# Balcia Insurance SE 

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2019

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## Information about the Company

| Name of the Company | Balcia Insurance SE |
| :---: | :---: |
| Legal status of the Company | European Company (Societas Europea) |
| Number, place and date of registration | 40003159840, was registered in Riga, Latvia, in 1993 as a Joint Stock Insurance Company |
| Address | Kr.Valdemara 63, Riga, Latvia, LV-1010 |
| Members of the Board and their positions | $\begin{aligned} & \text { Jānis Lucaus - Chairman of the Board (from 27.02.2020) } \\ & \text { Lauris Boss - Chairman of the Board (until 27.02.2020) } \\ & \text { Kaspars Ummers - Member of the Board } \end{aligned}$ |
| Members of the Council and their positions | Gints Dandzbergs - Chairman of the Council <br> Pauls Dandzbergs - Deputy Chairman of the Council <br> Marts Dandzbergs - Deputy Chairman of the Council <br> Andrejs Galanders - Member of the Council <br> Agris Dambenieks - Member of the Council <br> Bronislaw Woznialis - Member of the Council |
| Reporting year | 01.01.2019-31.12.2019 |
| Auditors | KPMG Baltics AS <br> Vesetas 7 <br> Riga, Latvia, LV-1013 <br> Licence No. 55 |

## Management Report

Balcia Insurance SE (hereinafter "the Company") is a non-life insurance company with many years of experience behind it. The Company was established in 1993 in Latvia. As a result of the rebranding process being carried out after the separation of the Baltic business, the Company is working with its new name Balcia since November 2016.

After refocusing its strengths and expanding further into European markets, the Company has been operating branch offices in France, Poland, Germany, Lithuania, and the UK, and operations under Freedom of Service (FoS) principle are conducted in Spain and Italy.

The Company's Headquarters are located in Riga, Latvia, from where the principal business functions, such as strategic management, finance, risk management, internal audit, product management, and information technology, as well as some support activities to branches, are being provided.

The Company's gross written premiums of EUR 87.2 million are mostly related to Motor insurance portfolio amounting to more than $85 \%$. The Company offers to its clients also other types of non-life insurance, with the largest part in Property, Third Party Liability, Travel, and Personal Accident insurance.

Flexible in its approach, the Company quickly responds to the needs of each specific market, focusing on niche non-life insurance products and working closely with insurance brokers and agents.

The Company core values - Trust, Growth, Challenge, and Family - represent the transparency and mutual trust in a challenging environment not only for its team members and the management team but also for the Company's partners and end-customers.

In order to be competitive in the European market, the Company focuses on providing quality, availability, and continuously looking for ways to improve our customers' and partners' satisfaction.

## FINANCIALS

In the year 2019, the Company continued to refine its portfolio in order to concentrate only on profitable products and segments. In addition, the unfavorable conditions in Poland's motor third party liability market with price and volume drop gave an extra negative effect on the top line. Therefore gross written premiums decreased from EUR 105 million to EUR 87 million.

Due to a large loss from retiring property portfolio in France and additional reserve strengthening in Poland, the Company's shareholders' equity decreased by EUR 2.1 million to EUR 48.1 million in 2019. Meanwhile, the Company's Solvency ratio increased from $117 \%$ to $124 \%$ as of 31 December 2019. The result was accomplished by exiting the property risk portfolio which generated underwriting losses and restructuring some parts of the reinsurance program. Thus releasing more space for accepting new risks and growing the business to meet the Company's strategic goals in the future.

The Company's management suggests that the loss for the reporting year be covered from the retained earnings of previous years.

## RISK MANAGEMENT

The Company has a comprehensive Risk Management System, which is closely connected to its systems of Governance and Internal Control. It provides a framework for identifying, measuring, assessing, monitoring, controlling, and reporting the Company's risks on a regular basis at an individual and aggregated level.

The main risks the Company is subject to, as described in Section 4 of the notes to the financial statements, are those that arise from: (a) the insurance policies issued for the benefit of our customers, (b) investing the financial reserves in financial markets and instruments, (c) the day-to-day business operations.

## Management Report

The Company's Risk Management System is carried out by means of different policies related to Risk Management, Risk Appetite statements, limits, and procedures.

In 2019, the Company continued to develop and enhance its Risk Management System by embedding it in the culture of the Company, as well as strengthening and improving its key risk management processes. Thus, the system provides a piece of better risk information allowing the Company to make better business decisions to realize its strategy and achieve its goals.

## MAJOR EVENTS AND DEVELOPMENT

At the end of 2019 , the number of employees reached 156 from 149 last year, mainly due to expanding operations in Lithuania and organizing own IT system development team.

During 2019 the Company has built an internal IT system development team that is planning to provide significant internal development without external support. IT contribution to product development in Lithuania has been an incomparable step towards successful sales. The Company's internal processes and IT infrastructure are easily adaptable, thus ultimately supporting remote work from home for all employees, that has been successfully tested in early 2020.

The Company finalized the implementation of all the necessary General Data Protection Regulation (GDPR) and Insurance Distribution Directive (IDD) requirements, therefore ensuring the Company being compliant with the new European Union's regulations, as well as improving the understanding and the competence of the Customer Service teams in all the Company's branches.

## OPERATIONS OF BRANCHES

In Poland, the Company continued portfolio diversification by products and reached $18 \%$ of the portfolio for other than compulsory motor third-party liability insurance (2018: 13\%). Poland's gross written premiums decreased by $30 \%$ due to the fact that some insurers kept low prices, while the Company did not want to follow the price reduction and incur underwriting losses. The sales network continued to grow and the number of agreements with our sales partners increased by $8 \%$ in comparison to the prior year and reached almost 10 thousand contracts with the insurance intermediaries (insurance multi-agents and brokers) across the whole country. Poland branch's activities in sales and claims handling were supported by our exclusive partner RESO Europa Service.

In Lithuania, the focus still is on strengthening the positions by selling compulsory motor third party liability insurance for international freight forwarding companies, increasing the volume of gross written premiums, and expanding the co-operation with new partners - insurance brokers. The latest products - motor own damage and travel insurance were introduced also in private segment, and total volume of EUR 4.1 million in gross written premiums was signed in 2019.

