AAS BALTA

Annual Report for 2019 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*
Roger Hilton Hodgkiss	Chairman of the Supervisory Board (until 14.06.2019)
Lidia Maria Orzechowska	Deputy of the Chairman of the Supervisory Board (reappointed on 14.06.2019)
Katarzyna Anna Galus	Member of the Supervisory Board (until 25.06.2019) Chairman of the Supervisory Board (from 25.06.2019)
Anna Teresa Mank	Member of the Supervisory Board (until 08.03.2019)
Pawel Karol Zacharkiewicz	Member of the Supervisory Board (reappointed on 14.06.2019 until 09.08.2019)
Marcin Goral	Member of the Supervisory Board (from 14.06.2019)
Jaroslaw Mioskowski	Member of the Supervisory Board (from 14.06.2019)

Management Board

Name, Surname	*Position*
Iain Kennedy	Chairman of the Management Board
Rafal Piotr Rybkowski	Management Board Member
Ingus Savickis	Management Board Member
Uldis Dzintars	Management Board Member (reappointed on 25.06.2019)
Mārtiņš Rozentāls	Management Board Member (reappointed on 25.06.2019)
Malgorzata Krystyna Piotrowska	Management Board Member (reappointed on 25.06.2019)
Marcin Tomasz Majerowski	Management Board Member

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

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

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 2019, BALTA (hereinafter – "Company") has been able to maintain its leading position as the largest Company in the Latvian non-life and life (Health, Accident products) insurance market in terms of gross premiums written in Latvia. Growth of business and the development of operational excellence have resulted in gross written premiums of 114.3 million EUR and total Net result of insurance activities of 13.2 million EUR for 2019. 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.

According to data from the Latvian Insurers Association, in 2019 BALTA managed to grow faster than the Latvian non-life and life (Health, Accident products) insurance market by 2.6 percentage points. BALTA has increased its gross written premiums by 9.6 million EUR or 9% compared to 2018, which resulted in a market share of 26%. The Company has managed to grow all of its significant insurance portfolios above the market growth rate.

The wide range of insurance products, excellent customer service and well-considered investments in brand promotion activities have enabled BALTA not only to retain but also significantly strengthen the leading position in the market both by volume and 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. According to the results of an independent survey of insurance companies in Latvia carried out by LETA and SKDS in 2019, BALTA was recognized as the country's most honest insurer for the 16th year. Additionally to that, in 2019, BALTA received the "Most Loved Insurance Company"* in Latvia award, and for the first time was included in TOP 50 of all companies, whilst the Ministry of Welfare of Latvia awarded BALTA as "Family Friendly Company", and in Sustainability Index 2019 (InCSR) the Company qualified for highest – Platinum – category – becoming the first and only insurance Company in Latvia receiving such status.

Extremely strong BALTA brand performance is also seen in 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 brand research, Top of Mind indicator in 2019 increased by 4 p.p., reaching 38%, while First choice indicator grew by 2 p.p., reaching 20% mark. BALTA is mostly recognized by customers for positive collaboration experience and excellent service, good reputation and acceptable price offers. BALTA's reputation score among those who know the Company is evaluated as 8.0 out of 10. BALTA brand is performing above average and is perceived as the best among its competitors.

Both the financial performance and the Company's customer focus, supported by an excellent external 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 2019

Growth of global and Latvia's economy slowed down in 2019, where real GDP growth of Latvia declined from 4,8% (2018) to 2,3% (Bank of Latvia estimate for 2019). However, insurance industry growth shrunk even faster from growth of 15% (2018) to 6% (Insurance Association data for 2019).

In our opinion, insurance industry growth has been affected by three main factors:

- Slowdown of economy growth
- Price deflation of separate insurance market segments (primarily motor, MTPL) due to competition
- Increase of customers number

Insurance industry is directly exposed to economic movements and trends, therefore it's growth also has declined in 2019. After price increases (especially in the motor insurance products segment) in 2017 and 2018, insurance industry has improved profitability which has caused more intensive price driven competition in 2019. As a result, insurance market growth, especially for motor insurance products segment, has been diminished.

Conversely, compared to 2018, the Company observes an increase in the number of customers, and the number of insurance products bought by customers. This trend has a positive effect on the insurance market growth, which still grows faster than the economy. Insurance industry growth above economy growth decreases the insurance penetration (measured as the ratio of gross premiums written to Gross Domestic Product) gap between Latvia and more mature European markets.

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 of 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 defence), 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.

In 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. At the end of 2019, the capital of BALTA exceeded the capital required according to law and the rules of the Financial and Capital Market Commission. 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

The customer is one of four BALTA 2021 Strategy pillars (others being – Growth, Digital, Efficiency), hence, in 2019, BALTA had a strong focus on customers and customer experience. New satisfactions measurements, updated Feedback handling procedures, Customer Experience team as well as Customer journey mapping projects were launched.

To ensure that BALTA has a clear view of customer experience, customers are now able to provide feedback in several new ways, and also via various channels. In the BALTA website Customer Effort Score (CES) was measured after purchase and after claim submission. Customers had a chance to provide feedback (score and comment) on how easy and convenient it was to use our website. This feedback helps prioritizing website development and therefore improve user experience. Customer Satisfaction score (CSAT) was measured online and offline. Online CSAT was introduced after chat conversation with BALTA sales agent, while offline CSAT is gathered via three mobile tablets travelling between BALTA branches. Net Promoter Score (NPS) surveys sent after purchase are now sent in an automated way (previously semi-automated), all responses are simultaneously displayed in a business intelligence tool, and Retail customers' feedback is managed in "closed-loop" process.

In line with BALTA 2021 Strategy, two Customer Enabler teams were established – Customer experience team and Senior Management Team Customer Committee. Customer Experience team includes members that represent all BALTA departments, and the team meets regularly to work on initiatives and projects for customer experience and satisfaction improvements. Senior Management Team Customer Committee reviews and discusses customer satisfaction results and experience improvement projects.

MOD Customer journey mapping project that took place in second half of 2019 brought valuable insights of Customer experience with MOD insurance and helped to identify more than 25 various improvement initiatives that teams continue to work on implementing in 2020. Some of the initiatives involve assessed "wow" moments, or positive surprise moments, with the aim of enhancement of customer engagement and loyalty.

New versions of Customer Feedback handling procedure were approved in 2019 with the most important changes being a more efficient feedback escalation and handling process.

From Claims handling perspective, BALTA has improved Personal accident claims application process in web and launched the claims application in web for Pet insurance product, which reached a record of 68% claims applications in web within a month.

A significant project for BALTA was the implementation of BALTA mobile application in late 2019. BALTA mobile application is the simplest, most convenient and fastest way of using self-service options provided by BALTA – to quickly and conveniently purchase insurance services, claim indemnity, view and keep track of claims, view all relevant information such as policies, invoices, indemnity cases, receive notifications, etc.

Working environment in the Company and professional development of staff

In 2019, BALTA focused on raising employee engagement mainly by improving development opportunities and collaboration. Special attention was given to the new Employer Branding strategy and BALTA values implementation. 22 workshops "Collaboration Through Values" were organized for all employees. A number of training activities have been carried out for all employees in order to increase sales and customer service skills, business knowledge and cross-functional collaboration, raise aspirations, increase personal efficiency and encourage personal growth. The Company also strengthened data analytics competencies.

Agile methodology training has been carried out. 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.

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 in both internal and external recognition. Internally, the Company improved employee engagement by 5 percentage points reaching 86%, resulting in BALTA being recognized by KINCENTRIC as one of the Best Employers in Baltics for the fifth time. In addition, employee turnover maintained at the same level.

BALTA received recognitions for participating in State Labor Inspection annual conference and sharing best practice on measures in the field of fire safety and also for attending conference "DNA of Outstanding Employer" and sharing information about development opportunities in BALTA.

Corporate social responsibility

As the leading insurance company in the Latvian market, 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. BALTA is led by a belief that its business growth must be aligned with these areas and founded in sustainable use of resources.

BALTA CSR, environment protection and society directions, principles and areas of support are defined in three policies, all of them overviewed and approved by Board in 2019: Corporate Social Responsibility Policy, Environment Protection Policy and Sponsorship and Society Support Policy.

Additionally to responsible business practice, in 2019, BALTA also 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. Some of the biggest CSR initiatives carried out in 2019: BALTA annual award "Safest car fleet" – a contest for businesses with the goal of promoting the education of car fleet managers and overall traffic safety; Blood Donor days, social campaigns together with State Road Safety Department "Driving? Step out of your phone!" and "No closer!"; support for education within school program "Ready for Life!", environment protection activity "Second life!" and others. In addition, BALTA regularly collaborates with education institutions, educating pupils and students about insurance. BALTA CSR initiatives and activities are also communicated daily through the media and social networks. Furthermore, for several years BALTA has been taking part in Society Integration Foundation of Latvia project "Honorary Family" providing discounts for insurance services to families with three and more children, while every Christmas support is provided to children from orphanages.

In addition to the community support activities, attention is paid to deliver a responsible attitude to customers and partners in the insurance sales process. To align with this value, regular trainings are organized for all stakeholders – insurance agents, sales partners and brokers.

BALTA investments in the community, as well as the ethical and honorable attitude towards customers and business partners, are recognized also by independent experts. Every year BALTA takes part in the strategic management tool "Sustainability index - InCSR," which gives the business the opportunity to receive evaluation and suggestions of independent experts in five fields: strategy, market relations, environment, human resources and society support. In 2019, BALTA for the first time qualified for the highest – Platinum – category – becoming the only insurance company in Latvia to receive such a high evaluation.

