rating	Reinsurer's share in claims paid EUR'000	Reinsurer's share in written premiums EUR'000	Reinsurer's share in outstanding claim reserve EUR'000	Reinsurer's share in unearned premium reserve EUR'000	Receivables EUR'000
AA	(2)	-	1,473	-	-
A	426	2,560	1,751	390	202
BBB	38	-	23	-	18
BB	14	-	34	-	-
B	14	-	57	-	-
no rating	-	-	82	-	-
Total	**490**	**2,560**	**3,420**	**390**	**220**

Reinsurers' share in written premiums, claims paid, technical reserves and receivables by rating for the Company as at 31 December 2014:

Rating	Reinsurer's share in claims paid EUR'000	Reinsurer's share in written premiums EUR'000	Reinsurer's share in outstanding claim reserve EUR'000	Reinsurer's share in unearned premium reserve EUR'000	Receivables EUR'000
AA	3	-	1,359	-	-
A	2,480	1,622	1,766	-	240
BBB	2	-	20	-	-
BB	2	-	30	-	-
B	4	-	49	-	-
no rating	-	-	42	-	-
Total	**2,491**	**1,622**	**3,266**	**-**	**240**

Liquidity risk

Liquidity risk is defined as the inability to meet payments at due date, or the need to realize investments at a high cost to meet payments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The purpose of liquidity risk management is to ensure that the Company is able to fulfil its liabilities in due time, to observe supervision laws and regulations and to react to changes in business environment duly and appropriately.

The Company's objective is to earn competitive returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

The tables below allocate the Company's financial assets and financial liabilities to maturity groups based on the time remaining from the reporting period end date to the maturity dates as at 31 December 2015 and as at 31 December 2014:

The Company's maturity dates financial statements as at 31 December 2015

	Within 6 months EUR'000	6-12 months EUR'000	1-2 years EUR'000	2-5 years EUR'000	No fixed term EUR'000	Total EUR'000
Financial assets						
Investment certificates of investment funds	-	-	-	-	25	**25**
Debt securities and other fixed income securities	19,951	4,290	2,975	25,937	-	**53,153**
Term deposits with credit institutions	10,524	3,184	-	-	-	**13,708**
Loan and receivables	10,664	-	-	-	-	**10,664**
Cash and cash equivalents	3,403	-	-	-	-	**3,403**
Total	**44,542**	**7,474**	**2,975**	**25,937**	**25**	**80,953**
Financial liabilities						
Creditors	5,939	-	-	-	-	**5,939**
Total	**5,939**	**-**	**-**	**-**	**-**	**5,939**
Maturity gap	**38,603**	**7,474**	**2,975**	**25,937**	**25**	**75,014**

The Company's maturity dates financial statements as at 31 December 2014

	Within 6 months EUR'000	6-12 months EUR'000	1-2 years EUR'000	2-5 years EUR'000	No fixed term EUR'000	Total EUR'000
Financial assets						
Investment certificates of investment funds	-	-	-	-	30	**30**
Debt securities and other fixed income securities	8,920	3,138	24,533	18,943	-	**55,534**
Term deposits with credit institutions	10,136	551	67	-	-	**10,754**
Loan and receivables	8,851	-	-	-	-	**8,851**
Cash and cash equivalents	3,317	-	-	-	-	**3,317**
Total	**31,224**	**3,689**	**24,600**	**18,943**	**30**	**78,486**
Financial liabilities						
Creditors	3,535	-	-	-	-	**3,535**
Total	**3,535**	**-**	**-**	**-**	**-**	**3,535**
Maturity gap	**27,689**	**3,689**	**24,600**	**18,943**	**30**	**74,951**

Operational risks and risk management

Operational risk is the risk of losses due to weaknesses or faults in processes and systems, errors committed by employees, or external events. In order to reduce the risk, emphasis has been placed on having well-defined and clear lines of reporting and a clear division of responsibility in the organisation of the business.

NOTES TO THE FINANCIAL STATEMENTS

(4) RISKS AND RISK MANAGEMENT (continued)

Set procedures have been established for conducting risk assessments, and the Board evaluates the annual status as part of the established internal control system. An independent Compliance function has been established to help the Company to avoid official sanctions, financial losses or a loss of reputation as a result of failure to comply with statutes, regulations and standards. The Compliance function identifies, assesses, advises on, monitors and reports on the Company's risk of failing to comply with statutes, regulations and internal guidelines. This is intended to reduce the risk of breaches of procedures and guidelines, while contributing to a good working environment. On behalf of the Board, Gjensidige's internal audit function has been assigned the role of monitoring and assessing whether the risk management and internal control system function as intended.