In France, there were established several new significant partnerships to attract new business in the motor fleet business, which enabled the branch to diversify its portfolio for the benefit of increasing the motor own damage lines in it. The extensive work has been done in the profitable motor segment by increasing volume by $40 \%$ to EUR 6.8 million. Due to under-performance of the public sector property insurance segment, contributed by the increase of social activity in France in 2018, the Company made the decision to withdraw from this segment and restructure the portfolio towards the private and commercial business property insurance. During 2019, the portfolio was cut by half to EUR 5.9 million with the intention to discard from almost all property insurance segments in 2020.

## Management Report

In Germany, the Company focused on maintaining strong relations with the exclusive sales partner and looking for an opportunity to become more profitable by maintaining the premium level higher than average in the market. As a result, the top-line decreased by $25 \%$, contributing more to the technical result.

In 2019, the UK branch successfully managed claim handling and damage assessment services of insurance contracts claimed in the UK for other branches of the Company and other insurance companies.

## FUTURE OUTLOOK

In 2020, the Company has set the following activities for the target markets:

- In Poland, the Company will focus on growth in a number of sales and an increase in rates in the well-known motor third party liability product. Additionally, the company has started a detailed review of a pricing model in this line of business.
- In Lithuania, the Company will accelerate sales in private motor products as well as personal accident insurance. Due to the internet's accessibility and customer habits, the Company is developing a brand-new e-commerce business model and technical solution to benefit the advantages for business, customers, and also for society.
- In France, the Company will continue to expand sales of profitable motor insurance products. The Company shall focus on broadening the sales network, as well as increasing the volume of gross written premiums by offering motor fleet insurance not only to the public entities, but also to private entity clients.
- In Germany, the Company will concentrate on profitability by balancing volume and premium rates. At the same time, increasing contribution from claims handling for other branches and companies will be supported by lean processes and professional claims handling service.
- In 2020, the Company has agreed with UAB InterAssista UK branch to take over all of the Company's UK branch team and all claims handling operations and continue rendering the claims handling services to the Company and other insurance companies. As a result the Company shall continue receiving effective claims handling services in this country. The Company's UK branch will be closed due to Brexit. The management assesses that the impact from these changes on the Company's financial performance will not be material.

In 2020, the Company will reduce presence in segments and business lines that turn out to be unprofitable. This setting will challenge the Company team to achieve the gross written premium targets. However, the net result is expected to improve significantly and bring the Company back to profitability.

The Company is keen to strengthen its agility and efficiency in each country where it has a branch by continually improving the level of quality of services provided, investing in the development of the employees, actively and prudently exploring new business opportunities, and improving the efficiency of work.

Regarding actions taken by the Company management to address the COVID - 19 crisis, and how this impacts the Company's business relationships with its clients and partners. The governments as well as companies in Latvia and the other European countries, in which the Company operates in, have taken rigid measures in order to contain the further spread of COVID - 19. While the Company fully endorses and complies with the measures ordered by the public authorities, the Company has also taken a number of additional actions in order to protect the health of its employees and business partners and to respond to its social responsibility. As of mid-March, all employees are working on home office mode. In addition, for the time being, the Company abstains from any business trips, as well as face to face business meetings and instead uses telephone and videoconferences. The Company has successfully passed this stress test, and its IT equipment and connectivity proved to be resilient. The Company's business relationship to customers and partners continues on a usual basis, accommodating for the "new normal". The Company management is very confident that even for a prolonged crisis situation, the Company will conduct business operations in a professional and orderly way.

## Management Report

The Company believes that, despite the COVID-19 outbreak, the current operating strategy will contribute to adding value to its customers, partners, and shareholders, as well as ensure the sustainable development of its team and business over the years to come!


## Statement on Management Responsibility

In 2019, the Board of Directors of Balcia Insurance SE (hereinafter "the Company"), which consists of two members, was responsible for the management of the Company. The Management regularly informed the Council about the key developments in the Company and provided necessary explanations.
The Management assumes responsibility for the preparation of the accounting records, compliance in the process of booking transactions with the regulatory norms applicable to accounting, safekeeping of the assets of the Company, as well as the prevention of fraud and other dishonest activities.
The Company's Management assumes responsibility for the preparation of the Company's financial statements for the year ended 31 December 2019 prepared in accordance with IFRS as adopted by the European Union that give a true and fair view of the Company's activities and cash flows from 1 January 2019 to 31 December 2019, as well as its financial position as at 31 December 2019.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2019 have been prepared in accordance with the effective legislation requirements, the regulations issued by the Financial and Capital Market Commission of the Republic of Latvia and IFRS as adopted by the European Union, which have been applied on a consistent basis.

The Company's financial statements for 2019 have been prepared on the basis of prudent and reasonable decisions and assumptions made by the Management.
The Management confirms that the requirements of the Latvian legislation and applicable legislation in other EU countries have been met, and that the financial statements have been prepared on a going concern basis.

The Management is not aware of any significant events after the year-end, which are not reflected in these financial statements and that might have a material impact on the Company's activities and the assessment of the financial statements.


## Financial statements

## Statement of Comprehensive Income

|  |  | 2019 | 2018 |
| :---: | :---: | :---: | :---: |
|  | Note | EUR'000 | EUR'000 |
| Gross written premiums | 5 | 87225 | 105000 |
| Reinsurers' share in written premiums | 5,22 | (17 821) | (15 125) |
| Net written premiums | 5 | 69404 | 89875 |
| Change in unearned premium and unexpired risk reserves |  |  |  |
| Gross change | 7 | 6789 | 3556 |
| Reinsurers' share | 7, 22 | 1708 | (1310) |
| Change in net unearned premium and unexpired risk reserves | 7 | 8497 | 2246 |
| Net earned premiums | 6 | 77901 | 92121 |
| Other technical income, net | 8 | 2461 | 2048 |
| Incurred claims, net |  |  |  |
| Paid claims, net |  |  |  |
| Gross claims paid | 9 | (62 693) | (50777) |
| Paid claims |  | (60000) | (47 854) |
| Loss adjustment expenses |  | (7467) | (6783) |
| Recovered losses |  | 4774 | 3860 |
| Reinsurers' share of claims paid | 9,22 | 9609 | 7347 |
| Net paid claims |  | (53 084) | (43 430) |
| Change in net outstanding claims technical reserves |  |  |  |
| Gross change | 10 | (17906) | (27 211) |
| Reinsurers' share | 10,22 | 13686 | 5935 |
| Change in net outstanding claims technical reserves |  | (4220) | (21 276) |
| Net incurred claims | 11 | (57 304) | (64 706) |
| Operating (expenses)/ income |  |  |  |
| Client acquisition costs | 12 | (17 398) | (24 141) |
| Change in deferred client acquisition costs | 12 | (2595) | $(1775)$ |
| Administrative expenses | 13 | (6849) | (6718) |
| Depreciation and amortisation |  | (637) | (871) |
| Reinsurance commissions and profit participation | 14,22 | 1565 | 754 |
| Change in unearned reinsurance commission | 14,22 | 326 | 1494 |
| Net operating expenses |  | (25 588) | (31 257) |

