AAS BALTA

Annual Report for 2021 prepared in accordance
with the International Financial Reporting Standards
as adopted by the European Union and
Independent Auditors' Report

Contents

Information on the Company, Members of the Supervisory Board and the Management Board, Independent Auditors

Information on the Company

Name of the Company	Insurance Joint Stock Company BALTA
Legal address of the Company	10 Raunas Street, Riga, LV-1039, Latvia
Number and date of registration	40003049409, registered on 28 January 1992, re-registered in the Commercial Register of the Republic of Latvia on 6 June 2002

Supervisory Board

Name, Surname	*Position*
Katarzyna Anna Galus	Chairman of the Supervisory Board
Lidia Maria Orzechowska	Deputy of the Chairman of the Supervisory Board
Marcin Krzysztof Goral	Member of the Supervisory Board
Weronika Dejneka	Member of the Supervisory Board
Monika Patyra	Member of the Supervisory Board
Krzysztof Soltysik	Member of the Supervisory Board

Management Board

Name, Surname	*Position*
Iain Kennedy	Chairman of the Management Board (reappointed on 09.06.2021)
Arūnas Rumskas	Management Board Member
Ingus Savickis	Management Board Member (reappointed on 28.05.2021)
Uldis Dzintars	Management Board Member
Mārtiņš Rozentāls	Management Board Member
Malgorzata Krystyna Piotrowska	Management Board Member
Jaroslaw Mioskowski	Management Board Member

Name and address of the independent auditors and responsible Latvian certified auditor:

KPMG Baltics SIA	Responsible Latvian certified auditor:
Licence No. 55	Rainers Vilāns
Vesetas iela 7, Riga,	Latvian certified auditor
LV-1013, Latvia	Certificate No. 200

Report of the Supervisory Board and the Management Board

Main developments

According to market data provided by the Latvian Insurers Association and Financial and Capital Market Commission, as well as insurance company public quarterly reports in 2021, BALTA (hereinafter – "Company") has been able to maintain its leading position as the largest Company in the Latvian non-life (including Health, Accident products) insurance market in terms of gross premiums written in Latvia. In 2021, BALTA recovered from COVID-19 pandemic impact on business volume and experienced a growth of gross written premiums by 8.2% or 8.8 million EUR more than in 2020 and that has resulted in gross written premiums of 116.0 million EUR, According to market data provided by Latvian Insurers Association, the Company has increased market share to 26.7% (0.5p.p. increase compared to 2020). Despite the growth in gross written premiums, total Net result of insurance activities declined compared to 2020 and amounted to 8.9 million EUR, which is still a remarkable result.The continuous profitability has also secured the financial stability of the Company – the capital adequacy (Solvency II) ratio at the end of the year is well above the requirements set by Financial and Capital Market Commission of the Republic of Latvia.

The wide range of insurance products, excellent customer service and well-considered investments in brand promotion activities have enabled BALTA to retain the leading position in the market by volume, and significantly strengthen the leading position by customer recognition and brand reputation. BALTA is continuously evaluated as the market leader among insurance companies in terms of brand awareness, customers' first choice and consideration, as well as usage of insurance companies.

Extremely strong BALTA brand performance is also seen in the annual brand research*. BALTA possesses the strongest image in the market, which is mainly due to high awareness and a large customer base. According to the results of the brand research, Top of Mind indicator in 2021 increased by 2,3 p.p., reaching 40.7%, while First choice indicator grew by 1.0 p.p., reaching 23% mark. BALTA is mostly recognized by customers for a positive collaboration experience and excellent service, good reputation and acceptable price offers.

Both the financial performance and the Company's customer focus, supported by awards from independent external experts and customer recognition in the Latvian market, ensures BALTA a leading position in the Latvian insurance market and gives it a strong platform for further growth and development.

** Brand Top – independent research carried out by advertising agency DDB Consulting, magazine Kapitāls and research agency TNS Latvia*

Insurance market in 2021

In 2021, according to the Latvian Insurers Association data, the growth of gross written premiums in the insurance market was 5.9%*, which is a positive change compared to the previous year, when the market shrank by 5.1%. Claims costs, on the other hand, grew by 3.2% in 2021, which is faster than earned premiums growth of insurers, which grew by only 1.3%. The faster increase in claims has affected the profitability of insurers, which has decreased compared to the previous year.

The increase in premiums in the market is mainly driven by a growing demand for insurance services, based on an increase in public welfare (there is more to protect) - overall economy growth gives positive base for welfare increase, e.g., amount of domestic deposits has increased every quarter of year 2021 based on information published by FCMC, number of cars registered in Latvia has increased during 2021 based on Road Traffic Safety Directorate of the Republic of Latvia data. In addition, against the background of general uncertainty in society, insurance allows for greater stability in securing customers financial situation.

There are 9 participants in the Latvian non-life insurer market and there is high competition - especially in products where price is the main selection criterion, for example, in MTPL insurance. The amount of written premiums for this type of insurance decreased by 11.0% on average last year, and decreased by as much as 17.4% a year earlier. The total volume of the MTPL market has fallen below the level of premiums in 2017. Interestingly, there is an equivalent decline only in travel insurance, where the amount of premiums is also at the 2017 level. However, the decline in travel insurance can be attributed to the smaller number of trips in pandemic conditions, while the number of MTPL insured cars continues to grow every year. Looking at the dynamics of products in the market, for health insurance, in absolute terms, there is an increase in premiums in the amount of 9.6 million euros, while the largest increase was in property insurance - 14.1 million euros. In percentage terms, health insurance grew by 9.7% and property insurance by as much as 17.7%. Health insurance has become the largest type of insurance in the Latvian market, as it is characterized by stable annual growth each year. Property insurance volumes are growing due to various factors. These include increased number of customers, the offering of property and purchase insurance sales in cooperation with distribution partners, and an increase in the agriculture industry offerings. The rise in insurance amounts as a result of construction inflation also plays a role. It should be noted that the amount of indemnity expenses has also increased significantly in property insurance: in the last two years it has accounted for approximately 65% -70% of the amount of earned premiums. This is due to both an increase in the frequency of accidents, especially water leaks, and a number of large claims of several million euros, as well as an increase in the funds needed to renovate the property.

In 2022, we forecast a faster overall market growth, which will be mainly determined by the increase in the number of insured customers and price increases driven by claims inflation. Insurers, as well as players in other industries, will face inflation, which we observe in the areas related to the provision of services, however, the rate of inflation in industries related to the payment of claims (construction, car repair services) is significantly higher than the national average. Hoping that the impact of the Covid-19 pandemic will diminish, the number of claims is expected to increase, which will be associated with more public activity (increase of society activity and mobility result in more claims). In the field of MOD and MTPL, we note that, for the time being, various technological solutions for car safety are effective, but, unfortunately, it does not provide significant benefits in terms of reducing the number of accidents yet. The reason for the large number of claims and, consequently, the costs could be the aged Latvian car fleet (relatively few cars are equipped with modern safety systems), road infrastructure, as well as drivers' driving habits, for example, using a mobile phone at the wheel or exceeding the allowed speed. Safety and prevention also continue to be on the agenda of us, BALTA, constantly informing and educating customers and the public on how to reduce day-to-day risks, as fewer insured events are in the interests of insurers, customers and society as a whole.

*insurance market includes non-life insurers and health, accidents products of life insurers.

Risk management

The aim of the Company’s risk management framework is to ensure that the Company monitors and manages its insurance portfolios and investments, as well as its operations, in a manner that is integrated, consistent, safe and appropriate when considering the scale of the risk, and to prevent acceptance of risks at a level that could jeopardize the financial stability of BALTA. Risk management is embedded in the Company’s business strategy and helps BALTA grow in line with its business objectives and in compliance with the applicable normative acts, as well as increase its value and financial stability.

The risk management process consists of the risk identification, measurement and assessment, monitoring and control, reporting and management actions. Identification starts with the idea of creating an insurance product, acquiring a financial instrument or changing an operating process, as well as at the point when any other event takes place which could potentially create a risk. Once identified, all risks are measured and assessed based on capital need or other quantitative or qualitative assessment criteria, both at an individual and at an aggregated level. Each identified risk is subject to monitoring and control in accordance with the procedure specified in dedicated risk management policies. The method is proportionate to the nature, scale and complexity of this risk. Risk management actions are taken by operational units (first line of defense), the key functions (risk management function, actuarial function, compliance function and financial controlling function), Committees (including Risk Committee that considers the latest trends in risk development and changes to the risk appetite, risk profile, risk tolerance limits and other indicators of material risks and assesses the impact of each of these changes, and documents new risks identified in all operational areas of the Company) and the Management Board, ensuring that risk levels have not exposed the Company to excessive level of risk limits as determined by the Company.

According to management knowledge in the reporting period, no risk has materialized that could adversely affect the Company's business to a significant extent.

Capital adequacy and solvency are under constant focus of BALTA.

The spreading epidemic of COVID-19 triggered an economic slowdown worldwide, including in Latvia, that affected the Company’s operations in 2021. However, the Company’s business strategy and profitable performance has secured the financial stability of the Company – the solvency ratio as at 31st December 2021 was well above the requirements set by Financial and Capital Market Commission (hereinafter “FCMC”) of the Republic of Latvia.

Stress tests are performed within the Own Risk and Solvency assessment process to assess the impact of a number of adverse insurance, financial and operational risks on the Company’s solvency. It was demonstrated by modelling several adverse stress scenarios that capital adequacy and solvency of BALTA was sufficient, and the Company would be able to meet its liabilities towards customers and retain its financial stability also under unexpected adverse scenarios.

Customer service and payment of claims

Customer is one of four BALTA 2021 Strategy pillars, therefore BALTA continues to have a strong focus on customers and their experience also in 2021. In 2021, which was full of uncertainties for the whole market ,BALTA closely monitored customer satisfaction, introduced Customer Behaviour Dynamics - BALTA customer behavior compared with global trends - that are still monitored on quarterly basis.

BALTA continues to measure customer satisfaction and gathers customer feedback across various channels, including Customer Effort Score for online purchases and claim submission, Customer Satisfaction Score both online and offline, and Net Promoter Score (NPS) after the purchase and after claim handling. NPS score in sales has significantly increased – by 7 p.p. reaching 65, while claims NPS score got higher by 3 p.p. year-on-year. One of the biggest achievements in 2021 was changes in NPS score split – increase by 3.1 p.p. in promoters’ group, drop by 2.3 p.p.of passive customers and 0.9 p.p. in detractor group. Due to our continuous efforts towards better customer experience, reduction in the number of complaints was achieved – by 15% compared to the year before.

Increase of satisfaction levels is driven by constant improvements of processes for better customers experience, as well as training of staff. For example, during the year BALTA introduced health insurance e-card on a mobile phone. It enables customers to receive health services provided by insurance without plastic health card. BALTA is the first in market who has introduced subscribed policy solution where customers' premium payments are automatically deducted from payment card and renewal process happens smoothly with less efforts required from customer side. The Company continues to work for new initiatives, which will be introduced in 2022.

Customer satisfaction increase in claims area is closely connected to extended opportunities of digital tools and opportunities – overall number of claims application in web is increasing on monthly basis, while total number of BALTA app sessions has reached 400k sessions mark at the end of 2021. Additional to that, BALTA's priority is automatization of claims decision and payment process in greater extent.

In June 2021, BALTA launched Safety Academy, which is a digital platform where BALTA customers and visitors can learn more about property safety and how to prevent fire and electricity risks, water leakage and theft. This platform gives BALTA an opportunity to share industry leader worthy content regards prevention and educate society on how to stay safe. BALTA Safety Academy was launched with digital panel discussion with experienced experts from well know companies and police and was broadcasted in Delfi.lv news platform and Facebook. Safety Academy will develop further providing practical and valuable advice on property, digital safety, cars, travel, health and other matters important to our customers.

In line with BALTA 2021 Strategy, two Customer Enabler teams – Customer Experience Team and SMT Customer Committee – were established in 2019 and continue to actively participate and engage in the respective projects and initiatives. The Customer Experience Team has members representing all BALTA departments and the team meets regularly to work on initiatives and projects for customer experience and satisfaction improvements. The SMT Customer Committee reviews and discusses customer satisfaction results and experience improvement projects.

Currently Customer Experience Team is working on Strategic initiative related to customer communication – target of this project is to review structure of mandatory emails, align principles between products and also align customer navigation – channels that are mentioned in communication messages. Additional to that customer communication lifecycle is being created beyond product communication. Aim is to identify GAPs in communication lifecycle stages and create more communication touchpoints to increase customer engagement and loyalty.

BALTA efforts regard achievements in customer experience area are also recognized by independent experts – in the end of 2021 BALTA experienced unprecedented success in the history being nominated in the International Customer Experience Award (ICXA). BALTA was awarded with the 1st place in the category "Employee Experience in Crisis" and two 3rd places in the "Best Use of Insights and Feedback" and "CX Team of the Year" categories. This success was achieved in a huge competition - 369 finalists from 41 countries took part in the final of the competition alone, presenting their stories.

Along with Customer experience activities being more and more noticeable, also BALTA employees agree that they are more involved in the Customer experience improvements. Recent Employee engagement survey shows that colleagues evaluate their involvement in Customer experience improving activities by 6 p.p. higher (at 88%) than in the year before.

Working environment in the Company and professional development of staff

In 2021, BALTA focused on 3 main HR priorities: management of COVID-19, implementation of new work organization and maintaining employee engagement and positive collaboration. Taking into account the dynamic situation with COVID-19 in Latvia, we have adjusted our work organization to different types of restrictions on an ongoing basis. Since September 1, 2020, we have implemented the so-called hybrid work organization that allows mixed work (home/ office based), with all relevant contractual changes for all involved employees, as well as approval of Remote work policy and the Cooperation guidelines. All our activities have led to maintenance of strong overall employee engagement of 86% (-2.p.p.).

The Company also continued the Mentoring program, provided career consultations and support for employees' development using coaching methodology.

BALTA continued the Work and Life Balance program, which, among others, supports employees with long service in the Company by assigning additional holidays, providing special support for mothers with young children, special benefit packages for employees with children, and additional holidays to employees on important occasions. Special attention also in 2021 was devoted to the wellbeing matters as physical and mental health has been an area of focus for a majority of employees due to COVID-19 created stress and lifestyle restrictions.

Health and work safety area is strictly controlled and taken care of by internal and external experts.