Management actions

The Company recognizes sufficient technical provisions in order to be able to meet all liabilities under insurance and reinsurance arrangements and ensure stable financial operation. The insurance company performs technical provision calculations separately for each insurance contract or group of contracts. The Company monitors that formation of the asset structure for the technical provision cover is based on the following rules:

- not more than 10% of technical reserves are allocated to a single real estate, land and buildings or land properties and buildings which may be treated as a single investment due to their location, and not more than 25% of technical reserves are allocated to aggregate buildings and land properties;
- not more than 5% of technical reserves are allocated to equity securities and debt securities (except mortgage bonds) issued by a single party except the Republic of Latvia, other member states or OECD debt securities issued by the state and municipality;
- not more than 10% of technical reserves are allocated to mortgage bonds issued in accordance with the Mortgage Bond Law or member state normative acts and issued by a single party, and not more than 25% of technical reserves for aggregate mortgage bonds;
- not more than 5% of technical reserves are allocated to investment certificates of a single investment fund registered in the Republic of Latvia, other member state or OECD country;
- not more than 25% of technical reserves are allocated to deposits with a single credit institution;
- not more than 10% of technical reserves are allocated to a single mortgage loan and not more than 25% of technical reserves to aggregate mortgage loans;
- insurance receivables from direct insurance operations, where the due date is in the future, may be attributed to the coverage of technical reserves in proportion to the portion of the technical provisions of net unearned premium in the technical provisions of gross unearned premium, without exceeding the amount of technical provision in net unearned premium;
- not more than 15% of technical reserves are allocated to assets in parties related to the insurer.

NOTES TO THE FINANCIAL STATEMENTS

(5) GROSS WRITTEN PREMIUMS

	2015		2014	
	Gross EUR'000	Reinsurer's share EUR'000	Gross EUR'000	Reinsurers' share EUR'000
Motor own damage insurance (CASCO)	13,715	-	14,436	-
Motor compulsory third party liability in Latvia	6,092	(778)	5,529	(197)
Property insurance	13,228	(833)	10,652	(731)
Motor compulsory third party liability in Lithuania and Estonia	15,268	(42)	16,112	(567)
Personal accident insurance	1,472	(6)	1,318	(6)
Health insurance	9,912	-	7,985	-
Marine insurance	63	(7)	58	(6)
Cargo insurance	173	(20)	190	(14)
Marine third party liability insurance	7	(1)	8	(1)
General third party liability	3,159	(120)	3,021	(93)
Guarantee insurance	1,270	(745)	804	-
Various financial risks	41	-	13	-
Travel insurance	1,101	(6)	905	(4)
Railway insurance	23	(2)	25	(3)
	65,524	**(2,560)**	**61,056**	**(1,622)**

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 pf Latvia. Gross written premiums on motor third party liabilities insurance and gross written premiums are shown net of the obligatory deductions (Note 33) EUR 198 thousand (2014: EUR 138 thousand).

Gross written premiums by country:

	2015 EUR'000	2014 EUR'000
Latvia	29,387	26,504
Estonia	9,276	9,073
Lithuania	26,861	25,479
	65,524	**61,056**

Gross written premiums by currencies:

	2015 EUR'000	2014 EUR'000
EUR	65,439	35,479
LTL	-	25,479
Other	85	98
	65,524	**61,056**

NOTES TO THE FINANCIAL STATEMENTS

(6) EARNED PREMIUMS

	2015			2014		
	Gross EUR'000	Reinsurers' share EUR'000	Net amount EUR'000	Gross EUR'000	Reinsurers' share EUR'000	Net amount EUR'000
Motor own damage insurance (CASCO)	13,584	-	13,584	15,197	-	15,197
Motor compulsory third party liability in Latvia	5,686	(239)	5,447	5,941	(199)	5,742
Property insurance	11,446	(834)	10,612	10,544	(731)	9,813
Motor compulsory third party liability in Lithuania and Estonia	14,731	(581)	14,150	17,885	(567)	17,318
Health insurance	9,135	-	9,135	8,188	-	8,188
Other insurance lines	6,821	(516)	6,305	6,170	(125)	6,045
Total	**61,403**	**(2,170)**	**59,233**	**63,925**	**(1,622)**	**62,303**

(7) UNEARNED PREMIUM AND UNEXPIRED RISK TECHNICAL RESERVES

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31 December 2013	**28,112**	**-**	**28,112**
Written premiums	61,056	(1,622)	59,434
Premiums earned	(63,925)	1,622	(62,303)
Balance at 31 December 2014	**25,243**	**-**	**25,243**
Written premiums	65,524	(2,560)	62,964
Premiums earned	(61,403)	2,170	(59,233)
Balance at 31 December 2015	**29,364**	**(390)**	**28,974**

	2015		2014	
	Gross EUR'000	Net EUR'000	Gross EUR'000	Net EUR'000
Unearned premium reserve	29,364	28,974	25,243	25,243
Total	**29,364**	**28,974**	**25,243**	**25,243**

(8) OTHER TECHNICAL INCOME, NET

	2015 EUR'000	2014 EUR'000
Income from cancellation of policies	192	12
Administration of claims of other insurance companies	66	-
Decrease in allowance for bad debts from policy holders	-	28
Other technical income	87	230
	345	**270**

