AAS BALTA

Annual Report for 2020 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report

Contents

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

Information on the Company

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

Supervisory Board

Name, Surname	*Position*
Katarzyna Anna Galus	Chairman of the Supervisory Board (until 17.09.2020) Member of the Supervisory Board (from 17.09.2020 until 01.10.2020) Chairman of the Supervisory Board (from 01.10.2020)
Lidia Maria Orzechowska	Deputy of the Chairman of the Supervisory Board (until 17.09.2020) Member of the Supervisory Board (from 17.09.2020 until 01.10.2020) Deputy of the Chairman of the Supervisory Board (from 01.10.2020)
Marcin Krzysztof Goral	Member of the Supervisory Board (reappointed on 17.09.2020)
Jaroslaw Mioskowski	Member of the Supervisory Board (until 20.08.2020)
Weronika Dejneka	Member of the Supervisory Board (from 17.09.2020)
Monika Patyra	Member of the Supervisory Board (from 17.09.2020)
Krzysztof Soltysik	Member of the Supervisory Board (from 17.09.2020)

Management Board

Name, Surname	*Position*
Iain Kennedy	Chairman of the Management Board
Arūnas Rumskas	Management Board Member (from 20.07.2020)
Rafal Piotr Rybkowski	Management Board Member (until 03.07.2020)
Ingus Savickis	Management Board Member
Uldis Dzintars	Management Board Member
Mārtiņš Rozentāls	Management Board Member
Malgorzata Krystyna Piotrowska	Management Board Member
Jaroslaw Mioskowski	Management Board Member (from 10.09.2020)
Marcin Tomasz Majerowski	Management Board Member (until 03.07.2020)

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

Report of the Supervisory Board and the Management Board

Main developments

According to market data provided by the Latvian Insurers Association and Financial and Capital Market Commission, as well as insurance company public quarterly reports in 2020, 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. In 2020, BALTA experienced a decline of gross written premiums by 6.2%, and that has resulted in gross written premiums of 107.3 million EUR, which is by 7.1 million EUR less than in 2019, however, the Company has retained its market share of 26%. Despite the decrease in gross written premiums, total Net result of insurance activities amounted to 15.2 million EUR for 2020, which is an improvement compared to the year before. The continuous profitability has also secured the financial stability of the Company – the capital adequacy (Solvency II) ratio at the end of the year is well above the requirements set by Financial and Capital Market Commission of the Republic of Latvia.

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

Extremely strong BALTA brand performance is also seen in the annual brand research*. BALTA possesses the strongest image in the market, which is mainly due to high awareness and a large customer base. According to the results of the brand research, Top of Mind indicator in 2020 increased by 0,3 p.p., reaching 38,4%, while First choice indicator grew by 2 p.p., reaching 22% mark. BALTA is mostly recognized by customers for a positive collaboration experience and excellent service, good reputation and acceptable price offers.

Both the financial performance and the Company's customer focus, supported by 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 2020

As a result of COVID-19 pandemic there is a significant impact to economic development in Latvia resulting in GDP decline, as well as insurance market decrease. We believe in pattern that the insurance market grows approximately twice as fast as the economy during the growth cycle of economy, but also shrinks twice as fast in the decline phase. In 2020, it is estimated that the economy (GDP) in Latvia declined by 3.6%, but the insurance market decreased by 5,1% (Insurance Association data). It means that the insurance market suffered slightly more than the overall economy, but the gap is lower than experienced in 2008 crisis. We observe that some customers who suffered the most could not pay insurance premium, however, the number of those customers is significantly smaller than in previous crisis. Meanwhile, there is even an increase in the number of customers in major private segment lines (such as property and motor products). It can be explained by the fact that crisis affected people and companies very differently in 2020. Depending on the industry and ability to adapt to new circumstances, some experienced a severe negative impact, while the majority is impacted in a neutral or even positive way. As a result, the insurance market decline is primarily driven by insurance premium (price) decrease rather than the decline in the number of customers. Thus we believe that the society's understanding about risks, their prevention and protection from them increases, which favorably impacts insurance market size and suggests a higher society maturity to choose stability versus saving on insurance premium.

We estimate that the insurance industry has achieved high profitability due to the implemented COVID-19 restrictions, which decreased claims for some business lines (such as health and motor products) below average historical levels. Decrease in insurance premiums will have a larger effect on years 2021/2022, thus profitability will be a more significant challenge. In comparison with other Western countries this is a relatively good outcome, as in these countries there is a big profitability challenge for the insurance industry due to business interruption and event cancelation claims. Increase of western market claims will also affect reinsurance market, which most likely will react by price adjustments in loss making segments

Risk management

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

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

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

Capital adequacy and solvency are under constant focus of BALTA.

The spreading epidemic of COVID-19 triggered an economic slowdown worldwide, including in Latvia, that affected the Company's operations in 2020. However, the Company's business strategy and profitable performance has secured the financial stability of the Company – the solvency ratio as at 31st December 2020 was well above the requirements set by Financial and Capital Market Commission (hereinafter "FCMC") of the Republic of Latvia.

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

Customer service and payment of claims

Taking into account, how challenging 2020 has been to everyone, including BALTA customers, and knowing that Customer is one of four BALTA 2021 Strategy pillars, BALTA continued to have a strong focus on customers and their experience. In 2020, BALTA closely monitored customer satisfaction, introduced Customer Behaviour Dynamics, continued working on Customer journey mapping projects and related initiatives.

Understanding the uncertainty that the market faced, BALTA explored global customer behaviour trends influenced by COVID-19 to create a cross-functional dashboard – Customer Behaviour Dynamics. Data on this dashboard represents three major areas of customer behaviour – confidence in economy, confidence in BALTA and use of technology. These results are reviewed in the senior Management Team (SMT) Customer Committee on a monthly basis and provide up-to-date insight.

BALTA continues to measure customer satisfaction and gathers customer feedback across various channels, including Customer Effort Score for online purchases and claim submission, Customer Satisfaction Score both online and offline, and Net Promoter Score (NPS) after the purchase and after claim handling. In 2020, BALTA introduced NPS survey to the new channel – Broker's customers. Although response rates are slightly lower than in surveys sent to BALTA direct customers, satisfaction is high and customer comments are very valuable. Remarkably, NPS score in both surveys – after sales and claims – have increased by 6p.p. and 8p.p. respectively, compared to 2019.

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

MOD Customer journey mapping project that took place in the second half of 2019 was followed by Property Customer journey mapping in 2020, and both gave highly valuable insights on customer experience. Out of more than 35 improvement initiatives identified, 17 were implemented in 2020. Customers not only have better insurance terms, new design emails, SMS confirming their payment, but can also follow their claims progress online and choose car maintenance based on other customer reviews. In addition, some of the initiatives involve "wow" moments or positive surprise moments with the aim of enhancement of customer engagement and loyalty, such as a birthday surprise from BALTA or a smoke detector as a gift, in case they do not have one upon survey.

Leading the insurance digitalization trend in industry, BALTA has continued to improve online claims application process by launching a claims application in web for MTPL and redesigning for Property.

BALTA mobile application, launched in late 2019, has been used by more than 22 thousand customers and, in addition to the basic features - insurance sales, claim indemnity, policies and invoices, in 2020 has introduced an e-health card that is an electronic substitute to the plastic cards.

Report of the Supervisory Board and the Management Board

Working environment in the Company and professional development of staff

In 2020, BALTA focused on 3 main HR priorities: management of COVID-19, implementation of new work organization and maintaining employee engagement and positive collaboration. Taking into account the dynamic situation with COVID-19 in Latvia, we have adjusted our work organization to different types of restrictions on an ongoing basis. Since September 1, 2020, we have implemented the so-called hybrid work organization that allows mixed work (home/ office based), with all relevant contractual changes for all involved employees, as well as approval of Remote work policy and the Cooperation guidelines. All our activities have led to an even improved employee engagement of 88% (+2.p.p.), 92% of employees appreciate our work done regarding COVID-19 management, and we have succeeded to even improve cross unit collaboration during the pandemic to 73% (+9 p.p.).