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.

## Statement of Comprehensive Income

|  | Note | $2019$ <br> EUR'000 | $2018$ <br> EUR’000 |
| :---: | :---: | :---: | :---: |
| Other technical expenses | 15 | (2442) | (3 642) |
| Investment management charges | 16 | (110) | (89) |
| Interest income and dividend income | 17 | 2129 | 1038 |
| Gain from financial assets at fair value through profit or loss, net |  | 1025 | 869 |
| Revaluation of investment property | 24 | - | (691) |
| Loss on foreign currency fluctuation |  | (39) | 84 |
| Impairment gain/(loss) on loans and receivables | 18 | (114) | (77) |
| Other income | 19 | 368 | 222 |
| Other expenses | 20 | (71) | (178) |
| Profit/(loss) before tax |  | (1766) | (4258) |
| Income tax for the period | 21 | (323) | (317) |
| Profit/(loss) from operations for the period |  | (2089) | $(4575)$ |
| Other comprehensive income |  |  |  |
| Items that are or may be reclassified to profit or loss |  |  |  |
| Currency revaluation impact | 34 | 31 | (92) |
| Items that will not be reclassified to profit or loss |  |  |  |
| Revaluation of land and buildings | 24,34 | - | (279) |
| Other comprehensive income/(expense) for the year |  | - | (371) |
| Total comprehensive profit/(loss) |  | (2058) | (4946) |

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.


## Statement of Financial Position

|  |  | 31.12.2019 | 31.12.2018 |
| :---: | :---: | :---: | :---: |
| Assets | Note | EUR'000 | EUR'000 |
| Land and buildings | 24 | 1006 | 1155 |
| Property and equipment | 23 | 505 | 341 |
| Intangible assets | 25 | 1186 | 979 |
| Investment property | 24 | 4406 | 4494 |
| Financial investments |  |  |  |
| Investments at fair value through profit or loss |  |  |  |
| Non-fixed income securities | 26 | 1623 | 1573 |
| Debt securities and other fixed income securities | 26 | 90548 | 85557 |
| Total investments at fair value through profit or loss |  | 92171 | 87130 |
| Available-for-sale financial assets | 27 | 5903 | 6070 |
| Deposits with banks | 28,32 | 6000 | 6000 |
| Total financial investments |  | 104074 | 99200 |
| Loans and receivables |  |  |  |
| Loans issued |  |  |  |
| Mortgage loans | 29 | 4608 | 2233 |
| Other loans | 29 | 6977 | 2014 |
| Total loans issued |  | 11585 | 4247 |
| Receivables |  |  |  |
| Receivables from direct insurance activities |  |  |  |
| Due from policy holders | 30 | 12931 | 10516 |
| Due from intermediaries | 30 | 1638 | 3131 |
| Total receivables from direct insurance activities |  | 14569 | 13647 |
| Receivables from reinsurance activities |  | 7573 | 6052 |
| Other receivables | 31 | 1685 | 994 |
| Total receivables |  | 23827 | 20693 |
| Total loans and receivables |  | 35412 | 24940 |
| Accrued income and deferred expenses |  |  |  |
| Deferred client acquisition costs | 12 | 8868 | 11749 |
| Other accrued income and deferred expenses |  | 1651 | 1388 |
| Total accrued income and deferred expenses |  | 10519 | 13137 |
| Reinsurance contract assets |  |  |  |
| Reinsurers' share in unearned premiums technical reserves | 7 | 8294 | 6579 |
| Reinsurers' share in outstanding claims technical reserves | 10 | 31453 | 17730 |
| Total assets from reinsurance contracts |  | 39747 | 24309 |
| Cash and cash equivalents | 32 | 27231 | 36002 |
| Total assets |  | 224086 | 204557 |

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.

## Statement of Financial Position

|  |  | 31.12.2019 | 31.12.2018 |
| :---: | :---: | :---: | :---: |
| Equity and liabilities | Note | EUR'000 | EUR'000 |
| Equity |  |  |  |
| Share capital | 34 | 20050 | 14220 |
| Share premium | 34 | 18464 | 10272 |
| Revaluation reserves | 34 | 2808 | 2777 |
| Reserve capital and other reserves |  | 8536 | 8536 |
| Retained earnings: |  |  |  |
| Retained earnings from prior years |  | 308 | 18905 |
| Current year profit/(loss) |  | (2089) | (4 575) |
| Total equity |  | 48077 | 50135 |

## Liabilities

Technical reserves
Unearned premiums and unexpired risk reserves
Outstanding claims technical reserves
Total technical reserves

| 7 | 39277 | 45818 |
| :---: | ---: | ---: |
| 10 | 114689 |  |
|  | $\mathbf{1 5 3 9 6 6}$ | $\mathbf{9 6 2 4 9}$ |

## Creditors Direct insurance creditors

Due to policy holders
Due to intermediaries
Total direct insurance creditors

| 4685 |
| ---: | ---: |
| 148 |
| 4833 |$\quad 1368$

Taxes and social contributions payable

| 36 | 763 | 208 |
| ---: | ---: | ---: |
| 37 | 11967 | 4444 |
| 38 | 3246 |  |
|  | $\mathbf{2 0 8 0 9}$ | $\mathbf{1 0 6 4 0}$ |