NOTES TO THE FINANCIAL STATEMENTS

(9) CLAIMS PAID

	2015		2014	
	Gross EUR'000	**Reinsurers' share EUR'000**	**Gross EUR'000**	**Reinsurers' share EUR'000**
Motor own damage insurance (CASCO)	(10,626)	(2)	(12,359)	(2)
Motor compulsory third party liability in Latvia	(4,000)	-	(4,563)	-
Property insurance	(5,772)	-	(3,818)	-
Motor compulsory third party liability in Lithuania and Estonia	(12,385)	491	(15,748)	1,832
Personal accident insurance	(696)	-	(618)	-
Health insurance	(6,475)	-	(6,172)	-
Marine insurance	(20)	-	(931)	661
Cargo insurance	(5)	-	(62)	-
General third party liability	(386)	-	(474)	-
Guarantee insurance	(82)	1	(212)	-
Travel insurance	(261)	-	(181)	-
Financial loss insurance	-	-	-	-
	(40,708)	**490**	**(45,138)**	**2,491**

Gross claims paid by currencies:

	2015 EUR'000	**2014 EUR'000**
EUR	(39,731)	(30,717)
LTL	-	(13,240)
USD	(7)	(615)
Other	(970)	(566)
	(40,708)	**(45,138)**

(10) TECHNICAL RESERVES FOR OUTSTANDING CLAIMS

	Gross EUR'000	**Reinsurers' share EUR'000**	**Net EUR'000**
Balance at 31 December 2013	**26,707**	**(4,909)**	**21,798**
Claims incurred during the period	43,599	(848)	42,751
Gross claims	(45,138)	2,491	(42,647)
Balance at 31 December 2014	**25,168**	**(3,266)**	**21,902**
Claims incurred during the period	45,801	(644)	45,157
Claims paid	(40,708)	490	(40,218)
Balance at 31 December 2015	**30,261**	**(3,420)**	**26,841**

	2015		2014	
	EUR'000 Gross	**EUR'000 Net**	**EUR'000 Gross**	**EUR'000 Net**
RBNS	21,126	17,706	18,398	15,132
IBNR	9,135	9,135	6,770	6,770
Total	**30,261**	**26,841**	**25,168**	**21,902**

NOTES TO THE FINANCIAL STATEMENTS

(11) CLAIMS INCURRED

	2015			2014		
	Gross EUR'000	Reinsurers' share EUR'000	Net amount EUR'000	Gross EUR'000	Reinsurers' share EUR'000	Net amount EUR'000
Motor own damage insurance (CASCO)	(10,807)	(2)	(10,809)	(11,931)	1	(11,930)
Motor compulsory third party liability in Latvia	(5,683)	-	(5,683)	(4,641)	-	(4,641)
Property insurance	(6,058)	-	(6,058)	(4,087)	-	(4,087)
Motor Compulsory third party liability in Lithuania and Estonia	(14,591)	645	(13,946)	(15,001)	185	(14,816)
Health insurance	(6,472)	-	(6,472)	(6,260)	-	(6,260)
Other insurance lines	(2,190)	1	(2,189)	(1,679)	662	(1,017)
Total	**(45,801)**	**644**	**(45,157)**	**(43,599)**	**848**	**(42,751)**

(12) CLIENT ACQUISITION COSTS

	2015 EUR'000	2014 EUR'000
Commission fees paid to intermediaries	12,381	10,740
Maintenance of infrastructure	677	738
Advertisement expenses	448	243
Representative expenses	201	101
Policy printing expenses	72	68
Market research	68	-
	13,847	**11,890**

Client acquisition costs by line of insurance

	2015 EUR'000	2014 EUR'000
Motor own damage insurance (CASCO)	2,603	2,372
Motor third party liability compulsory insurance in Latvia	982	860
Property insurance	2,200	2,640
Motor third party liability compulsory insurance in Lithuania and Estonia	3,255	3,653
Health insurance	2,976	1,118
Other insurance lines	1,831	1,247
	13,847	**11,890**

(13) DEFERRED CLIENT ACQUISITION COSTS

	EUR'000
Balance at 31 December 2013	**3,621**
Written commissions	11,890
Amortisation of deferred acquisition costs	(12,087)
Balance at 31 December 2014	**3,424**
Written commissions	13,847
Amortisation of deferred acquisition costs	(12,908)
Balance at 31 December 2015	**4,363**

NOTES TO THE FINANCIAL STATEMENTS

(14) ADMINISTRATIVE EXPENSES

	2015 EUR'000	2014 EUR'000
Remuneration to staff	3,384	3,253
Rent and maintenance of premises	1,205	1,039
Social taxes	818	780
Professional services	557	771
Motor bureau fee LT, EE	306	491
IT expenses	1,495	375
Financial and Capital Market Commission (Note 33)	286	274
Transportation maintenance costs	133	134
Stationery and office expenses	40	92
Representation expenses	1	62
Communication expenses	125	58
Bank service fees	37	39
Other expenses	620	11
Change in provisions for unused vacations (Note 28)	10	(141)
	9,017	**7,238**

According to the Latvian legislation, the Company should transfer to the Financial and Capital Market Commission 0.20% of gross premium income from obligatory motor TPL and 0.236 % from other gross premium income. Transfers to the Interest protection fund should amount to 1% of insurance premiums paid by individuals on voluntary lines of insurance.