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

BALTA continued the Work and Life Balance program, which, among others, supports employees with long service in the Company by assigning additional holidays, providing special support for mothers with young children, special benefit packages for employees with children, and additional holidays to employees on important occasions. Special attention in 2020 was devoted to the wellbeing matters as physical and mental health has been an area of focus for a majority of employees due to COVID-19 created stress and lifestyle restrictions.

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

The Company's activities regarding cooperation with employees resulted in both internal and external recognition. Internally, the Company improved employee engagement by 2 percentage points reaching 88%, resulting in BALTA being recognized by KINCENTRIC as one of the Best Employers in Baltics for the sixth time. In addition, employee turnover maintained at the same, low level.

BALTA received Latvian HR Award for outstanding performance regarding our approach in implementing BALTA corporate values and improving cross unit collaboration. We have organized experience exchange events with Latvia State Revenue Service as well as the Ministry of Health.

Corporate social responsibility

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

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

Additionally, related to responsible business practice, in 2020 BALTA 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 most significant CSR initiatives carried out in 2020: BALTA donation to State Emergency Medical Service of Latvia in a form of COVID-19 insurance to its employees; annual award "Safest car fleet" – a contest organized by BALTA in partnership with Ministry of Transport for businesses with the goal of promoting the education of car fleet managers and overall traffic safety; Blood Donor days; social campaign together with State Road Safety Department "Driving? Step out of your phone!"; support to education within school program "Ready for Life!"; charity activities for Christmas and start of the school with employee donations 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. Also BALTA supports blood donors by contributing to the loyalty card of the members of State Donor center's most active donors club.

BALTA investments in the community, as well as the ethical and honourable attitude towards customers and business partners, are recognized also by independent experts and the society as a whole. Every year BALTA takes part in 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 2020, BALTA for the second time qualified for the highest – Platinum – category – becoming the only insurance company in Latvia receiving such high evaluation. Additional to that, in 2020 BALTA was also recognized as the Most Honest Insurer for the 17th time, the most loved and "human" insurer by Most Loved Brands Top, as well as the best employer in Baltics by Kincentric Baltics evaluation.

Report of the Supervisory Board and the Management Board

Proposals regarding the distribution of the Company's profit

The Supervisory Board and the Management Board of BALTA do not recommend to distribute dividends and to assign the entire year 2020 net profit to the Company`s Retained earnings.

Future outlook

Spreading epidemic of COVID-19 is the main factor for economic slowdown worldwide, including in Latvia, that affected Company's operations in 2020 and may also affect the Company's operations in 2021. State emergency situation declaration and measures taken on 14 March 2020 to limit population mobility directly reduced the economic activity in some sectors, for example, tourism, hospitality and air and land transport. Similar effects are expected in 2021. State emergency situation has been declared for the second time during 2020 - starting from November 9, 2020 till April 6, 2021. The extent of the potential economic impact will largely depend on the scale and duration of the epidemic, as well as the involvement of policy makers through support measures. 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 strong capital position should serve as a basis or safety element against the potential future negative impacts from the ongoing developments affecting Latvia and the wider region.

Subsequent events

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

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

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

Katarzyna Galus

Elektronicznie podpisany przez Katarzyna Galus
Data: 2021.03.18 13:55:25 +01'00'

18 March 2021

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 2020 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 2020 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 2020.

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

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

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

Katarzyna Galus

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18 March 2021

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

	Exhibit	2020	2019
Insurance income			
Gross written premiums	4	107 260 885	114 330 134
Reinsurer's share in written premiums	4	(5 137 810)	(4 865 337)
Net written premiums	4	102 123 075	109 464 797
Change in gross unearned premium and unexpired risk reserves	5	485 114	(4 069 505)
Change in unearned premium reserves, reinsurers' share	5	387 912	114 371
Change in unearned premium and unexpired risk reserves	5	873 026	(3 955 134)
Net premiums earned		**102 996 101**	**105 509 663**
Other technical income	6	619 368	592 243
Total insurance income		**103 615 469**	**106 101 906**
Insurance expenses			
Gross claims paid to policyholders		(57 908 746)	(92 624 781)
Loss adjustment expenses		(4 501 701)	(4 251 382)
Recovered losses		4 439 288	4 266 447
Claims paid	7	(57 971 159)	(92 609 716)
Reinsurer's share in claims paid	7	1 496 126	37 557 225
Net claims paid		(56 475 033)	(55 052 491)
Change in gross outstanding claims reserves	8	(1 635 210)	30 227 385
Change in outstanding claims reserves, reinsurers' share	8	598 269	(36 630 886)
Net incurred claims		**(57 511 974)**	**(61 455 992)**
Client acquisition costs	9	(16 330 855)	(16 964 572)
Administrative expenses	10	(14 563745)	(14 501 606)
Total insurance expenses		**(88 406 574)**	**(92 922 170)**
Net result of insurance activities		**15 208 895**	**13 179 736**
Interest income	11	2 114 624	1 987 102
Net profit / (loss) on financial assets	12	(1 228 768)	(947 885)
Investment management expenses		(336 808)	(262 078)
Other finance expenses	13	(97 394)	(95 291)
Other income	14	438 021	35 890
Other expenses	15	(801 376)	(220 616)
Profit before tax		**15 297 194**	**13 676 858**
Corporate income tax for the reporting year		-	-
Profit for the year		**15 297 194**	**13 676 858**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve	19	213 369	1 025 208
		213 369	**1 025 208**
Other comprehensive income for the period, net of tax		**213 369**	**1 025 208**
Total comprehensive income for the reporting year		**15 510 563**	**14 702 066**

All profit is attributable to the shareholders of AAS BALTA.

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

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

Katarzyna Galus
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18 March 2021

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

	Exhibit	31.12.2020	31.12.2019
ASSETS			
Intangible assets	16	**2 313 481**	**2 445 054**
Property and equipment	17	**4 400 994**	**4 042 003**
Financial investments at fair value through profit or loss	18	5 031 521	4 978 551
Financial investments at fair value through other comprehensive income	19	122 646 047	106 620 262
Total financial investments		**127 677 568**	**111 598 813**
Receivables due from policyholders		16 114 497	18 893 715
Receivables due from intermediaries		947 501	888 331
Receivables from direct insurance operations	20	17 061 998	19 782 046
Reinsurance receivables	21	594 674	245 609
Other receivables	23	742 892	843 728
Total receivables		**18 399 564**	**20 871 383**
Reinsurers’ share in unearned premium reserves	5	1 468 053	1 080 141
Reinsurers’ share in outstanding claims reserves	8	7 353 440	6 755 171
Reinsurers’ share of insurance contract liabilities		**8 821 493**	**7 835 312**
Deferred client acquisition costs	9	10 921 679	10 828 277
Other accrued income and deferred expenses	22	793 857	739 761
Accrued income and deferred expenses		**11 715 536**	**11 568 038**
Cash and cash equivalents	24	**7 389 180**	**7 168 642**
TOTAL ASSETS		**180 717 816**	**165 529 245**

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Katarzyna Anna Galus, Chairman of the Supervisory Board
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Katarzyna Galus

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18 March 2021

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

	Exhibit	31.12.2020	31.12.2019
SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES			
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	25	6 619 290	6 619 290
Share premium	25	1 595 511	1 595 511
Reserve capital and other reserves	25	4 357 130	4 357 130
Revaluation reserve	19	2 579 922	2 366 553
Retained earnings		49 459 958	34 162 764
TOTAL SHAREHOLDERS' EQUITY AND RESERVES		**64 611 811**	**49 101 248**
LIABILITIES			
Gross unearned premium and unexpired risk reserves	5	53 149 831	53 634 945
Gross outstanding claims reserves	8	46 876 883	45 241 673
Insurance contract liabilities		**100 026 714**	**98 876 618**
Subordinated loan	33	-	2 086 040
Direct insurance creditors		7 841 778	8 016 238
Reinsurance creditors		952 182	816 055
Taxes and the state compulsory social insurance contributions	26	621 275	558 571
Accrued expenses and deferred income	27	4 514 864	4 072 590
Other creditors	28	1 135 809	1 145 319
Lease liabilities	29	1 013 383	856 566
Total creditors		**16 079 291**	**17 551 379**
TOTAL LIABILITIES		**116 106 005**	**116 427 997**
TOTAL SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES		**180 717 816**	**165 529 245**