Other creditors
Total creditors
Deferred tax liabilities
$35 \quad 510 \quad 703$

Provisions
Unearned reinsurance commission income

## Total liabilities

Total equity and liabilities

| 41 | $\mathbf{4 2 0}$ | $\mathbf{3 8 2}$ |
| ---: | ---: | ---: |
| 14 | $\mathbf{3 0 4}$ | $\mathbf{6 3 0}$ |
|  | $\mathbf{1 7 6 0 0 9}$ | $\mathbf{1 5 4 4 2 2}$ |
|  | $\mathbf{2 2 4 0 8 6}$ | $\mathbf{2 0 4 5 5 7}$ |

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.


|  | Note | 2019 | 2018 |
| :---: | :---: | :---: | :---: |
|  |  | EUR'000 | EUR'000 |
| Cash flows from operating activities |  |  |  |
| Premiums received in direct insurance |  | 85224 | 105402 |
| Claims paid in direct insurance |  | (60000) | $(47854)$ |
| Payments received from reinsurers |  | 10562 | 1236 |
| Payments made to reinsurers |  | (3521) | (3 806) |
| Income tax paid | 36 | (441) | (278) |
| Obligatory payments | 33 | (1469) | (1920) |
| Payments to employees |  | (3 362) | (3569) |
| Payments to intermediaries |  | (25 683) | (41 204) |
| Other taxes paid |  | (5106) | (5690) |
| Payments to other suppliers |  | (17 397) | (10 418) |
| Other payment made |  | (47) | (56) |
| Claim payments received for claims handled on behalf of other companies |  | 20313 | 16393 |
| Other payment received |  | 4181 | 1447 |
| Total cash flows from operating activities |  | 3254 | 9683 |
| Cash flows from investing activities |  |  |  |
| Acquisition of fixed and intangible assets |  | (884) | (656) |
| Acquisition of investments |  | (73 198) | (127 179) |
| Proceeds from disposal of investments |  | 60466 | 111711 |
| Investment income received |  | 1050 | 242 |
| Dividends received |  | 598 | 642 |
| Total cash flows from/(used in) investing activities |  | (11968) | (15 240) |
| Cash and cash equivalents net increase/ (decrease) |  | (8714) | ( 5 557) |
| Effect of exchange rate fluctuations on cash and cash equivalents held |  | (57) | 40 |
| Cash and cash equivalents at the beginning of the year |  | 41002 | 46519 |
| Cash and cash equivalents at the end of the year | 32 | 32231 | 41002 |

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.


## Statement of Changes in Shareholders' Equity

### 31.12.2017

| $\begin{array}{r} \text { Share } \\ \text { capital } \\ \text { EUR’000 } \end{array}$ | Share premium EUR’000 | Revaluation reserves* EUR'000 | Reserve capital and other reserves EUR'000 | Retained earnings/ (accumulated losses) EUR'000 | Total Equity EUR'000 <br> EUR'000 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 14220 | 10272 | 3148 | 8536 | 18905 | 55081 |

Total comprehensive income

| Loss for the year | - | - | - | - | (4 575) | (4575) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revaluation of land and buildings | - | - | (279) | - | - | (279) |
| Currency revaluation impact | - | - | (92) | - | - | (92) |
| 31.12.2018 | 14220 | 10272 | 2777 | 8536 | 14330 | 50135 |

Transactions with owners of the Company

| Dividends distributed |  |  |  |  |  |  |
| :--- | ---: | :--- | :--- | :--- | ---: | ---: |
| Increase in share capital and <br> share premium | 5830 | - | - | - | - | $(14022)$ |
| Total transactions with <br> owners of the Company | $\mathbf{5 8 3 0}$ | $\mathbf{8 1 9 2}$ | - | - | - | $\mathbf{1 4 0 2 2}$ |
| Total comprehensive income |  |  |  |  |  |  |

* For details on Revaluation reserves, see Note 34.

The accompanying notes on pages 15 to 73 form an integral part of these financial statements.


## Notes to the Financial Statements

## (1) General information

## a) Principal activities

This annual report includes the financial statements of Balcia Insurance SE, hereinafter the "Company". Balcia Insurance SE is a company domiciled in the Republic of Latvia. The Company is registered in 1993 in Riga, Latvia as a Joint Stock Insurance Company. In 2011, the Company changed its legal status from JSC to SE (European Company / Societas Europea). The head office is located in Riga, Kr. Valdemara 63, Republic of Latvia.

The Company offers a wide range of non-life insurance products to legal companies and individuals mainly in the following insurance lines:

- motor own damage insurance (CASCO);
- compulsory motor third party liability (CMTPL);
- property (fire risks and natural catastrophes);
- property (other risks);
- general third party liability;
- various financial risks;
- guarantees.

The Company offers insurance services through the network of foreign branches in Lithuania, Germany, Poland, France and United Kingdom.
The registered addresses of the branches:

- in Germany - Senefelderstr. 17, 63322 Rödermark;
- in United Kingdom - 3B Westwood House, Greenwood Business Centre, Regent Road, Salford, Manchester, M5 4QH;
- in France - 86 rue Anatole France, 92300 Levallois-Perret, Paris;
- in Poland - Al. Jerozolimskie 136 02-305, Warsaw;
- in Lithuania - Perkūnkiemio g. 5, LT-12129, Vilnius.

Business in other markets (Spain and Italy) is conducted through a local intermediary on the basis of freedom-of-services within the European Union.

## b) Shareholders

Shareholders of the Company are seven legal entities. None of the shareholders control $33 \%$ or more of the shares. Information on the shareholders:

| Company's shareholders: | 31.12.2019 |  | 31.12.2018 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Number of shares | Shareholding | Number of shares | Shareholding |
| B5 Holding Limited (Malta) | 41863 | 29.69\% | 26498 | 26.50\% |
| HTT Holding Company Limited (Malta) | 41863 | 29.69\% | 25815 | 25.82\% |
| MDA Holding Limited (Malta) | 41863 | 29.69\% | 18848 | 18.85\% |
| Transporta informācijas aġentūra AS (Latvia) | - | - | 9578 | 9.58\% |
| Other companies (Latvia) | 15411 | 10.93\% | 19261 | 19.25\% |
|  | 141000 | 100\% | 100000 | 100\% |

## Notes to the Financial Statements

## (2) Basis of preparation

## (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").
These financial statements are also compliant with the regulations of the Financial and Capital Market Commission of the Republic of Latvia ("FCMC") in force as at the reporting date.
These financial statements (hereinafter „the financial statements") were approved by the Board of Directors on 31 March 2020. The shareholders have the right to reject the financial statements and request that new financial statements are prepared and issued.