Administrative expenses by the line of insurance

	2015 EUR'000	2014 EUR'000
Motor own damage insurance (CASCO)	1,523	1,328
Motor compulsory third party liability in Latvia	1,290	992
Property insurance	1,952	1,377
Motor compulsory third party liability in Lithuania and Estonia	2,256	1,989
Health insurance	1,268	1,027
Other insurance lines	728	525
	9,017	**7,238**

(15) NET INTEREST INCOME

	2015 EUR'000	2014 EUR'000
From debt securities and other fixed income securities carried at amortized cost	1,464	1,630
From deposits with credit institutions	44	100
	1,508	**1,730**

(16) CORPORATE INCOME TAX

	2015 EUR'000	2014 EUR'000
Current tax	58	238
Changes in deferred tax asset (Note 27)	(1,094)	(29)
	(1,036)	**209**

NOTES TO THE FINANCIAL STATEMENTS

(16) CORPORATE INCOME TAX (continued)

	2015 EUR'000	2014 EUR'000
Profit before tax	**(8,482)**	**1,368**
Theoretical tax using the 15% rate	(1,272)	205
Expenses not deductible for tax purposes	104	177
Amortization of intangible assets not deductible for tax purposes	234	6
Non-taxable income	(160)	(169)
Tax relief on donations	-	(10)
Prior year profit tax corrections	58	-
Tax expenses	**(1,036)**	**209**

(17) PROPERTY AND EQUIPMENT

Historical cost/revaluation	Buildings EUR'000	Vehicles EUR'000	Computers EUR'000	Office equipment EUR'000	Total EUR'000
31 December 2013	**341**	**963**	**599**	**517**	**2,420**
Additions	-	201	513	18	732
Disposal	(275)	(204)	(7)	(102)	(588)
31 December 2014	**66**	**960**	**1,105**	**433**	**2,564**
Additions	-	62	421	17	500
Disposal	-	(81)	(170)	(321)	(572)
31 December 2015	**66**	**941**	**1,356**	**129**	**2,492**
Accumulated depreciation					
31 December 2013	**163**	**892**	**144**	**435**	**1,634**
Charge for the year	51	233	247	25	556
Depreciation on disposals	(160)	(202)	(7)	(99)	(468)
31 December 2014	**54**	**923**	**384**	**361**	**1,722**
Charge for the year	2	13	321	22	358
Depreciation on disposals	-	(80)	(149)	(315)	(544)
31 December 2015	**56**	**856**	**556**	**68**	**1,536**
Balance at 31 December 2014	**12**	**37**	**721**	**72**	**842**
Balance at 31 December 2015	**10**	**85**	**800**	**61**	**956**

All equipment items are used in operating activities.

NOTES TO THE FINANCIAL STATEMENTS

(18) INTANGIBLE ASSETS

	Software EUR'000	Client relationship EUR'000	Goodwill EUR'000	Total EUR'000
Historical cost				
31 December 2013	**357**	**929**	**10,905**	**12,191**
Additions	1,052	-	-	1,052
Disposals	(65)	-	-	(65)
31 December 2014	**1,344**	**929**	**10,905**	**13,178**
Additions	1,180	-	-	1,180
Disposals	(11)	-	-	(11)
31 December 2015	**2,513**	**929**	**10,905**	**14,347**
Accumulated amortization and impairment				
31 December 2013	**233**	**668**	**2,430**	**3,331**
Charge for the year	66	60	-	126
Depreciation of disposed	(4)	-	-	(4)
31 December 2014	**295**	**728**	**2,430**	**3,453**
Charge for the year	50	60	-	110
Impairment of goodwill	-	-	1,500	1,500
Depreciation of disposed	(11)	-	-	(11)
31 December 2015	**334**	**788**	**3,930**	**5,052**
Balance at 31 December 2014	**1,049**	**201**	**8,475**	**9,725**
Balance at 31 December 2015	**2,179**	**141**	**6,975**	**9,295**

The value of customer relationship is estimated by means of the Net Present Value of estimated excess earnings after tax, generated over the remaining operating life. The estimation is based on a forecast from 2008 until 2018; the customer retention rate used in estimation is 69%. Useful life cycle of customer relations has been defined as 10 years based on observable market data. The value of client relationships was revalued at the end of 2010 when the actual development of the subsidiary's insurance portfolio was assessed. Based on the judgments made by the management, the client loyalty ratio was decreased to 62% and the impairment of EUR 183 thousand was recognized. The management reassessed the assumptions during 2015 and concluded these are still valid.