The Company's activities regarding cooperation with employees resulted also in external recognition. The Company being recognized by KINCENTRIC as one of the Best Employers in Baltics for the seventh time. The organization also received award "Diversity is value", award "Family friendly company" and the mentioned International Customer Experience Award (ICXA) in three categories.

Corporate social responsibility

As the leading insurance company in Latvia, BALTA acts as a responsible member of the society, contributing to the welfare of people not only by supporting the development of business and taking care of its employees and customers, but also by initiating projects for common good and strengthening relations with the local communities by providing support. BALTA aims to conduct ethical and socially responsible business, which will help to create a safer, more sustainable future.

The Company views corporate social responsibility (CSR) as responsible capital management and implementation of voluntary business initiatives that benefit environment, market relations, working environment and society in general. All operations that are conducted in BALTA are founded in the belief that the company’s business growth must be aligned with these areas and founded in sustainable use of resources.

Additionally, related to responsible business practice, BALTA has implemented a wide range of social support activities including sponsorships, donations and gifts, volunteer work and strategic project initiatives with the overall goal of promoting positive changes in the local community.

In Spring 2021, for the second year in a row BALTA introduced campaign „Crazy responsible summer” offering free GTPL insurance for all children for summer period. Campaign gained great awareness and very positive feedback from the existing and potential customers. In Summer 2021, BALTA launched its own CSR project “BALTA Safety academy” – an online platform with an aim to provide all essential information and tools on safety and prevention (property, transport, health and more) to be used by the Company’s customers and society in order to make the daily living more convenient and safer.

In the second half of the year BALTA supported and actively took part in the Latvian Road Traffic Safety Directorate’s safe driving campaign with an aim to inform society about the dangers of carelessness, while driving. BALTA also carried out its own creative campaign on road safety, by placing 12 warning road signs across all Latvia to raise drivers’ awareness about the dangers of possible collisions with the wild animals on roads. In addition, BALTA regularly collaborates with schools, universities and other education institutions, educating pupils and students about insurance, safety and prevention. The Company takes part in Society Integration Foundation of Latvia project “Honorary Family” providing insurance discounts to families with three and more children and handicapped people, as well as supports blood donor movement by encouraging employees to donate and contributing to the National Blood Donor Center most active donors’ privilege card.

BALTA communicates its CSR initiatives and activities daily through the Company’s website, media and social networks. The Company’s investments in the community, as well as the ethical and honorable attitude towards customers and business partners are recognized by independent experts and society as a whole. Every year BALTA takes part in strategic management tool “Sustainability index - InCSR,” which gives the business the opportunity to receive independent experts’ evaluation and suggestions in five fields in the context of sustainability: strategy, market relations, environment, human resources and society support. In 2021, BALTA for the third time qualified for the highest – Platinum – category – being the only insurance company in Latvia receiving such high evaluation. In 2021, BALTA also for the first time ever was included in The Greenest brand TOP as the only insurance company in Latvia. Also, for the first time in the Company’s history BALTA applied for the prestigious “Diversity award”, receiving an award in category “Our employees”, which recognizes Company’s achievements in promoting and empowering diversity across the whole organization.

Additional to that, BALTA was also recognized as the Most Honest Insurer for the 18th time, the most loved and “human” insurer by Most Loved Brands Top. BALTA was repeatedly named as a “Family friendly working place” by Society Integration Foundation of Latvia, as well as the best employer in Baltics by “Kincentric Baltics” evaluation for the seventh time. In 2021, BALTA also gained external recognition in customer experience area, receiving “International Customer Experience awards” (IXCA 2021) in categories “Employee experience in crisis” (gold), “Best customer experience team” (bronze) and “Customer feedback and insights” (bronze) and received four Baltic communication awards (Mi:t&Links Baltic Communication awards) for its communication projects in the areas of Internal communication, Sponsorship and B2B communication.

Proposals regarding the distribution of the Company’s profit

In accordance with the Company’s Dividend policy and analysis of Subsequent events, the Supervisory Board and the Management Board of BALTA recommend to the Annual General Meeting of Shareholders to not distribute dividends and to assign the entire net profit of 2021 to the Company’s Retained earnings.

Subsequent events

No events have taken place from the Statement of Financial Position date to the date of approval of these financial statements that could materially affect the annual performance, cash flows or the financial position or related disclosures of BALTA as at and for the year ended on the reporting date.

A new risk from global perspective has emerged in February of year 2022, which is rapid escalation of Russia’s military aggression and invasion in Ukraina. Company has developed regular monitoring of situation and is preparing Crisis management plan in case of development of different scenarios. Company has no large exposures or objects in Russia or Ukraine and impact on BALTA insurance portfolio can be evaluated as insignificant. At the same time impact to BALTA Investment portfolio has been observed through decrease of market value, thus impacting also capital position of the Company. Analysis of impact on Investment portfolio and Solvency position have been developed as main priorities. These analysis are based on assumption that conflict will not escalate outside Ukraine. Main conclusion of the analysis

Report of the Supervisory Board and the Management Board

performed is that Company maintains sufficient funds to continue meeting the solvency requirements under normal and stressed conditions.

This report of the Supervisory Board and the Management Board is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Statement of the Supervisory Board's and the Management Board's Responsibility

The Supervisory Board and the Management Board of AAS BALTA confirm that the financial statements for the year ended 31 December 2021 are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and that appropriate accounting policies have been applied on a consistent basis. The Supervisory Board and the Management Board of AAS BALTA are responsible for preparing these financial statements from the books of primary entry. The Supervisory Board and the Management Board confirm that these financial statements for the year ended 31 December 2021 present fairly the financial position of AAS BALTA at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgments and estimates have been made by the Supervisory Board and the Management Board in the preparation of the financial statements for the year ended 31 December 2021.

The Supervisory Board and the Management Board of AAS BALTA are responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. They are also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

This statmement of the Supervisory Board's and the Management Board's responsibility is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Statement of Financial Position *(All amounts in thousand euros)*

	Exhibit	2021	2020
Insurance income			
Gross written premiums	4	116 047	107 261
Reinsurer's share in written premiums	4	(5 536)	(5 138)
Net written premiums	4	110 511	102 123
Change in gross unearned premium and unexpired risk reserves	5	(5 501)	485
Change in unearned premium reserves, reinsurers' share	5	195	388
Change in unearned premium and unexpired risk reserves	5	(5 306)	873
Net premiums earned		**105 205**	**102 996**
Other technical income	6	776	619
Total insurance income		**105 981**	**103 615**
Insurance expenses			
Gross claims paid to policyholders		(63 791)	(57 909)
Loss adjustment expenses		(4 635)	(4 502)
Recovered losses		4 343	4 439
Claims paid	7	(64 083)	(57 972)
Reinsurer's share in claims paid	7	3 335	1 496
Net claims paid		(60 748)	(56 476)
Change in gross outstanding claims reserves	8	(923)	(1 635)
Change in outstanding claims reserves, reinsurers' share	8	(2 231)	598
Net incurred claims		**(63 902)**	**(57 513)**
Client acquisition costs	9	(18 241)	(16 331)
Administrative expenses	10	(14 970)	(14 494)
Total insurance expenses		**(97 113)**	**(88 338)**
Net result of insurance activities		**8 868**	**15 277**
Interest income	11	908	824
Net profit / (loss) on financial assets	12	3	62
Investment management expenses		(334)	(337)
Other finance expenses	13	(32)	(97)
Other income	14	50	369
Other expenses	15	(163)	(801)
Profit before tax		**9 300**	**15 297**
Corporate income tax for the reporting year		-	-
Profit for the year		**9 300**	**15 297**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Debt investments at FVOCI – net change in fair value	19	(1 742)	213
Debt investments at FVOCI – reclassified to profit or loss on derecognition of debt securities	19	6	1
		(1 736)	**214**
Other comprehensive income for the period, net of tax		**(1 736)**	**214**
Total comprehensive income for the reporting year		**7 564**	**15 511**

All profit is attributable to the shareholders of AAS BALTA.

Notes on pages 15 to 52 are an integral part of these financial statements.

This financial statement is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Statement of Financial Position *(All amounts in thousand euros)*

	Exhibit	31.12.2021	31.12.2020
ASSETS			
Intangible assets	16	**2 572**	**2 313**
Property and equipment	17	**4 242**	**4 401**
Financial investments at fair value through profit or loss	18	2 846	5 032
Financial investments at fair value through other comprehensive income	19	124 023	122 646
Total financial investments		**126 869**	**127 678**
Receivables due from policyholders		18 759	16 114
Receivables due from intermediaries		1 199	948
Receivables from direct insurance operations	20	19 958	17 062
Reinsurance receivables	21	113	595
Other receivables	23	515	743
Total receivables		**20 586**	**18 400**
Reinsurers’ share in unearned premium reserves	5	1 663	1 468
Reinsurers’ share in outstanding claims reserves	8	5 122	7 353
Reinsurers’ share of insurance contract liabilities		**6 785**	**8 821**
Deferred client acquisition costs	9	14 459	10 922
Other accrued income and deferred expenses	22	899	794
Accrued income and deferred expenses		**15 358**	**11 716**
Cash and cash equivalents	24	**11 458**	**7 389**
TOTAL ASSETS		**187 870**	**180 718**

Notes on pages 15 to 52 are an integral part of these financial statements.

This financial statement is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board
21 March 2022

Statement of Financial Position *(All amounts in thousand euros)*

	Exhibit	31.12.2021	31.12.2020
SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES			
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	25	6 619	6 619
Share premium	25	1 596	1 596
Reserve capital and other reserves	25	4 357	4 357
Fair value reserve – debt investments at FVOCI	19, 25	844	2 580
Retained earnings		47 034	49 460
TOTAL SHAREHOLDERS' EQUITY AND RESERVES		**60 450**	**64 612**
LIABILITIES			
Gross unearned premium and unexpired risk reserves	5	58 651	53 150
Gross outstanding claims reserves	8	47 800	46 877
Insurance contract liabilities		**106 451**	**100 027**
Direct insurance creditors		12 177	7 842
Reinsurance creditors		1 222	952
Taxes and the state compulsory social insurance contributions	26	700	621
Accrued expenses and deferred income	27	4 655	4 515
Other creditors	28	1 275	1 136
Lease liabilities	29	940	1 013
Total creditors		**20 969**	**16 079**
TOTAL LIABILITIES		**127 420**	**116 106**
TOTAL SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES		**187 870**	**180 718**

Notes on pages 15 to 52 are an integral part of these financial statements.

This financial statement is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Statement of Changes in Shareholders' Equity *(All amounts in thousand euros)*

	Exhibit	Share capital	Share premium	Reserve capital and other reserves	Fair value reserve – debt investments at FVOCI	Retained earnings	Total
Balance at 31 December 2019		**6 619**	**1 596**	**4 357**	**2 366**	**34 163**	**49 101**
Total comprehensive income for the year		**-**	**-**	**-**	**214**	**15 297**	**15 511**
Profit for the year		-	-	-	-	15 297	15 297
Other comprehensive income		**-**	**-**	**-**	**214**	**-**	**214**
Net change in fair value reserve	19	-	-	-	214	-	214
Balance at 31 December 2020		**6 619**	**1 596**	**4 357**	**2 580**	**49 460**	**64 612**
Total comprehensive income for the year		**-**	**-**	**-**	**(1 736)**	**9 300**	**7 564**
Profit for the year		-	-	-	-	9 300	9 300
Other comprehensive income		**-**	**-**	**-**	**(1 736)**	**-**	**(1 736)**
Net change in fair value reserve	19	-	-	-	(1 736)	-	(1 736)
Transactions with the owners of the Company		**-**	**-**	**-**	**-**	**(11 726)**	**(11 726)**
Distributed dividends		-	-	-	-	(11 726)	(11 726)
Balance at 31 December 2021		**6 619**	**1 596**	**4 357**	**844**	**47 034**	**60 450**

Notes on pages 15 to 52 are an integral part of these financial statements.

This financial statement is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Statement of Cash Flows *(All amounts in thousand euros)*

	Exhibit	2021	2020
Cash flows from operating activities			
Premiums received from direct insurance		114 473	109 185
Claims paid for direct insurance		(61 580)	(55 548)
Payments received from ceded reinsurance		3 066	474
Payments made for ceded reinsurance		(3 987)	(3 700)
Mandatory payments	31	(1 053)	(1 234)
Other expenses		(33 076)	(29 755)
Net cash from operating activities:		**17 843**	**19 422**
Cash flows from investing activities			
Disposal of investments		19 280	3 353
Acquisition of investments		(21 455)	(20 367)
Purchase of property and equipment		(486)	(700)
Purchase of intangible assets		(1 395)	(1 301)
Proceeds from sale of property and equipment		6	-
Interest received from debt securities		2 247	2 194
Net cash used in investing activities:		**(1 803)**	**(16 821)**
Cash flows from financing activities			
Repayment of subordinated loan		-	(2 050)
Interest paid for subordinated loan		-	(85)
Paid dividends		(11 726)	-
Payments made for lease liabilities, including interest	29	(236)	(235)
Net cash used in financing activities:		**(11 962)**	**(2 370)**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(9)**	**(11)**
Net increase / (decrease) in cash and cash equivalents		**4 069**	**220**
Cash and cash equivalents at the beginning of reporting year		7 389	7 169
Cash and cash equivalents at the end of reporting year	24	**11 458**	**7 389**

Notes on pages 15 to 52 are an integral part of these financial statements.

This financial statement is signed with a secure electronic signature and contains a time stamp.

Katarzyna Anna Galus, Chairman of the Supervisory Board
Iain Kennedy, Chairman of the Management Board

21 March 2022

Notes to the Financial Statements (All amounts in thousand euros)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AAS BALTA (hereinafter "the Company") is an insurance joint stock company which was registered in Riga, the Republic of Latvia in 1992. The Company was re-registered with the Commercial Register on 6 June 2002. The Company offers a wide range of non-life insurance services both to corporate clients and individuals. The Company has received licences in all non-life insurance types, in which it provides services. The licences have been issued by Financial and Capital Market Commission of the Republic of Latvia from 1996 to 1999 and re-registered in 2002.