## (b) Functional and Presentation Currency

These financial statements are presented in thousands of euros (EUR'000), unless stated otherwise.
The functional currency of the Company and its branches in Germany, France and Lithuania is the euro. The functional currency of the branch in the United Kingdom is the Great British pound. The functional currency of the branch in Poland is the Polish zloty.
(c) Reporting period

The reporting period comprises 12 months from 1 January 2019 to 31 December 2019.
(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are carried at fair value:

- derivatives,
- other financial assets and liabilities designated at fair value through profit or loss,
- available-for-sale assets,
- investment property which is carried at fair value, and
- land and buildings that are re-valued periodically, correspondingly applying revaluation to fair value method.
Consistent accounting principles have been applied to the financial years disclosed in these financial statements.


## (e) Changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, effective for annual periods beginning on or after 1 January 2019, and has applied them in preparing these financial statements.
IFRS 16 Leases supersedes IAS 17 Leases and related interpretations. The Standard eliminates the dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.
Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.
The new standard introduces a number of limited scope exceptions for lessees which include:

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

Lessor accounting, however, shall remain largely unchanged, and the distinction between operating and finance leases will be retained.
The Company has adopted IFRS 16 with the effective date of 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

## Notes to the Financial Statements

information. Right-of-use assets were measured at the amounts equal to the corresponding lease liabilities as at the date of the initial application. The Company applied the practical expedient to grandfather the definition of lease on transition. This means that the Company applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.
For further details on the impact on the Company's financial statements from initial application of IFRS 16 see Note 23 and Note 39.
The following guidance, effective for annual periods beginning on or after 1 January 2019, did not have any effect on these financial statements:

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


## (f) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements.
(i) IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. Insurance undertakings are permitted to adopt the standard for the annual periods beginning on or after 1 January 2023)
This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.
Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.
A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.
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 impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.
IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships - fair value, cash flow and foreign operation net investment - remain unchanged, but additional judgment will be required.


## Notes to the Financial Statements

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.
Extensive additional disclosures regarding an entity's risk management and hedging activities are required.
The Company has not yet prepared an analysis of the expected quantitative impact of the new standard, because the management has selected to apply the temporary exemption applicable to companies whose activities are predominantly connected with insurance and defer the application of IFRS 9 until 1 January 2023.
(ii) Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019. Insurance undertakings are permitted to adopt the standard for the annual periods beginning on or after 1 January 2023)
(iii) Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)
(iv) Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the $E U$ )
(v) 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.)
(vi) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023)
The Company does not plan to adopt these standards early. The Company has assessed the potential impact from new standards and does not expect the new standards to have material impact on the financial statements.
(vii) 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, will have a material impact on the financial statements of the Company as the Company concludes insurance contracts, however, the Company management has not yet started the assessment of the quantitate impact.

## (3) Significant accounting policies

### 3.1 Foreign currency

Transactions denominated in foreign currencies are recorded in EUR at reference exchange rates published by the European Central Bank (the 'ECB') at the date of the transaction. Monetary assets and liabilities, including commitments and contingencies denominated in foreign currencies are retranslated into functional currency in accordance with the reference exchange rates published by the European Central Bank on the last date of the reporting period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.
Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as gain or loss from revaluation of foreign currency positions.
Foreign exchange rates at the end of the reporting period are as follows:

|  | $\mathbf{3 1 . 1 2 . 2 0 1 9}$ | $\mathbf{3 1 . 1 2 . 2 0 1 8}$ |
| :--- | ---: | ---: |
| USD | 1.12340 | 1.14500 |
| PLN | 4.25680 | 4.30140 |
| GBP | 0.85080 | 0.89453 |

The assets and liabilities of foreign operations whose functional currency is different from the Company's functional and presentation currency are translated to the presentation currency at the exchange rate at the

## Notes to the Financial Statements

reporting date, while the transactions of the foreign operations are translated into presentation currency at exchange rates set at the date of the respective transactions. Foreign currency translation differences are recognized in other comprehensive income and transferred to profit or loss upon the disposal of foreign operation.
Note 2 (b) provides information on functional and presentation currency of the Company's branches.

### 3.2 Insurance contracts

## (a) Classification of insurance contracts

An insurance contract concluded by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All contracts concluded are classified as nonlife insurance contracts, and the Company does not conclude any investment contracts.
Non-life insurance contracts include the following contracts:

- in which the insurer assumes substantial insurance risk on behalf of the other contracting party the policy holder, by agreeing to compensate losses to the policy holders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impacts the policy holder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract it is not known:

1. whether the insured occurrence will occur;
2. when it will occur;
3. how much the insurer will have to pay if it occurs.

- in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract;
- in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term;
- which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurance from the adverse development of claims already reported by the policy holder;
- which require or permit payment in kind, i.e., the insurer directly replaces a stolen thing rather than compensates the claim to the policy holder in money;
- which stipulate a fixed charge services, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be fixed on whether some specific equipment will not function;
- in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (assignor).


## Recognition and evaluation of insurance contracts

A contract, which is deemed to be an insurance contract, remains an insurance contract, until all rights and liabilities are paid off or their validity period has expired. A contract, if in form and substance an insurance contract, may not be reclassified to another contract.
When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

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

Each of these contract groups may be divided in more detail by taking into account the substance of the transferred insurance risk.