Goodwill was recognized as a result of the acquisition of a subsidiary in 2008, which further was reorganized as branch. At the end of each reporting year, management assesses goodwill for impairment by comparing the carrying amounts of the underlying cash generating units, including the allocated goodwill, with their recoverable amounts. Lithuanian branch is considered to be CGU (Cash generating unit).

The valuation is based on a Discounted Dividend Model. The profit after tax is assumed to be a proxy for free cash flows available for distribution to owners. However, the required solvency capital must be in place before the owners can get dividends. The remaining amount, after retaining an increase in solvency capital, is assumed to be paid out as dividends. A negative figure would mean that an equity contribution is required in order to comply with the calculated need for solvency capital.

- The discount rate, Cost of Equity, is calculated to be 11.5 % (2014: 8.4%) based on the following: CoE = Rf + Rp x Beta x SCP
- Rf: Lithuanian government bonds with the maturity approximately 10 years 1.49% (2014: Lithuanian government bonds with the maturity approximately 10 years 1.9%).
- Rp = 6.5% (2014: 6.5%).
- Beta of 1.0 assumed (2014: 1.0).
- SCP (small cap premium) = 3.5%

CoE – cost of equity

Rf – risk free rate

Rp – risk Premium

Beta – coefficient comparing risk for industry to market

NOTES TO THE FINANCIAL STATEMENTS

(18) INTANGIBLE ASSETS (continued)

- The NPV (Net Present Value) consists of two components
- The NPV of the dividends in the explicit period 2016E-2024E.
- The terminal value from 2025E and onwards (based on 3 % terminal growth assumption (2014: 3%)).
- Sensitivity analysis has been performed to test impact of change in major assumptions – premium growth, profitability (CR) and discount rate.

The following assumptions were used for future cash flows estimate:

- In 2015 in the Baltics the non-life insurance market experienced growth. The growth rates has been higher in Lithuania after Euro introduction from January 2015. Future growth of market is forecasted.
- The uninsured capacity of the market is significant and this will ensure significant growth in the long term. At present, the Baltic insurance market is significantly behind that of the EU and CEE by the amount of gross written premiums versus GDP and by GWP per capita.
- CGU performance will be in line with Gjensidige Baltic performance – slightly better than market in total, giving moderate increase in market share – from ca. 6.6% currently till close to 7.4% in 2024 (2014: from ca. 6.6% currently till close 7.9% in 2023). Profitability is targeted before growth.
- Claims ratio represents 65-67% (profitability prioritization) (2014: 63-65%), it is expected that in the next 5 years it will stay stable despite that competition in the market and pressure on prices will increase.
- Cost index of 2015 was around 38% (2014: ca. 29%). The increase is explained by creating technical platform and investing in staff for future profitable growth. The level is quite high compared to matured insurance markets and decrease is expected generally in the market, mainly due to:
    - The cost ratio level will reduce in the market as a result of consolidation, and companies becoming bigger both from organic and non-organic growth. Acquisition of UAB PZU Lithuania by Gjensidige group in 2015 will lead to synergies and increased efficiency in Lithuanian market.
    - Market players becoming more efficient and professional.
    - Gjensidige Baltic will continue developing efficient Pan-Baltic operation, centralizing certain functions and profiting from economies of scale and synergies with Gjensidige.
    - Reducing commissions for intermediaries which currently are at a high level in the market in general.
    - As a result, cost ratio is assumed to be 37.7 % (2014: 28.5%).
    - Return on investment is assumed conservative around 2% (2014: 2%) level over the coming years.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data).

Sensitivity analysis shows that the Cost of capital assumptions and the Cost ratio assumptions are the most critical factors in determining the need for impairment of goodwill. Please see the table below for sensitivity to cost of capital and loss ratio changes.

Cost of capital

Cost ratio	9.5%	10.5%	11.5%	12.5%	13.5%
+3%	-7.7	-8.1	-8.5	-8.7	-8.9
Present assumptions	2.1	0.0	**-1.5**	-2.7	-3.7
-3%	11.9	8.2	5.4	3.2	1.5

NOTES TO THE FINANCIAL STATEMENTS

(19) INVESTMENT CERTIFICATES OF INVESTMENT FUNDS CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	2015		2014	
	Fair value of investment EUR'000	Cost EUR'000	Fair value of investment EUR'000	Cost EUR'000
Citadele Baltic real estate fund II	25	100	30	100
	25	**100**	**30**	**100**

(20) DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	2015		2014	
	Fair value of investment EUR'000	Cost EUR'000	Fair value of investment EUR'000	Cost EUR'000
Lithuanian government bonds	2,917	2,936	8,054	8,021
Luxembourg funds	8,572	8,700	-	-
	11,489	**11,636**	**8,054**	**8,021**

All securities represent level 1 fair value hierarchy instruments.