Name of the Company:	Insurance Joint Stock Company BALTA
Legal address of the Company:	10 Raunas Street, Riga, LV-1039, Latvia
Phone, fax:	(+371) 6708 2333, (+371) 6708 2345
Tax payer’s code:	LV40003049409
State Revenue Service department:	Department of large tax payers
Majority shareholder:	POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company, Poland (99.99%), Al. Jana Pawła II 24, 00-133 Warsaw, Poland

The Company’s shares are not listed. The Company belongs to a group whose parent company trades its shares on the Warsaw Stock Exchange and whose main shareholder is the State Treasury of Poland owning more than 34% of the shares.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. Consistent accounting principles have been applied to the financial years presented in these financial statements, except as described below (Note 2.2.1).

2.1 Basis of preparation

2.1.1 Statement of Compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) as adopted by the European Union (hereinafter “EU”) and in accordance with the regulations issued by Financial and Capital Market Commission of the Republic of Latvia (hereinafter “FCMC”) applicable to insurance companies.
These financial statements have been authorised for issue by the Management Board on 21 March 2022. The shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements be issued.

2.1.2 Functional and Presentation Currency

All amounts in the financial statements are shown in euro (EUR), the Company’s functional currency, unless otherwise stated.

2.1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following captions that are stated at fair value: financial instruments carried at fair value through profit or loss and financial instruments carried at fair value through other comprehensive income. The financial statements have been prepared in accordance with the Going concern assumption that the Company will continue as a going concern.

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2021 to 31 December 2021.

2.1.5 Estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgments are significant to the financial statements are disclosed in Note 3.

2.2 New standards and interpretations

2.2.1 Standards and interpretations effective in the reporting period

New standards and amendments to standards, including any consequential amendments to other standards, effective for annual periods beginning on or after 1 January 2021, have not had a material impact on these financial statements.

2.2.2 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 2021, and have not been applied in preparing these financial statements.

- *IFRS 17 Insurance Contracts (effective for annual periods beginning on 1 January 2023)*

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

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

The Company does not plan to adopt this standard early. The Company expects that this new standard, when initially applied, might have a material impact on the financial statements of the Company as the Company concludes insurance contracts. One of the changes, among others, will be in the presentation of insurance contract revenue, as written premiums will be no more part of the statement of comprehensive income. The Company's net profit will be impacted by new requirements on discounting, risk adjustment for non-financial risks and contract recognition rules. The Company has approved an implementation plan for the new standard and had noticeable progress with the preparation in 2021. As part of the implementation project, the Company works, among others, on methodological aspects of the new standard taking into account PZU Group`s guidance and necessary improvements in its existing reporting processes, tools and IT systems. In 2021, the Company provided several trainings to specialists and top management. According to the implementation plan, in 2022 the Company will focus on accounting method choices, reporting process updates and providing further trainings to the employees, as well as calculations and reporting will be run on a regular basis to ensure full readiness in 2023.

The Company does not plan to adopt other new standards, amendments to standards and interpretations early. The Company has assessed the potential impact from other new standards and does not expect these new standards to have a material impact on the financial statements.

2.3 Insurance contracts, reinsurance

a) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. All contracts concluded are classified as non-life insurance contracts.

Non-life insurance contracts generally have a term of one year. Exceptions include short-term travel insurance policies covering one trip, OMTPL policies with terms of 3, 6 and 9 months (as is stated in the Latvian Law on Obligatory Motor Vehicle Third Party Liability Insurance) where the term is shorter than one year. The policy term may exceed one year for certain type of general third party liability insurance, certain private property policies, mobile phone insurance and bond insurance, although the proportion of these policies in the total portfolio is insignificant.

b) Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include the recoveries due from reinsurance companies in respect of claims paid and the reinsurance share in the technical insurance reserves.

The reinsurance share of the incurred but not reported claims technical provision for ceded reinsurance contracts is not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

Amounts recoverable from reinsurers are measured on the basis of the reserve for outstanding claims or the settled claims from policies falling within the scope of a reinsurance contract.

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

Unearned reinsurance commissions are included in the statement of financial position under item Accrued expenses and deferred income.

The main obligatory reinsurance contract forms in reinsurance are excess-of-loss treaties. For risks exceeding the limits of obligatory reinsurance treaties or falling outside their scope due to their nature facultative reinsurance is used.

c) Premiums

Written insurance premiums are insurance premiums for policies, which become effective during the year, irrespective of whether the premium has become due or not. Premiums written are decreased by the premiums cancelled and terminated over the accounting year. Premiums are disclosed gross of commission payable to intermediaries.

The earned portion of premiums written is recognised as revenue. Premiums are recognised as earned on a pro-rata temporis basis over the term of the related policy coverage. The unearned portion of premiums is recognised as an unearned premium technical reserve. See section h).

Ceded reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance premiums attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

d) Incurred claims

Claims incurred include claims attributable to the reporting year and loss adjustment expenses. Claims paid are decreased by the amounts received from salvage and subrogation.

As at the end of reporting period, not settled claims are recognised as outstanding claims technical reserve. See section h).

e) Administrative expenses

Administrative expenses are related to the collection of premiums, management of portfolios, processing of bonuses and discounts and incoming and outgoing reinsurance. They include personnel expenses and depreciation to the extent they are not included in acquisition, claims handling or investing expenses.

Administrative expenses that are not directly related to a specific type of insurance are divided by type of insurance proportionally to the amount of gross written premiums, net earned premiums and insured objects.

f) Client acquisition costs

Acquisition costs of insurance contracts arise from the conclusion of insurance contracts and consists of direct costs such as commissions depending on each contract gross written premium and indirect commissions incurred related to the conclusion of contracts, for example, agent salaries and bonuses.

g) Deferred client acquisition costs (DAC)

Commissions and other acquisition costs, such as, among others, sales personnel remuneration and social contributions and maintenance and upkeep costs of retail sales network locations, that, in the Company management’s judgement, vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred. Deferred client acquisition cost assets are attributed to profit or loss over the terms of the corresponding policies as premium is earned on a pro-rata temporis basis.

h) Insurance contract liabilities

Unearned premium reserve comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements 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 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 by lines of business and the test is applied to the net amounts of reserves. Refer to Note 35.

Outstanding claims technical reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet paid. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. The claims reserve is also created for loss adjustment expenses that will be necessary in order to regulate the claims incurred during the reporting and previous years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from claims reserve.

i) Fronting insurance

As a part of regular business operations, the Company insures risks, which it fully cedes to reinsurers, not keeping the insurance risk or taking full risks to ourselves. Assets, liabilities, as well as income and expenses, which arise from the fronting reinsurance agreements, are presented in Statement of Financial Position of Company, as full ceding of the insurance risk does not release the Company from the direct liabilities to the insurance policy holder.

2.4 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on fixed income debt securities, interest on bank deposits and other loans and accrued discounts and premiums on discounted instruments.

2.5 Financial instruments

The Company classifies its financial assets in the following categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Company classifies all its financial liabilities as liabilities measured using amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets measured at amortized cost

Financial assets measured at amortized cost using the effective interest rate method are non-derivative financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Financial assets measured at amortized cost are classified as Other receivables and Cash and cash equivalents in the statement of financial position. See accounting policy on Cash and cash equivalents.

b) Financial liabilities

Financial liabilities classified as liabilities measured using amortized cost are measured at amortized cost using the effective interest rate method.

c) Other financial instruments

The Company's investments in securities are classified as financial assets either at fair value through other comprehensive income or at fair value through profit or loss. The Company's overall investment objective is to maximize its total return (i.e. interest or dividends and increase in fair value) given a low to medium level of risk and within the given restrictions for the whole portfolio. Accordingly, the Company manages and evaluates the investment portfolio performance on a total return basis.

Financial instruments at fair value through profit or loss are financial assets that are upon initial recognition designated by the entity as at fair value through the profit or loss.

Financial instruments at fair value through other comprehensive income are financial assets that are upon initial recognition designated by the entity as at fair value through other comprehensive income. The Company holds financial investments apart from financial assets at fair value through profit or loss in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, as the main purpose of such business model is to ensure the funding and liquidity needed to settle the Company's insurance contract liabilities as they fall due. As well as the contractual terms of these financial investments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Purchases and sales of financial assets are recognised on the settlement date – the date on which the Company received or delivered the asset. Financial assets measured at amortized cost and financial assets at fair value through other comprehensive income are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through other comprehensive income and at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognised in the profit or loss in the period in which they arise.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The fair values of quoted investments are based on current bid prices. The Company does not have investments in unquoted financial assets at fair value through profit or loss, unquoted financial assets at fair value through other comprehensive income.

Dividends are recognised in the income statement as part of Interest and dividend income. Dividends are recognised in the income statement when the Company's right to receive payments is established.

Notes to the Financial Statements (All amounts in thousand euros)

If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that the credit risk on the asset had not increased significantly since its initial recognition. Based on the investment ratings of the Company's investments in debt securities, the Company does not estimate a significant impact from the calculation of expected credit loss allowances for investments in debt securities according to IFRS 9.

2.6 Receivables from direct insurance operations

When amounts due from policyholders and intermediaries become overdue, a reminder is sent and a limited grace period is granted to settle the outstanding amount, after which the policy is cancelled and respective amounts are reversed against premium written. No impairment allowances are made with respect to amounts that have not yet become due and, accordingly, no portion of the premium is taken to income.

For receivables from direct insurance operations, the Company considers an impairment allowance only for amounts that have become due. All individually significant receivables are assessed for specific impairment allowance. All individually significant receivables found not to be specifically impaired are then collectively assessed for impairment allowance. Receivables that are not individually significant are collectively assessed for impairment allowance.

2.7 Intangible assets and property and equipment

All property and equipment and intangible assets (including internally developed software) are stated at historical cost less accumulated depreciation and amortisation and impairment. Land is not depreciated. Depreciation and amortisation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life using the following rates set by the management:

Buildings	2% per year
Office equipment	20% per year
Computer equipment	25% per year
Internally developed software	20% per year
Vehicles	20% per year
Software	25% per year

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if necessary.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and the cost of the expenditure item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold improvements are written down on a straight line basis during leasehold period, but not longer than 5 years.

Profit or loss from disposal of property and equipment is calculated as the difference between the book value of the property and equipment and income generated from sale, and charged to the profit or loss statement as incurred.

2.8 Foreign currency revaluation

Foreign currency transactions are translated into euro applying the euro foreign exchange reference rate published by the European Central Bank at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date foreign exchange reference rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement of the respective period.

	31.12.2021	**31.12.2020**
1 USD	EUR 1.1156	EUR 1.2271
1 PLN	EUR 4.5969	EUR 4.5597

2.9 Corporate income tax

a) Current tax

Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

As of 1 January 2018, according to the Law on Corporate Income Tax of the Republic of Latvia the tax rate is 20% of the taxable base, which equals to the taxable object, e.g. distributed profit (dividends calculated), divided by coefficient 0.8.

The Law on Corporate Income Tax also provides for the application of 20% tax rate to the taxable base, which consists of conditionally or theoretically distributed profit (such as non-operating expenses and other cases specified in the law). In accordance with IAS 12 *Income taxes*, income taxes include only such taxes that are based on the taxable profit, thus, corporate income tax calculated on the taxable base consisting of conditionally or theoretically distributed profit is shown under Other expenses.

b) Deferred tax

Deferred income tax is recognized for on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax calculations are based on the tax rates effective on the balance sheet date expected to be effective in the periods when the Company will realize the deferred tax asset or settle deferred tax liabilities. Under IAS 12 *Income taxes*, whenever there is a difference to tax rates being applied to distributed and undistributed profits, deferred tax assets and liabilities should be recognised by applying the rate applicable to undistributed profits.

According to the Law on Corporate Income Tax of the Republic of Latvia effective as of 1 January 2018, a 20% rate is applied only to distributed profits, while a 0% rate is to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Statement of cash flows is prepared using the direct method.

2.11 Accruals for unused employee vacations

The amount of accruals is determined by multiplying average daily salary for the last six months by the amount of accrued vacation days at the end of the year plus related social tax.

2.12 Administration expense by types of insurance

Other expenses and income, which relate to Company administration and are not directly attributable to a particular sales unit of the Company, are divided as follows:

- the earned premium by the type of customer (legal entity or individual) and by the type of insurance is divided by the total earned premiums to calculate the earned premium proportion;
- total indirect costs are multiplied by the earned premium proportion, which is attributable to the corresponding type of customer and type of insurance.

2.13 Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on an accrual basis. The Company calculates annual bonuses for personnel based on the Company's reporting year's financial results and the achievement of personal goals. For some employees, a part of the annual bonus may be deferred and paid out in up to four years subsequent to the calculation year, while there are no vesting conditions to be fulfilled. There are no significant additional vesting conditions attached to this deferred part. The accruals for personnel bonuses represent the amount accrued as at the year end.

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The Company is required to pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

2.14 Share capital and dividend distribution.

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.15 Impairment

a) Financial assets

The impairment model in IFRS 9 is based on an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The Company on a regular basis assesses the expected credit loss of financial assets not carried at fair value.

The Company considers expected credit loss for receivables at both a specific asset and collective level. All term deposits with credit institutions are assessed for specific expected credit loss.

All individually significant receivables are assessed for specific expected credit loss. All individually significant receivables found not to be specifically impaired are then collectively assessed for expected credit loss. Receivables that are not individually significant are collectively assessed for expected credit loss. As the Company's receivables are mostly short-term, the Company estimates that the expected credit loss allowances for Receivables from ceded reinsurance and Other debtors according to IFRS 9 are not material.

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 profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset 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 profit or loss.

For assets carried at fair value through other comprehensive income, all individually significant assets are assessed for specific expected credit loss using probability of default (PD) and loss given default (LGD) parameters of the specific financial instrument and Exposure at default (EAD). PD and LGD are estimated based on the most current published credit rating of the specific financial instrument and the corporate and sovereign default and recovery reports published by credit rating agencies.

b) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication that an asset is impairmed. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the 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.

Impairment losses recognized 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 recognized.

2.16 Revenue from contracts with customers

The Company recognizes revenue over time (e.g. reinsurance commission income) or at point in time (e.g. sale of salvage, income from cancellation of policies) as the corresponding performance obligations are fulfilled, and there is no significant judgement involved in determining the transaction price or determining when a performance obligation is fulfilled. Revenues in scope of IFRS 15 are included in Statement of Comprehensive Income captions Other technical income, Other income as well as a part of Recovered losses, e.g. for salvage sales transactions. The Company has assessed that IFRS 15 does not have a material impact on the financial statements, and, thus, it does not provide additional disclosures as required by IFRS 15.

2.17 Leases

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, IFRS 16 requires a lessee to recognise a right-of-use asset and a lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as small electronic equipment and small items of office furniture). The right-of-use asset is depreciated and the liability accrues interest.