Report of the Supervisory Board and the Management Board

Proposals regarding the distribution of the Company's profit

In accordance with the Company's Dividend policy, the Company is able to distribute dividends for the year ended 31 December 2019 for a total amount of 5.5 million EUR, however, considering uncertainties related with COVID-19 epidemic development and its economic impact, and taking into account EIOPA statement No. 20-137 "EIOPA statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector" published on 17 March 2020, the Supervisory Board and the Management Board of BALTA recommend to the Shareholders to distribute as dividends only 50% of the above mentioned amount, i.e. 2.74 million EUR, and the remainder of 2019 net profit to be transferred to Company's Retained earnings.

Subsequent events

Spreading epidemic of COVID-19 is the main danger for economic slowdown worldwide, including in Latvia, that may affect the Company's operations in 2020. Country emergency situation declaration and measures taken on 14 March 2020 to limit population mobility will reduce the economic activity in some sectors, for example, tourism, hospitality and air transport. The extent of the potential economic impact will largely depend on the scale and duration of the virus, as well as the involvement of policy makers through support measures. At the date of approval of these financial statements, the Company has not detected a material impact to its operations and results, however, the slowdown of the economy might have a future effect on business volumes and, therefore, financial results. The Company has established a Crisis management team with a major focus to decide on the preventive actions to ensure staff safety and business continuity. The management is of the view that the Company's quite liquid investment portfolio and the capital position should serve as a basis to weather the potential future negative impacts from the ongoing developments affecting Latvia and the wider region.

No other 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.

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

19 March 2020

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 2019 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 2019 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 2019.

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.

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

19 March 2020

Financial statements
Statement of Comprehensive Income *(All amounts in euros)*

	Exhibit	2019	2018
Insurance income			
Gross written premiums	4	114 330 134	104 722 214
Reinsurer's share in written premiums	4	(4 865 337)	(3 361 080)
Net written premiums	4	109 464 797	101 361 134
Change in gross unearned premium and unexpired risk reserves	5	(4 069 505)	(6 583 939)
Change in unearned premium reserves, reinsurers' share	5	114 371	(180 580)
Change in unearned premium and unexpired risk reserves	5	(3 955 134)	(6 764 519)
Net premiums earned		**105 509 663**	**94 596 615**
Other technical income	6	592 243	431 937
Total insurance income		**106 101 906**	**95 028 552**
Insurance expenses			
Gross claims paid to policyholders		(92 624 781)	(52 230 937)
Loss adjustment expenses		(4 251 382)	(4 104 592)
Recovered losses		4 266 447	4 256 978
Claims paid	7	(92 609 716)	(52 078 551)
Reinsurer's share in claims paid	7	37 557 225	3 824 769
Net claims paid		(55 052 491)	(48 253 782)
Change in gross outstanding claims reserves	8	30 227 385	(49 107 125)
Change in outstanding claims reserves, reinsurers' share	8	(36 630 886)	38 948 278
Net incurred claims		**(61 455 992)**	**(58 412 629)**
Client acquisition costs	9	(16 964 572)	(15 393 933)
Administrative expenses	10	(14 500 797)	(13 842 423)
Other technical expenses	11	(809)	(12 758)
Total insurance expenses		**(92 922 170)**	**(87 661 743)**
Net result of insurance activities		**13 179 736**	**7 366 809**
Interest income	12	1 987 071	1 814 992
Net profit / (loss) on financial assets	13	(947 885)	(1 118 853)
Investment management expenses		(262 078)	(237 312)
Other finance income	14	31	186
Other finance expenses	15	(95 291)	(67 616)
Other income	16	35 890	26 179
Other expenses	17	(220 616)	(6 166)
Profit before tax		**13 676 858**	**7 778 219**
Corporate income tax for the reporting year		-	-
Profit for the year		**13 676 858**	**7 778 219**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve	21	1 025 208	(641 528)
		1 025 208	**(641 528)**
Other comprehensive income for the period, net of tax		**1 025 208**	**(641 528)**
Total comprehensive income for the reporting year		**14 702 066**	**7 136 691**

All profit is attributable to the shareholders of AAS BALTA.

Notes on pages 14 to 50 are an integral part of these financial statements.

Katarzyna Anna Galus
Chairman of the Supervisory Board

Iain Kennedy
Chairman of the Management Board

19 March 2020

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

	Exhibit	31.12.2019	31.12.2018
ASSETS			
Intangible assets	18	**2 445 054**	**2 274 222**
Property and equipment	19	**4 042 003**	**3 211 250**
Financial investments at fair value through profit or loss	20	4 978 551	4 770 691
Financial investments at fair value through other comprehensive income	21	106 620 262	83 341 537
Total financial investments		**111 598 813**	**88 112 228**
Receivables due from policyholders		18 893 715	16 407 472
Receivables due from intermediaries		888 331	1 109 495
Receivables from direct insurance operations	22	19 782 046	17 516 967
Reinsurance receivables	23	245 609	996 113
Other receivables	25	843 728	789 922
Total receivables		**20 871 383**	**19 303 002**
Reinsurers' share in unearned premium reserves	5	1 080 141	965 770
Reinsurers' share in outstanding claims reserves	8	6 755 171	43 386 057
Reinsurers' share of insurance contract liabilities		**7 835 312**	**44 351 827**
Deferred client acquisition costs	9	10 828 277	10 297 622
Other accrued income and deferred expenses	24	739 761	876 389
Accrued income and deferred expenses		**11 568 038**	**11 174 011**
Cash and cash equivalents	26	**7 168 642**	**6 671 043**
TOTAL ASSETS		**165 529 245**	**175 097 583**

Notes on pages 14 to 50 are an integral part of these financial statements.

Katarzyna Anna Galus
Chairman of the Supervisory Board

Iain Kennedy
Chairman of the Management Board

19 March 2020

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

	Exhibit	31.12.2019	31.12.2018
SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES			
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	27	6 619 290	6 619 290
Share premium	27	1 595 511	1 595 511
Reserve capital and other reserves	27	4 357 130	4 357 130
Revaluation reserve	21	2 366 553	1 341 345
Retained earnings		34 162 764	20 485 906
TOTAL SHAREHOLDERS' EQUITY AND RESERVES		**49 101 248**	**34 399 182**
LIABILITIES			
Gross unearned premium and unexpired risk reserves	5	53 634 945	49 565 440
Gross outstanding claims reserves	8	45 241 673	75 469 058
Insurance contract liabilities		**98 876 618**	**125 034 498**
Subordinated loan	35	2 086 040	2 085 897
Direct insurance creditors		8 016 238	7 309 123
Reinsurance creditors		816 055	867 255
Taxes and the state compulsory social insurance contributions	28	558 571	524 771
Accrued expenses and deferred income	29	4 072 590	3 763 863
Other creditors	30	1 145 319	1 112 994
Lease liabilities	31	856 566	-
Total creditors		**17 551 379**	**15 663 903**
TOTAL LIABILITIES		**116 427 997**	**140 698 401**
TOTAL SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES		**165 529 245**	**175 097 583**

Notes on pages 14 to 50 are an integral part of these financial statements.

Katarzyna Anna Galus
Chairman of the Supervisory Board

Iain Kennedy
Chairman of the Management Board

19 March 2020

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

	Exhibit	Share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2017		**6 619 290**	**1 595 511**	**4 357 130**	**533 950**	**13 496 438**	**26 602 319**
Adjustment on initial application of IFRS 9	21	-	-	-	1 448 923	(788 751)	660 172
Total comprehensive income for the year		**-**	**-**	**-**	**(641 528)**	**7 778 219**	**7 136 691**
Profit for the year		-	-	-	-	7 778 219	7 778 219
Other comprehensive income		**-**	**-**	**-**	**(641 528)**	**-**	**(641 528)**
Net change in revaluation reserve	21	-	-	-	(641 528)	-	(641 528)
Balance at 31 December 2018		**6 619 290**	**1 595 511**	**4 357 130**	**1 341 345**	**20 485 906**	**34 399 182**
Total comprehensive income for the year		**-**	**-**	**-**	**1 025 208**	**13 676 858**	**14 702 066**
Profit for the year		-	-	-	-	13 676 858	13 676 858
Other comprehensive income		**-**	**-**	**-**	**1 025 208**	**-**	**1 025 208**
Net change in revaluation reserve	21	-	-	-	1 025 208	-	1 025 208
Balance at 31 December 2019		**6 619 290**	**1 595 511**	**4 357 130**	**2 366 553**	**34 162 764**	**49 101 248**

Notes on pages 14 to 50 are an integral part of these financial statements.

Katarzyna Anna Galus
Chairman of the Supervisory Board

Iain Kennedy
Chairman of the Management Board

19 March 2020

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

	Exhibit	2019	2018
Cash flows from operating activities			
Premiums received from direct insurance		110 104 812	103 063 766
Claims paid for direct insurance		(91 767 468)	(51 702 106)
Payments received from ceded reinsurance		37 714 071	1 999 432
Payments made for ceded reinsurance		(3 739 216)	(2 671 047)
Mandatory payments	33	(1 392 401)	(1 184 650)
Other expenses		(27 007 379)	(24 966 374)
Net cash from operating activities:		**23 912 419**	**24 539 021**
Cash flows from investing activities			
Disposal of investments		3 988 000	3 861 000
Acquisition of investments		(27 351 376)	(25 789 677)
Purchase of property and equipment and intangible assets		(1 634 965)	(1 750 692)
Interest received from debt securities		2 099 867	1 907 863
Investment management and other expenses		(221 042)	(142 590)
Net cash used in investing activities:		**(23 119 516)**	**(21 914 096)**
Cash flows from financing activities			
Interest paid for subordinated loan		(61 029)	(60 906)
Payments made for lease liabilities, including interest		(232 602)	-
Net cash used in financing activities:		**(293 631)**	**(60 906)**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(1 673)**	**(4 854)**
Net increase / (decrease) in cash and cash equivalents		**497 599**	**2 559 165**
Cash and cash equivalents at the beginning of reporting year		6 671 043	4 111 878
Cash and cash equivalents at the end of reporting year	26	**7 168 642**	**6 671 043**

Notes on pages 14 to 50 are an integral part of these financial statements.