## (b) Insurance premium and premium income

Written premiums include amounts which are due for the insurance contracts that have come into force in the reporting year irrespective whether these premiums have been received or not. Premiums written are decreased

## Notes to the Financial Statements

by premiums cancelled during the reporting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.
The earned portion of premiums received is recognised as revenue. Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage and are reported as earned premiums.
The unearned portion of premiums is recognised as an insurance-technical reserve.
Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance expenses attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

## (c) Premium refunds

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

## (d) Unearned premium and unexpired risk reserves

## Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the reporting period end date Reserves are calculated for each insurance policy under the 365 day Pro Rata Temporis method based on the period in force for a particular policy.
Unexpired risk reserve (URR)
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.
On each reporting date, the Company prepares a Liability adequacy test by assessing whether the insurance liabilities recognized at the end of the reporting year for policies in force at the end of the reporting year 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 first decreasing deferred client acquisition costs and, afterwards, setting aside additional unexpired risk reserves. The test is performed by line of business, and the test is applied to the gross amounts of reserves, i.e., the effect of reinsurance is not taken into account.

## (e) Claims incurred

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

## (f) Outstanding claim technical reserves

Outstanding claim technical reserves comprise reserves for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the period end date whether reported or not, and the related internal and external claims handling expenses. Reserves for non-life claims outstanding are not discounted, with the exception of annuities, which may arise from third party liability insurance.
Reported but not settled claims reserve (RBNS)
The RBNS claims reserve is calculated on a case-by-case basis by the Company's loss adjustment specialists for claims reported and not yet settled (including expected loss adjustment expenses and recovered losses) as at the reporting date.
Incurred but not reported claims reserve (IBNR)
IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period, also disclosed in note $4.2(\mathrm{~g})$.
The IBNR reserve is calculated using statistical methods (triangulation, coefficient methods or modifications thereof) for the following lines of insurance:

- motor own damage insurance in France;


## Notes to the Financial Statements

- property insurance (fire risks) in France;
- property insurance (other risks) in France and Spain;
- general liability insurance in Poland and Italy;
- guarantee insurance in Poland and Spain;
- motor compulsory third party liability in France, Spain, Poland, Lithuania and Germany.

The accuracy of such claims reserves is assessed by run-off testing performed by the actuary of the Company. A triangulation and loss rate method was used in the calculation of the IBNR reserve for compulsory motor third party liability.
Where available statistics are considered to be insufficient, e.g. a lack of historical data, the IBNR reserve is calculated as a percentage of premiums ( $5 \%$ ) written in the last 12 months for the following lines of business:

- accident insurance in Poland, France, Lithuania;
- health insurance in Poland;
- motor own damage insurance in Poland, Lithuania and Italy;
- marine insurance in France;
- cargo insurance in Poland;
- property insurance (fire risks) in Poland;
- property insurance (other risks) in Poland;
- general liability insurance France;
- marine third part liability insurance in France;
- guarantee insurance in France;
- insurance of various financial losses in France;
- travel accident insurance in Poland and Lithuania.


## (g) Reinsurance

## Assumed (inwards) reinsurance

An assumed reinsurance contract is a type of insurance contract where the insurance risk is assumed from another insurer. Consequently, all references to insurance contracts refer also to reinsurance assumed.

## Ceded (outwards) reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss 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 in the case of nonproportional or proportional facultative reinsurance contracts are not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured., except for the reinsurance share of the incurred but not reported claims technical provision for MTPL portfolio in Lithuania, which is recognized on the balance sheet, due to the significant reinsurance share.
Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations 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.
The claims amounts recoverable under reinsurance contracts are assessed on each reporting period end date. The value of those assets decrease if, due to an event subsequent to initial recognition, there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the reinsurer.

## (h) Client acquisition costs

Client acquisition costs include commissions paid to intermediaries and other expenses related to the acquisition of insurance policies.

## Notes to the Financial Statements

Deferred client acquisition costs, mainly consisting of intermediary commissions, are deferred to the extent that they are recoverable out of future premiums and are recognised as expenses over the period in force of the insurance policies.

## (i) Allocation of administrative expenses among cost centres and insurance types

The allocation of administrative expenses to claims costs, client acquisition costs and investment costs is based on the expenses incurred in different cost centres.
Administrative expenses, which are not directly attributable to a specific type of insurance, are distributed among types of insurance in proportion to the volume of the gross premiums written.

## (j) Liability adequacy test

Management assesses at each reporting date the adequacy of its recognised insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities.
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 aside additional unexpired risk reserves.
The liability adequacy test is applied by lines of business and countries to the gross amounts of reserves, i.e. the effect of reinsurance is not taken into account.

## (k) Insurance receivables and payables

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

### 3.3 Financial instruments

## (a) Classification

At inception, all financial instruments are classified into one of the following categories:
Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the Company as at fair value through the profit or loss. These include groups of financial assets designated at fair value through profit and loss, which are managed and whose performance is evaluated on a fair value basis, in accordance with the Company's documented investment strategy.
Available-for-sale assets are financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available for sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.
Financial liabilities carried at amortised cost represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors balances.

## Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.
Changes in the fair value of derivatives are included in net gains and losses on financial instruments designated at fair value through profit or loss.

## Notes to the Financial Statements

## (b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular purchases and sales of financial assets are recognised in the statement of financial position on the trade date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.
Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

## (c) Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.
Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.
All financial liabilities other than financial liabilities designated through profit or loss and all loans and receivables are measured at amortised cost using the effective interest rate method.
The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.
All instruments, excluding investments at fair value through profit and loss, are subject to revaluation when impaired.
Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the statement of comprehensive income. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income, except for impairment which is recognised in the statement of comprehensive income. For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the statement of comprehensive income when the financial asset or liability is derecognized.

### 3.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.
A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.
The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.
Specific controls include:

- Verification of observable pricing;
- Regular re-performance of model valuations;
- A review and approval process for new models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.
The methods described below have been used for the determination of fair values.


## Notes to the Financial Statements

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the statement of comprehensive income depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.
When applicable, the Company measure the fair value of a financial instrument using quoted price in an active market for that financial instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other financial instruments that are substantially the same, discounted cash flows analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions for the same financial instrument or based on other available observable market data. Where thirdparty information, such as broker quotes or pricing services, are used to measure fair value, the Company assess and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

- Verifying that equity broker or pricing service is approved by the Company for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar financial instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the financial instrument subject to measurement;
Further analysis of basis for fair value and fair value determination principles are disclosed in note 24 (Land and buildings and Investment property) and 48 (Fair value of financial instruments).