The Company as a lessee.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over period of lease term.The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under at residual value guarantee, if the company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3. USE OF JUDGEMENTS AND ESTIMATES

Management makes judgments, estimates and assumptions that are applied in the process of preparation of financial statements and affect the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most significant accounting estimate.

The claims reserves for reported but not settled claims (RBNS) are based on a claims handler's best estimate for each individual claim. In cases when a claim is reported but the estimate is not prepared yet, the average claim amount in the corresponding business line is used as an initial claims reserve.

The claims reserves for incurred but not reported claims (IBNR) are calculated using Bornhuetter - Ferguson method, except for specific insurance portfolios as described below. IBNR claims reserves for guarantees insurance portfolio are calculated using the ultimate loss ratio method where the claims reserves are estimated based on the expected loss ratio for each accident period. The expected loss ratio assumptions for IBNR claims reserves take into account the uncertainties related to claims volatility due to Covid-19 pandemic restrictions and its impact to economic conditions as well as claims inflation. Obligatory Motor TPL insurers receive recourse claims requests from State Social Insurance Agency (SSIA). These recourses are reported to insurance companies with a delay of one to three years from the accident date to the claims recourse reporting date. Recourses are requested for benefits and pensions already paid by SSIA. The Company's claims handlers assess the potential for long-term claim payments and establish a reserve for future payments based on their estimate. Expected increase of future claims due to pension indexation and medical expense inflation is added to the estimated long-term claims reserve. Taking into account the long duration of future payments that expose claims reserves to a significant estimation uncertainty, the indexation assumption that incorporates, among other items, discounting is derived combining economic assumptions with actuarial analysis of different potential claims development scenarios. The claims reserve for not yet reported SSIA recourses is calculated using the expected claim severity and frequency method.

Claims handling reserve is calculated on the basis of average amount for one claim settling transaction and the total number of estimated incurred but not reported claims transactions. The average amount for one claim settling transaction is calculated using historical actual loss adjustment expenses data. Consistent with IBNR provision, claims handling reserves for guarantees insurance portfolio are calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

Claims reserves for recoverable amounts from subrogation and salvage are calculated using Bornhuetter - Ferguson method only for those lines of business where regular income is received due to claims specifics, therefore the probability of recovery is evaluated as high.

For the disclosure of Company's sensitivity to insurance risk, see also Note 35.

Commissions and other acquisition costs, such as, among others, sales personnel remuneration and social contributions and maintenance and upkeep costs of retail sales network locations, that, in the Company management's judgement, vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred.

Other area where assumptions and estimation uncertainty is involved is the valuation of deferred acquisition costs and recognition of unexpired risk reserve, mainly for the Health insurance portfolio (see also Note 35). Unexpired risk reserve is calculated estimating the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date. In the estimation of assumptions volatility in claims size and reporting pattern is considered including impact from COVID-19 pandemic restrictions and economic conditions. Further information about the assumptions made in this area are included in Note 35 about liability adequacy tests performed.

As indicated in Note 2.5, all financial assets measured at fair value are quoted. In a fair value hierarchy, based on inputs used in the valuation techniques, these fair values as at 31.12.2021 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets and Level 2: unadjusted quoted prices in less active markets for identical or similar assets (as at 31.12.2020 – categorised into Level 1: unadjusted quoted prices in active markets for identical assets and Level 2: unadjusted quoted prices in less active markets for identical or similar assets).

Notes to the Financial Statements (All amounts in thousand euros)

4. NET WRITTEN PREMIUMS

	2021			2020		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	3 791	(24)	3 767	3 488	(23)	3 465
Health	22 013	-	22 013	20 023	-	20 023
Motor own damage	30 380	(574)	29 806	30 542	(560)	29 982
Marine	27	-	27	29	(2)	27
Cargo	1 293	(113)	1 180	1 021	(53)	968
Property	29 057	(2 702)	26 355	22 729	(2 386)	20 343
Credit insurance	18	-	18	35	-	35
General TPL	5 838	(337)	5 501	4 386	(260)	4 126
Guarantees	3 012	(1 128)	1 884	3 247	(1 196)	2 051
Financial risks	240	(181)	59	319	(191)	128
Travel accident	3 513	(16)	3 497	1 647	(15)	1 632
Obligatory Motor TPL	16 865	(461)	16 404	19 795	(452)	19 343
	116 047	**(5 536)**	**110 511**	**107 261**	**(5 138)**	**102 123**

Insurance contracts (policies) are mainly issued to clients residing in Latvia.

Premiums earned

	2021			2020		
	Gross premiums earned	**Reinsurers' share**	**Net premiums earned**	**Gross premiums earned**	**Reinsurers' share**	**Net premiums earned**
Motor own damage	30 316	(575)	29 741	30 408	(570)	29 838
Property	24 447	(2 612)	21 835	23 554	(2 257)	21 297
Health	21 497	-	21 497	19 425	-	19 425
Obligatory Motor TPL	18 143	(459)	17 684	21 281	(449)	20 832
Other	16 143	(1 695)	14 448	13 078	(1 474)	11 604
TOTAL	**110 546**	**(5 341)**	**105 205**	**107 746**	**(4 750)**	**102 996**

5. UNEARNED PREMIUM AND UNEXPIRED RISK RESERVES

a) Movement in unearned premium and unexpired risk reserves

	Gross amount	**Reinsurers' share**	**Net amount**
Balance at 31 December 2019	**53 635**	**(1 080)**	**52 555**
UPR at 31 December 2019	53 374	**(1 080)**	52 294
URR at 31 December 2019	261	**-**	261
Written premiums	107 261	(5 138)	102 123
Earned premiums	(107 746)	4 750	(102 996)
Total change for the year	(485)	(388)	(873)
Balance at 31 December 2020	**53 150**	**(1 468)**	**51 682**
UPR at 31 December 2020	51 979	(1 468)	50 511
URR at 31 December 2020	1 171	**-**	1 171
Written premiums	116 047	(5 536)	110 511
Earned premiums	(110 546)	5 341	(105 205)
Total change for the year	5 501	(195)	5 306
Balance at 31 December 2021	**58 651**	**(1 663)**	**56 988**
UPR at 31 December 2021	57 501	(1 663)	55 838
URR at 31 December 2021	1 150	**-**	1 150

*Refer to Note 35 section Liability adequacy test.

Notes to the Financial Statements (All amounts in thousand euros)

b) Changes in unearned premium and unexpired risk reserves and distribution by type of insurance for the year 2021:

	Gross amount	Reinsurers' share	Net amount
Personal accident	134	(1)	133
Health	515	-	515
Motor own damage	63	1	64
Marine	(2)	-	(2)
Cargo	118	(31)	87
Property	4 610	(90)	4 520
Credit insurance	(17)	-	(17)
General TPL	1 095	1	1 096
Guarantees	180	(74)	106
Financial risks	(47)	1	(46)
Travel accident	129	-	129
Obligatory Motor TPL	(1 277)	(2)	(1 279)
	5 501	**(195)**	**5 306**

c) Changes in unearned premium and unexpired risk reserves and distribution by type of insurance for the year 2020:

	Gross amount	Reinsurers' share	Net amount
Personal accident	187	-	187
Health	598	-	598
Motor own damage	133	10	143
Marine	2	-	2
Cargo	(16)	-	(16)
Property	(825)	(129)	(954)
Credit insurance	(11)	-	(11)
General TPL	228	(2)	226
Guarantees	858	(260)	598
Financial risks	33	(4)	29
Travel accident	(186)	-	(186)
Obligatory Motor TPL	(1 486)	(3)	(1 489)
	(485)	**(388)**	**(873)**

d) Gross unearned premium and unexpired risk reserves as at end of year:

	31.12.2021	31.12.2020
Personal accident	1 961	1 827
Health	9 445	8 930
Motor own damage	15 358	15 295
Marine	12	14
Cargo	420	302
Property	16 661	12 051
Credit insurance	7	24
General TPL	3 702	2 607
Guarantees	4 100	3 920
Financial risks	75	123
Travel accident	534	404
Obligatory Motor TPL	6 376	7 653
	58 651	**53 150**

Notes to the Financial Statements (All amounts in thousand euros)

6. OTHER TECHNICAL INCOME

	2021	2020
Reinsurance and fronting insurance commission income (see Note 32)	593	453
Income from cancellation of policies	111	108
Other income	72	58
	776	**619**

7. CLAIMS PAID

	2021			2020		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(1 384)	-	(1 384)	(1 295)	-	(1 295)
Health	(14 832)	-	(14 832)	(12 996)	-	(12 996)
Motor own damage	(20 283)	321	(19 962)	(19 573)	366	(19 207)
Marine	(5)	-	(5)	(7)	-	(7)
Cargo	(305)	4	(301)	(167)	-	(167)
Property	(13 837)	2 727	(11 110)	(11 836)	603	(11 233)
Credit insurance	(22)	-	(22)	(44)	-	(44)
General TPL	(1 372)	-	(1 372)	(724)	-	(724)
Guarantees	(429)	115	(314)	(231)	57	(174)
Financial risks	(64)	78	14	(161)	42	(119)
Travel accident	(766)	-	(766)	(542)	-	(542)
Obligatory Motor TPL	(10 784)	90	(10 694)	(10 396)	428	(9 968)
	(64 083)	**3 335**	**(60 748)**	**(57 972)**	**1 496**	**(56 476)**

8. OUTSTANDING CLAIMS RESERVES

a) Movement in outstanding claims reserves:

	2021			2020		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Reported claims	27 330	(7 353)	19 977	26 597	(6 755)	19 842
Incurred, but not reported	19 547	-	19 547	18 645	-	18 645
Total at beginning of year	**46 877**	**(7 353)**	**39 524**	**45 242**	**(6 755)**	**38 487**
Cash paid for claims reported in prior years	(11 946)	2 694	(9 252)	(11 535)	935	(10 600)
Changes in liabilities arising from current and prior year claims	12 869	(463)	12 406	13 170	(1 533)	11 637
Total change in year	923	2 231	3 154	1 635	(598)	1 037
Total at end of year	**47 800**	**(5 122)**	**42 678**	**46 877**	**(7 353)**	**39 524**
Reported claims	27 926	(5 122)	22 804	27 330	(7 353)	19 977
Incurred, but not reported	19 874	-	19 874	19 547	-	19 547
Total at end of year	**47 800**	**(5 122)**	**42 678**	**46 877**	**(7 353)**	**39 524**

Notes to the Financial Statements (All amounts in thousand euros)

b) Change in outstanding claims reserves and distribution by type of insurance for the year 2021:

	Gross amount	Reinsurers' share	Net amount
Personal accident	228	-	228
Health	205	-	205
Motor own damage	1 339	32	1 371
Marine	-	-	-
Cargo	217	(1)	216
Property	(2 717)	2 126	(591)
Credit insurance	(6)	-	(6)
General TPL	161	-	161
Guarantees	6	(39)	(33)
Financial risks	32	(40)	(8)
Travel accident	204	45	249
Obligatory Motor TPL	1 254	108	1 362
	923	**2 231**	**3 154**

c) Change in outstanding claims reserves and distribution by type of insurance for the year 2020:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(95)	-	(95)
Health	(635)	-	(635)
Motor own damage	(385)	8	(377)
Marine	2	-	2
Cargo	(111)	-	(111)
Property	53	(597)	(544)
Credit insurance	(5)	-	(5)
General TPL	102	-	102
Guarantees	1 226	30	1 256
Financial risks	(97)	68	(29)
Travel accident	(165)	-	(165)
Obligatory Motor TPL	1 745	(107)	1 638
	1 635	**(598)**	**1 037**

d) Gross outstanding claims reserves as at end of year:

	31.12.2021	31.12.2020
Personal accident	491	263
Health	1 228	1 023
Motor own damage	5 305	3 966
Marine	5	5
Cargo	412	195
Property	6 348	9 065
Credit insurance	5	12
General TPL	2 281	2 120
Guarantees	3 263	3 257
Financial risks	70	37
Travel accident	419	215
Obligatory Motor TPL	27 973	26 719
	47 800	**46 877**

Notes to the Financial Statements (All amounts in thousand euros)

9. CLIENT ACQUISITION COSTS

	2021	2020
Commissions to brokers and other intermediaries	(13 166)	(8 601)
Commissions and other agent related expense	(7 088)	(6 491)
Compulsory state social security contributions related to agents' remuneration	(1 410)	(1 290)
Change in deferred client acquisition costs	3 537	93
Other acquisition expenses	(114)	(42)
	(18 241)	**(16 331)**

Deferred client acquisition costs

As at 31 December 2019	**10 828**
Deferred client acquisition costs	21 494
Amortisation of deferred acquisition cost	(21 400)
As at 31 December 2020	**10 922**
Deferred client acquisition costs	27 149
Amortisation of deferred acquisition cost	(23 612)
As at 31 December 2021	**14 459**

Administrative expenses included in client acquisition costs and subject to deferral and subsequent amortization as deferred acquisition costs (DAC) during 2021 amounted to EUR 5 371 (2020: EUR 5 069). Refer to Note 10.

10. ADMINISTRATIVE EXPENSES

	2021	2020
Wages and salaries:		
- salaries to staff	(7 553)	(6 873)
- state compulsory social insurance contributions	(1 546)	(1 453)
Depreciation and amortization costs	(1 609)	(1 534)
Information technology and communication expense	(1 105)	(1 220)
Advertisement and public relations	(930)	(883)
Payments to Motor Insurers Bureau (OMTPL mandatory deductions)	(781)	(914)
Premises utility, maintenance and repair expense	(563)	(691)
Payments to Financial and Capital Market Commission	(254)	(293)
Professional services	(231)	(216)
Expenses for short-term leases and lease-related non-recoverable taxes	(88)	(84)
Office expenses	(66)	(96)
Transport	(31)	(51)
Administration expenses related to Loss adjustment expenses *	502	489
Other administrative costs	(715)	(675)
	(14 970)	**(14 494)**

* – reclassified to and included in Loss adjustment expenses.

In accordance with the requirements of the legislation of the Republic of Latvia payments to Finance and Capital Market Commission have to be made in amount of 0.16% from gross premiums collected in Obligatory Motor Third Party Liability (OMTPL) insurance and in amount of 0.232% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1.000% of premiums collected from individuals in voluntary types of insurance. In 2021 and in 2020, in accordance with applicable legislation, no payments have been made as the total assets of Foundation of Insured Interests Protection exceeds EUR 11 million.