Katarzyna Anna Galus
Chairman of the Supervisory Board

Iain Kennedy
Chairman of the Management Board

19 March 2020

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%)

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 19 March 2020. 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.

2.1.4 Reporting year

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

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

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, effective for annual periods beginning on or after 1 January 2019, and has applied them in preparing these financial statements.

- *IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)*

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance 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, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged, and the distinction between operating and finance leases will be retained.

The Company has applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach measuring the lease liability at the date of initial application as the present value of the remaining lease payments using the incremental borrowing rate at this date, with no restatement of comparative information. Right-of-use assets were measured at the amounts equal to the corresponding lease liabilities as at the date of the initial application. The Company applied the practical expedient to grandfather the definition of lease on transition. This means that the Company applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

For further details on the impact on the Company's financial statements from initial application of IFRS 16 see Note 19 and Note 31.The following guidance, effective for annual periods beginning on 1 January 2019, did not have any effect on these financial statements:

- *IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)*
- *Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019)*
- *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)*
- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019)*
- *Annual Improvements to IFRSs (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019)*

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 2019, and have not been applied in preparing these financial statements.

- *Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)*
- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)*

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

- *IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU)*

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

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

The Company 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, however, the Company is in the initial stage of the new standard's implementation project, and the Company management has not yet assessed the quantitative impact of the standard.

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 and indirect expenses incurred related to the conclusion of contracts.

g) Deferred client acquisition costs (DAC)

Commissions and other acquisition costs 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 37.

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 Insurance and Reinsurance receivables, Other receivables and Cash and cash equivalents in the statement of financial position. See accounting policy on Receivables from direct insurance operations and 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.

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.

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.

Notes to the Financial Statements (All amounts in euros)

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 on other assets 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.

The carrying amounts of property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized and the asset's carrying amount is written down to its recoverable amount immediately if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. 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.

	31.12.2019	**31.12.2018**
1 USD	EUR 1.1234	EUR 1.1488
1 PLN	EUR 4.2568	EUR 4.2736

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 distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends).

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 provided for, using the liability method, 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. 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 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. 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 of impairment. 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 are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

Because of the nature of the Company's operations and the types of revenues it earns, the timing and measurement of the Company's revenues have not changed materially under IFRS 15, as insurance contracts are out of scope of IFRS 15. The Company recognizes revenue over time (e.g. rent and 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.

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 critical accounting estimate.

The provisions for reported but not settled claims (RBNS) are based on claims handler 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 reserve.

The provision for incurred but not reported claims (IBNR) is calculated using Bornhuetter - Ferguson method, except for specific insurance portfolios as described below. Obligatory Motor TPL insurers receive recourse claims requests from State Social Insurance Agency (SSIA). Those recourses are reported to insurance companies with the delay of one to three years from accident date to 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 reserve. Taking into account the long duration of future payments that expose claims provisions to a significant 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 reserve for not yet reported SSIA recourses is calculated using the expected claim severity and frequency method. IBNR provision for guarantees insurance portfolio and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 is calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

Claims handling reserve is calculated on the basis of average amount for one claim settling transaction and total number of claim transactions estimated for future. 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 and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 is calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

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 37.

Other areas where assumptions and estimation uncertainties are involved are impairment and valuation of deferred acquisition costs. Further information about the assumptions made on those areas are included in the following notes:

- Impairment: Note 2.15
- Deferred acquisition costs: Note 37 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 31.12.2019 and as at 31.12.2018 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets.

Notes to the Financial Statements (All amounts in euros)

4. NET WRITTEN PREMIUMS

	2019 Gross amount	2019 Reinsurers' share	2019 Net amount	2018 Gross amount	2018 Reinsurers' share	2018 Net amount
Personal accident	3 094 590	(14 088)	3 080 502	2 647 916	(16 710)	2 631 206
Health	20 536 395	-	20 536 395	18 315 472	-	18 315 472
Motor own damage	30 690 502	(654 989)	30 035 513	29 358 906	(246 892)	29 112 014
Marine	26 350	(1 004)	25 346	28 613	(1 801)	26 812
Cargo	990 104	(89 371)	900 733	947 735	(46 834)	900 901
Property	25 039 717	(2 203 680)	22 836 037	20 823 229	(1 200 163)	19 623 066
Credit insurance	52 801	-	52 801	55 975	-	55 975
General TPL	4 150 504	(235 524)	3 914 980	3 985 560	(291 697)	3 693 863
Guarantees	2 594 230	(919 317)	1 674 913	2 376 600	(824 757)	1 551 843
Financial risks	273 353	(151 423)	121 930	342 185	(110 647)	231 538
Travel accident	3 447 541	(8 635)	3 438 906	3 331 560	(7 345)	3 324 215
Obligatory Motor TPL	23 434 047	(587 306)	22 846 741	22 508 463	(614 234)	21 894 229
	114 330 134	**(4 865 337)**	**109 464 797**	**104 722 214**	**(3 361 080)**	**101 361 134**

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

Premiums earned

	2019 Gross premiums earned	2019 Reinsurers' share	2019 Net premiums earned	2018 Gross premiums earned	2018 Reinsurers' share	2018 Net premiums earned
Motor own damage	30 483 289	(710 906)	29 772 383	28 150 356	(544 737)	27 605 619
Property	23 277 388	(2 213 052)	21 064 336	19 758 885	(1 268 880)	18 490 005
Health	19 481 088	-	19 481 088	17 419 575	-	17 419 575
Obligatory Motor TPL	23 337 330	(579 169)	22 758 161	19 957 776	(607 889)	19 349 887
Other	13 681 534	(1 247 839)	12 433 695	12 851 683	(1 120 154)	11 731 529
TOTAL	**110 260 629**	**(4 750 966)**	**105 509 663**	**98 138 275**	**(3 541 660)**	**94 596 615**

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 2017	**42 981 501**	**(1 146 350)**	**41 835 151**
Written premiums	104 722 214	(3 361 080)	101 361 134
Earned premiums	(98 138 275)	3 541 660	(94 596 615)
Total change for the year	6 583 939	180 580	6 764 519
Balance at 31 December 2018	**49 565 440**	**(965 770)**	**48 599 670**
Written premiums	114 330 134	(4 865 337)	109 464 797
Earned premiums	(110 260 629)	4 750 966	(105 509 663)
Total change for the year	4 069 505	(114 371)	3 955 134
Balance at 31 December 2019	**53 634 945**	**(1 080 141)**	**52 554 804**

Notes to the Financial Statements (All amounts in euros)

b) Changes in unearned premium and unexpired risk reserves and distribution by type of insurance for the year 2019:

	Gross amount	Reinsurers' share	Net amount
Personal accident	185 379	-	185 379
Health	1 055 308	-	1 055 308
Motor own damage	207 213	55 916	263 129
Marine	(368)	-	(368)
Cargo	3 233	-	3 233
Property	1 762 330	9 371	1 771 701
Credit insurance	(2 742)	-	(2 742)
General TPL	207 734	1 497	209 231
Guarantees	581 269	(174 311)	406 958
Financial risks	(42 476)	1 293	(41 183)
Travel accident	15 908	-	15 908
Obligatory Motor TPL	96 717	(8 137)	88 580
	4 069 505	**(114 371)**	**3 955 134**

c) Changes in unearned premium and unexpired risk reserves and distribution by type of insurance for the year 2018:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(42 255)	-	(42 255)
Health	895 896	-	895 896
Motor own damage	1 208 550	297 846	1 506 396
Marine	(280)	-	(280)
Cargo	28 704	1 332	30 036
Property	1 064 344	68 718	1 133 062
Credit insurance	12 554	-	12 554
General TPL	123 973	4 419	128 392
Guarantees	718 348	(191 781)	526 567
Financial risks	(35 771)	6 392	(29 379)
Travel accident	59 190	-	59 190
Obligatory Motor TPL	2 550 686	(6 346)	2 544 340
	6 583 939	**180 580**	**6 764 519**

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

	31.12.2019	31.12.2018
Personal accident	1 639 996	1 454 617
Health	8 332 141	7 276 833
Motor own damage	15 161 723	14 954 510
Marine	12 294	12 662
Cargo	318 451	315 218
Property	12 875 949	11 113 619
Credit insurance	34 808	37 550
General TPL	2 379 278	2 171 544
Guarantees	3 061 967	2 480 698
Financial risks	89 567	132 044
Travel accident	590 248	574 340
Obligatory Motor TPL	9 138 523	9 041 805
	53 634 945	**49 565 440**

Notes to the Financial Statements (All amounts in euros)

6. OTHER TECHNICAL INCOME

	2019	2018
Reinsurance and fronting insurance commission income (see Note 34)	427 867	294 314
Income from cancellation of policies	108 683	97 705
Income of agreement penalties	581	6 324
Other income	55 112	33 594
	592 243	**431 937**

7. CLAIMS PAID

	2019			2018		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	(1 306 223)	100 471	(1 205 752)	(1 139 758)	4 626	(1 135 132)
Health	(12 988 227)	-	(12 988 227)	(11 420 448)	-	(11 420 448)
Motor own damage	(18 451 951)	442 108	(18 009 843)	(16 947 723)	300 722	(16 647 001)
Marine	(26 695)	-	(26 695)	(1 150)	-	(1 150)
Cargo	(158 508)	-	(158 508)	(118 146)	3 033	(115 113)
Property	(47 949 105)	36 839 528	(11 109 577)	(9 869 247)	1 421 240	(8 448 007)
Credit insurance	(57 740)	-	(57 740)	(57 454)	-	(57 454)
General TPL	(622 075)	-	(622 075)	(600 119)	1 060	(599 059)
Guarantees	(176 637)	40 694	(135 943)	(874 967)	255 837	(619 130)
Financial risks	(91 137)	17 896	(73 241)	(1 180 307)	1 027 989	(152 318)
Travel accident	(645 511)	-	(645 511)	(765 415)	-	(765 415)
Obligatory Motor TPL	(10 135 907)	116 528	(10 019 379)	(9 103 817)	810 262	(8 293 555)
	(92 609 716)	**37 557 225**	**(55 052 491)**	**(52 078 551)**	**3 824 769**	**(48 253 782)**

