Balcia insurance

PUBLIC QUARTERLY

REPORT

2ND QUARTER 2017

The Report prepared in accordance with the Financial and Capital Market Commission Regulations No. 147 “Regulations on Preparation of Public Quarterly Reports of the Insurers” of 31 August 2016.

The Report includes summarised information on the Company’s activities over **2 quarters of 2017**. This information is comparable with the previous reporting period.

Company information

Name of the Company	Balcia Insurance SE (former name BTA Insurance Company SE, until 02.11.2016)
Legal status	European Company
Number, place and date of registration	40003159840, Riga, 1993
Address	K. Valdemara 63, Riga
Members of the Board and their positions	Lauris Boss - Chairman of the Board Kaspars Ummers - Board member Dita Daukste - Board member (till 02.05.2017)
Members of the Council and their positions	Gints Dandzbergs - Chairman of the Council Pauls Dandzbergs - Deputy Chairman of the Council Marts Dandzbergs - Deputy Chairman of the Council Andrejs Galanders - Member of the Council Agris Dambenieks - Member of the Council Bronislaw Woznialis - Member of the Council
Reporting Period	01.01.2017 – 30.06.2017

Shareholders

Shareholder	Number of shares	% of the share capital
B5 Holding Limited	26 498	26.50%
HTT Holding Company Limited	25 815	25.82%
MDA Holding Limited	9 797	9.80%
TIA AS	9 578	9.58%
B6 Holding Limited	9 051	9.05%
Other entities	19 261	19.25%

Face value of one share	142.20 EUR
Subscribed share capital	14 220 000 EUR
Paid-up share capital	14 220 000 EUR

Foreign branches

Germany, Senefelderstr. 17, 63322 Rödermark
United Kingdom, 3B Westwood House, Greenwood Business Centre, Reget Road, Salford, Manchester M5
France, 86 rue Anatole France, 92300 Levallois-Perret, Paris
Poland, Al. Jerozolimskie 136 02-305 Warszawa

Income Statement

Item	For the Reporting Period	For the Respective Period of Previous Reporting Year
Earned premiums	38 366 098	22 126 865
Other technical income, net	484 804	381 248
Incurred claims, net	(21 133 687)	(14 422 155)
Changes in other technical reserves	-	-
Gratuities, net	-	-
Net operating expenses	(13 244 315)	(8 469 373)
Other technical expenses, net	(2 195 165)	(336 439)
Changes in equalization reserves	-	-
Investment management expenses and commission payments	(105 478)	(93 731)
Net interest income and dividend income	306 052	1 301 470
Net realized profit/(loss) from the amortized cost of financial assets and financial liabilities	-	-
Net realized profit/(loss) from available for sale financial assets	-	-
Net profit/(loss) from financial assets and financial liabilities held for trading	-	-
Net profit/(loss) from the financial assets and financial liabilities classified at fair value through profit and loss	1 021 317	128 818
Revaluation result of foreign currencies	(76 161)	(81 870)
Profit/(loss) from derecognition of tangible assets, investments in buildings for ensuring own activities, investments in property and intangible assets	-	-
Depreciation	(323 894)	(374 680)
Impairment result	13 846	1 220
Profit/(loss) for the reporting period before taxes	**3 113 417**	**161 373**
Corporate income tax	-	-
Profit/(loss) before taxes for the reporting period	**3 113 417**	**161 373**

Indicators by Type of Insurance

Type of Insurance	Gross Premiums Written			Gross Insurance Claims Paid			Net operating expenses
	Total	Contracts in Latvia	including contracts with private individuals	Total	Contracts in Latvia	including contracts with private individuals	
Accident insurance	1 152 566	14 634	-	25 279	-	-	291 752
Health Insurance	-	-	-	-	-	-	-
Motor vehicle insurance (other than railway)	2 402 115	173 149	-	853 718	34 683	27 429	513 638
Railway transport insurance	-	-	-	-	-	-	-
Aircraft insurance	-	-	-	-	-	-	-
Vessel insurance	572	-	-	-		-	(12)
Cargo insurance	2 311	-	-	-	-	-	247
Property insurance against fire and natural disaster damages and against other risks	14 025 021	456 450	80 187	3 387 011	1 514 017	1 110 000	3 348 460
Civil liability insurance of motor vehicle owners	35 285 873	-	-	13 568 675	161 264	147 539	8 712 862
Civil liability insurance of aircraft owners	-	-	-	-	-	-	-
Civil liability insurance of vessel owners	414	-	-	-	-	-	(188)
General civil liability insurance	753 548	451 665	-	259 887	240 440	26 138	122 892
Loan insurance	-	-	-	-	-	-	-
Guarantee insurance	478 443	34 926	-	2 174 133	2 174 134	-	111 974
Insurance of various financial losses	371 456	-	-	-	-	-	47 466
Insurance of legal expenses	-	-	-	-	-	-	-
Assistance insurance	588 195	22 324	-	152 466	1 101	-	95 223
Total	**55 060 514**	**1 153 148**	**80 187**	**20 421 169**	**4 125 639**	**1 311 106**	**13 244 314**