According to the law "On Obligatory Motor Third Party Liability Insurance" and related regulations of the Cabinet of Ministers of the Republic of Latvia, the Company has to make the following mandatory deductions from Obligatory Motor Third Party Liability insurance gross premiums:

- OMTPL Guarantees Foundation fixed sum for certain type of vehicle.
- Road Traffic Accidents Foundation 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia – a variable sum of EUR 0.39 (2020: EUR 0.39) per contract and a fixed sum of EUR 40 thousand per year (2020: EUR 39 thousand) or EUR 3 thousand per month (2020: EUR 3 thousand).

Notes to the Financial Statements *(All amounts in thousand euros)*

In 2021, OMTPL mandatory deductions amounted to EUR 781 thousand (2020: EUR 914 thousand).

At the end of year 2021, the Company employed 349 employees (2020: 341) and 244 agents (2020: 254).

Administrative expenses include client acquisition costs amounting to EUR 5 371 thousand (2020: EUR 5 069 thousand) that were included in the calculation of deferred acquisition costs. Such administrative expenses include fixed and variable costs that are related with acquiring new clients and signing policies. Refer to Note 9.

The remuneration paid to the commercial company of certified auditors KPMG Baltics SIA for the audit of the financial statements is included in the administrative expenses, and for 2021 amounts to the following: audit of annual financial statements, incl. VAT: EUR 44 thousand (2020: EUR 43 thousand).

Distribution of administrative expense by type of insurance, based on management allocation, is as follows:

	2021	**2020**
Personal accident	(436)	(425)
Health	(2 778)	(2 462)
Motor own damage	(4 123)	(4 156)
Marine	(3)	(3)
Cargo	(122)	(95)
Property	(3 015)	(2 582)
Credit insurance	(3)	(5)
General TPL	(574)	(439)
Guarantees	(236)	(185)
Financial risks	(14)	(11)
Travel accident	(363)	(230)
Obligatory Motor TPL	(3 303)	(3 902)
	(14 970)	**(14 495)**

For a description of the basis of management allocation, see Note 2.3 e) and Note 2.12).

11. INTEREST INCOME

	2021	**2020**
From financial investments at fair value through other comprehensive income		
Government debt securities	769	695
Corporate debt securities	139	129
	908	**824**

12. NET PROFIT / (LOSS) ON FINANCIAL ASSETS

	2021	**2020**
Financial assets at FVOCI		
Government debt securities	(7)	-
Corporate debt securities	(8)	-
Financial assets at FVTPL		
Investment funds	18	62
	3	**62**

	2021	**2020**
Realised gains / (losses):		
Corporate debt securities	(6)	(1)
Investment funds	(16)	9
Unrealised gains / (losses):		
Investment funds	34	53
Changes in expected credit losses, net	(9)	1
	3	**62**

Notes to the Financial Statements (All amounts in thousand euros)

13. OTHER FINANCE EXPENSES

	2021	2020
Interest expenses for lease liabilities	(25)	(30)
Losses from foreign currency fluctuations, net	(7)	(19)
Interest expenses and amortisation for subordinated loan	-	(48)
	(32)	**(97)**

14. OTHER INCOME

	2021	2020
Income from rent	27	7
Income from recalculation of VAT	8	1
Released payables from prior years	5	359*
Other income	10	2
	50	**369**

*Amount consists of written-off creditors, which, in accordance with the applicable law, have become lapse.

15. OTHER EXPENSES

	2021	2020
Disposal of property, plant, equipment and write-off of intangible assets, net	(311)	(602)
Released receivables allowances from prior years and changes in allowances for overdue debts, net	156	(196)
Other expenses	(8)	(3)
	(163)	**(801)**

Notes to the Financial Statements (All amounts in thousand euros)

16. INTANGIBLE ASSETS

	Software	Intangible assets development costs	Total
As at 31 December 2019			
Historical cost	13 775	87	13 862
Accumulated amortization	(11 417)	-	(11 417)
Net book amount	**2 358**	**87**	**2 445**
In 2020			
Additions arising from internal development	574	666	1 240
Additions arising from external development	16	45	61
Reclassified	708	(708)	-
Written-off	(1 128)*	-	(1 128)
Amortization for intangible assets written off	527*	-	527
Amortization charge	(832)	-	(832)
Closing net book amount	**2 223**	**90**	**2 313**
As at 31 December 2020			
Historical cost	13 946	90	14 036
Accumulated amortization	(11 723)	-	(11 723)
Net book amount	**2 223**	**90**	**2 313**
In 2021			
Additions arising from internal development	576	775	1 351
Additions arising from external development	16	28	44
Reclassified	625	(625)	-
Written-off	(4 943)*	-	(4 943)
Amortization for intangible assets written off	4 638*	-	4 638
Amortization charge	(831)	-	(831)
Closing net book amount	**2 304**	**268**	**2 572**
As at 31 December 2021			
Historical cost	10 220	268	10 488
Accumulated amortization	(7 916)	-	(7 916)
Net book amount	**2 304**	**268**	**2 572**

*The analysis of the continued use of intangible assets is performed once a year by performing an inventory process. In year 2020, the written-off intangible assets related to the closing of the BALTA2020 strategy, as well as the system migration project in 2020, as a result of which the intangible investments created by business and technical projects that were no longer expected to provide benefit were written off. Also in 2021, intangible assets that no longer provide financial benefits to the Company were identified and written-off. Those include customizations for projects and partnerships that have finished in 2021; old system development for products that are no longer actual or are replaced with newer versions in 2021; intangible assets with very small acquisition cost that require non-proportional managing time and are below the reasssed capitalization threshold.

Notes to the Financial Statements (All amounts in thousand euros)

17. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Right-of-use assets	Transport vehicles	Computers	Office equipment	Total
As at 31 December 2019							
Cost	6 051	389	1 060	167	1 452	855	9 974
Accumulated depreciation	(1 799)	(229)	(224)	(113)	(987)	(582)	(3 934)
Accumulated impairment	(1 998)	-	-	-	-	-	(1 998)
Net book amount	**2 254**	**160**	**836**	**54**	**465**	**273**	**4 042**
In 2020							
Additions	62	155	107	-	443	39	806
Disposals	-	-	(33)	-	(312)	(5)	(350)
Depreciation charge	(95)	(63)	(212)	(21)	(224)	(87)	(702)
Depreciation on disposed assets	-	-	32	-	311	5	348
Additions due to remeasurement of lease liabilities	-	-	257	-	-	-	257
Closing net book amount	2 221	252	987	33	683	225	4 401
As at 31 December 2020							
Cost	6 113	544	1 390	167	1 582	889	10 686
Accumulated depreciation	(1 894)	(292)	(403)	(134)	(899)	(664)	(4 287)
Accumulated impairment	(1 998)	-	-	-	-	-	(1 998)
Net book amount	**2 221**	**252**	**987**	**33**	**683**	**225**	**4 401**
In 2021							
Additions	116	135	4	6	97	132	490
Disposals	-	(19)	(45)	(6)	(192)	(8)	(270)
Depreciation charge	(101)	(78)	(216)	(22)	(272)	(89)	(778)
Depreciation on disposed assets	-	19	22	1	192	8	242
Additions due to remeasurement of lease liabilities	-	-	157	-	-	-	157
Closing net book amount	2 236	309	909	12	508	268	4 242
As at 31 December 2021							
Cost	6 229	660	1 506	167	1 487	1 013	11 062
Accumulated depreciation	(1 995)	(351)	(597)	(155)	(979)	(745)	(4 822)
Accumulated impairment	(1 998)	-	-	-	-	-	(1 998)
Net book amount	**2 236**	**309**	**909**	**12**	**508**	**268**	**4 242**

All land and buildings, and other property and equipment are used in the operating activities of the Company.

Right-of-use assets include leases of premises.

18. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2021 Fair value	31.12.2020 Fair value
Investment funds	2 846	5 032
	2 846	**5 032**

The split between current and non-current financial investments at fair value through profit or loss is included in Note 36. Financial investments at fair value through profit or loss in total EUR 2.85 million (2020: EUR 5.03 million) are in Level 1 fair value hierarchy in accordance with IFRS 13 definitions.

Notes to the Financial Statements (All amounts in thousand euros)

19. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2021 Fair value	31.12.2020 Fair value
Lithuanian government debt securities	39 101	48 742
Latvian government debt securities	27 111	29 851
Polish government debt securities	13 863	17 538
Romanian government debt securities	6 207	6 408
Hungarian government debt securities	5 769	3 953
Bulgarian government debt securities	5 374	5 555
Italian government debt sedurities	5 253	-
Croatian government debt securities	5 100	5 282
Peruvian government debt securities	1 549	-
Mexican government debt securities	1 495	-
Philippines government debt securities	1 494	-
Moroccan government debt securities	1 475	-
Serbian government debt securities	1 463	-
Corporate debt securities	8 769	5 317
	124 023	**122 646**

The split between current and non-current financial investments at fair value through other comprehensive income is included in Note 36. Financial investments at fair value through other comprehensive income in total EUR 90.3million (2020: EUR 43.2 million) are in Level 1 fair value hierarchy and EUR 33.7 million (2020: EUR 79.45) are in Level 2 fair value hierarchy in accordance with IFRS 13 definitions.

As at 31 December 2020, debt securities in the amount of EUR 72 million were reclassified from Level 1 to Level 2 fair value hierarchy due to a more limited market activitity and availability of quoted market prices for these securities. As at 31 December 2021, debt securities in the amount of EUR 33 million were reclassified frm Lvel 2 to Level 1 due to an increased market activity and availability of quoted market prices for these securities. No other reclassifications of financial investments between the levels of fair value hierarchy have taken place in 2021 or 2020.

As at 31 December 2021 and 31 December 2020, all financial investments at fair value through other comprehensive income are assessed as Stage 1 in line with IFRS 9 requirements.

The movement of fair value reserve – debt instruments at FVOCI in respect of financial investments at fair value through other comprehensive income:

As at 31 December 2019	**2 367**
Increase in fair value reserve	639
Decrease in fair value reserve	(426)
Reclassified to profit or loss on derecognition of debt securities	1
As at 31 December 2020	**2 580**
Increase in fair value reserve	17
Decrease in fair value reserve	(1 759)
Reclassified to profit or loss on derecognition of debt securities	6
As at 31 December 2021	**844**

20. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2021	31.12.2020
Gross receivables from direct insurance operations	20 060	17 285
Doubtful debt allowances for receivables from direct insurance operations	(27)	(223)
	20 033	**17 062**

Notes to the Financial Statements (All amounts in thousand euros)

The ageing of receivables from direct insurance operations at the reporting date was as follows:

	Gross 31.12.2021	**Allowances 31.12.2021**	**Net 31.12.2021**	**Gross 31.12.2020**	**Allowances 31.12.2020**	**Net 31.12.2020**
Not past due	19 731	-	19 731	17 020	(158)	16 862
Past due 0-30 days	225	(1)	224	232	(36)	196
Past due 31-60 days	5	(2)	3	7	(3)	4
More than 60 days	24	(24)	-	26	(26)	-
	19 985	**(27)**	**19 958**	**17 285**	**(223)**	**17 062**

The management believes that the amounts that are not past due and past due by no more than 60 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk, and impairment allowance for expected credit loss is not recognized due to being considered as immaterial.

In 2020, the Company introduced a new approach to calculated allowances for bad and doubtful debts due to Covid-19 impact on economy and growing concerns of actual ability of clients to settle due payments. In 2021, the Company has analysed the bad and doubtful debt receivables data and concluded that the risk of deteriorating receivables recovery has not materialized and, thus, introduced the pre Covid–19 approach to calculation of allowances for bad and doubtful debts. As a change in estimate, the effect is recognized prospectively.

The movement in the allowance for impairment in respect of receivables from direct insurance operations during the year was as follows:

As at 31 December 2019	**39**
Additional allowances	205
Written-off debts	(10)
Recovered debts	(11)
As at 31 December 2020	**223**
Additional allowances	14
Written-off debts	(10)
Recovered debts	(200)
As at 31 December 2021	**27**

21. REINSURANCE RECEIVABLES

	31.12.2021	**31.12.2020**
Gross receivables from reinsurance operations	113	595
Doubtful debt allowances for receivables from reinsurance operations	-	-
	113	**595**

The management believes that receivables from reinsurance operations are collectible in full, based on historic payment behaviour and analysis of reinsurers' credit risk, and impairment allowance for expected credit loss is not recognized due to being considered as immaterial.

22. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2021	**31.12.2020**
Prepayments for software maintenance	461	406
Claims prevention expenses	305	330
Reinsurance prepayments	85	5
Prepayments for rent	27	28
Other deferred expenses	17	19
Insurance payments	4	6
	899	**794**

Notes to the Financial Statements (All amounts in thousand euros)

23. OTHER RECEIVABLES

	31.12.2021	31.12.2020
Financial other receivables		
Receivables for subrogation transactions*	501	707
Impairment of overdue subrogation settlements	(143)	(171)
Other receivables	214	220
Impairment of other overdue receivables	(132)	(131)
Receivables from other insurance companies	54	102
Receivables from the Motor Insurers' Bureau of Latvia	11	11
Receivables for claims regulation	7	7
Receivables from agents	3	(2)
Total Financial other receivables	**515**	**743**

Other receivables are due within 12 months from the Statement of Financial Position date and carry no interest.

* Receivables for subrogation transactions include receivables that are overdue as at the reporting date, while not assessed as impaired by the Company. The total amount of such receivables as at 31 December 2021 amounts to EUR 79 thousand (31.12.2020: EUR 107 thousand)

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

As at 31 December 2019	**331**
Additional allowances	48
Recovered debts	(77)
As at 31 December 2020	**302**
Additional allowances	35
Recovered debts	(62)
As at 31 December 2021	**275**

24. CASH AND CASH EQUIVALENTS

	31.12.2021	31.12.2020
Cash in current accounts	11 458	7 389
	11 458	**7 389**

The management believes that Cash in current accounts is collectible in full, based on historic payment behaviour and analysis of corresponding credit institutions' credit risk, and impairment allowance for expected credit loss is not recognized due to being considered as immaterial.

25. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 728 064 (31.12.2020: 4 728 064). The nominal value of one share as at 31.12.2021 is EUR 1.4 (31.12.2020: EUR 1.4). All issued shares are fully paid. The share capital of the Company as at 31 December 2021 is EUR 6 619 290 (31.12.2020: EUR 6 619 290).