(21) DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES ISSUED OR GUARANTEED BY CENTRAL BANKS OR LOCAL GOVERNMENTS CLASSIFIED AS HELD TO MATURITY

	2015		2014	
	Amortized cost EUR'000	Fair value EUR'000	Amortized cost EUR'000	Fair value EUR'000
Latvian government bonds	12,676	13,542	14,869	16,176
Lithuanian government bonds	23,346	23,549	26,843	27,469
Poland government bonds	5,642	5,507	5,768	5,609
	41,664	**42,598**	**47,480**	**49,254**

All securities represent level 1 fair value hierarchy instruments.

(22) TERM DEPOSITS WITH CREDIT INSTITUTIONS

	2015		2014	
Investment portfolio split by countries:	Carrying amount EUR'000	Fair value EUR'000	Carrying amount EUR'000	Fair value EUR'000
Latvia	13,708	13,708	10,754	10,754
	13,708	**13,708**	**10,754**	**10,754**

Gross maximum credit risk is equal to net maximum credit risk for the Company as at 31 December 2015 and amounted to EUR 13,708 thousand (2014: EUR 10,754 thousand).

Due to the low interest rate environment and significant part of term deposits with credit institutions is with term up to 6 months any fair value difference from carrying amount is considered to be immaterial. All term deposits represent level 3 fair value hierarchy instruments.

NOTES TO THE FINANCIAL STATEMENTS

(23) POLICY HOLDERS AND INTERMEDIARIES

	2015 EUR'000	2014 EUR'000
Gross amount from policy holders and intermediaries	10,586	9,227
Allowance for doubtful amounts	(882)	(798)
	9,704	**8,429**

	Gross EUR'000
Allowance as at 31 December 2013	**(826)**
Decrease of allowance (Note 8)	28
Allowance as at 31 December 2014	**(798)**
Increase of allowance	(84)
Allowance as at 31 December 2015	**(882)**

Due to the short term nature of the receivables any fair value difference from carrying amount is considered to be immaterial.

(24) REINSURANCE RECEIVABLES

	2015 EUR'000	2014 EUR'000
Gross reinsurance receivables	220	240
	220	**240**

(25) CASH AND CASH EQUIVALENTS

	2015 EUR'000	2014 EUR'000
Demand deposits with credit institutions	3,403	3,317
Total cash and cash equivalents	**3,403**	**3,317**

NOTES TO THE FINANCIAL STATEMENTS

(26) EQUITY

Share capital

The share capital of the Company at 31 December 2015 and 2014 was EUR 31,950 thousand and comprised of 225,000 shares (fully paid).

The nominal value of one share is EUR 142.

	2015		2014	
	Amount	**EUR'000**	**Amount**	**EUR'000**
Ordinary shares with voting rights	225,000	31,950	225,000	31,950
	225,000	**31,950**	**225,000**	**31,950**

Each share carries a right to vote at shareholder's meetings, a rights to receive dividends as declared from time to time and a right to residual assets.

Company's shareholder	**2015**		**2014**	
	Number of shares	% of share capital	Number of shares	% of share capital
Gjensidige Forsikring	225,000	100	225,000	100
	225,000	**100**	**225,000**	**100**

Reserve capital and other reserves

According to decisions made by the shareholder, a part of the profit has been transferred to reserve capital and other reserves. These reserves are available for shareholder and there are no restrictions on those reserves.

Distribution of retained earnings and loss of the reporting year

The Management Board and the Council have proposed to include loss of the reporting year to retained earnings.

(27) DEFERRED TAX

The Company offsets deferred tax assets and liabilities only when it is legally allowed to do so, and the deferred tax relates to the same tax administration.

	2015	**2014**
	EUR'000	**EUR'000**
Deferred tax assets at the beginning of the year	**343**	**314**
Deferred tax expenses in the income statement of the reporting period (Note 16)	1,094	29
Deferred tax assets at the end of the year	**1,437**	**343**

Deferred income tax assets and liabilities are attributable to the following items:

	2015		**2014**	
	EUR'000		**EUR'000**	
	assets	**liabilities**	**assets**	**liabilities**
Temporary difference between property, plant and equipment carrying amounts for financial reporting purposes and amounts used taxation purposes		(121)	-	(40)
Effect from different provisions	468	-	383	-
Tax losses carried forward	1 090	-	-	-
Total deferred tax assets	**1,437**	**-**	**343**	**-**
Unrecognized deferred tax asset	**-**	**-**	**-**	**-**
Deferred tax assets, net	**1,437**	**-**	**343**	**-**

NOTES TO THE FINANCIAL STATEMENTS

(27) DEFFERED TAX (continued)

	2015	2014
Attributable to:	**EUR'000**	**EUR'000**
Latvia	784	240
Lithuania	653	103
Total deferred tax at the end of the year	**1,437**	**343**