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Katarzyna Galus

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18 March 2021

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 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	19	-	-	-	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**
Total comprehensive income for the year		**-**	**-**	**-**	**213 369**	**15 297 194**	**15 510 563**
Profit for the year		-	-	-	-	15 297 194	15 297 194
Other comprehensive income		**-**	**-**	**-**	**213 369**	**-**	**213 369**
Net change in revaluation reserve	19	-	-	-	213 369	-	213 369
Balance at 31 December 2020		**6 619 290**	**1 595 511**	**4 357 130**	**2 579 922**	**49 459 958**	**64 611 811**

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18 March 2021

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

	Exhibit	2020	2019
Cash flows from operating activities			
Premiums received from direct insurance		109 185 311	110 104 812
Claims paid for direct insurance		(57 089 764)	(91 767 468)
Payments received from ceded reinsurance		473 721	37 714 071
Payments made for ceded reinsurance		(3 700 329)	(3 739 216)
Mandatory payments	31	(1 233 664)	(1 392 401)
Other expenses		(27 928 720)	(27 007 379)
Net cash from operating activities:		**19 706 555**	**23 912 419**
Cash flows from investing activities			
Disposal of investments		3 352 845	3 988 000
Acquisition of investments		(20 367 367)	(27 351 376)
Purchase of property and equipment and intangible assets		(2 001 192)	(1 634 965)
Interest received from debt securities		2 193 971	2 099 867
Investment management and other expenses		(284 400)	(221 042)
Net cash used in investing activities:		**(17 106 143)**	**(23 119 516)**
Cash flows from financing activities			
Repayment of subordinated loan		(2 050 000)	-
Interest paid for subordinated loan		(84 510)	(61 029)
Payments made for lease liabilities, including interest	29	(234 713)	(232 602)
Net cash used in financing activities:		**(2 369 223)**	**(293 631)**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(10 651)**	**(1 673)**
Net increase / (decrease) in cash and cash equivalents		**220 538**	**497 599**
Cash and cash equivalents at the beginning of reporting year		7 168 642	6 671 043
Cash and cash equivalents at the end of reporting year	24	**7 389 180**	**7 168 642**

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18 March 2021

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 18 March 2021. 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 2020 to 31 December 2020.

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 2020, and has applied them in preparing these financial statements.

The following guidance, effective for annual periods beginning on 1 January 2020, did not have any effect on these financial statements:

- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective for annual periods beginning on or after 1 January 2020)*
- *Amendments to IFRS 3 Business Combinations – Definition of a Business (effective for annual periods beginning on or after 1 January 2020)*
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020)*
- *Amendments to References to Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020)*

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 2020, and have not been applied in preparing these financial statements.

- *Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020)*
- *Amendments to IAS 1 Presentation of Financial Statements – Classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023, 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. The Company has approved an implementation plan for the new standard for years 2021-2022 and started the preparation taking into account PZU Group`s guidance. As part of the implementation project, the Company works, among others, on methodological aspects of the new standard and necessary improvements in its existing IT processes, tools and systems. According to the implementation plan the Company will run calculation and trial reporting according to the requirements of the new standard in 2022 to ensure full readiness in 2023.

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

h) Insurance contract liabilities

Unearned premium reserve comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

Unexpired risk reserve (URR) is set aside for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date exceeds the unearned premium reserve in relation to such policies after the deduction of any deferred acquisition costs.

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

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve. The test is performed by lines of business and the test is applied to the net amounts of reserves. Refer to Note 35.

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

i) Fronting insurance

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

2.4 Interest income and expense

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

2.5 Financial instruments

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

a) Financial assets measured at amortized cost

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

b) Financial liabilities

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

c) Other financial instruments

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

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

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

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.

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.

Notes to the Financial Statements (All amounts in euros)

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.

	31.12.2020	31.12.2019
1 USD	EUR 1.2271	EUR 1.1234
1 PLN	EUR 4.5597	EUR 4.2568

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).

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, while there are no vesting conditions to be fulfilled. There are no significant additional vesting conditions attached to this deferred part. The accruals for personnel bonuses represent the amount accrued as at the year end.

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

2.14 Share capital and dividend distribution.

Ordinary shares are classified as equity.

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

2.15 Impairment

a) Financial assets

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

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

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

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

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

b) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication 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.

2.17 Leases

IFRS 16 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.

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 leases with renewal or termination options, the lease liability is remasured as the present value of the remaining lease payments as at each reporting date and adjusted, if necessary, with a corresponding adjustment to the right-of-use asset.

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

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

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

The claims reserves for incurred but not reported claims (IBNR) are calculated using Bornhuetter - Ferguson method, except for specific insurance portfolios as described below. Obligatory Motor TPL insurers receive recourse claims requests from State Social Insurance Agency (SSIA). These recourses are reported to insurance companies with a delay of one to three years from the accident date to the claims recourse reporting date. Recourses are requested for benefits and pensions already paid by SSIA. The Company's claims handlers assess the potential for long-term claim payments and establish a reserve for future payments based on their estimate. Expected increase of future claims due to pension indexation and medical expense inflation is added to the estimated long-term claims reserve. Taking into account the long duration of future payments that expose claims reserves to a significant estimation uncertainty, the indexation assumption that incorporates, among other items, discounting is derived combining economic assumptions with actuarial analysis of different potential claims development scenarios. The claims reserve for not yet reported SSIA recourses is calculated using the expected claim severity and frequency method. IBNR claims reserves for guarantees insurance portfolio and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 are calculated using the ultimate loss ratio method where the claims reserves are estimated based on the expected loss ratio for each accident period. The expected loss ratio assumption has been revised compared to prior reporting period to take into account the estimated COVID-19 pandemic impact to the Company's insurance liabilities.

Claims handling reserve is calculated on the basis of average amount for one claim settling transaction and the total number of estimated incurred but not reported claims transactions. The average amount for one claim settling transaction is calculated using historical actual loss adjustment expenses data. Consistent with IBNR provision, claims handling reserves for guarantees insurance portfolio and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 are calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

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

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

Other area where assumptions and estimation uncertainty is involved is the valuation of deferred acquisition costs and recognition of unexpired risk reserve, mainly for the Health insurance portfolio (see also Note 35). Unexpired risk reserve is calculated estimating the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date. The estimate includes assumptions about COVID-19 pandemic impact to the Company's insurance liabilities. Further information about the assumptions made in this area are included in Note 35 about liability adequacy tests performed.