Type of Insurance	Loss Indicator (Accepted Compensation Claims, Net/Earned Premiums, Net)	Expense Indicator ((Net Operating Expenses + Other Technical Expenses, Net - Other technical income, Net)/ Earned Premiums, Net)	Combined Indicator (Loss Indicator + Expense Indicator)
Accident insurance	4.25%	28.03%	32.28%
Health Insurance	-	-	-
Motor vehicle insurance (other than railway)	58.83%	31.92%	90.75%
Railway transport insurance	-	-	-
Aircraft insurance	-	-	-
Vessel insurance	(234.50%)	(41.59%)	(276.09%)
Cargo insurance	15.49%	42.25%	57.74%
Property insurance against fire and natural disaster damages and against other risks	43.21%	53.65%	96.86%
Civil liability insurance of motor vehicle owners	54.33%	38.73%	93.06%
Civil liability insurance of aircraft owners	-	-	-
Civil liability insurance of vessel owners	-	(903.46%)	(903.46%)
General civil liability insurance	59.75%	45.80%	105.55%
Loan insurance	-	-	-
Guarantee insurance	1367.61%	90.63%	1458.24%
Insurance of various financial losses	(23.01%)	117.40%	94.39%
Insurance of legal expenses	-	-	-
Assistance insurance	40.36%	21.90%	62.26%
Total	**55.08%**	**41.09%**	**96.17%**

Balance Sheet

Item	Reporting Period	Previous Reporting Period
Signed but not paid-up share capital	-	-
Tangible assets	573 852	540 356
Investments in land lots and buildings	6 815 961	6 901 761
Intangible assets	746 386	730 253
Investments in share capital of related companies	-	-
Investments in share capital of associated companies	4 873 279	5 208 487
Financial assets held for trading	-	-
Classified as financial assets at fair value through profit and loss	59 675 682	49 540 652
Financial assets available-for-sale	279 080	279 080
Held-to-maturity investments	5 100 000	5 500 000
Loans granted and debtor debts	14 911 963	10 631 928
Accrued income and deferred expenses	16 951 389	13 274 239
Tax assets	553 909	553 909
Reinsurance contracts	13 818 797	15 064 693
Cash on hand and claims on demand with credit institutions	64 006 782	64 542 446
Total assets	**188 307 080**	**172 767 804**
Capital and reserves	57 534 783	58 929 098
Insurance liabilities	119 190 846	101 556 389
Subordinated liabilities	1 700 000	1 700 000
Classified as financial liabilities at fair value through profit and loss	-	-
Financial liabilities at amortized cost	8 213 822	8 848 796
Provisions	335 445	304 021
Tax liabilities	493 461	554 946
Accrued expenses and deferred income	838 723	874 554
Total liabilities	130 772 297	113 838 706
Total capital and reserves, and liabilities	**188 307 080**	**172 767 804**

The equity and the Solvency Capital Requirement calculation

Item	Reporting Period
Basic own funds	48 873 442
Deductions of involvement in financial and credit institutions	-
The total basic own funds after deductions	48 873 442
Additional own funds total	-
The available and used own funds	
Total the available own funds to comply with the Solvency Capital Requirement	48 873 442
Total the available own funds to comply with the Minimum Capital Requirement	44 842 604
Total used own funds to comply with the Solvency Capital Requirement	48 873 442
Total used own funds to comply with the Minimum Capital Requirements	44 842 604
The Solvency Capital Requirement	37 011 604
The Minimum Capital Requirement	16 600 890
The own capital in the Solvency Capital Requirement	132.05%
The own capital in the Minimum Capital Requirement	270.12%

Risks and Risk Management

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

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

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

- Insurance risks
- Financial risks
- Operational risks

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

1. Insurance Risks and Risk Management

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

(a) Underwriting Strategy

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

The underwriting strategy is included in the annual business plan, which describes the types of insurance, where premiums are written, as well as branches and sectors in which the Company is prepared to undertake the risk. This strategy is adapted to individual risk underwriters using a detailed risk underwriting authority system that sets out the limits for individual risk underwriters by the type of insurance, business class and sector to develop a corresponding risk profile within the scope of the insurance portfolio.

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

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

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

(b) Features of Key Products

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

CASCO

Product Description

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

Risk Management

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

CASCO insurance rates are determined by applying the bonus-malus system, according to which the insurance premium is reduced if there were no losses and increased if losses have been incurred. The sum insured rarely exceeds EUR 70 000. Vehicle insurance usually includes a deductible.

Civil Liability Insurance of Motor Vehicle Owners (MTPL)

Product Description

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

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

Risk Management

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

Property Insurance

Product Description

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

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

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

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

Risk Management

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

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

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

(c) Insurance Risk Concentration

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

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

The Management also realizes that risk concentration is possible in one company, or an overall economic sector, for which several risks are insured. When insuring such risks, a mandatory precondition is to assess the financial situation and capacity of the customer, as well as to determine the amount of financial obligations that can arise, are already undertaken by the Company and that can be afforded in the future. Economic development trends and risks that might affect a respective sector are studied when assessing the financial risks.