(28) PROVISIONS

	Provision for unused vacations
	EUR'000
31 December 2013	**366**
Provisions decreased (Note 14)	(141)
31 December 2014	**225**
Provisions increased (Note 14)	10
31 December 2015	**235**

(29) REINSURANCE LIABILITIES

	2015	2014
	EUR'000	**EUR'000**
Due to reinsurer's – Gjensidige Forsikring (Note 34)	436	-
Due to other reinsurers	4	3
	440	**3**

Result of ceded reinsurance to the statement of comprehensive income

	2015	2014
	EUR'000	**EUR'000**
Reinsurer's share in written premiums (Note 5)	(2,560)	(1,622)
Reinsurer's share in claims paid (Note 9)	490	2,491
Reinsurer's share in changes of unearned premium and unexpired risk technical reserves (Note 7)	390	-
Reinsurer's share in changes of outstanding claim technical reserves (Note 10)	154	(1,643)
Reinsurance commission income and profit share	224	(3)
Net result from ceded reinsurance	**(1,302)**	**(777)**

(30) TAXES AND SOCIAL CONTRIBUTIONS

Tax	Balance at 31.12.2014 liability (+)/ overpayment (-) EUR'000	Calculated in 2015 (+) EUR'000	Paid in 2015 (-) EUR'000	Balance at 31.12.2015 liability (+)/ overpayment (-) EUR'000
Corporate income tax Latvia	(489)	391	(109)	(207)
Corporate income tax Lithuania	(15)	58	(446)	(403)
Value added tax in Latvia	18	307	(270)	55
Value added tax in Lithuania	2	67	(67)	2
Social contributions in Latvia	83	1 140	(1 136)	87
Social contributions in Estonia	25	337	(333)	29
Social contributions in Lithuania	118	1 618	(1 610)	126
Personal income tax in Latvia	62	714	(715)	61
Personal income tax in Estonia	10	165	(162)	13
Personal income tax in Lithuania	-	591	(591)	-
Real estate tax in Lithuania	1	2	(2)	1
Environmental tax Lithuania	-	1	(1)	-
	(185)	**5 391**	**(5 442)**	**(236)**
Including				
Liabilities	**319**			**374**
Overpayment	**(504)**			**(610)**

NOTES TO THE FINANCIAL STATEMENTS

(31) OTHER CREDITORS

	2015 EUR'000	2014 EUR'000
Due to Motor Insurer's Bureau of Latvia	40	29
Due to Motor Insurer's Bureau of Lithuania	74	92
Due to Financial and Capital Market Commission	58	60
Due to personnel	46	54
Received invoices	385	185
Other liabilities	130	30
	733	**450**

(32) ACCRUED EXPENSES AND DEFERRED INCOME

	2015 EUR'000	2014 EUR'000
Accrued intermediary commission fees	701	702
Accrued amount for bonuses for employees	494	564
Reserve for judgement	126	126
Reserve for premises rent	350	-
Other	234	3
	1,905	**1,395**

(33) OBLIGATORY PAYMENTS

	2015 EUR'000	2014 EUR'000
Motor insurer's bureau of Latvia	198	138
Financial and Capital Market Comission (Note 14)	286	274
	484	**412**

(34) TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties are defined as shareholder of the Company, members of the Board and Council, their close relatives and companies in which they have a significant influence or control.

At the end of the reporting period, the Company had the following settlements with related parties:

	2015 EUR'000	2014 EUR'000
Gjensidige Forsikring, parent company:		
Reinsurance premiums ceded to parent company	(2,560)	(1,622)
Reinsurance claims received from parent company	426	2,479
Board members		
Insurance premium received	-	-

	2015 EUR'000	2014 EUR'000
Gjensidige Forsikring, parent company		
Reinsurance liabilities (Note 29)	436	-

(35) NUMBER OF EMPLOYEES

	2015	2014
Staff	416	401
Agents	192	216
	608	**617**

	2015	2014
Head office of Gjensidige Baltic	126	116
Branches in Latvia	106	112
Branch in Estonia	44	39
Branch in Lithuania	332	350
	608	**617**

NOTES TO THE FINANCIAL STATEMENTS

(36) INFORMATION ON THE REMUNERATION TO BOARD AND MANAGEMENT

	2015 EUR'000	2014 EUR'000
Salary for Board members	-	-
Social contributions on salaries	-	-
	-	**-**

In the reporting year, members of the Supervisory and Management Board have not received remuneration for their work.

In accordance with Section 28.7 of FCMC Regulation No. 61 "Disclosure regulation", AAS Gjensidige Baltic publishes information on the remuneration by groups of positions – a group comprising Board members of AAS Gjensidige Baltic and a group comprising other positions that impact the risk profile of AAS Gjensidige Baltic.