As indicated in Note 2.5, all financial assets measured at fair value are quoted. In a fair value hierarchy, based on inputs used in the valuation techniques, these fair values as at 31.12.2020 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets and Level 2: unadjusted quoted prices in less active markets for identical or similar assets (as at 31.12.2019 – 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

	2020			2019		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	3 488 268	(22 655)	3 465 613	3 094 590	(14 088)	3 080 502
Health	20 022 785	-	20 022 785	20 536 395	-	20 536 395
Motor own damage	30 541 427	(560 470)	29 980 957	30 690 502	(654 989)	30 035 513
Marine	29 412	(1 875)	27 537	26 350	(1 004)	25 346
Cargo	1 020 897	(53 448)	967 449	990 104	(89 371)	900 733
Property	22 728 821	(2 384 842)	20 343 979	25 039 717	(2 203 680)	22 836 037
Credit insurance	35 172	-	35 172	52 801	-	52 801
General TPL	4 386 255	(260 431)	4 125 824	4 150 504	(235 524)	3 914 980
Guarantees	3 247 100	(1 195 387)	2 051 713	2 594 230	(919 317)	1 674 913
Financial risks	318 767	(191 473)	127 294	273 353	(151 423)	121 930
Travel accident	1 646 550	(15 103)	1 631 447	3 447 541	(8 635)	3 438 906
Obligatory Motor TPL	19 795 431	(452 126)	19 343 305	23 434 047	(587 306)	22 846 741
	107 260 885	**(5 137 810)**	**102 123 075**	**114 330 134**	**(4 865 337)**	**109 464 797**

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

Premiums earned

	2020			2019		
	Gross premiums earned	Reinsurers' share	Net premiums earned	Gross premiums earned	Reinsurers' share	Net premiums earned
Motor own damage	30 407 944	(570 454)	29 837 490	30 483 289	(710 906)	29 772 383
Property	23 553 720	(2 256 174)	21 297 546	23 277 388	(2 213 052)	21 064 336
Health	19 425 303	-	19 425 303	19 481 088	-	19 481 088
Obligatory Motor TPL	21 281 283	(448 731)	20 832 552	23 337 330	(579 169)	22 758 161
Other	13 077 749	(1 474 539)	11 603 210	13 681 534	(1 247 839)	12 433 695
TOTAL	**107 745 999**	**(4 749 898)**	**102 996 101**	**110 260 629**	**(4 750 966)**	**105 509 663**

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 2018	**49 565 440**	**(965 770)**	**48 599 670**
UPR at 31 December 2018	49 494 440	-	49 494 440
URR at 31 December 2018	71 000	-	71 000
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**
UPR at 31 December 2019	53 373 945	-	53 373 945
URR at 31 December 2019	261 000	-	261 000
Written premiums	107 260 885	(5 137 810)	102 123 075
Earned premiums	(107 745 999)	4 749 898	(102 996 101)
Total change for the year	(485 114)	(387 912)	(873 026)
Balance at 31 December 2020	**53 149 831**	**(1 468 053)**	**51 681 778**
UPR at 31 December 2020	51 978 831	-	51 978 831
URR at 31 December 2020	1 171 000	-	1 171 000

*Refer to Note 35 section Liability adequacy test.

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 2020:

	Gross amount	Reinsurers' share	Net amount
Personal accident	187 431	-	187 431
Health	597 482	-	597 482
Motor own damage	133 483	9 984	143 467
Marine	1 651	-	1 651
Cargo	(16 366)	-	(16 366)
Property	(824 899)	(128 668)	(953 567)
Credit insurance	(11 088)	-	(11 088)
General TPL	227 616	(1 550)	226 066
Guarantees	858 363	(259 932)	598 431
Financial risks	32 903	(4 351)	28 552
Travel accident	(185 838)	-	(185 838)
Obligatory Motor TPL	(1 485 852)	(3 395)	(1 489 247)
	(485 114)	**(387 912)**	**(873 026)**

c) 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**

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

	31.12.2020	31.12.2019
Personal accident	1 827 427	1 639 996
Health	8 929 623	8 332 141
Motor own damage	15 295 206	15 161 723
Marine	13 945	12 294
Cargo	302 085	318 451
Property	12 051 050	12 875 949
Credit insurance	23 720	34 808
General TPL	2 606 894	2 379 278
Guarantees	3 920 330	3 061 967
Financial risks	122 470	89 567
Travel accident	404 410	590 248
Obligatory Motor TPL	7 652 671	9 138 523
	53 149 831	**53 634 945**

Notes to the Financial Statements (All amounts in euros)

6. OTHER TECHNICAL INCOME

	2020	2019
Reinsurance and fronting insurance commission income (see Note 32)	453 997	427 867
Income from cancellation of policies	107 658	108 683
Income of agreement penalties	926	581
Other income	56 787	55 112
	619 368	**592 243**

7. CLAIMS PAID

	2020			2019		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(1 295 002)	-	(1 295 002)	(1 306 223)	100 471	(1 205 752)
Health	(12 995 427)	-	(12 995 427)	(12 988 227)	-	(12 988 227)
Motor own damage	(19 572 648)	365 760	(19 206 888)	(18 451 951)	442 108	(18 009 843)
Marine	(6 734)	-	(6 734)	(26 695)	-	(26 695)
Cargo	(166 636)	-	(166 636)	(158 508)	-	(158 508)
Property	(11 836 903)	603 798	(11 233 105)	(47 949 105)	36 839 528	(11 109 577)
Credit insurance	(44 541)	-	(44 541)	(57 740)	-	(57 740)
General TPL	(723 858)	-	(723 858)	(622 075)	-	(622 075)
Guarantees	(230 950)	56 520	(174 430)	(176 637)	40 694	(135 943)
Financial risks	(160 982)	42 122	(118 860)	(91 137)	17 896	(73 241)
Travel accident	(541 956)	-	(541 956)	(645 511)	-	(645 511)
Obligatory Motor TPL	(10 395 522)	427 926	(9 967 596)	(10 135 907)	116 528	(10 019 379)
	(57 971 159)	**1 496 126**	**(56 475 033)**	**(92 609 716)**	**37 557 225**	**(55 052 491)**

8. OUTSTANDING CLAIMS RESERVES

a) Movement in outstanding claims reserves:

	2020			2019		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Reported 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 beginning of year	**45 241 673**	**(6 755 171)**	**38 486 502**	**75 469 058**	**(43 386 057)**	**32 083 001**
Cash paid for claims reported in prior years	(11 535 342)	935 431	(10 599 911)	(47 240 454)*	36 988 452*	(10 252 002)
Changes in liabilities arising from current and prior year claims	13 170 552	(1 533 700)	11 636 852	17 013 069	(357 566)	16 655 503
Total change in year	1 635 210	(598 269)	1 036 941	(30 227 385)	36 630 886	6 403 501
Total at end of year	**46 876 883**	**(7 353 440)**	**39 523 443**	**45 241 673**	**(6 755 171)**	**38 486 502**
Reported claims	27 330 462	(7 353 440)	19 977 022	26 596 789	(6 755 171)	19 841 618
Incurred, but not reported	19 546 421	-	19 546 421	18 644 884	-	18 644 884
Total at end of year	**46 876 883**	**(7 353 440)**	**39 523 443**	**45 241 673**	**(6 755 171)**	**38 486 502**

*The change in outstanding claims reserves in 2019 is driven by, among others, a property claim incurred and reported 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 2020:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(94 833)	-	(94 833)
Health	(635 062)	-	(635 062)
Motor own damage	(384 809)	8 427	(376 382)
Marine	2 060	-	2 060
Cargo	(110 993)	-	(110 993)
Property	52 536	(596 523)	(543 987)
Credit insurance	(5 446)	-	(5 446)
General TPL	101 651	-	101 651
Guarantees	1 226 687	29 761	1 256 448
Financial risks	(96 635)	68 062	(28 573)
Travel accident	(164 637)	-	(164 637)
Obligatory Motor TPL	1 744 691	(107 996)	1 636 695
	1 635 210	**(598 269)**	**1 036 941**

c) 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**

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

	31.12.2020	31.12.2019
Personal accident	262 998	357 831
Health	1 022 833	1 657 895
Motor own damage	3 966 495	4 351 303
Marine	4 783	2 723
Cargo	194 835	305 829
Property	9 064 791	9 012 255
Credit insurance	11 361	16 807
General TPL	2 119 789	2 018 137
Guarantees	3 257 343	2 030 657
Financial risks	37 834	134 469
Travel accident	214 868	379 505
Obligatory Motor TPL	26 718 953	24 974 262
	46 876 883	**45 241 673**

Notes to the Financial Statements (All amounts in euros)

9. CLIENT ACQUISITION COSTS

	2020	2019
Commissions to brokers and other intermediaries	(8 601 095)	(9 897 330)
Commissions and other agent related expense	(6 490 690)	(6 307 505)
Compulsory state social security contributions related to agents' remuneration	(1 290 102)	(1 271 372)
Change in deferred client acquisition costs	93 402	530 655
Other acquisition expenses	(42 370)	(19 020)
	(16 330 855)	**(16 964 572)**

Deferred client acquisition costs

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**
Deferred client acquisition costs	21 493 682
Amortisation of deferred acquisition cost	(21 400 280)
As at 31 December 2020	**10 921 679**

Client acquisition costs included in the deferred acquisition costs (DAC) calculation amounting to EUR 5 068 648 (2019: EUR 5 312 942) are represented under Administrative expenses. Refer to Note 10.