The Company's shares are not listed.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company and to participate in Company's residual assets.

b) The largest shareholder

As at 31.12.2021, the largest shareholder of the Company with 4 728 063 or 99.99% shares (31.12.2020: 4 727 821 shares or 99.99%) is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company.

c) Share premium

During the increase of share capital in the previous years, according to the share issue rules a share premium was set in addition to the nominal value of the shares. Share premium is available to shareholders, and there are no restrictions on share premium.

Notes to the Financial Statements (All amounts in thousand euros)

d) Reserve capital and other reserves

The reserves have been created by transferring profit from retained earnings to these reserves during the previous years in accordance with the applicable past Latvian legislation requirements and shareholders' decisions.

These reserves are available to shareholders, and there are no restrictions on those reserves.

e) Fair value reserve – debt instruments at FVOCI

The fair value reserve comprises the cumulative net change in fair value of debt securities at FVOCI. This amount is adjusted by the amount of loss allowance. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI and accumulated in fair value reserve is reclassified from equity to profit or loss. The fair value reserve cannot be distributed to shareholders.

26. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2021	**31.12.2020**
Compulsory state social security contributions and solidarity tax	409	376
Personal income tax	218	181
Value added tax	73	64
Liabilities	**700**	**621**

During the reporting year, the following tax payments were made:

	2021	**2020**
Compulsory state social security contributions and solidarity tax	5 175	4 793
Personal income tax	2 806	2 554
Value added tax	596	546
Property tax	32	32
Business risk state duty	3	3
	8 620	**7 928**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2021	**31.12.2020**
Financial accrued expenses		
Accruals for personnel bonuses	2 382	2 146
Accruals for unused employee vacations	1 046	991
Accruals for intermediary commissions	205	193
Accruals for rent and utilities services	24	20
Accruals for audit expenses	23	25
Accruals for consulting services	9	18
Accruals for transport expenses	10	13
Accruals for other expenses	472	660
Total financial accrued expenses	**4 171**	**4 066**
Non-financial accrued expenses and deferred income		
Unearned reinsurance commission	484	449
Total non-financial accrued expenses and deferred income	**484**	**449**
	4 655	**4 515**

Notes to the Financial Statements (All amounts in thousand euros)

	Accruals for personnel bonuses	Other accrued expenses and deferred income	Total
As at 31 December 2020	**2 146**	**2 369**	**4 515**
Additions	2 064	2 620	4 684
Used	(1 675)	(2 469)	(4 144)
Reversed	(153)	(247)	(400)
As at 31 December 2021	**2 382**	**2 273**	**4 655**
Long-term part	**323**	**371**	**694**
Short-term part	**2 059**	**1 902**	**3 961**

	Accruals for personnel bonuses	Other accrued expenses and deferred income	Total
As at 31 December 2019	**2 075**	**1 998**	**4 073**
Additions	1 807	2 683	4 490
Used	(1 489)	(2 085)	(3 574)
Reversed	(247)	(227)	(474)
As at 31 December 2020	**2 146**	**2 369**	**4 515**
Long-term part	**340**	**367**	**707**
Short-term part	**1 806**	**2 002**	**3 808**

28. OTHER CREDITORS

	31.12.2021	31.12.2020
Financial other creditors		
Commission payables	188	142
Due to personnel	751	677
Payables to related parties	-	62
Other liabilities	152	53
Total financial other creditors	**1 091**	**934**
Non-financial other creditors		
Due to the Motor Insurers' Bureau of Latvia	118	129
Due to the Financial and Capital Market Commission	66	73
Total non-financial other creditors	**184**	**202**
	1 275	**1 136**
Long-term part	**-**	**-**
Short-term part	**1 275**	**1 136**

Notes to the Financial Statements *(All amounts in thousand euros)*

29. LEASE LIABILITIES

	Note	Lease liabilities
As at 1 January 2021		**1 013**
Changes from financing cash flows		
Payment of lease liabilities		(211)
Total changes from financing cash flows		**(211)**
Liability-related other changes		
New leases	17	4
Disposals		(23)
Additions due to remeasurement of lease liabilities	17	157
Interest accrued		25
Interest paid		(25)
Total liability-related other changes		**138**
As at 31 December 2021		**940**
As at 1 January 2020		**857**
Changes from financing cash flows		
Payment of lease liabilities		(205)
Total changes from financing cash flows		**(205)**
Liability-related other changes		
New leases	17	107
Disposals		(3)
Lease modifications	17	257
Interest accrued		30
Interest paid		(30)
Total liability-related other changes		**361**
As at 31 December 2020		**1 013**

The weighted average incremental borrowing rate applied to lease liabilities amounted to 3% (as at 31 December 2020: 3%).

Expenses relating to short-term and low value leases recognized in profit and loss in 2021 amounted to EUR 7 thousand (as at 31 December 2020 EUR 4 thousand) (including VAT).

The maturity profile and undiscounted cash flows of lease liabilities are disclosed in Note 36.2.

30. DIVIDENDS PER SHARE

No dividend distribution is planned to be proposed at the Annual Shareholders' Meeting.

In 2021, the following dividends where declared and paid to the Shareholders of the Company: declared EUR 11 725 599 (2020: EUR 0) or EUR 2.48 per 1 share; paid: EUR 11 725 478 (2020: EUR 0). In accordance with Latvian legislation, from the declared dividend amount to shareholders – private persons a personal income tax of 20% is withheld, which in 2021 amounted to EUR 121 (2020: EUR 0). The amount of unpaid dividends as at 31 December 2021 amounted to EUR 6 (31.12.2020: EUR 0).

31. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2021	2020
Motor Insurers' Bureau of Latvia	792	940
Financial and Capital Market Commission	261	294
	1 053	**1 234**

Notes to the Financial Statements (All amounts in thousand euros)

32. RESULT OF CEDED REINSURANCE

	2021	2020
Reinsurers' share in written premiums (see Note 4)	(5 536)	(5 138)
Reinsurers' share in changes in unearned premium reserves (see Note 5)	195	388
Reinsurers' share in claims paid (see Note 7)	3 335	1 496
Reinsurers' share in changes in outstanding claims reserves (see Note 8)	(2 231)	598
Reinsurance and fronting insurance commission income (see Note 6)	593	453
Net result of ceded reinsurance activities:	**(3 644)**	**(2 203)**

33. TRANSACTIONS AND PAYMENTS TO 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 Company if that person:
   - i) has control or joint control over the Company;
   - ii) has significant influence over the Company; or
   - iii) is a member of the key management personnel of the Company or of a parent of the Company.

b) An entity is related to a Company if any of the following conditions applies:
   - i) The entity and the Company 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 Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
   - vi) The entity is controlled, or jointly controlled by a person identified in (a).
   - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   - viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The parent company of the Company is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (Poland).

Lietuvos Draudimas AB is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

Lietuvos Draudimas AB Estonia branch is a branch of Lietuvos Draudimas AB that is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

PZU Lietuva Gyuybes Draudimas UAB is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

PZU Centrum Operaciji SA is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

Towarzystwo Funduszy Inwestyjnych PZU S.A. is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

During the reporting year, the following transactions were carried out with related parties:

a) Transactions with related parties

Reinsurance and fronting insurance

	2021	2020
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance premiums ceded	(4 341)	(4 126)
Change in reinsurers' share in unearned premium reserves	160	430
Reinsurers' share in claims paid	2 804	626
Change in reinsurers' share in outstanding claims reserves	(2 223)	198
Reinsurance commissions	518	456
Change in deferred reinsurance commissions	(33)	(106)
	(3 115)	**(2 522)**

Notes to the Financial Statements *(All amounts in thousand euros)*

	2021	2020
Lietuvos Draudimas AB:		
Fronting insurance premiums	(243)	(220)
Commissions from insurance policies fronting	13	12
Fronting insurance claims	152	129
Change in fronting insurance unearned premium reserves	3	(48)
Change in fronting insurance deferred client acquisition costs	-	3
Change in fronting insurance outstanding claims reserves	77	(38)
	2	**(162)**

Other transactions

	2021	2020
Lietuvos Draudimas AB:		
Investment portfolio management services	(52)	(72)
Other services	(26)	(13)
Indemnity costs, claim handling fee and subrogations	(151)	(124)
Indemnity costs, claim handling fee and subrogations	34	86
	(195)	**(123)**

	2021	2020
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Accrued interest and amortisation for subordinated loan	-	(48)
Indemnity costs, claim handling fee and subrogations	(88)	(213)
Indemnity costs, claim handling fee and subrogations	45	51
	(43)	**(210)**

	2021	2020
Lietuvos Draudimas AB Estonia branch:		
Indemnity costs, claim handling fee and subrogations	4	3
	4	**3**

	2021	2020
PZU Lietuva Gyuybes Draudimas UAB:		
Other services	(5)	(5)
	(5)	**(5)**

	2021	2020
PZU Centrum Operaciji S.A.:		
Other services	(10)	(9)
	(10)	**(9)**

	2021	2020
Towarzystwo Funduszy Inwestyjnych PZU S.A.:		
Investment portfolio management services	(8)	-
	(8)	**-**

Balances with related parties

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

	31.12.2021	31.12.2020
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance payables	(879)	(692)
Other payables	-	(1)
Unearned reinsurance commissions	(470)	(438)
Total payables	**(1 349)**	**(1 131)**
Other receivables	43	37
Reinsurer’s share in outstanding claims reserves	3 772	5 995
Reinsurer’s share in unearned premium reserves	1 489	1 328
Reinsurance receivables	11	458
Other (prepayments)	6	5
Total receivables	**5 321**	**7 823**
	3 972	**6 692**

Notes to the Financial Statements *(All amounts in thousand euros)*

	31.12.2021	31.12.2020
Lietuvos Draudimas AB:		
Other payables	-	(61)
Unearned fronting insurance commissions	(3)	(3)
Fronting insurance payables	(78)	(45)
Total payables	**(81)**	**(109)**
Fronting insurance reinsurer's share in outstanding claims reserves	104	27
Fronting insurance reinsurer's share in unearned premium reserves	64	61
Fronting insurance receivables	17	3
Other receivables	9	22
Total receivables	**194**	**113**
	113	**4**

	31.12.201	31.12.2020
Lietuvos Draudimas AB Estonia branch:		
Other receivables	-	1
	-	**1**
Total payables	(1 430)	(1 240)
Total receivables	5 515	7 936
Net receivables	**4 085**	**6 696**

The subordinated loan from PZU was been received on 21 May 2015. After receiving the consent from Financial Capital and Market Commission, the Company repaid the remaining part of the loan on 12 October 2020 in the amount of EUR 2 050 000 and accrued interest in the amount of EUR 23 068 that was calculated for this part of loan from the time period from previous interest payment on 29 May 2020 till the repayment on 12 October 2020. There were no transactions related to the subordinated loan in 2021.

	Note	Subordinated loan
As at 1 January 2020		**2 086 040**
Changes from financing cash flows		
Repayment of borrowings		(2 050 000)
Interest paid		(84 510)
Total changes from financing cash flows		**(2 134 510)**
Liability-related other changes		
Accrued interest and amortisation	13	48 470
Total liability-related other changes		**48 470**
As at 31 December 2020		**-**

b) Management remuneration

In 2021, the Company calculated remuneration to the Management Board in the amount of EUR 1 089 thousand and compulsory state social security contributions EUR 223 thousand (2020: remuneration EUR 1 109 thousand and compulsory state social security contributions EUR 232 thousand) and to the Supervisory Board in the amount of EUR 0 thousand (2020: EUR 0 thousand).

34. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

In the normal course of business, the Company constantly receives requests for claim payments. Such claims have been reviewed by the Company's management who is of the opinion that no material unprovided losses will be incurred.

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2021 there were 19 (31.12.2020: 22) pending cases of litigation versus the Company for a total of EUR 1 170 thousand (31.12.2020: EUR 1 276 thousand). The management is of the opinion that no material unrecognized losses will be incurred.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2021 (31.12.2020: none).

d) Tax contingencies

The local tax authorities have the power to examine the tax position of the Company for the previous 3 years (5 years for transfer pricing). The Company's management believes that the outcome of tax authority's examination would not result in a material impact on the Company's results and operations or its financial position. The Company's management is not aware of any actual or threatened litigation related to tax matters.

35. INSURANCE RISK MANAGEMENT

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

The risk under any one insurance contract is the possibility 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 therefore unpredictable.

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 payments exceed the carrying amount of the insurance premiums. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about 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 insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the written risks are well diversified in terms of type and amount of risk, industry and geography.

<u>Types of insurance contracts</u>

Motor third party liability insurance

It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other related legislation. Insurance premiums for motor third party liability are determined individually for each customer based on both customer as well as vehicle based risk criteria. In Latvia, a unified criterion for evaluating the road traffic accident history of a particular vehicle owner – the bonus malus system – is also available.

Most of motor third party liability insurance indemnities are made up of indemnities for property damage and personal injuries mostly medical treatment costs and temporary incapacity for work benefits. However, long-term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over decades.

Accident insurance

The accident insurance is a money compensation for the death, permanent incapacity for work or trauma arising from an accident. Also refund of costs for medical treatment as well as medical expenses, caused by injury. In addition it is possible to get daily allowances for time spend in hospital and having medical treatment. The insurance amounts are set out on the insurance policy. Typical losses are indemnified as lump sums.

Death events rarely occur on the basis of accident insurance contracts.

Travel insurance

The travel insurance indemnifies for the medical treatment costs incurred during a trip if such costs are caused by an illness or an accident started during the trip. It is also possible to insure a baggage, to purchase insurance against trip cancellations, travel interruptions and delays as well as General Third Party Liability (GTPL) or personal accident coverage. The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 120 thousand euros. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of injured is large.

Typical losses are indemnified as lump sums. The amount of an indemnity depends on the location of the loss occurrence and the number of claims depends on the season.

Casco insurance

The insurance indemnifies for losses which arise from damage to the vehicle, destruction, theft or robbery of it. Several additional insurance covers may also be purchased which are related to insured vehicle. Insurance premiums are determined individually for each customer based on both customer as well as vehicle based risk criteria. Product package can contain several additional insurance covers – road assistance and replacement car, for instance. More than two thirds of losses by amount accumulate from the damage to vehicles sustained in road traffic accidents.