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

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

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

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

(d) Catastrophes

The Company's Management is aware of the probability of catastrophe risks. Under the Company's business geographical conditions, these risks are mostly related to meteorological phenomenon: storms, floods, natural disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but the possibility exists. The most characteristic catastrophes are floods and storms. Reinsurance is used in order to minimise the impact of catastrophe risk on the Company. Reinsurance is both proportional, and non-proportional. Facultative insurance is additionally acquired for large risks. The Company manages catastrophe risks by careful selection limiting number of objects in potential flood or earthquake zones.

According to the Management, the measures taken to minimize the impact of catastrophe risk on the Company are sufficient. Catastrophe risk is also tested and evaluated in scenario tests.

(e) Insurance Risk Management

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

Although the afore-mentioned measures are taken and risks are managed, the Company's Management realizes that there is a risk that the insurance risk assessment may not be of high quality and incorrect decisions may be taken. In addition, there is a risk that insurance indemnities will be set in a way that does not correspond to the losses caused, or the insurance claim will take a long time to administer.

In order to minimize these risks, the Company has developed and uses a quality management system related to reinsurance processes. Within the system respective risks are regularly identified, evaluated and managed. The Company regularly tracks indicators who notice increase in insurance risks and takes respective decisions in order to minimize these risk.

(f) Assumptions and Sensitivity Analysis in Core Business

Assumption Assessment Process

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

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

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

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

For most of the risks the costs of IBNR reserves are estimated using a range of statistical methods. The key methods, which are used and have remained unchanged from previous years, are as follows:

- *chain ladder* methods that use historical data to estimate the paid and incurred to date proportions of the ultimate claim costs;
- development factor methods to evaluate the number of insurable events at any given point of time;
- expected loss ratio methods that use the expected Company's loss ratios in a respective type of insurance.

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

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

- changes in processes affecting the development / registration of claims paid and incurred (e.g. changes in claim reserve formation procedures);

- economic, legal, political and social trends (facilitating other than expected levels of inflation);
- changes in the field of business;
- random fluctuations, including the impact of large losses.

Reserve adequacy is subjected to constant control in the company.

2. Financial Risks and Risk Management

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

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

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

(a) Market Risk

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

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

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

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

(b) Currency Risk

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

Some of the insurance liabilities are denominated in foreign currencies. The Company's policy is to hedge the currency risk regarding known and expected transactions in foreign currencies. The currency risk is minimised by making investments in respective currencies. Local currencies on the Company's operation markets in Europe in major cases are euro, which decreases the probability of the currency risk. The Company is not involved in any speculative transactions that could increase the currency risk.

(c) Price Risk

The price risk means that changes in market prices may result in changes in the value of the financial instrument. Such changes may be caused by both the factors that only apply to a respective instrument and the factors that have effect all financial instruments on the market.

(d) Interest Rate Risk

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

(e) Liquidity Risk

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

The following assets are considered high-liquidity investments:

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

(f) Credit Risk

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

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

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

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

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

Insurance Receivable

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

Reinsurance

The Company reinsures part of the underwritten risks in order to control its loss risk and protect capital resources. The Company has acquired facultative and obligatory, pro-rata and Excess-of-Loss (XL) reinsurance in order to minimize net risks and avoid exceeding the actual solvency margin. The Company has also acquired reinsurance contracts in main types of insurance, which protect the Company from any common cumulative losses that may arise from several claims of the same event.

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

Reinsurance is performed with world-renowned reinsurance companies with excellent reputation.

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

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

3. Operational Risks and Risk Management

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

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

Key Cooperation Partners:

Reinsurers

Reinsurer	Reinsurer's Rating	Rating Agency	Place (Country) of Registration of the Insurer
SWISS RE EUROPE S.A.	AA-	Standard & Poor's	Luxemburg
R+V Versicherung AG	AA-	Standard & Poor's	Germany
Barents Re Reinsurance Company Inc.	A	A.M. Best	Panama
Peak Reinsurance Company Ltd.	A-	A.M. Best	Hong Kong
Nacional de Reaseguros S.A.	A-	Standard & Poor's	Spain

Reinsurance Brokers

Brokerage Company	Service	Place (Country) of Registration
AON Benfield	Reinsurance mediation	Germany
GENERAL BROKER INTERNATIONAL SRL	Reinsurance mediation	Italy

Operational Strategy and Objectives

Balcia's operational strategy and objectives aim to make the Company the reliable insurer who satisfies the desires of its customers to receive high quality insurance products in any manner and at any place convenient for the customer.

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

Balcia's strategic objectives support continuous, balanced and profitable growth for Balcia and for each country it operates. It is provided by developing the Company as trustable and professional insurer who meets customers' desire to receive quality insurance services. It is achievable by striving for excellence in professional development of employees, customer service, as well as efficiency improvement in business processes.

In order for Balcia to become more accessible to current and potential customers, we keep expanding our range of partners. For achieving its goals Balcia uses an individual approach for cooperation with each insurance partner in any given situation, searching for the best insurance solution for both partner and customer.

Departments and Branches of the Company

Customer service locations that offer Balcia insurance services can be found here:

https://www.balcia.com/contacts/