	2015			2014		
	Fixed remuneration EUR'000	Variable remuneration EUR'000	Number of employees	Fixed remuneration EUR'000	Variable remuneration EUR'000	Number of employees
AAS Gjensidige Baltic positions with significant impact on the company's risk profile	1,116	-	23	1,067	-	13
	1,116	**-**	**23**	**1,067**	**-**	**13**

(37) OPERATING LEASES

Leases as lessee

For the Company as a lessee, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective was as follows:

	2015 EUR'000	2014 EUR'000
Less than one year	96	518
Between one and five years	2,030	2,129
	2,126	**2,647**

NOTES TO THE FINANCIAL STATEMENTS

(38) REMAINING MATURITIES OF INSURANCE LIABILITIES

The tables below show maturity analysis of insurance liabilities based on expected net cash outflows from those insurance liabilities.

31 December 2015	Within 6 months EUR'000	6-12 months EUR'000	1-2 years EUR'000	2-5 years EUR'000	Total EUR'000
Unearned premium and unexpired risk technical reserves	21,730	7,634	-	-	**29,364**
Technical reserves for outstanding claims	10,894	9,986	7,565	1,816	**30,261**
Reinsurers' share in technical reserves	(2,086)	(1,125)	(483)	(116)	**(3,810)**
Due to policyholders	4,690	-	-	-	**4,690**
Due to intermediaries	76	-	-	-	**76**
Reinsurance liabilities	440	-	-	-	**440**
Total net cash outflows from insurance liabilities	**35,744**	**16,495**	**7,082**	**1,700**	**61,021**

31 December 2014	Within 6 months EUR'000	6-12 months EUR'000	1-2 years EUR'000	2-5 years EUR'000	Total EUR'000
Unearned premium and unexpired risk technical reserves	18,681	6,562	-	-	**25,243**
Technical reserves for outstanding claims	9,061	8,305	6,292	1,510	**25,168**
Reinsurers' share in technical reserves	(1,799)	(962)	(407)	(98)	**(3,266)**
Due to policyholders	2,981	-	-	-	**2,981**
Due to intermediaries	101	-	-	-	**101**
Reinsurance creditors	3	-	-	-	**3**
Total net cash outflows from insurance liabilities	**29,028**	**13,905**	**5,885**	**1,412**	**50,230**

(39) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ANALYSIS

The table below analyses financial instruments carried at fair value, by valuation method:

2015	Published price quotations (Level 1)
Financial assets	
Financial assets designated at fair value through profit and loss	
Investment certificates of investment funds	25
Debt securities and other fixed income securities	11,489
	11,514
2014	
Financial assets	
Financial assets designated at fair value through profit and loss	
Investment certificates of investment funds	30
Debt securities and other fixed income securities	8,054
	8,084

Included in this category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

NOTES TO THE FINANCIAL STATEMENTS

(39) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ANALYSIS (continued)

The management has assessed whether there is a difference between fair value and book value for financial assets and liabilities not measured at fair value. In general, the management has come to a conclusion that due to the short term nature of financial assets and liabilities, there is no difference between these with the exception of held to maturity assets. Please see Note 21 for held to maturity assets analysis and comparison of carrying amounts to fair value as well as fair value measurements principles and hierarchy.

(40) MOTOR COMPULSORY THIRD PARTY LIABILITY IBNR

According to the law On the Compulsory Insurance against Civil Liability in Respect of Motor Vehicles applicable in the Republic of Latvia, moral or pain and suffering damage of a road accident victim includes physical pain, mental suffering, inconveniences, mental shock, emotional depression, humiliation, impairment of reputation, diminution of possibilities to associate with others and other moral or pain and suffer claims consequences arising from personal injury of health or loss of life in a road accident. The limit laid down in Cabinet Regulation No. 331 regarding the amount of claim for personal moral damage and the procedure for calculating such claims ranges from 30 to 570 euro for moral or pain and suffering claims damage. However, the decision of the case C-277/12 at the European Court of Justice against an insurance company in Latvia has determined that the respective Cabinet regulation of Latvia is not compliant with the provisions of EU Directives. The matter is now to be addressed by the Government of the Republic of Latvia.

At the date of issue of these financial statements, no law had been passed to remedy this matter. As a result, there is still uncertainty over the respective claim limit that will be defined by the law, whether the application of the law will be prospective or retrospective, and whether the liability, if any, will pass in full to the insurers in the Latvian market. The amount of MTPL IBNR reserve for personal injury claims as at 31 December 2015 is TEUR 4,758, which is the amount subject to this uncertainty and which could therefore change if the law is to be applied retrospectively. The Management of the Company is monitoring the situation closely and will consider their position when there is clarity of the outcome.

(41) SUBSEQUENT EVENTS

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would are not disclosed in these financial statements, but require adjustments to be made to these financial statements and disclosures added to the notes thereto.

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Independent Auditors' Report

To the shareholder of AAS Gjensidige Baltic

Report on the Financial Statements

We have audited the accompanying financial statements of AAS Gjensidige Baltic ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 58.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of these financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Company management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 6, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

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

Inga Lipšāne
Latvian Certified Auditor
Certificate No 112