Property insurance, business interruption insurance and building risks insurance

Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary) or collision. There is a possibility for individuals (private persons) to insure their posessions (property) and civil third party liability additionally to private property insurance.

Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realisation of any risk covered by property insurance of a company.

The largest losses arise from fire risks, which in turn give rise to indemnification for business interruptions. The loss is particularly large if the property (buildings and structures with movables in them) insured to a full extent is destroyed and this leads to a business interruption indemnity until the production object is again put in operation.

The most frequently realised risks for private property include leakage of liquid or steam, fire and weather losses (storm, snowing and flood). The largest losses usually are because of fire.

General liability insurance

This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity. In respect of property damages only direct loses are covered, but in respect of bodily injuries direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the specifics of customer’s commercial activity and customer’s turnover.

Health

The health insurance product is offered to companies who purchase health insurance for their employees. The risk covers health insurance indemnities like expenses for doctor visits, hospital expenses, medicaments.

While due to the type of a mass product and a large number of small indemnities along with proper management the risk from this product is assessed as small, the risk can increase under certain circumstances, such as, among others, high inflation of medical services costs and changing behaviour of customers visiting medical institutions.

Concentration by industry

The concentration of insurance risks by industry does not exceed 20% for an industry, therefore the management is of the opinion that the risk concentration is within the acceptable level.

Reinsurance contract assets

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense over the term of the related reinsurance coverage.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Sensitivity to insurance risk

Based on the fact that the Company provides non-life insurance, only the accounting estimates and assumptions for claims reserves for incurred but not reported claims, as disclosed in Note 3, are assessed by the Company to have a material effect on the timing and uncertainty of the insurer’s future cash flows.

The Company performs sensitivity testing of IBNR claims reserves by detailed analysis of the results calculated by using several statistical methods to ensure that the currently used method gives the best estimate for IBNR claims reserves to be recognized.

Notes to the Financial Statements (All amounts in thousand euros)

Sensitivity analysis for claims provisions at 31.12.2021:

	Impact if loss ratio 5 percent points higher than used in IBNR estimates	Impact if loss ratio 5 percent points lower than used in IBNR estimates	Impact if claims handling expenses 5% higher than used in reserve estimates	Impact if claims handling expenses 5% lower than used in reserve estimates
Obligatory Motor TPL	638	(638)	28	(28)
Property	36	(36)	11	(11)
Motor own damage	24	(24)	17	(17)
General TPL	85	(85)	5	(5)
Health	73	(73)	2	(2)
Guarantees	359	(313)	3	(3)

Sensitivity analysis for claims provisions at 31.12.2020:

	Impact if loss ratio 5 percent points higher than used in IBNR estimates	Impact if loss ratio 5 percent points lower than used in IBNR estimates	Impact if claims handling expenses 5% higher than used in reserve estimates	Impact if claims handling expenses 5% lower than used in reserve estimates
Obligatory Motor TPL	861	(861)	29	(29)
Property	14	(14)	9	(9)
Motor own damage	12	(12)	16	(16)
General TPL	124	(108)	5	(5)
Health	75	(75)	2	(2)
Guarantees	487	(383)	3	(3)

Sensitivity testing is also performed to long-term claims indexation assumption that incorporates, among other items, discounting. Sensitivity analysis for long-term claims provisions considering the impact of indexation assumption change:

	As at 31.12.2021		As at 31.12.2020	
	Impact if assumption is 0.5 percent points higher than used in provisions	Impact if assumption is 0.5 percent points lower than used in provisions	Impact if assumption is 0.5 percent points higher than used in provisions	Impact if assumption is 0.5 percent points lower than used in provisions
Obligatory Motor TPL	767	(671)	714	(621)

Notes to the Financial Statements *(All amounts in thousand euros)*

Concentration by territory

Insurance contracts (policies) are mainly issued to clients residing in Latvia. The most insured risk territorial coverage is in Latvia.

Geographical concentration of financial assets, financial liabilities and claims reserves as at the reporting date (all amounts in thousands of EUR):

Year 2021	**Latvia**	**Other OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	-	2 846	-	2 846
Financial investments at fair value through other comprehensive income	28 231	71 679	24 113	124 023
Insurance and reinsurance debtors	19 958	113	-	20 071
Reinsurers' share in outstanding claims reserves	-	5 122	-	5 122
Cash and cash equivalents	11 458	-	-	11 458
Other debtors	459	56	-	515
Total financial assets and reinsurers' share of claims reserves	**60 106**	**79 816**	**24 113**	**164 035**
Financial liabilities and claims reserves				
Gross outstanding claims reserves	(47 800)	-	-	(47 800)
Financial liabilities (short-term part)	(14 331)	(1 344)	-	(15 675)
Financial liabilities (long-term part)	(3 927)	-	-	(3 927)
Total financial liabilities and claims reserves	**(66 058)**	**(1 344)**	**-**	**(67 402)**
Net position as at 31 December 2021	**(5 952)**	**78 472**	**24 113**	**96 633**

Year 2020	**Latvia**	**Other OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	-	5 032	-	5 032
Financial investments at fair value through other comprehensive income	30 889	74 512	17 245	122 646
Insurance and reinsurance debtors	17 062	595	-	17 657
Reinsurers' share in outstanding claims reserves	-	7 353	-	7 353
Cash and cash equivalents	7 389	-	-	7 389
Other debtors	638	104	1	743
Total financial assets and reinsurers' share of claims reserves	**55 978**	**87 596**	**17 246**	**160 820**
Financial liabilities and claims reserves				
Gross outstanding claims reserves	(46 877)	-	-	(46 877)
Financial liabilities (short-term part)	(8 896)	(1 015)	-	(9 911)
Financial liabilities (long-term part)	(3 905)	-	-	(3 905)
Total financial liabilities and claims reserves	**(59 678)**	**(1 015)**	**-**	**(60 693)**
Net position as at 31 December 2020	**(3 700)**	**86 581**	**17 246**	**100 127**

Reinsurance coverage

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company for each insurance risk has the following own retention:

Maximum own retention:

	2021	2020
Personal accident & Travel medical expense	98	106
Cargo insurance	350	350
Hull, CMR Property	350	350
Property insurance	650	704
General TPL insurance	325	352
Bonds and guarantees	433	470
Obligatory Motor TPL	400	400

In 2021 and 2020, there is no reinsurance coverage for Motor own damage under excess of loss reinsurance agreements.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related deferred acquisition costs (DAC) assets. In performing these tests, the current best estimates of future contractual cash flows are used. If the liability adequacy test shows a deficiency in the carrying amount of insurance contract liabilities, the deficiency is recognised as loss for the financial year by recognizing an unexpired risk reserve.

Unexpired risk reserve as at 31 December 2021 amounts to EUR 1 150 (31 December 2020: EUR thousand 1 171), which is presented under Gross unearned premium and unexpired risk reserves on the Statement of Financial Position.

36. FINANCIAL RISK MANAGEMENT

Risk management system:

The Company's Management Board has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Management Board monitors fulfilment of regulations reflected in the Company's Risk Management Strategy and risk management policies which are established to identify and analyse and manage the risks faced by the Company. Risk Management Strategy aims to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products offered and emerging the best practice.

The operations of the Company and investment management activities in particular expose it to a variety of financial risks, including counterparty default risk, liquidity risks and market risks, which include interest rate risks, currency risks, as well as fair value risks. The Company's management seeks to minimise potential adverse effects of financial risks on the financial performance of the Company by placing limits on the level of exposure that can be taken.

36.1 Counterparty default risk

The Company takes on exposure to counterparty default risk which is the risk that counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

Exposure to counterparty default risk is managed through regular analysis of the ability of issuers and borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Notes to the Financial Statements (All amounts in thousand euros)

a) Maximum credit exposure

	31.12.201	31.12.2020
Lithuanian government debt securities	39 101	48 742
Latvian government debt securities	27 111	29 851
Polish government debt securities	13 863	17 538
Romanian government debt securities	6 207	6 408
Hungarian government debt securities	5 769	3 953
Bulgarian government debt securities	5 374	5 555
Italian government debt sedurities	5 253	-
Croatian government debt securities	5 100	5 282
Peruvian government debt securities	1 549	-
Mexican government debt securities	1 495	-
Philippines government debt securities	1 494	-
Moroccan government debt securities	1 475	-
Serbian government debt securities	1 463	-
Corporate debt securities	8 769	5 317
Investment funds	2 846	5 032
Total financial investments	**126 869**	**127 678**
Reinsurers' share in unearned premium reserves	1 663	1 468
Reinsurers' share in outstanding claims reserves	5 122	7 353
Total reinsurers' share of insurance contract liabilities	**6 785**	**8 821**
Receivables due from policyholders	18 759	16 114
Receivables due from intermediaries	1 199	948
Reinsurance debtors	113	595
Other receivables	515	743
Total receivables	**20 586**	**18 400**
Cash and cash equivalents	11 458	7 389
Maximum credit exposure, total	**165 698**	**162 288**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	**31.12.2021** Assets related to reinsurance	**Rating***	**31.12.2020** Assets related to reinsurance	**Rating***
Powszechny Zakład Ubezpieczeń SA	5 271	**A-**	7 781	**A-**
Swiss Re Group	447	**AA-**	471	**AA-**
ALD Re Designated Activity Company	392	**NR**	463	**NR**
Lietuvas Draudimas AB	185	**NR**	91	**NR**
Munich Re Group	112	**AA-**	129	**AA-**
GeneralRensurance AG	110	**AA+**	110	**AA+**
SCOR Global P&C	91	**AA-**	94	**AA-**
Hannover Re	90	**AA-**	99	**AA-**
R + V Versicherung AG	68	**A+**	69	**A+**
Caisse Centrale de Reassurances	46	**AA**	49	**AA**
Odyssey America Reinsurance Corporation	46	**A-**	47	**A-**
Zurich Insurance Company Ltd	28	**AA**	-	**AA**
Royal & Sun Alliance Insurance PLC	7	**A**	6	**A**
TUiR Warta S.A.	4	**A+**	-	**A+**
Liberty Syndicate, Cologne	1	**A**	5	**A**
ACE Tempest Re Europe	-	**AA**	2	**AA-**
Reinsurance risk	**6 898**		**9 416**	

* Used S&P agency ratings

c) Financial investments at FVOCI breakdown by ratings as at the reporting date (all amounts in thousands of EUR):

31 December 2021	Rated AAA	AA	A	BB	BBB	Total
Government debt securities	-	-	80 075	2 938	32 241	115 254
Corporate debt securities	-	-	-	565	8 204	8 769
Total investment assets	**-**	**-**	**80 075**	**3 503**	**40 445**	**124 023**

31 December 2020	Rated AAA	AA	A	BB	BBB	Total
Government debt securities	-	-	96 131	-	21 198	117 329
Corporate debt securities	-	-	-	1 022	4 295	5317
Total investment assets	**-**	**-**	**96 131**	**1 022**	**25 493**	**122 646**

36.2 Liquidity risk

The Company is exposed to regular calls on its available cash resources from claims settlements. Liquidity risk is managed according to the rules defined in Market risk and Liquidity risk management policy.

There has been the following distinction of financial assets, financial liabilities and claims reserves by their remaining maturities as at the reporting date (all amounts in thousands of EUR):

Year 2021	Non-fixed term	up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	2 846	-	-	-	2 846
Financial investments at fair value through other comprehensive income	-	25 897	63 432	34 694	124 023
Insurance and reinsurance debtors	-	20 071	-	-	20 071
Reinsurers' share in outstanding claims reserves	-	584	1 878	2 660	5 122
Cash and cash equivalents	11 458	-	-	-	11 458
Other debtors	25	441	-	49	515
Total financial assets and reinsurers' share of claims reserves	**14 329**	**46 993**	**65 310**	**37 403**	**164 035**
Financial liabilities and claims reserves					
Gross outstanding claims reserves	-	(23 496)	(10 527)	(13 777)	(47 800)
Financial liabilities	-	(15 423)	(3 200)	(39)	(18 662)
Lease liabilities	-	(252)	(579)	(109)	(940)
Total financial liabilities and claims reserves	**-**	**(39 171)**	**(14 306)**	**(13 925)**	**(67 402)**
Net position as at 31 December 2021	**14 329**	**7 822**	**51 004**	**23 478**	**96 633**

Notes to the Financial Statements *(All amounts in thousand euros)*

Year 2020	**Non-fixed term**	**up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	5 032	-	-	-	5 032
Financial investments at fair value through other comprehensive income	-	17 001	80 418	25 227	122 646
Insurance and reinsurance debtors	-	17 657	-	-	17 657
Reinsurers' share in outstanding claims reserves	-	1 957	4 627	769	7 353
Cash and cash equivalents	7 389	-	-	-	7 389
Other debtors	27	655	4	57	743
Total financial assets and reinsurers' share of claims reserves	**12 448**	**37 270**	**85 049**	**26 053**	**160 820**
Financial liabilities and claims reserves					
Gross outstanding claims reserves	-	(22 297)	(13 981)	(10 599)	(46 877)
Financial liabilities	-	(9 668)	(3 116)	(19)	(12 803)
Lease liabilities	-	(243)	(615)	(155)	(1 013)
Total financial liabilities and claims reserves	**-**	**(32 208)**	**(17 712)**	**(10 773)**	**(60 693)**
Net position as at 31 December 2020	**12 448**	**5 062**	**67 337**	**15 280**	**100 127**

The following table discloses the gross and undiscounted cash flows by their remaining contractual maturities of financial liabilities and lease liabilities at the reporting date. The amounts include contractual interest payments and exclude the impact of netting agreements until the expected settlement of corresponding liabilities.