8. OUTSTANDING CLAIMS RESERVES

a) Movement in outstanding claims reserves:

	2019			2018		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
At beginning of year						
Notified claims	62 750 438	(43 386 057)	19 364 381	19 189 424	(4 437 779)	14 751 645
Incurred, but not reported	12 718 620	-	12 718 620	7 172 509	-	7 172 509
Total at beginning of year	**75 469 058**	**(43 386 057)**	**32 083 001**	**26 361 933**	**(4 437 779)**	**21 924 154**
Cash paid for claims notified in prior years	(47 240 454)*	36 988 452*	(10 252 002)	(9 966 178)	2 435 001	(7 531 177)
Changes in liabilities arising from current and prior year claims	17 013 069	(357 566)	16 655 503	59 073 303*	(41 383 279)*	17 690 024
Total change in year	(30 227 385)	36 630 886	6 403 501	49 107 125	(38 948 278)	10 158 847
Total at end of year	**45 241 673**	**(6 755 171)**	**38 486 502**	**75 469 058**	**(43 386 057)**	**32 083 001**
Notified claims	26 596 789	(6 755 171)	19 841 618	62 750 438	(43 386 057)	19 364 381
Incurred, but not reported	18 644 884	-	18 644 884	12 718 620	-	12 718 620
Total at end of year	**45 241 673**	**(6 755 171)**	**38 486 502**	**75 469 058**	**(43 386 057)**	**32 083 001**

*The change in outstanding claims reserves in 2018 and 2019 is driven by, among others, a property claim incurred and notified in 2018 with gross and reinsurers' share in outstanding claims reserves as at 31 December 2018 amounting to EUR 38 497 000 and EUR 37 787 311, correspondingly, which was subsequently paid in 2019.

Notes to the Financial Statements (All amounts in euros)

b) Change in outstanding claims reserves and distribution by type of insurance for the year 2019:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(234 841)	118 195	(116 646)
Health	190 296	-	190 296
Motor own damage	432 144	(63 770)	368 374
Marine	(5 739)	-	(5 739)
Cargo	(72 691)	-	(72 691)
Property	(35 694 257)	36 538 882	844 625
Credit insurance	(1 657)	-	(1 657)
General TPL	108 802	200	109 002
Guarantees	637 802	17 573	655 375
Financial risks	(152 733)	148 379	(4 354)
Travel accident	217 793	(62 163)	155 630
Obligatory Motor TPL	4 347 696	(66 410)	4 281 286
	(30 227 385)	**36 630 886**	**6 403 501**

c) Change in outstanding claims reserves and distribution by type of insurance for the year 2018:

	Gross amount	Reinsurers' share	Net amount
Personal accident	257 265	(18 195)	239 070
Health	273 256	-	273 256
Motor own damage	662 555	(32 074)	630 481
Marine	3 303	-	3 303
Cargo	(221 213)	-	(221 213)
Property	39 046 908	(36 928 415)	2 118 493
Credit insurance	7 855	-	7 855
General TPL	252 892	9 800	262 692
Guarantees	557 173	(104 480)	452 693
Financial risks	(692 756)	529 081	(163 675)
Travel accident	(12 110)	-	(12 110)
Obligatory Motor TPL	8 971 997	(2 403 995)	6 568 002
	49 107 125	**(38 948 278)**	**10 158 847**

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

	31.12.2019	31.12.2018
Personal accident	357 831	592 672
Health	1 657 895	1 467 599
Motor own damage	4 351 303	3 919 159
Marine	2 723	8 462
Cargo	305 829	378 520
Property	9 012 255	44 706 512
Credit insurance	16 807	18 464
General TPL	2 018 137	1 909 335
Guarantees	2 030 657	1 392 855
Financial risks	134 469	287 202
Travel accident	379 505	161 712
Obligatory Motor TPL	24 974 262	20 626 566
	45 241 673	**75 469 058**

Notes to the Financial Statements (All amounts in euros)

9. CLIENT ACQUISITION COSTS

	2019	2018
Commissions to brokers and other intermediaries	(9 897 330)	(9 551 138)
Commissions and other agent related expense	(6 307 505)	(5 755 110)
Compulsory state social security contributions related to agents' remuneration	(1 271 372)	(1 149 925)
Change in deferred client acquisition costs	530 655	1 077 662
Other acquisition expenses	(19 020)	(15 422)
	(16 964 572)	**(15 393 933)**

Deferred client acquisition costs

As at 31 December 2017	**9 219 959**
Deferred client acquisition costs	21 797 679
Amortisation of deferred acquisition cost	(20 720 016)
As at 31 December 2018	**10 297 622**
Deferred client acquisition costs	22 808 169
Amortisation of deferred acquisition cost	(22 277 514)
As at 31 December 2019	**10 828 277**

Client acquisition costs included in the deferred acquisition costs (DAC) calculation amounting to EUR 5 312 942 (2018: EUR 5 326 083) are represented under Administrative expenses. Refer to Note 10.

10. ADMINISTRATIVE EXPENSES

	2019	2018
Wages and salaries:		
- salaries to staff	(6 531 297)	(6 042 606)
- state compulsory social insurance contributions	(1 477 711)	(1 384 416)
Depreciation and amortization costs*	(1 494 040)	(1 171 184)
Information technology and communication expense	(1 084 611)	(1 176 411)
Payments to Motor Insurers Bureau (OMTPL mandatory deductions)	(1 072 240)	(979 945)
Advertisement and public relations	(1 064 533)	(1 073 449)
Premises utility, maintenance and repair expense	(698 711)	(680 478)
Payments to Financial and Capital Market Commission	(297 564)	(273 014)
Professional services	(178 174)	(233 490)
Office expenses	(123 134)	(132 535)
Rent of premises*	(88 587)	(317 498)
Transport	(81 146)	(77 956)
Administration expenses related to Loss adjustment expenses **	471 056	480 744
Other administrative costs	(780 105)	(780 185)
	(14 500 797)	**(13 842 423)**

* – decrease in Rent or premises expenses and increase in Depreciation and amortization costs is due to the Company's adoption of IFRS 16 as of 1 January 2019. In line with the selected modified retrospective sapproach, the Company does not restate the amounts for 2018.

** – 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 0.20% from gross premiums collected in Obligatory Motor Third Party Liability (OMTPL) insurance and in amount of 0.283% 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 2019 and in 2018, 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.

Notes to the Financial Statements (All amounts in euros)

- Road Traffic Accidents Foundation 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia – a variable sum of EUR 0.41 (2018: EUR 0.48) per contract and a fixed sum of EUR 33 000 per year (2018: EUR 34 896) or EUR 2 750 per month (2018: EUR 2 908).

In 2019, OMTPL mandatory deductions amounted to EUR 1 072 240 (2018: EUR 979 945).

At the end of year 2019, the Company employed 328 employees (2018: 314) and 245 agents (2018: 255).

Administrative expenses include client acquisition costs amounting to EUR 5 312 942 (2018: EUR 5 326 083) 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. Please refer to Note 9.

The remuneration paid to the commercial company of certified auditors KPMG Baltics AS for the audit of the financial statements is included in the administrative expenses, and for 2019 amounts to the following: audit of annual financial statements, incl. VAT: EUR 42 774 (2018: 36 300).

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

	2019	**2018**
Personal accident	(547 201)	(545 753)
Health	(2 177 482)	(2 298 755)
Motor own damage	(3 794 498)	(3 326 852)
Marine	(2 779)	(3 584)
Cargo	(88 411)	(113 868)
Property	(2 627 845)	(2 734 622)
Credit insurance	(7 211)	(8 757)
General TPL	(426 282)	(513 766)
Guarantees	(151 748)	(168 369)
Financial risks	(16 396)	(33 476)
Travel accident	(536 941)	(618 397)
Obligatory Motor TPL	(4 124 003)	(3 476 224)
	(14 500 797)	**(13 842 423)**

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

11. OTHER TECHNICAL EXPENSES

	2019	**2018**
Other expenses	809	142
Changes in provisions for overdue debts, net	-	12 616
	809	**12 758**

12. INTEREST INCOME

	2019	**2018**
From financial investments at fair value through other comprehensive income		
Government debt securities	1 827 256	1 616 145
Corporate debt securities	159 815	198 847
	1 987 071	**1 814 992**

Notes to the Financial Statements (All amounts in euros)

13. NET PROFIT / (LOSS) ON FINANCIAL ASSETS

	2019	2018
Financial assets at FVOCI		
Government debt securities	(1 137 431)	(974 761)
Corporate debt securities	(27 667)	(69 770)
Financial assets at FVTPL		
Investment funds	217 213	(74 322)
	(947 885)	**(1 118 853)**

	2019	2018
Realised gains / (losses):		
Government debt securities	(13 906)	(8 169)
Corporate debt securities	(1 975)	(12 125)
Investment funds	9 353	24 331
Unrealised gains / (losses):		
Government debt securities	(1 123 525)	(966 592)
Corporate debt securities	(33 310)	(54 949)
Investment funds	207 860	(98 654)
Changes in expected credit losses, net	7 618	(2 695)
	(947 885)	**(1 118 853)**