10. ADMINISTRATIVE EXPENSES

	2020	2019
Wages and salaries:		
- salaries to staff	(6 872 926)	(6 531 297)
- state compulsory social insurance contributions	(1 521 553)	(1 477 711)
Depreciation and amortization costs	(1 534 168)	(1 494 040)
Information technology and communication expense	(1 219 679)	(1 084 611)
Payments to Motor Insurers Bureau (OMTPL mandatory deductions)	(914 334)	(1 072 240)
Advertisement and public relations	(883 033)	(1 064 533)
Premises utility, maintenance and repair expense	(691 469)	(698 711)
Payments to Financial and Capital Market Commission	(292 520)	(297 564)
Professional services	(216 402)	(178 174)
Office expenses	(96 402)	(123 134)
Rent of premises	(83 695)	(88 587)
Transport	(51 207)	(81 146)
Administration expenses related to Loss adjustment expenses *	488 924	471 056
Other administrative costs	(675 281)	(780 914)
	(14 563 282)	**(14 501 606)**

* – 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 2020 and in 2019, in accordance with applicable legislation, no payments have been made as the total assets of Foundation of Insured Interests Protection exceeds EUR 11 million.

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

- OMTPL Guarantees Foundation fixed sum for certain type of vehicle.
- Road Traffic Accidents Foundation 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia – a variable sum of EUR 0.39 (2019: EUR 0.41) per contract and a fixed sum of EUR 38 568 per year (2019: EUR 33 000) or EUR 3 214 per month (2019: EUR 2 750).

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

In 2020, OMTPL mandatory deductions amounted to EUR 914 334 (2019: EUR 1 072 240).

At the end of year 2020, the Company employed 341 employees (2019: 328) and 254 agents (2019: 245).

Administrative expenses include client acquisition costs amounting to EUR 5 068 648 (2019: EUR 5 312 942) that were included in the calculation of deferred acquisition costs. Such administrative expenses include fixed and variable costs that are related with acquiring new clients and signing policies. Refer to Note 9.

The remuneration paid to the commercial company of certified auditors KPMG Baltics AS for the audit of the financial statements is included in the administrative expenses, and for 2020 amounts to the following: audit of annual financial statements, incl. VAT: EUR 42 774 (2019: 42 774).

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

	2020	**2019**
Personal accident	(426 862)	(547 201)
Health	(2 474 197)	(2 177 688)
Motor own damage	(4 178 541)	(3 794 498)
Marine	(2 894)	(2 779)
Cargo	(95 246)	(88 411)
Property	(2 594 761)	(2 628 341)
Credit insurance	(4 658)	(7 211)
General TPL	(441 672)	(426 282)
Guarantees	(185 552)	(151 748)
Financial risks	(11 286)	(16 396)
Travel accident	(230 699)	(536 941)
Obligatory Motor TPL	(3 917 377)	(4 124 110)
	(14 563 745)	**(14 501 606)**

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

11. INTEREST INCOME

	2020	**2019**
From financial investments at fair value through other comprehensive income		
Government debt securities	1 963 966	1 827 256
Corporate debt securities	150 652	159 815
	2 114 618	**1 987 071**
Interest on cash and cash equivalents	6	31
	2 114 624	**1 987 102**

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

12. NET PROFIT / (LOSS) ON FINANCIAL ASSETS

	2020	**2019**
Financial assets at FVOCI		
Government debt securities	(1 269 236)	(1 137 431)
Corporate debt securities	(21 831)	(27 667)
Financial assets at FVTPL		
Investment funds	62 299	217 213
	(1 228 768)	**(947 885)**

	2020	**2019**
Realised gains / (losses):		
Government debt securities	(47 281)	(13 906)
Corporate debt securities	8 404	(1 975)
Investment funds	9 330	9 353
Unrealised gains / (losses):		
Government debt securities	(1 221 955)	(1 123 525)
Corporate debt securities	(31 455)	(33 310)
Investment funds	52 969	207 860
Changes in expected credit losses, net	1 220	7 618
	(1 228 768)	**(947 885)**

13. OTHER FINANCE EXPENSES

	2020	**2019**
Interest expenses and amortisation for subordinated loan	(48 470)	(61 172)
Interest expenses for lease liabilities	(29 725)	(28 859)
Losses from foreign currency fluctuations, net	(19 199)	(5 260)
	(97 394)	**(95 291)**

14. OTHER INCOME

	2020	**2019**
Relased payables from prior years*	359 705	-
Income from recalculation of social security contributions, PIT	69 357	7 036
Income from rent	6 827	6 964
Other income	2 132	21 890
	438 021	**35 890**

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

15. OTHER EXPENSES

	2020	**2019**
Disposal of property, plant, equipment and intangible assets	(602 360)	(199 114)
Released receivables allowances from prior years and changes in allowances for overdue debts, net	(195 804)	(4 492)
Other expenses	(3 212)	(17 010)
	(801 376)	**(220 616)**

Notes to the Financial Statements (All amounts in euros)

16. INTANGIBLE ASSETS

	Software	Intangible assets development costs	Total
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**
In 2020			
Additions arising from internal development	574 375	665 932	1 240 307
Additions arising from external development	16 662	44 601	61 263
Reclassified	707 555	(707 555)	-
Written-off	(1 128 021)*	-	(1 128 021)
Amortization for intangible assets written off	526 995*	-	526 995
Amortization charge	(832 117)	-	(832 117)
Closing net book amount	**2 223 102**	**90 379**	**2 313 481**
As at 31 December 2020			
Historical cost	13 945 621	90 379	14 036 000
Accumulated amortization	(11 722 519)	-	(11 722 519)
Net book amount	**2 223 102**	**90 379**	**2 313 481**

*The analysis of the continued use of intangible assets is performed once a year by performing an inventory process. In year 2020, the written-off intangible assets related to the closing of the BALTA2020 strategy, as well as the system migration project in 2020, as a result of which the intangible investments created by business and technical projects that were no longer expected to provide benefit were written off.

Notes to the Financial Statements (All amounts in euros)

17. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Right-of-use assets	Transport vehicles	Computers	Office equipment	Total
As at 31 December 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**
In 2020							
Additions	62 895	155 013	106 057	-	442 995	38 719	805 679
Disposals	-	-	(33 046)	-	(312 494)	(4 639)	(350 179)
Depreciation charge	(95 263)	(63 418)	(211 554)	(20 943)	(223 940)	(86 839)	(701 957)
Depreciation on disposed assets	-	-	32 383	-	311 181	4 639	348 203
Additions due to remeasurement of lease liabilities	-	-	257 245	-	-	-	257 245
Closing net book amount	2 221 560	251 754	987 384	32 941	682 808	224 547	4 400 994
As at 31 December 2020							
Cost	6 114 073	543 813	1 390 565	166 771	1 582 082	888 807	10 686 111
Accumulated depreciation	(1 894 688)	(292 059)	(403 181)	(133 830)	(899 274)	(664 260)	(4 287 292)
Accumulated impairment	(1 997 825)	-	-	-	-	-	(1 997 825)
Net book amount	**2 221 560**	**251 754**	**987 384**	**32 941**	**682 808**	**224 547**	**4 400 994**

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

Right-of-use assets include leases of premises.

18. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2020 Fair value	31.12.2019 Fair value
Investment funds	5 031 521	4 978 551
	5 031 521	**4 978 551**

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 5.03 million (2019: EUR 4.98 million) are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

Notes to the Financial Statements (All amounts in euros)

19. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2020 Fair value	31.12.2019 Fair value
Lithuanian government debt securities	48 742 169	42 854 638
Latvian government debt securities	29 851 271	30 120 969
Polish government debt securities	17 537 932	17 957 604
Bulgarian government debt securities	5 555 240	3 130 171
Romanian government debt securities	6 407 885	2 816 018
Hungarian government debt securities	3 952 524	418 867
Croatian government debt securities	5 282 220	2 984 833
Corporate debt securities	5 316 806	6 337 162
	122 646 047	**106 620 262**

The split between current and non-current financial investments at fair value through other comprehensive income is included in Note 36. Financial investments at fair value through other comprehensive income in total EUR 43.20 million (2019: EUR 106.62 million) are in Level 1 fair value hierarchy and EUR 79.45 million (2019: EUR 0) are in Level 2 fair value hierarchy in accordance with IFRS 7 definitions.

As at 31 December 2020, debt securities in the amount of EUR 71.97 million were reclassified from Level 1 to Level 2 fair value hierarchy due to a more limited market activitity and availability of quoted market prices for these securities. No other reclassifications of financial investments between the levels of fair value hierarchy have taken place in 2020 or 2019.

As at 31 December 2020 and 31 December 2019, 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 2018	**1 341 345**
Net change in fair value	1 025 208
As at 31 December 2019	**2 366 553**
Net change in fair value	213 369
As at 31 December 2020	**2 579 922**

20. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2020	31.12.2019
Gross receivables from direct insurance operations	17 284 773	19 821 136
Doubtful debt allowances for receivables from direct insurance operations	(222 775)	(39 090)
	17 061 998	**19 782 046**

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

	Gross 31.12.2020	Allowances 31.12.2020	Net 31.12.2020	Gross 31.12.2019	Allowances 31.12.2019	Net 31.12.2019
Not past due	17 020 144	(158 340)	16 861 804	19 385 887	-	19 385 887
Past due 0-30 days	232 302	(35 534)	196 768	383 767	-	383 767
Past due 31-60 days	6 587	(3 161)	3 426	12 392	-	12 392
More than 60 days	25 740	(25 740)	-	39 090	(39 090)	-
	17 284 773	**(222 775)**	**17 061 998**	**19 821 136**	**(39 090)**	**19 782 046**

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

In 2020, the Company introduced a new approach to calculated allowances for bad and doubtful debts due to Covid-19 impact on economy and growing concerns of actual ability of clients to settle due payments.

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 2018	**85 785**
Additional allowances	7 411
Written-off debts	(51 453)
Recovered debts	(2 653)
As at 31 December 2019	**39 090**
Additional allowances	204 271
Written-off debts	(9 908)
Recovered debts	(10 678)
As at 31 December 2020	**222 775**

21. REINSURANCE RECEIVABLES

	31.12.2020	31.12.2019
Gross receivables from reinsurance operations	594 674	245 609
Doubtful debt allowances for receivables from reinsurance operations	-	-
	594 674	**245 609**

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

22. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2020	31.12.2019
Claims prevention expenses	329 905	413 514
Prepayments for software maintenance	406 554	273 554
Prepayments for rent	27 734	24 948
Other deferred expenses	18 741	19 823
Reinsurance prepayments	4 965	4 008
Insurance payments	5 958	3 914
	793 857	**739 761**

23. OTHER RECEIVABLES

	31.12.2020	31.12.2019
Financial other receivables		
Receivables for subrogation transactions*	706 616	782 317
Impairment of overdue subrogation settlements	(170 653)	(199 801)
Receivables from other insurance companies	101 651	200 109
Receivables from the Motor Insurers' Bureau of Latvia	10 977	15 686
Receivables from related parties	-	12 124
Receivables for claims regulation	7 114	7 114
Receivables from agents	(1 529)	1 469
Other receivables	220 071	156 065
Impairment of other overdue receivables	(131 355)	(131 355)
Total Financial other receivables	**742 892**	**843 728**

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 2020 amounts to EUR 107 098 (31.12.2019: EUR 105 346).

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 2018	**270 758**
Additional allowances	87 217
Recovered debts	(26 819)
As at 31 December 2019	**331 156**
Additional allowances	47 632
Recovered debts	(76 780)
As at 31 December 2020	**302 008**

24. CASH AND CASH EQUIVALENTS

	31.12.2020	31.12.2019
Cash in current accounts	7 389 180	7 168 642
	7 389 180	**7 168 642**

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

25. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 728 064 (31.12.2019: 4 728 064). The nominal value of one share as at 31.12.2020 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 2020 is EUR 6 619 290 (31.12.2019: 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 31.12.2020, the largest shareholder of the Company with 4 727 821 or 99.99% shares (31.12.2019: 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.

26. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2020	31.12.2019
Compulsory state social security contributions and solidarity tax	376 242	351 767
Personal income tax	181 054	167 696
Value added tax	63 764	38 900
Business risk state duty	215	208
Liabilities	**621 275**	**558 571**

Notes to the Financial Statements (All amounts in euros)

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

	2020	2019
Compulsory state social security contributions and solidarity tax	4 792 982	4 658 964
Personal income tax	2 554 330	2 455 710
Value added tax	546 139	559 181
Property tax	31 846	31 846
Business risk state duty	2 508	2 494
	7 927 805	**7 708 195**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2020	31.12.2019
Financial accrued expenses		
Accruals for personnel bonuses	2 146 412	2 074 686
Accruals for unused employee vacations	990 939	751 297
Accruals for intermediary commissions	193 454	263 636
Accruals for rent and utilities services	20 127	27 688
Accruals for audit expenses	24 933	21 871
Accruals for consulting services	17 575	19 239
Accruals for transport expenses	12 500	14 364
Accruals for other expenses	659 725	554 206
Total financial accrued expenses	**4 065 665**	**3 726 987**
Non-financial accrued expenses and deferred income		
Unearned reinsurance commission	449 199	345 603
Total non-financial accrued expenses and deferred income	**449 199**	**345 603**
	4 514 864	**4 072 590**

	Accruals for personnel bonuses	Other accrued expenses and deferred income	Total
As at 31 December 2019	**2 074 686**	**1 997 904**	**4 072 590**
Additions	1 806 701	2 630 589	4 437 290
Used	(1 488 702)	(2 029 893)	(3 518 595)
Reversed	(246 274)	(230 147)	(476 421)
As at 31 December 2020	**2 146 411**	**2 368 453**	**4 514 864**
Long-term part	**339 709**	**367 130**	**706 839**
Short-term part	**1 806 702**	**2 001 323**	**3 808 025**

	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**

Notes to the Financial Statements (All amounts in euros)

28. OTHER CREDITORS

	31.12.2020	31.12.2019
Financial other creditors		
Commission payables	141 630	192 789
Due to personnel	677 177	611 636
Payables to related parties	62 422	50 600
Other liabilities	52 300	61 201
Total financial other creditors	**933 529**	**916 226**
Non-financial other creditors		
Due to the Motor Insurers' Bureau of Latvia	129 310	154 704
Due to the Financial and Capital Market Commission	72 970	74 389
Total non-financial other creditors	**202 280**	**229 093**
	1 135 809	**1 145 319**
Long-term part	**-**	**-**
Short-term part	**1 135 809**	**1 145 319**

29. LEASE LIABILITIES

	Note	Lease liabilities
As at 1 January 2020		**856 566**
Changes from financing cash flows		
Payment of lease liabilities		(204 988)
Total changes from financing cash flows		**(204 988)**
Liability-related other changes		
New leases	17	106 057
Disposals		(1 497)
Additions due to remeasurement of lease liabilities	17	257 245
Interest accrued		29 725
Interest paid		(29 725)
Total liability-related other changes		**361 805**
As at 31 December 2020		**1 013 383**
As at 1 January 2019		**-**
Adjustment on initial application of IFRS 16	17	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	17	154 253
Lease modifications	17	(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 weighted average incremental borrowing rate applied to lease liabilities amounted to 3% (as at 31 December 2019: 3%).