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognise transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## Notes to the Financial Statements

### 3.5 Impairment

## (a) Financial assets

At each reporting period end date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.
For loans and receivables, the Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting period end date.
Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables.
Other debtors are stated at the recoverable amount. Impairment allowances are recognised on doubtful receivables.

## (b) Non-financial assets

Non-financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cashgenerating unit exceeds its recoverable amount.
All impairment losses in respect of non-financial assets are recognised in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.6 Property and equipment

Property and equipment, excluding land and building used for own purposes, are carried at cost less accumulated depreciation and impairment. Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:
Office equipment
Computers, electrical equipment
Vehicles
Buildings for own use

20\% per year $35 \%$ per year 20\% per year 5\% per year

Land and buildings used for the Company's operating activities are initially measured at cost. Subsequently, buildings for own use are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is not depreciated and is carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses.

## Notes to the Financial Statements

The increase of value resulting from revaluation is recognised under "Revaluation of land and buildings" in the statement of comprehensive income. Valuations are regularly, at least once in 3 years, carried out by independent valuators. If the fair value of land and buildings used for operating activities at the reporting period end date is lower than their book value, they are re-measured at the lower value. The decrease of value resulting from revaluation is first used to reverse the revaluation reserve of the same asset previously recognised in "Revaluation of land and buildings" in the statement of comprehensive income, and, only if in excess of it, the revaluation decrease is recognized in the statement of profit or loss.
The fair values are based on market values, being the estimated amount at which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing. An external independent valuation expert, having a recognised professional qualification and experience, values each property in order to reflect market conditions at the reporting period end date.
Maintenance costs of property, plant and equipment are recognised in the statement of comprehensive income as incurred. Costs of capital repairs of property and equipment are added to the value of the respective asset and written off over the useful life of the asset. Capital repair costs on leased property, plant and equipment are written off on a straight line basis during the shorter of the useful life of the capital repairs and the period of lease.
Profit or loss from the disposal of property and equipment is calculated as the difference between the book value of the asset and income generated from sale, and reflected as profit or loss in the statement of comprehensive income when disposed.
When revalued fixed assets are disposed the related revaluation reserve is transferred to retained earnings brought forward from previous years.
Depreciation methods, useful lives and residual values are reviewed annually.

### 3.7 Intangible assets

## Software licences

Software licences are capitalised. Software licences are recorded at cost including acquisition and implementation costs less accumulated amortisation and impairment. Amortisation is calculated using the linear method over the entire useful life of the respective asset in order to write their value down to the estimated residual value at the end of the useful life based on a $20 \%$ per year rate.

### 3.8 Investment property

Land and buildings held either to earn rental income or for capital appreciation or both are classified as investment property and are measured at fair value, with any change therein recognised as profit or loss.
Transfers to or from investment property are made when there is a change in use.
Investment property is land and buildings (or part of land and buildings) held to earn rental income or capital appreciation, or for both purposes. Properties for own use are land and buildings (or part of land and buildings) used for administrative purposes of the Company.
When an item of land and buildings is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income if it is a gain.
If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

### 3.9 Repossessed assets

As part of the normal course of business, the Company occasionally takes possession of property that originally was pledged as security for a loan. When the Company acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Company. When the Company is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property (for real estate) or other assets.
Repossessed assets are initially valued at fair value.

## Notes to the Financial Statements

### 3.10 Leases

## - The Company as a lessor

Rental income from an investment property leased out under an operating lease is recognised on a straight-line basis over each lease term.

## - The Company as a lessee

See note 2 (e).

### 3.11 Corporate income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax (CIT) assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. As of 1 January 2018, the Company has to pay income tax in the Republic of Latvia only on profit distribution at a tax rate of $20 \%$ from the taxable base. Correspondingly, income tax on profit distribution is recognised as expense at the moment dividends are declared. In other countries, where the Company operates, Corporate Income tax is calculated from current period taxable income, in Lithuania and Germany tax rate is $15 \%$, in Poland and in the UK - $19 \%$, in France $-31 \%$.
The Law on Corporate Income Tax in the Republic of Latvia also provides for the application of corporate income tax to the taxable base, which consists of conditionally or theoretically distributed profit (such as, nonoperating expenses and other specific cases identified 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.
Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax balance is measured at the tax rate which is applicable for undistributed profits. Deferred tax assets and liabilities are netted only within the individual branches of the Company and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. In line with the above, deferred tax assets and liabilities arising in the Republic of Latvia are recognisable at nil amount. As at 31 December 2019 and 31 December 2018, the Company has also recognized deferred tax liabilities in other countries, in line with the corresponding tax rates applicable to undistributed profit.
The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

### 3.12 Cash and cash equivalents

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

### 3.13 Dividends

Dividends are recognized as an appropriation of retained earnings in the period in which they are declared.

### 3.14 Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the services are provided. The Company pays fixed social security contributions to State Social Insurance Agency on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

## Notes to the Financial Statements

### 3.15 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3.16 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. reinsurance commission) or at a point in time (e.g. sale of salvage) 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, net, Reinsurance commissions and profit participation, Other income as well as a part of Recovered losses, e.g. for salvage sales transactions. The Company has assessed that IFRS 15 does not have a material impact on the financial statements, and, thus, it does not provide additional disclosures as required by IFRS 15 .

### 3.17 Acquired insurance portfolio

Upon acquisition, an insurance portfolio is measured at its nominal book value on the date of acquisition. The acquired insurance portfolio subsequently is measured by applying the Company's accounting policies for insurance contracts described in note 3 .