14. OTHER FINANCE INCOME

	2019	2018
Interest on cash and cash equivalents	31	186
	31	**186**

15. OTHER FINANCE EXPENSES

	2019	2018
Interest expenses and amortisation for subordinated loan	(61 172)	(60 975)
Interest expenses for lease liabilities	(28 859)	-
Losses from foreign currency fluctuations, net	(5 260)	(6 641)
	(95 291)	**(67 616)**

16. OTHER INCOME

	2019	2018
Other income	21 890	12 797
Income from rent	6 964	7 150
Income from recalculation of social security contributions, PIT and VAT	7 036	6 232
	35 890	**26 179**

17. OTHER EXPENSES

	2019	2018
Disposal of property, plant, equipment and intangible assets	(199 114)	-
Released receivables from prior years and changes in provisions for overdue debts, net	(4 492)	-
Other expenses	(17 010)	(5 674)
Expenses from recalculation of PIT and social security contributions	-	(492)
	(220 616)	**(6 166)**

Notes to the Financial Statements (All amounts in euros)

18. INTANGIBLE ASSETS

	Software	Intangible assets development costs	Total
As at 31 December 2017			
Historical cost	12 250 181	215 690	12 465 871
Accumulated amortization	(10 444 169)	-	(10 444 169)
Net book amount	**1 806 012**	**215 690**	**2 021 702**
In 2018			
Additions arising from internal development	223 144	732 623	955 767
Additions arising from external development	82 803	-	82 803
Reclassified	855 060	(855 060)	-
Written-off	(216 835)	-	(216 835)
Amortization for intangible assets written off	216 835	-	216 835
Amortization charge	(786 050)	-	(786 050)
Closing net book amount	**2 180 969**	**93 253**	**2 274 222**
As at 31 December 2018			
Historical cost	13 194 352	93 253	13 287 605
Accumulated amortization	(11 013 383)	-	(11 013 383)
Net book amount	**2 180 969**	**93 253**	**2 274 222**
In 2019			
Additions arising from internal development	296 322	850 946	1 147 268
Additions arising from external development	41 913	-	41 913
Reclassified	856 798	(856 798)	-
Written-off	(614 335)	-	(614 335)
Amortization for intangible assets written off	419 803	-	419 803
Amortization charge	(823 817)	-	(823 817)
Closing net book amount	**2 357 653**	**87 401**	**2 445 054**
As at 31 December 2019			
Historical cost	13 775 050	87 401	13 862 451
Accumulated amortization	(11 417 397)	-	(11 417 397)
Net book amount	**2 357 653**	**87 401**	**2 445 054**

Notes to the Financial Statements (All amounts in euros)

19. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Right-of-use assets	Transport vehicles	Computers	Office equipment	Total
As at 31 December 2017							
Cost	5 736 227	231 896	-	165 373	1 243 539	706 742	8 083 777
Accumulated depreciation	(1 486 995)	(138 507)	-	(71 397)	(949 815)	(545 893)	(3 192 607)
Accumulated impairment	(1 997 825)	-	-	-	-	-	(1 997 825)
Net book amount	**2 251 407**	**93 389**	**-**	**93 976**	**293 724**	**160 849**	**2 893 345**
In 2018							
Additions	(172)	102 328	-	-	478 020	131 946	712 122
Disposals	179 949	-	-	-	(277 143)	(95 896)	(193 090)
Depreciation charge	(68 259)	(36 473)	-	(20 663)	(211 711)	(56 940)	(394 046)
Depreciation on disposed assets	(179 949)	-	-	-	276 972	95 896	192 919
Closing net book amount	2 182 976	159 244	-	73 313	559 862	235 855	3 211 250
As at 31 December 2018							
Cost	5 916 004	334 224	-	165 373	1 444 416	742 792	8 602 809
Accumulated depreciation	(1 735 203)	(174 980)	-	(92 060)	(884 554)	(506 937)	(3 393 734)
Accumulated impairment	(1 997 825)	-	-	-	-	-	(1 997 825)
Net book amount	**2 182 976**	**159 244**	**-**	**73 313**	**559 862**	**235 855**	**3 211 250**
In 2019							
Adjustment on initial application of IFRS 16	-	-	931 058	-	-	-	931 058
Additions	135 174	54 576	154 253	1 398	141 009	113 627	600 037
Disposals	-	-	(25 002)	-	(133 844)	(1 692)	(160 538)
Depreciation charge	(64 222)	(53 661)	(224 010)	(20 827)	(231 224)	(76 815)	(670 759)
Depreciation on disposed assets	-	-	-	-	129 263	1 692	130 955
Closing net book amount	2 253 928	160 159	836 299	53 884	465 066	272 667	4 042 003
As at 31 December 2019							
Cost	6 051 178	388 800	1 060 309	166 771	1 451 581	854 727	9 973 366
Accumulated depreciation	(1 799 425)	(228 641)	(224 010)	(112 887)	(986 515)	(582 060)	(3 933 538)
Accumulated impairment	(1 997 825)	-	-	-	-	-	(1 997 825)
Net book amount	**2 253 928**	**160 159**	**836 299**	**53 884**	**465 066**	**272 667**	**4 042 003**

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.

20. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2019 Fair value	Cost	31.12.2018 Fair value	Cost
Investment funds	4 978 551	4 714 653	4 770 691	4 783 849
	4 978 551		**4 770 691**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 38. Financial investments at fair value through profit or loss in total EUR 4.98 million (2018: EUR 4.77 million) are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

Notes to the Financial Statements (All amounts in euros)

21. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2019 Fair value	Cost	31.12.2018 Fair value	Cost
Lithuanian government debt securities	42 854 638	43 239 943	30 002 375	30 345 452
Latvian government debt securities	30 120 969	29 780 598	17 978 040	17 777 686
Polish government debt securities	17 957 604	17 936 700	17 895 907	17 936 700
Bulgarian government debt securities	3 130 171	2 984 384	3 154 621	2 984 384
Romanian government debt securities	2 816 018	3 026 030	2 883 136	3 026 030
Hungarian government debt securities	418 867	428 114	1 876 442	2 005 330
Croatian government debt securities	2 984 833	2 889 626	3 015 595	2 889 626
Corporate debt securities	6 337 162	6 176 006	6 535 421	6 460 289
	106 620 262		**83 341 537**	

The split between current and non-current financial investments at fair value through other comprehensive income is included in Note 38. Financial investments at fair value through other comprehensive income in total EUR 106.62 million (2018: EUR 83.34 million) are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

As at 31 December 2019 and 31 December 2018, all financial investments at fair value through other comprehensive income are assessed as Stage 1 in line with IFRS 9 requirements.

The movement of revaluation reserve in respect of financial investments at fair value through other comprehensive income:

As at 31 December 2017	**-**
Transferred from available for sale financial investments on initial application of IFRS 9	533 950
Revaluation adjustment on initial application of IFRS 9	1 448 923
Net change in fair value	(641 528)
As at 31 December 2018	**1 341 345**
Net change in fair value	1 025 208
As at 31 December 2019	**2 366 553**

22. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2019	31.12.2018
Gross receivables from direct insurance operations	19 821 136	17 602 752
Doubtful debt allowances for receivables from direct insurance operations	(39 090)	(85 785)
	19 782 046	**17 516 967**

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

	Gross 31.12.2019	Allowances 31.12.2019	Net 31.12.2019	Gross 31.12.2018	Allowances 31.12.2018	Net 31.12.2018
Not past due	19 385 887	-	19 385 887	17 197 218	-	17 197 218
Past due 0-30 days	383 767	-	383 767	303 754	-	303 754
Past due 31-60 days	12 392	-	12 392	15 995	-	15 995
More than 60 days	39 090	(39 090)	-	85 785	(85 785)	-
	19 821 136	**(39 090)**	**19 782 046**	**17 602 752**	**(85 785)**	**17 516 967**

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.

Notes to the Financial Statements (All amounts in euros)

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 2017	**69 247**
Additional allowances	19 065
Recovered debts	(2 527)
As at 31 December 2018	**85 785**
Additional allowances	7 411
Written-off debts	(51 453)
Recovered debts	(2 653)
As at 31 December 2019	**39 090**

23. REINSURANCE RECEIVABLES

	31.12.2019	**31.12.2018**
Gross receivables from reinsurance operations	245 609	996 113
Doubtful debt allowances for receivables from reinsurance operations	-	-
	245 609	**996 113**

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.

24. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2019	**31.12.2018**
Claims prevention expenses	413 514	510 298
Prepayments for software maintenance	273 554	262 874
Prepayments for rent	24 948	27 602
Other deferred expenses	19 823	17 537
Reinsurance prepayments	4 008	53 879
Insurance payments	3 914	4 199
	739 761	**876 389**

25. OTHER RECEIVABLES

	31.12.2019	**31.12.2018**
Financial other receivables		
Receivables for subrogation transactions*	782 317	615 162
Impairment of overdue subrogation settlements	(199 801)	(139 137)
Receivables from other insurance companies	200 109	252 065
Receivables from the Motor Insurers' Bureau of Latvia	15 686	14 224
Receivables from related parties	12 124	12 124
Receivables for claims regulation	7 114	7 114
Receivables from agents	1 469	5 910
Other receivables	156 065	154 081
Impairment of other overdue receivables	(131 355)	(131 621)
Total Financial other receivables	**843 728**	**789 922**

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 2019 amounts to EUR 105 346 (31.12.2018: EUR 101 989).

Notes to the Financial Statements (All amounts in euros)

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

As at 31 December 2017	**276 494**
Additional allowances	-
Recovered debts	(5 736)
As at 31 December 2018	**270 758**
Additional allowances	87 217
Recovered debts	(26 819)
As at 31 December 2019	**331 156**

26. CASH AND CASH EQUIVALENTS

	31.12.2019	**31.12.2018**
Cash in current accounts	7 168 642	6 671 043
	7 168 642	**6 671 043**

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.

27. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 728 064 (31.12.2018: 4 728 064). The nominal value of one share as at 31.12.2019 is EUR 1.4 (31.12.2019: EUR 1.4). All issued shares are fully paid. The share capital of the Company as at 31 December 2019 is EUR 6 619 290 (31.12.2018: 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 31.12.2019, the largest shareholder of the Company with 4 727 821 or 99.99% shares (31.12.2018: 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.

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.

28. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2019	**31.12.2018**
Compulsory state social security contributions and solidarity tax	351 767	330 331
Personal income tax	167 696	157 642
Value added tax	38 900	36 591
Business risk state duty	208	207
Liabilities	**558 571**	**524 771**

Notes to the Financial Statements (All amounts in euros)

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

	2019	2018
Compulsory state social security contributions and solidarity tax	4 658 964	4 320 700
Personal income tax	2 455 710	2 285 184
Value added tax	559 181	520 952
Property tax	31 846	31 846
Business risk state duty	2 494	2 487
Corporate income tax	-	619 806
	7 708 195	**7 780 975**

29. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2019	31.12.2018
Financial accrued expenses		
Accruals for personnel bonuses	2 074 686	1 849 029
Accruals for unused employee vacations	751 297	667 914
Accruals for intermediary commissions	263 636	192 969
Accruals for rent and utilities services	27 688	30 525
Accruals for audit expenses	21 871	18 150
Accruals for consulting services	19 239	2 178
Accruals for transport expenses	14 364	12 803
Accruals for other expenses	554 206	707 748
Total financial accrued expenses	**3 726 987**	**3 481 316**
Non-financial accrued expenses and deferred income		
Unearned reinsurance commission	345 603	282 226
Other deferred income	-	321
Total non-financial accrued expenses and deferred income	**345 603**	**282 547**
	4 072 590	**3 763 863**

	Accruals for personnel bonuses	Other accrued expenses and deferred income	Total
As at 31 December 2018	**1 849 029**	**1 914 834**	**3 763 863**
Additions	1 772 071	2 544 825	4 316 896
Used	(1 318 177)	(2 348 222)	(3 666 399)
Reversed	(228 237)	(113 533)	(341 770)
As at 31 December 2019	**2 074 686**	**1 997 904**	**4 072 590**
Long-term part	**299 342**	**279 898**	**579 240**
Short-term part	**1 775 344**	**1 718 006**	**3 493 350**

	Accruals for personnel bonuses	Other accrued expenses and deferred income	Total
As at 31 December 2017	**1 456 146**	**1 672 872**	**3 129 018**
Additions	1 664 824	2 384 497	4 049 321
Used	(1 220 413)	(1 983 805)	(3 204 218)
Reversed	(51 528)	(158 730)	(210 258)
As at 31 December 2018	**1 849 029**	**1 914 834**	**3 763 863**
Long-term part	**184 204**	**244 268**	**428 472**
Short-term part	**1 664 825**	**1 670 566**	**3 335 391**

Notes to the Financial Statements (All amounts in euros)

30. OTHER CREDITORS

	31.12.2019	31.12.2018
Financial other creditors		
Commission payables	192 789	192 655
Due to personnel	611 636	558 617
Payables to related parties	50 600	50 600
Other liabilities	61 201	59 432
Total financial other creditors	**916 226**	**861 304**
Non-financial other creditors		
Due to the Motor Insurers' Bureau of Latvia	154 704	181 826
Due to the Financial and Capital Market Commission	74 389	69 864
Total non-financial other creditors	**229 093**	**251 690**
	1 145 319	**1 112 994**
Long-term part	**-**	**-**
Short-term part	**1 145 319**	**1 112 994**

31. LEASE LIABILITIES

	Note	Lease liabilities
As at 1 January 2019		**-**
Adjustment on initial application of IFRS 16	19	931 058
Changes from financing cash flows		
Payment of lease liabilities		(203 743)
Total changes from financing cash flows		**(203 743)**
Liability-related other changes		
New leases		154 253
Lease modifications		(25 002)
Interest accrued		28 859
Interest paid		(28 859)
Total liability-related other changes		**129 251**
As at 31 December 2019		**856 566**

The difference between lease liabilities recognized as at 1 January 2019 and the non-cancellable lease payments as at 31 December 2018 is explained by the assumptions that the lease contracts will not be terminated early.

The weighted average incremental borrowing rate applied to lease liabilities recognized at the date of initial application amounted to 3% (as at 31 December 2019: 3%).

Expenses relating to short-term and low value leases recognized in profit and loss in 2019 amounted to EUR 4 832 (including VAT).

The maturity profile and undiscounted cash flows of lease liabilities are disclosed in Note 38.2.

32. DIVIDENDS PER SHARE

In accordance with the Company's Dividend policy, the Company is able to distribute dividends for the year ended 31 December 2019 for a total amount of 5.5 million EUR, however, considering uncertainties related with COVID-19 epidemic development and its economic impact, and taking into account EIOPA statement No. 20-137 "EIOPA statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector" published on 17 March 2020, the Supervisory Board and the Management Board of BALTA recommend to the Shareholders to distribute as dividends only 50% of the above mentioned amount, i.e. 2.74 million EUR or EUR 0.58 per share, and the remainder of 2019 net profit to be transferred to Company's Retained earnings.

33. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2019	2018
Motor Insurers' Bureau of Latvia	1 099 362	919 159
Financial and Capital Market Commission	293 039	265 491
	1 392 401	**1 184 650**

Notes to the Financial Statements (All amounts in euros)

34. RESULT OF CEDED REINSURANCE

	2019	2018
Reinsurers' share in written premiums (see Note 4)	(4 865 337)	(3 361 080)
Reinsurers' share in changes in unearned premium reserves (see Note 5)	114 371	(180 580)
Reinsurers' share in claims paid (see Note 7)	37 557 225	3 824 769
Reinsurers' share in changes in outstanding claims reserves (see Note 8)	(36 630 886)	38 948 278
Reinsurance and fronting insurance commission income (see Note 6)	427 867	294 314
Net result of ceded reinsurance activities:	**(3 396 760)**	**39 496 254**

35. 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.

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

a) Transactions with related parties

<u>*Reinsurance and fronting insurance*</u>

	2019	2018
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance Premiums ceded	(3 694 745)	(2 585 307)
Change in reinsurers' share in unearned premium reserves	160 459	200 031
Reinsurers' share in claims paid	36 781 302	1 123 526
Change in reinsurers' share in outstanding claims reserves	(36 461 366)	41 774 526
Reinsurance Commissions	387 280	265 322
Change of Reinsurance Commissions	(66 370)	(75 568)
	(2 893 440)	**40 702 530**

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

	2019	2018
Lietuvos Draudimas AB:		
Fronting insurance premiums	(439 063)	(389 636)
Commissions from insurance policies fronting	25 977	23 849
Fronting insurance claims	227 641	1 488 526
Change of fronting insurance unearned premium reserves	(53 128)	(28 123)
Change of fronting insurance deferred client acquisition costs	2 807	1 486
Change of fronting insurance outstanding claims reserves	9 877	(1 422 743)
	(225 889)	**(326 641)**

<u>*Other transactions*</u>

	2019	2018
Lietuvos Draudimas AB:		
Investment portfolio management services	(50 600)	(50 600)
Indemnity costs, claim handling fee and subrogations	(216 778)	(99 971)
Indemnity costs, claim handling fee and subrogations	98 704	72 591
	(168 674)	**(77 980)**

	2019	2018
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Accrued interest and amortisation for subordinated loan	(61 172)	(60 975)
Indemnity costs, claim handling fee and subrogations	(128 847)	(191 936)
Indemnity costs, claim handling fee and subrogations	71 199	60 043
	(118 820)	**(192 868)**

	2019	2018
Lietuvos Draudimas AB Estonia branch:		
Indemnity costs, claim handling fee and subrogations	5 860	6 828
	5 860	**6 828**

	2019	2018
PZU Lietuva Gyuybes Draudimas UAB:		
Other services	(4 458)	(4 522)
	(4 458)	**(4 522)**

	2019	2018
PZU Centrum Operaciji:		
Other services	(10 236)	(11 942)
	(10 236)	**(11 942)**

Balances with related parties

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

	31.12.2019	31.12.2018
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Subordinated loan	(2 086 040)	(2 085 897)
Reinsurer's share in unearned premium reserves	(898 153)	(737 694)
Reinsurance payables	(518 459)	(476 025)
Total payables	**(3 502 652)**	**(3 299 616)**
Other receivables	134 155	81 088
Reinsurer's share in outstanding claims reserves	5 796 328	42 257 694
Unearned reinsurance commissions reserves	331 463	265 092
Reinsurance receivables	4 340	834 253
Other (prepayments)	4 008	4 344
Total receivables	**6 270 294**	**43 442 471**
	(2 767 642)	**40 142 855**

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

	31.12.2019	31.12.2018
Lietuvos Draudimas AB:		
Other payables	(50 600)	(50 600)
Fronting insurance reinsurer's share in unearned premium reserves	(108 906)	(162 033)
Fronting insurance payables	(81 244)	(153 982)
Total payables	**(240 750)**	**(366 615)**
Fronting insurance reinsurer's share in outstanding claims reserves	64 972	55 095
Unearned fronting insurance commissions reserves	5 754	8 560
Fronting insurance receivables	51 945	30 516
Other receivables	4 728	4 350
Total receivables	**127 399**	**98 521**
	(113 351)	**(268 094)**
Total payables	(3 743 402)	(3 666 231)
Total receivables	6 397 693	43 540 992
Net receivables	**2 654 291**	**39 874 761**

The subordinated loan from PZU has been received on 21 May 2015 for an indefinite period of time with the principal amount of EUR 4 100 000 and a variable interest rate of 3 months EURIBOR + a margin determined on an arm's length basis. The loan is subordinated to all other Company's liabilities. The loan is repayable by the Company no earlier than five years after receiving a repayment notice from the lender, however, the Company also has the right to repay the whole or any part of the loan at any time, subject to providing prior notice and obtaining necessary approvals.