Expenses relating to short-term and low value leases recognized in profit and loss in 2020 amounted to EUR 3 690 (as at 31 December 2019 EUR 4 832) (including VAT).

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

30. DIVIDENDS PER SHARE

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

Notes to the Financial Statements (All amounts in euros)

31. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2020	2019
Motor Insurers' Bureau of Latvia	939 726	1 099 362
Financial and Capital Market Commission	293 938	293 039
	1 233 664	**1 392 401**

32. RESULT OF CEDED REINSURANCE

	2020	2019
Reinsurers' share in written premiums (see Note 4)	(5 137 810)	(4 865 337)
Reinsurers' share in changes in unearned premium reserves (see Note 5)	387 912	114 371
Reinsurers' share in claims paid (see Note 7)	1 496 126	37 557 225
Reinsurers' share in changes in outstanding claims reserves (see Note 8)	598 269	(36 630 886)
Reinsurance and fronting insurance commission income (see Note 6)	453 997	427 867
Net result of ceded reinsurance activities:	**(2 201 506)**	**(3 396 760)**

33. TRANSACTIONS AND PAYMENTS TO RELATED PARTIES

Related parties represent both legal entities and private individuals related to the Company in accordance with the following rules:

a) A person or a close member of that person's family is related to a Company if that person:
   i) has control or joint control over the Company;
   ii) has significant influence over the Company; or
   iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

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

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

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

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

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

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

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

a) Transactions with related parties

Reinsurance and fronting insurance

	2020	2019
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance premiums ceded	(4 125 609)	(3 694 745)
Change in reinsurers' share in unearned premium reserves	430 227	160 459
Reinsurers' share in claims paid	625 505	36 781 302
Change in reinsurers' share in outstanding claims reserves	198 486	(36 461 366)
Reinsurance commissions	455 897	387 280
Change in deferred reinsurance commissions	(106 113)	(66 370)
	(2 521 607)	**(2 893 440)**

	2020	2019
Lietuvos Draudimas AB:		
Fronting insurance premiums	(219 806)	(439 063)
Commissions from insurance policies fronting	11 622	25 977
Fronting insurance claims	129 408	227 641
Change in fronting insurance unearned premium reserves	(47 702)	(53 128)
Change in fronting insurance deferred client acquisition costs	2 520	2 807
Change in fronting insurance outstanding claims reserves	(38 463)	9 877
	(162 421)	**(225 889)**

Other transactions

	2020	2019
Lietuvos Draudimas AB:		
Investment portfolio management services	(71 612)	(50 600)
Other services	(13 323)	-
Indemnity costs, claim handling fee and subrogations	(124 368)	(216 778)
Indemnity costs, claim handling fee and subrogations	86 379	98 704
	(122 924)	**(168 674)**

	2020	2019
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Accrued interest and amortisation for subordinated loan	(48 470)	(61 172)
Indemnity costs, claim handling fee and subrogations	(213 377)	(128 847)
Indemnity costs, claim handling fee and subrogations	50 953	71 199
	(210 894)	**(118 820)**

	2020	2019
Lietuvos Draudimas AB Estonia branch:		
Indemnity costs, claim handling fee and subrogations	3 498	5 860
	3 498	**5 860**

	2020	2019
PZU Lietuva Gyuybes Draudimas UAB:		
Other services	(4 523)	(4 458)
	(4 523)	**(4 458)**

	2020	2019
PZU Centrum Operaciji S.A.:		
Other services	(8 530)	(10 236)
	(8 530)	**(10 236)**

Notes to the Financial Statements (All amounts in euros)

Balances with related parties

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

	31.12.2020	31.12.2019
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Subordinated loan, including accrued interest	-	(2 086 040)
Reinsurance payables	(692 006)	(518 459)
Other payables	(1 316)	-
Unearned reinsurance commissions	(437 575)	(331 463)
Total payables	**(1 130 897)**	**(2 935 962)**
Other receivables	36 999	134 155
Reinsurer's share in outstanding claims reserves	5 994 814	5 796 328
Reinsurer's share in unearned premium reserves	1 328 380	898 153
Reinsurance receivables	458 372	4 340
Other (prepayments)	4 965	4 008
Total receivables	**7 823 530**	**6 836 984**
	6 692 633	**3 901 022**

	31.12.2020	31.12.2019
Lietuvos Draudimas AB:		
Other payables	(61 106)	(50 600)
Unearned fronting insurance commissions	(3 233)	(5 754)
Fronting insurance payables	(44 694)	(81 244)
Total payables	**(109 033)**	**(137 598)**
Fronting insurance reinsurer's share in outstanding claims reserves	26 509	64 972
Fronting insurance reinsurer's share in unearned premium reserves	61 204	108 906
Fronting insurance receivables	3 043	51 945
Other receivables	22 436	4 728
Total receivables	**113 192**	**230 551**
	4 159	**92 953**

	31.12.2020	31.12.2019
Lietuvos Draudimas AB Estonia branch:		
Other receivables	1 399	-
	1 399	**-**
Total payables	(2 188 706)	(3 743 402)
Total receivables	6 989 345	6 397 693
Net receivables	**4 800 639**	**2 654 291**

The subordinated loan from PZU was been received on 21 May 2015. After receiving the consent from Financial Capital and Market Commission, the Company repaid the remaining part of the loan on 12 October 2020 in the amount of EUR 2 050 000 and accrued interest in the amount of EUR 23 068 that was calculated for this part of loan from the time period from previous interest payment on 29 May 2020 till the repayment on 12 October 2020.

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

Notes to the Financial Statements (All amounts in euros)

	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	13	61 172
Total liability-related other changes		**61 172**
As at 31 December 2019		**2 086 040**

b) Management remuneration

In 2020, the Company paid remuneration, including compulsory state social security contributions, to the Management Board in the amount of EUR 1 007 thousand (2019: EUR 1 005 thousand) and to the Supervisory Board in the amount of EUR 0 thousand (2019: EUR 3 thousand).

34. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

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

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2020 there were 22 (31.12.2019: 30) pending cases of litigation versus the Company for a total of EUR 1 276 thousand (31.12.2019: EUR 1 621 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 2020.

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.

35. INSURANCE RISK MANAGEMENT

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

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance 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.

Types of insurance contracts

Motor third party liability insurance

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

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

Accident insurance

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

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

Travel insurance

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

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

Casco insurance

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

Property insurance, business interruption insurance and building risks insurance

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

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

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

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

General liability insurance

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

Health

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

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

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

Concentration by industry

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

Reinsurance contract assets

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

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

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

Sensitivity to insurance risk

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

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

Sensitivity analysis for claims provisions at 31.12.2020:

	Impact if loss ratio 5 percent points higher than used in IBNR estimates	**Impact if loss ratio 5 percent points lower than used in IBNR estimates**	**Impact if claims handling expenses 5% higher than used in reserve estimates**	**Impact if claims handling expenses 5% lower than used in reserve estimates**
Obligatory Motor TPL	860 801	(860 801)	28 846	(28 846)
Property	13 772	(13 772)	9 286	(9 286)
Motor own damage	12 116	(12 116)	15 729	(15 729)
General TPL	124 377	(108 374)	5 187	(5 187)
Health	74 742	(74 742)	2 121	(2 121)

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 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 31.12.2020		**As at 31.12.2019**	
	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	714 323	(620 764)	699 614	(604 964)

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

Notes to the Financial Statements (All amounts in euros)

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**

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:

	2020	2019
Personal accident & Travel medical expense	105 671	102 326
Cargo insurance	350 000	350 000
Hull, CMR Property	350 000	350 000
Property insurance	704 473	697 674
General TPL insurance	352 237	348 837
Bonds and guarantees	469 649	465 116
Obligatory Motor TPL	400 000	400 000

In 2020 and 2019, there is no reinsurance coverage for Motor own damage under excess of loss reinsurance agreements.