31.12.2021	**Carrying amount**	**up to 12 months**	**1-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities					
Financial liabilities	(16 662)	(15 423)	(3 200)	(39)	**(18 662)**
Lease liabilities	(940)	(257)	(654)	(133)	**(1 044)**

31.12.2020	**Carrying amount**	**Up to12 months**	**1-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities					
Financial liabilities	(12 803)	(9 668)	(3 116)	(19)	**(12 803)**
Lease liabilities	(1 013)	(271)	(707)	(196)	**(1 174)**

Notes to the Financial Statements (All amounts in thousand euros)

36.3 Market risk

The Company takes on exposure to market risks, which include interest rate risks, currency risks, as well as fair value risks. Market risks arise from open positions in interest rate, which are exposed to general and specific market movements. The management sets limits on the value of risk that may be accepted, which is monitored regularly.

a) Exposure to interest rate risk

The Company's exposure to interest rate risk is limited as significant part of liabilities are not bearing interest and dominant part of interest bearing financial instruments have fixed interest rates. Maturity dates are materially equal to reassessment dates on all interest bearing assets and liabilities. Weighted average effective interest rates, as applicable, for the interest bearing financial instruments, excluding insurance contracts, were as follows:

	2021	**2020**
Latvian government debt securities	-0.04%	-0.04%
Bulgarian government debt securities	-0.01%	-0.01%
Croatian government debt securities	-0.01%	-0.01%
Lithuanian government debt securities	-0.05%	-0.08%
Polish government debt securities	-0.01%	-0.04%
Romanian government debt securities	0.04%	0.03%
Hungarian government debt securities	0.03%	0.02%
Moroccan government debt securities	0.03%	-
Italian government debt sedurities	0.05%	-
Peruvian government debt securities	0.02%	-
Philippines government debt securities	0.01%	-
Serbian government debt securities	0.02%	-
Mexican government debt securities	0.02%	-
Corporate debt securities	0.10%	0.03%

Sensitivity of change in investment value and effect on shareholders' equity due to market interest rate changes is as follows:

		2021	**2020**
		EUR	**EUR**
Market interest rate and impact on fair value	+0.5 percent point	(2 088)	(1 929)
	-0.5 percent point	2 154	1 981

b) Fair value determination

Financial assets and financial liabilities other than those reflected at their fair value (see Note 20 and Note 21), are receivables, cash and cash equivalents, payables, lease liabilities and subordinated loan.

Insurance, reinsurance and other financial debtors and financial liabilities, other than lease liabilities and subordinated loan, have their remaining maturities of less than one year and carry no interest, thus, their fair value is deemed not to materially differ from their carrying amounts. Lease liabilities are carried at the amount of future lease payments discounted by the Company's incremental borrowing rate, which is deemed to not materially differ from their fair value.

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

The subordinated loan carries interest in line with market circumstances and terms and conditions of the loan, including the increased risk due to subordination (see Note 33). Taking into account the above, and as there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

c) Currency risk

The Company is not exposed to significant currency risk as the reinsurance coverage is provided in, and other transactions are, denominated in EUR. Management of the Company seeks to limit currency risk through an investment portfolio created in respective currencies in the amount equal to respective claims reserves and liabilities.

Split of financial assets, financial liabilities and claims reserves by currencies as at the reporting date (all amounts in thousands of EUR):

Year 2021	**USD**	**EUR**	**GBP**	**PLN**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	2 846	-	-	-	2 846
Financial investments at fair value through other comprehensive income	-	124 023	-	-	-	124 023
Insurance and reinsurance debtors	-	20 071	-	-	-	20 071
Reinsurers' share in outstanding claims reserves	-	1 563	-	3 559	-	5 122
Cash and cash equivalents	99	11 183	-	176	-	11 458
Other debtors	-	515	-	-	-	515
Total financial assets and reinsurers' share of claims reserves	**99**	**160 201**	**-**	**3 735**	**-**	**164 035**
Financial liabilities and claims reserves						
Gross outstanding claims reserves	(60)	(43 822)	(6)	(3 888)	(24)	(46 877)
Financial liabilities	-	(19 602)	-	-	-	(19 602)
Total financial liabilities and claims reserves	**(60)**	**(63 424)**	**(6)**	**(3 888)**	**(24)**	**(67 402)**
Net position as at 31 December 2021	**39**	**96 777**	**(6)**	**(153)**	**(24)**	**96 633**

Year 2020	**USD**	**EUR**	**GBP**	**PLN**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	5 032	-	-	-	5 032
Financial investments at fair value through other comprehensive income	-	122 646	-	-	-	122 646
Insurance and reinsurance debtors	-	17 657	-	-	-	17 657
Reinsurers' share in outstanding claims reserves	-	3 751	-	3 602	-	7 353
Cash and cash equivalents	52	7 196	-	141	-	7 389
Other debtors	-	743	-	-	-	743
Total financial assets and reinsurers' share of claims reserves	**52**	**157 025**	**-**	**3 743**	**-**	**160 820**
Financial liabilities and claims reserves						
Gross outstanding claims reserves	(6)	(42 771)	-	(4 043)	(57)	(46 877)
Financial liabilities	-	(13 816)	-	-	-	(13 816)
Total financial liabilities and claims reserves	**(6)**	**(56 587)**	**-**	**(4 043)**	**(57)**	**(60 693)**
Net position as at 31 December 2020	**46**	**100 438**	**-**	**(300)**	**(57)**	**100 127**

Changes in the exchange rates do not have a material impact on net position. The largest share of financial assets and liabilities is held in EUR, which is the Company's functional currency.

37. CAPITAL MANAGEMENT

The Solvency II regime is in force from year 2016. According to this, the Company has established a Capital Management Policy and Dividend Policy that set the minimum requirements for measurement, monitoring, controlling and reporting of capital position, as well as division of responsibilities within the Company related to capital management process in order for the Management to take timely and necessary actions.

The Company`s objectives in relation to capital is to achieve:

- At any given time during a one-year period after the financial year-end the maintenance of the level of Solvency Capital requirement (SCR) coverage with own funds ar least at the Company`s set minimum requirement level;
- Effective capital management by optimizing the use of capital;
- Total shareholders' return maximization for parent company investors, in particular by optimizing the use of capital while maintaining safety;

- Maintenance of sufficient funds to cover the Company's liabilities to clients.

The Company's capital management process consists of the following stages:

- Planning;
- Organization;
- Monitoring;
- Management actions.

The Company is obliged to achieve and continuously maintain a level of solvency appropriate to the risks the Company undertakes as part of its business activities. As established by the Insurance and Reinsurance Law in order to ensure the stability of the financial activity of an insurance company, the company's eligible own funds shall at least be in the amount that covers the company's SCR. The Company anticipates the level of SCR (Solvency Capital requirement) coverage with own funds above the required minimum and acceptable in terms of the Company's Risk Appetite before and after the recommended dividend dsitribution. With continuous growth surplus of assets over liabilities, which translates into financial security and stability, the Company expects to continue having the Solvency Capital requirement above the required minimum also in the future. The classification of eligible own funds for Solvency II purposes is based on rules set in the FCMC Regulations for the Calculation of the Solvency Capital Requirement and Own Funds of Insurers and Reinsurers.

Detailed information about the Company's Solvency II position, own funds, capital management and related topics is publicly available in the annual Solvency and Financial Condition Report.

38. LOSS DEVELOPMENT TABLE

Loss development table illustrates the Company's estimate of ultimate claims outstanding for each accident year (all amounts in thousands of EUR):

	2011 and prior	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	14 509	6 411	7 787	8 457	11 114	10 896*	13 565*	18 631*	20 438*	18 318*	19 673	
1 year later	11 935	4 913	6 679	8 357	9 115*	8 646*	11 693*	15 989*	17 015*	15 673*		
2 years later	10 389	4 999	6 798	8 189*	8 709*	8 607*	11 666*	14 727*	16 038*			
3 years later	10 704	4 850	6 560*	7 668*	9 268*	7 902*	9 655*	12 660*				
4 years later	10 569	4 745	6 170*	7 591*	9 240*	7 493*	8 884*					
5 years later	9 867	4 434	6 017*	7 466*	9 250*	7 151*						
6 years later	10 008	4 537	6 079*	7 446*	9 079*							
7 years later	10 547	4 522	6 045*	7 254*								
8 years later	10 244	4 443	5 983*									
9 years later	10 790	4 382										
10 years later	10 810											
Net claims paid												
1 year later	4 489	3 772	4 880	5 888	6 054	5 791*	6 836*	9 094*	9 769*	8 056*	-	
2 years later	462	390	238	440	614*	287*	785*	426*	479*			
3 years later	1 895	104	208	330*	195*	244*	256*	451*				
4 years later	398	9	262*	84*	32*	23*	131*					
5 years later	650	96	30*	22*	23*	50*						
6 years later	304	-7	29*	-15*	33*							
7 years later	108	-2	-16*	-3*								
8 years later	46	69	47*									
9 years later	65	-58										
10 years later	65											
Cumulative net claims paid	**8 482**	**4 373**	**5 678***	**6 746***	**6 951***	**6 395***	**8 008***	**9 971***	**10 248***	**8 056***	**-**	**74 908***
CY (deficiency) / redundancy	**-20**	**61**	**62****	**192****	**171****	**342****	**771****	**2 067****	**977****	**2 645****	**-**	**7 268****

*) Net claims provisions and net claims paid starting from 2015 include insurance liabilities taken over from PZU Lietuva Latvian branch.

**) Current year (deficiency) / redundancy has been calculated taking into account the net claims provisions of PZU Lietuva Latvian branch as at the moment of business transfer.

Notes to the Financial Statements (All amounts in thousand euros)

	2011 and prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	20 348	6 590	7 847	12 018	9 499	11 065*	15 732*	57 401*	22 342*	19 768*	20 069	
1 year later	18 530	5 032	6 728	11 088	8 438*	8 781*	17 088*	53 353*	18 655*	17 446*		
2 years later	16 649	5 105	6 691	11 938*	8 018*	8 707*	17 239*	51 780*	17 617*			
3 years later	17 454	4 956	6 550*	11 509*	8 566*	8 001*	14 917*	49 674*				
4 years later	17 316	4 851	6 159*	11 430*	8 535*	7 591*	14 031*					
5 years later	16 783	4 540	6 006*	11 305*	8 546*	7 248*						
6 years later	16 879	4 643	6 069*	11 285*	8 375*							
7 years later	16 849	4 628	6 034*	11 094*								
8 years later	16 233	4 549	5 972*									
9 years later	17 750	4 489										
10 years later	17 731											
Gross claims paid												
1 year later	4 684	3 890	4 927	6 764	5 323	5 887*	8 367*	46 055*	10 336*	9 771*	-	
2 years later	502	377	179	3 262	614*	288*	806*	469*	1 456*			
3 years later	4 481	105	208	472*	215*	244*	257*	426*				
4 years later	1 730	9	263*	84*	38*	23*	131*					
5 years later	725	96	30*	22*	23*	50*						
6 years later	758	-7	30*	-15*	33*							
7 years later	990	-2	-16*	-3*								
8 years later	46	69	47*									
9 years later	389	-58										
10 years later	92											
Cumulative gross claims paid	**14 397**	**4 479**	**5 668***	**10 586***	**6 246***	**6 492***	**9 561***	**46 950***	**11 792***	**9 771***	**-**	**125 942***
CY (deficiency) / redundancy	**19**	**60**	**62****	**191****	**171****	**343****	**886****	**2 106****	**1 038****	**2 322****	**-**	**7 198****

*) Gross claims provisions and gross claims paid starting from 2015 include insurance liabilities taken over from PZU Lietuva Latvian branch.

**) Current year (deficiency) / redundancy has been calculated taking into account the net claims provisions of PZU Lietuva Latvian branch as at the moment of business transfer.

39. SUBSEQUENT EVENTS

No events have taken place from the Statement of Financial Position date to the date of approval of these financial statements that could materially affect the annual performance, cash flows or the financial position or related disclosures of BALTA as at and for the year ended on the reporting date.

A new risk from global perspective has emerged in February of year 2022, which is rapid escalation of Russia's military aggression and invasion in Ukraina. Company has developed regular monitoring of situation and is preparing Crisis management plan in case of development of different scenarios. Company has no large exposures or objects in Russia or Ukraine and impact on BALTA insurance portfolio can be evaluated as insignificant. At the same time impact to BALTA Investment portfolio has been observed through decrease of market value, thus impacting also capital position of the Company. Analysis of impact on Investment portfolio and Solvency position have been developed as main priorities. These analysis are based on assumption that conflict will not escalate outside Ukraine. Main conclusion of the analysis performed is that Company maintains sufficient funds to continue meeting the solvency requirements under normal and stressed conditions.

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of AAS BALTA

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AAS BALTA ("the Company") set out on pages 10 to 52 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2021,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AAS BALTA as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

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

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Measurement of claims reserves

The Company's gross outstanding claims reserves as at 31 December 2021 amounted to EUR 47 800 thousand (31 December 2020: EUR 46 877 thousand). The change in gross outstanding claims reserves in 2021 amounted to EUR 923 thousand (increase) (in 2020: EUR 1 635 thousand (increase)).

Reference to the financial statements: Note 2.3 h) "Insurance contract liabilities" (accounting policy) and Note 3 "Use of judgements and estimates"; Note 8 "Outstanding claims reserves"; Note 35 "Insurance risk management" (Notes to the financial statements).

Key audit matter

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

Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not reported but incurred (i.e. IBNR).

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

The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or

Our response

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

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

application of the models. Thus, the completeness and accuracy of the data underlying the actuarial projections was also our area of audit focus. Due to the above factors, we considered measurement of the gross outstanding claims reserves to be our key audit matter.	• For all significant insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claims reserves recognized at the end of prior year, comparing this analysis to the Company's current actuals, and seeking Management Board's explanations for any significant differences. • For all significant insurance contract portfolios, such as, among others, obligatory motor third party liability, property and motor own damage insurance, developing an independent estimate of the gross outstanding claims reserves, comparing our amount to the Company's estimates and seeking Management Board's explanations for any significant differences.

Reporting on Other Information

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

- Information on the Company, Members of the Supervisory Board and the Management Board, Independent Auditors as set out on page 3 of the accompanying Annual Report,
- Report of the Supervisory Board and the Management Board, as set out on pages 4 to 8 of the accompanying Annual Report,
- Statement of the Supervisory Board's and the Management Board's Responsibility, as set out on page 9 of the accompanying Annual Report.

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

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

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

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

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Supervisory Board and the Management Board, our responsibility is to consider whether the Report of the Supervisory Board and the Management Board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 114 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and branches of foreign insurers.

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

- the information given in the Report of the Supervisory Board and the Management Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Supervisory Board and the Management Board has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 114 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and branches of foreign insurers.

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the extraordinary shareholders' meeting on 20 August 2020 to audit the financial statements of AAS BALTA for the year ended 31 December 2021. Our total uninterrupted period of engagement is 9 years, covering the periods ending 31 December 2013 to 31 December 2021.

We confirm that:

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

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

KPMG Baltics SIA
Licence No. 55

Rainers Vilāns
Partner pp. KPMG Baltics SIA
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
21 March 2022

THIS DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND IT HAS A TIME-STAMP