After receiving the consent from Financial Capital and Market Commission for the partial repayment of the loan, the Company repaid a part of the loan on 21 December 2017 in the amount of EUR 2 050 000 and accrued interest in the amount of EUR 34 374 that was calculated for this part of the loan for the time period from the previous interest payment on 29 May 2017 till the repayment on 21 December 2017. The repayment conditions for the remaining part of the loan as at 31 December 2017 were not changed as a result of this partial repayment.

	Note	Subordinated loan
As at 1 January 2019		**2 085 897**
Changes from financing cash flows		
Repayment of borrowings		-
Interest paid		(61 029)
Total changes from financing cash flows		**(61 029)**
Liability-related other changes		
Accrued interest and amortisation	15	61 172
Total liability-related other changes		**61 172**
As at 31 December 2019		**2 086 040**

	Note	Subordinated loan
As at 1 January 2018		**2 085 828**
Changes from financing cash flows		
Repayment of borrowings		-
Interest paid		(60 906)
Total changes from financing cash flows		**(60 906)**
Liability-related other changes		
Accrued interest and amortisation	15	60 975
Total liability-related other changes		**60 975**
As at 31 December 2018		**2 085 897**

b) Management remuneration

In 2019, the Company paid remuneration, including compulsory state social security contributions, to the Management Board in the amount of EUR 1 005 thousand (2018: EUR 943 thousand) and to the Supervisory Board in the amount of EUR 3 thousand (2018: EUR 17 thousand).

36. 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 2019 there were 30 (31.12.2018: 25) pending cases of litigation versus the Company for a total of EUR 1 621 thousand (31.12.2018: EUR 1 137 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 2019.

The Company did not have any non-cancellable operating leases as at 31 December 2018, other than the rent of premises that usually can be terminated at one to six months' notice. Total minimal commitment for rent payments as at 31 December 2018 amounted to EUR 48 thousand. As of 1 January 2019, the Company has adopted IFRS 16 (see Note 31).

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.

37. 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 liabilities. 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 lump sum 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.

Due to the type of a mass product and large number of small indemnities along with proper management the risk from this product is small.

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.

Notes to the Financial Statements (All amounts in euros)

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 provision 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 claim's provisions by detailed analysis of the results calculated by using several statistical methods to ensure that the currently used method gives the best estimate of provisions for IBNR recognized.

Sensitivity analysis for claims provisions at 31.12.2019:

	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	1 125 144	(1 125 144)	24 667	(24 667)
Property	13 135	(13 135)	7 435	(7 435)
Motor own damage	11 972	(11 972)	10 715	(10 715)
General TPL	92 735	(76 731)	5 403	(5 403)
Health	86 181	(86 181)	1 882	(1 882)

Sensitivity analysis for claims provisions at 31.12.2018:

	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	1 155 220	(1 155 220)	22 957	(22 957)
Property	14 483	(14 483)	6 282	(6 282)
Motor own damage	11 997	(11 997)	10 776	(10 776)
General TPL	92 229	(75 725)	5 062	(5 062)
Health	85 587	(85 587)	1 718	(1 718)

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 31.12.2019		**As at 31.12.2018**	
	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	699 614	(604 964)	412 375	(361 636)

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 2019	**Latvia**	**Other OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	-	4 979	-	4 979
Financial investments at fair value through other comprehensive income	31 169	66 520	8 931	106 620
Insurance and reinsurance debtors	19 782	246	-	20 028
Reinsurers' share in outstanding claims reserves	-	6 755	-	6 755
Cash and cash equivalents	7 169	-	-	7 169
Other debtors	615	228	1	844
Total financial assets and reinsurers' share of claims reserves	**58 735**	**78 728**	**8 932**	**146 395**
Financial liabilities and claims reserves				
Gross outstanding claims reserves	(45 242)	-	-	(45 242)
Financial liabilities (short-term part)	(9 856)	(924)	-	(10 780)
Financial liabilities (long-term part)	(2 521)	(2 366)	-	(4 887)
Total financial liabilities and claims reserves	**(57 619)**	**(3 290)**	**-**	**(60 909)**
Net position as at 31 December 2019	**1 116**	**75 438**	**8 932**	**85 486**

Notes to the Financial Statements (All amounts in euros)

Year 2018	Latvia	Other OECD countries	Other countries	Total
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	-	4 771	-	4 771
Financial investments at fair value through other comprehensive income	19 022	55 266	9 054	83 342
Insurance and reinsurance debtors	17 517	996	-	18 513
Reinsurers' share in outstanding claims reserves	-	43 386	-	43 386
Cash and cash equivalents	6 671	-	-	6 671
Other debtors	660	130	-	790
Total financial assets and reinsurers' share of claims reserves	**43 870**	**104 549**	**9 054**	**157 473**
Financial liabilities and claims reserves				
Gross outstanding claims reserves	(75 469)	-	-	(75 469)
Financial liabilities (short-term part)	(9 390)	(876)	-	(10 266)
Financial liabilities (long-term part)	(1 585)	(2 086)	-	(3 671)
Total financial liabilities and claims reserves	**(86 444)**	**(2 962)**	**-**	**(89 406)**
Net position as at 31 December 2018	**(42 574)**	**101 587**	**9 054**	**68 067**

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:

	2019	2018
Personal accident & Travel medical expense	102 326	95 903
Cargo insurance	350 000	350 000
Hull, CMR Property	350 000	350 000
Property insurance	697 674	719 269
General TPL insurance	348 837	359 635
Bonds and guarantees	465 116	479 513
Obligatory Motor TPL	400 000	400 000

In 2019 and 2018, 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 contract liabilities net of related deferred acquisition costs (DAC) assets. In performing these tests, current best estimates of future contractual cash flows are used. If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as loss for the financial year by recognizing an unexpired risk reserve.

Unexpired risk reserve as at 31 December 2019 amounts to EUR 261 000 (31 December 2018: EUR 71 000), which is presented under Gross unearned premium and unexpired risk reserves on the Statement of Financial Position.

38. 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 the Company's risk management policies which are established to identify and analyse and manage the risks faced by the Company. Policies aim 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 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.

Notes to the Financial Statements (All amounts in euros)

38.1 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.

a) Maximum credit exposure

	31.12.2019	**31.12.2018**
Lithuanian government debt securities	42 854 638	30 002 375
Latvian government debt securities	30 120 969	17 978 040
Polish government debt securities	17 957 604	17 895 907
Bulgarian government debt securities	3 130 171	3 154 621
Croatian government debt securities	2 984 833	3 015 595
Romanian government debt securities	2 816 018	2 883 136
Hungarian government debt securities	418 867	1 876 442
Corporate debt securities	6 337 162	6 535 421
Investment funds	4 978 551	4 770 691
Cash and cash equivalents	7 168 642	6 671 043
	118 767 455	**94 783 271**
Reinsurers' share in unearned premium reserves	1 080 141	965 770
Outstanding claims reserve, reinsurers' share	6 755 171	43 386 057
Reinsurance debtors	245 609	996 113
Receivables due from policyholders	18 893 715	16 407 472
Receivables due from intermediaries	888 331	1 109 495
Other receivables	843 728	789 921
	28 706 695	**63 654 828**
Maximum credit exposure, total	**147 474 150**	**158 438 099**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	**31.12.2019** Assets related to reinsurance	**Rating***	**31.12.2018** Assets related to reinsurance	**Rating***
Powszechny Zakład Ubezpieczeń SA	6 698 881	**A-**	43 829 642	**A-**
ALD Re Designated Activity Company	527 021	**NR**	368 709	**NR**
Lietuvas Draudimas	225 823	**NR**	247 645	**NR**
Swiss Re Group	193 191	**AA-**	234 194	**AA-**
Munich Re Group	119 167	**AA-**	148 548	**AA-**
GeneralRensurance AG	110 000	**AA+**	110 000	**AA+**
Hannover Re	66 986	**AA-**	89 522	**AA-**
SCOR Global P&C	35 488	**AA-**	42 839	**AA-**
Caisse Centrale de Reassurances	31 918	**A-**	39 419	**A-**
Odyssey America Reinsurance Corporation	19 319	**A-**	23 419	**A-**
ACE Tempest Re Europe	15 749	**AA**	20 000	**AA-**
Liberty Syndicate, Cologne	15 749	**A+**	20 000	**A+**
R + V Versicherung AG	14 804	**AA-**	17 129	**AA-**
Royal & Sun Alliance Insurance PLC	6 825	**A**	55 158	**A**
Lloyd`s Syndicate 1225 AES	-		100 000	**A+**
Lloyd`s Syndicate 2007 NVA	-		718	**A+**
Transatlantic Reinsurance Company	-		530	**A+**
Catlin Insurance Company	-		468	**A+**
Reinsurance risk	**8 080 921**		**45 347 940**	

* 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 2019	Rated AAA	AA	A	BB	BBB	Total
Government debt securities	-	-	90 933	-	8 931	99 864
Corporate debt securities	-	-	-	1 048	5 708	6 756
Total investment assets	**-**	**-**	**90 933**	**1 048**	**14 639**	**106 620**

31 December 2018	Rated AAA	AA	A	BB	BBB	Total
Government debt securities	-	-	65 876	3 016	7 914	76 806
Corporate debt securities	-	-	-	1 011	5 525	6 536
Total investment assets	**-**	**-**	**65 876**	**4 027**	**13 439**	**83 342**