Liability adequacy test

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

Unexpired risk reserve as at 31 December 2020 amounts to EUR 1 171 000 (31 December 2019: EUR 261 000), which is presented under Gross unearned premium and unexpired risk reserves on the Statement of Financial Position. Reserve increase influenced by assumptions made in relation to COVID-19 pandemic impact on the Company's health insurance contract liabilities.

36. FINANCIAL RISK MANAGEMENT

Risk management system:

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

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

Notes to the Financial Statements (All amounts in euros)

36.1 Counterparty default risk

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

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

a) Maximum credit exposure

	31.12.2020	31.12.2019
Lithuanian government debt securities	48 742 169	42 854 638
Latvian government debt securities	29 851 271	30 120 969
Polish government debt securities	17 537 932	17 957 604
Romanian government debt securities	6 407 885	2 816 018
Bulgarian government debt securities	5 555 240	3 130 171
Croatian government debt securities	5 282 220	2 984 833
Hungarian government debt securities	3 952 524	418 867
Corporate debt securities	5 316 806	6 337 162
Investment funds	5 031 521	4 978 551
Total financial investments	**127 677 568**	**111 598 813**
Reinsurers' share in unearned premium reserves	1 468 053	1 080 141
Reinsurers' share in outstanding claims reserves	7 353 440	6 755 171
Total reinsurers' share of insurance contract liabilities	**8 821 493**	**7 835 312**
Receivables due from policyholders	16 114 497	18 893 715
Receivables due from intermediaries	947 501	888 331
Reinsurance debtors	594 674	245 609
Other receivables	742 892	843 728
Total receivables	**18 399 564**	**20 871 383**
Cash and cash equivalents	7 389 180	7 168 642
Maximum credit exposure, total	**162 287 805**	**147 474 150**

b) Reinsurance risk breakdown by key counterparties

	31.12.2020		31.12.2019	
Reinsurer	Assets related to reinsurance	**Rating***	Assets related to reinsurance	**Rating***
Powszechny Zakład Ubezpieczeń SA	7 781 567	**A-**	6 698 881	**A-**
Swiss Re Group	471 379	**AA-**	193 191	**AA-**
ALD Re Designated Activity Company	463 013	**NR**	527 021	**NR**
Munich Re Group	128 677	**AA-**	119 167	**AA-**
GeneralRensurance AG	110 000	**AA+**	110 000	**AA+**
Hannover Re	98 609	**AA-**	66 986	**AA-**
SCOR Global P&C	93 794	**AA-**	35 488	**AA-**
Lietuvas Draudimas AB	90 756	**NR**	225 823	**NR**
R + V Versicherung AG	68 540	**AA-**	14 804	**AA-**
Caisse Centrale de Reassurances	49 064	**AA**	31 918	**AA**
Odyssey America Reinsurance Corporation	47 138	**A-**	19 319	**A-**
Royal & Sun Alliance Insurance PLC	5 738	**A**	6 825	**A**
Liberty Syndicate, Cologne	5 177	**A**	15 749	**A**
ACE Tempest Re Europe	2 407	**AA**	15 749	**AA-**
Lloyd`s Syndicate 2786 EVEREST	200	**A+**	-	**A+**
Lloyd`s Syndicate 0382 HDU	108	**A+**	-	**A+**
Reinsurance risk	**9 416 167**		**8 080 921**	

* 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 2020	Rated AAA	AA	A	BB	BBB	Total
Government debt securities	-	-	96 131	-	21 198	117 329
Corporate debt securities	-	-	-	1 022	4 295	5 317
Total investment assets	**-**	**-**	**96 131**	**1 022**	**25 493**	**122 646**

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**

36.2 Liquidity risk

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

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

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

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

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**

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.

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

31.12.2019	**Carrying amount**	**Up to12 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)	**(1 053)**

36.3 Market risk

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

a) Exposure to interest rate risk

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

	2020	**2019**
Latvian government debt securities	-0.04%	0.01%
Bulgarian government debt securities	-0.01%	0.00%
Croatian government debt securities	-0.01%	0.00%
Lithuanian government debt securities	-0.08%	0.03%
Polish government debt securities	-0.04%	-0.01%
Romanian government debt securities	0.03%	0.00%
Hungarian government debt securities	0.02%	0.00%
Corporate debt securities	0.03%	0.03%

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

		2020	**2019**
		EUR	**EUR**
Market interest rate and impact on fair value	+0.5 percent point	(1 929 102)	(1 846 359)
	-0.5 percent point	1 980 635	1 900 843

b) Fair value determination

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

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

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

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

c) Currency risk

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

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

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

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**

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

37. CAPITAL MANAGEMENT

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.

38. LOSS DEVELOPMENT TABLE

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

	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	16 649	5 951	6 411	7 787	8 457	11 114	10 896*	13 565*	18 631*	20 438*	18 318	
1 year later	13 237	4 683	4 913	6 679	8 357	9 115*	8 646*	11 693*	15 989*	17 015*		
2 years later	11 931	4 386	4 999	6 798*	8 189*	8 709*	8 607*	11 666*	14 727*			
3 years later	10 683	4 757	4 850	6 560*	7 668*	9 268*	7 902*	9 655*				
4 years later	10 626	4 804	4 745	6 170*	7 591*	9 240*	7 493*					
5 years later	10 445	4 510	4 434	6 017*	7 466*	9 250*						
6 years later	10 036	4 595	4 537	6 079*	7 446*							
7 years later	10 092	4 600	4 522	6 045*								
8 years later	10 626	4 608	4 443									
9 years later	10 315	4 667										
10 years later	10 802											
Net claims paid												
1 year later	4 679	3 546	3 772	4 880	5 888	6 054	5 791*	6 836*	9 094*	9 769*	-	
2 years later	943	279	390	238	440	614*	287*	785*	426*			
3 years later	183	411	104	208*	330*	195*	244*	256*				
4 years later	1 484	39	9	262*	84*	32*	23*					
5 years later	360	132	96	30*	22*	23*						
6 years later	519	5	-7	29*	-15*							
7 years later	299	99	-2	-16*								
8 years later	9	3	69									
9 years later	43	3										
10 years later	62											
Cumulative net claims paid	**8 581**	**4 517**	**4 431**	**5 631***	**6 749***	**6 918***	**6 345***	**7 877***	**9 520***	**9 769***	**-**	**70 338***
CY (deficiency) / redundancy	**-487**	**-59**	**79**	**34****	**20****	**-10****	**409****	**2 011****	**1 262****	**3 423****	**-**	**6 682****

*) 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.

39. SUBSEQUENT EVENTS

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

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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 2020,
- 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 2020, 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 2020 amounted to EUR 46 876 883 (31 December 2019: EUR 45 241 673). The change in gross outstanding claims reserves in 2020 amounted to EUR 1 635 210 (increase) (in 2019: EUR 30 227 385 (decrease)).

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

Key audit matter

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

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

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

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

Our response

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

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

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

Reporting on Other Information

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

- Information on the Company, Members of the Supervisory Board and the Management Board, Independent Auditors as set out on page 3 of the accompanying Annual Report,
- Report of the Supervisory Board and the Management Board, as set out on pages 4 to 7 of the accompanying Annual Report,
- 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. 114 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and branches of foreign insurers.

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the extraordinary shareholders' meeting on 18 July 2019 to audit the financial statements of AAS BALTA for the year ended 31 December 2020. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2013 to 31 December 2020.

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

Rainers Vilāns
Partner pp. KPMG Baltics AS
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
18 March 2021

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