38.2 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 2019	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	4 979	-	-	-	4 979
Financial investments at fair value through other comprehensive income	-	2 861	75 883	27 876	106 620
Insurance and reinsurance debtors	-	20 028	-	-	20 028
Reinsurers' share in outstanding claims reserves	-	1 535	3 813	1 407	6 755
Cash and cash equivalents	7 169	-	-	-	7 169
Other debtors	13	752	19	60	844
Total financial assets and reinsurers' share of claims reserves	**12 161**	**25 176**	**79 715**	**29 343**	**146 395**
Financial liabilities and claims reserves					
Gross outstanding claims reserves	-	(22 883)	(12 503)	(9 856)	(45 242)
Financial liabilities	-	(12 618)	(2 064)	(128)	(14 810)
Lease liabilities	-	(248)	(422)	(187)	(857)
Total financial liabilities and claims reserves	**-**	**(35 749)**	**(14 989)**	**(10 171)**	**(60 909)**
Net position as at 31 December 2019	**12 161**	**(10 573)**	**64 726**	**19 172**	**85 486**

Notes to the Financial Statements (All amounts in euros)

Year 2018	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	4 771	-	-	-	4 771
Financial investments at fair value through other comprehensive income	-	4 137	53 710	25 495	83 342
Insurance and reinsurance debtors	-	18 513	-	-	18 513
Reinsurers' share in outstanding claims reserves	-	28 880	9 308	5 198	43 386
Cash and cash equivalents	6 671	-	-	-	6 671
Other debtors	5	694	91	-	790
Total financial assets and reinsurers' share of claims reserves	**11 447**	**52 224**	**63 109**	**30 693**	**157 473**
Financial liabilities and claims reserves					
Gross outstanding claims reserves	-	(46 706)	(16 346)	(12 417)	(75 469)
Financial liabilities	-	(10 266)	(3 579)	(92)	(13 937)
Total financial liabilities and claims reserves	**-**	**(56 972)**	**(19 925)**	**(12 509)**	**(89 406)**
Net position as at 31 December 2018	**11 447**	**(4 748)**	**43 184**	**18 184**	**68 067**

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.

31.12.2019	Carrying amount	up to 12 months	1-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Financial liabilities	(14 810)	(12 679)	(2 064)	(128)	**(14 871)**
Lease liabilities	(857)	(264)	(530)	(259)	**(1 035)**

31.12.2018	Carrying amount	Up to12 months	1-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Financial liabilities	(13 937)	(10 327)	(3 640)	(92)	**(14 059)**

38.3 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:

	2019	**2018**
Latvian government debt securities	0.01%	0.10%
Bulgarian government debt securities	0.00%	0.01%
Croatian government debt securities	0.00%	0.03%
Lithuanian government debt securities	0.03%	0.13%
Polish government debt securities	-0.01%	0.11%
Romanian government debt securities	0.00%	0.01%
Hungarian government debt securities	0.00%	0.00%
Corporate debt securities	0.03%	0.08%
Investment funds	0.93%	1.71%

Change in investment value and effect on shareholders' equity due to market interest rate changes has been as follows:

		2019 EUR	**2018 EUR**
Market interest rate and impact on fair value	+0.5 percent point	(1 846 359)	(1 565 914)
	-0.5 percent point	1 900 843	1 610 969

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 35). 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 2019	USD	EUR	GBP	PLN	Other	Total
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	4 979	-	-	-	4 979
Financial investments at fair value through other comprehensive income	-	106 620	-	-	-	106 620
Insurance and reinsurance debtors	-	20 028	-	-	-	20 028
Reinsurers' share in outstanding claims reserves	-	2 847	-	3 908	-	6 755
Cash and cash equivalents	75	6 980	-	114	-	7 169
Other debtors	-	844	-	-	-	844
Total financial assets and reinsurers' share of claims reserves	**75**	**142 298**	**-**	**4 022**	**-**	**146 395**
Financial liabilities and claims reserves						
Gross outstanding claims reserves	(10)	(40 709)	(2)	(4 425)	(96)	(45 242)
Financial liabilities	-	(15 667)	-	-	-	(15 667)
Total financial liabilities and claims reserves	**(10)**	**(56 376)**	**(2)**	**(4 425)**	**(96)**	**(60 909)**
Net position as at 31 December 2019	**65**	**85 922**	**(2)**	**(403)**	**(96)**	**85 486**

Year 2018	USD	EUR	GBP	PLN	Other	Total
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	4 771	-	-	-	4 771
Financial investments at fair value through other comprehensive income	-	83 342	-	-	-	83 342
Insurance and reinsurance debtors	-	18 513	-	-	-	18 513
Reinsurers' share in outstanding claims reserves	-	39 615	-	3 771	-	43 386
Cash and cash equivalents	102	6 510	-	59	-	6 671
Other debtors	-	790	-	-	-	790
Total financial assets and reinsurers' share of claims reserves	**102**	**153 541**	**-**	**3 830**	**-**	**157 473**
Financial liabilities and claims reserves						
Gross outstanding claims reserves	(39)	(71 078)	(4)	(4 186)	(162)	(75 469)
Financial liabilities	-	(13 937)	-	-	-	(13 937)
Total financial liabilities and claims reserves	**(39)**	**(85 015)**	**(4)**	**(4 186)**	**(162)**	**(89 406)**
Net position as at 31 December 2018	**63**	**68 526**	**(4)**	**(356)**	**(162)**	**68 067**

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.

39. CAPITAL MANAGEMENT

Starting from 1 January 2016, the Solvency II regime has come into force. According to this, the Company has established a Capital Management Policy and Dividend Policy that sets the minimum requirements for measurement, monitoring, controlling and reporting of capital position in order for the Management to take timely and necessary 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. 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.

40. 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):

	2009 and prior	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	19 067	7 349	5 951	6 411	7 787	8 457	11 114*	10 896*	13 565*	18 631*	20 438	
1 year later	15 861	5 771	4 683	4 913	6 679	8 357*	9 115*	8 646*	11 693*	15 989*		
2 years later	14 028	5 511	4 386	4 999	6 798*	8 189*	8 709*	8 607*	11 666*			
3 years later	12 982	5 263	4 757	4 850	6 560*	7 668*	9 268*	7 902*				
4 years later	11 982	5 418	4 804	4 745	6 170*	7 591*	9 240*					
5 years later	11 769	5 452	4 510	4 434	6 017*	7 466*						
6 years later	11 553	5 132	4 595	4 537	6 079*							
7 years later	11 466	5 105	4 600	4522								
8 years later	11 549	5 040	4 608									
9 years later	12 147	5 032										
10 years later	11 845											
Net claims paid												
1 year later	6 562	3 933	3 546	3 772	4 880	5 888*	6 054*	5791*	6 836*	9 094*	-	
2 years later	746	77	279	390	238*	440*	614*	287*	785*			
3 years later	866	67	411	104	208*	330*	195*	244*				
4 years later	116	962	39	9	262*	84*	32*					
5 years later	522	72	132	96	30*	22*						
6 years later	288	-26	5	-7	29*							
7 years later	544	-22	99	-2								
8 years later	321	-37	3									
9 years later	46	-9										
10 years later	51											
Cumulative net claims paid	**10 062**	**5 017**	**4 514**	**4 362**	**5 647***	**6 764***	**6 895***	**6 322***	**7 621***	**9 094***	**-**	**66 298***
CY (deficiency) / redundancy	**302**	**8**	**-8**	**15**	**-62***	**125****	**28****	**705****	**27****	**2 642****	**-**	**3 782****

*) 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.

41. SUBSEQUENT EVENTS

Spreading epidemic of COVID-19 is the main danger for economic slowdown worldwide, including in Latvia, that may affect the Company's operations in 2020. Country emergency situation declaration and measures taken on 14 March 2020 to limit population mobility will reduce the economic activity in some sectors, for example, tourism, hospitality and air transport. The extent of the potential economic impact will largely depend on the scale and duration of the virus, as well as the involvement of policy makers through support measures. At the date of approval of these financial statements, the Company has not detected a material impact to its operations and results, however, the slowdown of the economy might have a future effect on business volumes and, therefore, financial results. The Company has established a Crisis management team with a major focus to decide on the preventive actions to ensure staff safety and business continuity. The management is of the view that the Company's quite liquid investment portfolio and the capital position should serve as a basis to weather the potential future negative impacts from the ongoing developments affecting Latvia and the wider region.

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.

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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 9 to 50 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2019,
- 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

Measurement of claims reserves

The Company's gross outstanding claims reserves as at 31 December 2019 amounted to EUR 45 241 673 (31 December 2018: EUR 75 469 058). The change in gross outstanding claims reserves in 2019 amounted to EUR 30 227 385 (decrease) (in 2018: EUR 49 107 125 (increase)).

Reference to the financial statements: Note 2.3 h) "Insurance contract liabilities" and Note 3 (accounting policy); Note 8 "Outstanding claims reserves" (Notes to the financial statements).

Key audit matter	*Our response*
Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented within liabilities in the statement of financial position. The most significant claims reserves are associated with the obligatory property insurance, motor third party liability and motor own damage 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, expected 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 application of the models. Thus, the completeness and accuracy of the data	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 size of claims, 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.

underlying the actuarial projections was also our area of audit focus.

Due to the above factors, we considered measurement of the non-life insurance outstanding claims reserves to be our key audit matter.

- For all 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, property, obligatory motor third party liability and motor own damage, 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,
- the Report of the Supervisory Board and the Management Board, as set out on pages 4 to 7 of the accompanying Annual Report,
- the Statement of the Supervisory Board's and the Management Board's Responsibility, as set out on page 8 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. 201 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

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

- the information given in the 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. 201 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

Responsibilities of Management and Those Charged with Governance for the 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 objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 18 July 2019 to audit the financial statements of AAS BALTA for the year ended 31 December 2019. Our total uninterrupted period of engagement is 7 years, covering the periods ending 31 December 2013 to 31 December 2019.

We confirm that:

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

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

KPMG Baltics AS
Licence No. 55

Vilāns

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