### 3.18 Related parties

Related parties represent both legal companies and private individuals related to the Company in accordance with the following rules.
a) A person or a close member of that person's family is related to a reporting Company if that person:
i) has control or joint control over the reporting Company;
ii) has significant influence over the reporting Company;
iii) is a member of the key management personnel of the reporting Company or of a parent of the reporting Company.
b) An Company is related to a reporting Company if any of the following conditions applies:
i) The Company and the reporting Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii) One Company is an associate or joint venture of the other Company (or an associate or joint venture of a member of a group of which the other Company is a member).
iii) Both Companies are joint ventures of the same third party.
iv) One Company is a joint venture of a third Company and the other Company is an associate of the third Company.
v) The Company is a post-employment benefit plan for the benefit of employees of either the reporting Company or a Company related to the reporting Company. If the reporting Company is itself such a plan, the sponsoring employers are also related to the reporting Company.
vi) The Company is controlled, or jointly controlled by a person identified in (a).
vii) A person identified in (a) (i) has significant influence over the Company or is a member of the key management personnel of the Company (or of a parent of the Company).
viii) The Company, or any member of a group of which it is a part, provides key management personnel services to the reporting Company or to the parent of the reporting Company.
Related party transaction - a transfer of resources, services or obligations between a reporting Company and a related party, regardless of whether a consideration is determined.

## Notes to the Financial Statements

### 3.19 Significant accounting estimates and judgement in applying accounting policies

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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.

## Key sources of estimation uncertainty:

## Insurance technical reserves

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The reserve estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.
The most judgemental estimate is related to incurred-but-not-reported reserves (IBNR). The key assumptions in respect of sufficiency of insurance technical reserves are monitored regularly through claims reserves runoff analyses and liability adequacy testing, performed for each country and each line of business. Also disclosed in note 4.2 (g).

## Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described above in note 3.3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. As a result, the Company evaluates such instruments at cost less impairment.

## Impairment of financial investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to frequent volatility of and relative illiquidity in the financial and capital markets, the market price is not always a reliable source for impairment indication. The Company uses valuation models based on quoted market prices of similar products. In case quoted market prices are unavailable, the Company's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

## Valuation of investment property, buildings and land for own use

Investment property is stated at its fair value with all changes in fair value recorded in the statement of profit or loss.
Buildings and land used for the Company's operating activities are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation (not applicable to land) and subsequent accumulated impairment losses. Revaluation result is attributed to other comprehensive income unless impairment should be recognised.
When measuring the fair value of investment property and buildings and land for own use, the management relies on external valuations, but critically assesses the reliability of such valuations in light of the current market situation.

## Impairment of loans and receivables

Loans and receivables, or those amounts that are overdue, or for which there are indications of impairment are assessed for objective evidence of impairment individually. The Company assesses probability of the debtor fulfilling its obligations in the future and timing of fulfilment of those obligations, to be able to assess recoverable amount of the assets.

## Notes to the Financial Statements

Loans and receivables for which no individual impairment loss is measured are assessed on collective level using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred. These are then adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. They will, however, always include uncertainty and may change depending on financial position of customers or general economic environment.

## Measurement of fair values

More detailed description of fair value measurement is disclosed in note 3.4.

## (4) Risk and risk management

### 4.1 Risk and risk management

The business of insurance represents the transfer of significant insurance risk from the policy holder to the insurer and the management of this risk. The largest risks for the Company result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to the concluded insurance contracts. In addition, the Company is also exposed to other risks, which have been divided by the Company's management into the following major groups:

- Insurance risks
- Financial risks
- Operational risks

Each of these groups is divided into subgroups, which identify the risks that might impact any operating activities. The Company's management has identified risks and has developed respective policies and procedures in order to control, monitor and manage those risks.

### 4.2 Insurance risks and risk management

Insurance risk is the most significant risk faced by the Company in day-to-day activities.

## (a) Underwriting policy

The Company's underwriting policy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.
The underwriting policy is defined by the Company's Insurance product management policy that sets out the types of insurance to be written and the industry sectors to which the Company is prepared to expose itself. This policy is cascaded down to individual underwriters through detailed underwriting methodologies and authorization levels that set out the limits to each underwriter according to the insurance type, class of business and industry in order to enforce appropriate risk selection within the portfolio. The non-life insurance contracts may be concluded up to 10 years; however, contracts are usually based on an annual term by nature and the underwriters have the right to refuse prolongation or renewal or to change the terms and conditions of the contract at prolongation or renewal.
The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.
Adherence to the underwriting authorization limit levels is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Company's member of the Board.

## (b) Basic product features

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

# Notes to the Financial Statements 

## Casco insurance

## Product features

The insurance indemnifies for losses which arise from damage to, destruction or loss of vehicle. Several additional insurance covers may also be purchased which are related to the insured vehicle. The largest losses arise from theft or destruction.

## Management of risks

The key risks associated with this product are underwriting risk and claims development risk.
Casco insurance premiums are determined on the basis of the bonus-malus system, driver's driving experience period, insurance territory and other criteria which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. Insurance premiums are set in line with applicable insurance methodology. The sums insured very rarely exceed EUR 75 thousand. Casco insurance usually contains a retention element by the policyholder.

## Motor third party liability insurance

## Product features

This insurance is a compulsory insurance, whose policy conditions and indemnification rules are prescribed by the respective regulations on Motor Third Party Liability Insurance. MTPL insurance covers physical injury claims and property claims in countries where insurance agreements have been signed as well as claims caused abroad by insured motorists under the Green Card system. Most of the motor third party liability insurance indemnities are for property damage and lump sum personal injuries, mostly medical treatment costs, and temporary absence from work. However, long-term indemnities may also be possible, such as pensions and permanent inability to work which may be paid out over a longer term as annuities.
Even if from previous statistics the claims have been notified promptly and can be settled without delay, the situation can change and claims arising from motor third party liability insurance are classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

## Management of risks

The key risks associated with this product are underwriting risk and claims development risk. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. For determining the premiums of motor third party liability insurance, a bonus-malus system is used which reduces the insurance premium upon the absence of losses created by the insured person and increases the insurance premium upon the existence of losses created by the insured person.

## Property insurance

Product features
Property insurance indemnifies, subject to any specified limits or deductibles, the insured against loss or damage to material damage of property and business interruption arising from this damage. The risks covered by property insurance include fire risk, pipe leakage explosion, burglary and robbery, earthquake, flood and storm risk. When insuring real estate assets, liability insurance can also be purchased.
Business interruption insurance covers lost business profits and fixed costs incurred that arise from the realisation of any risk covered by the property insurance of the Company. Upon the sale of that insurance type, it is considered to be particularly important to take into account the reliability of the customers and the transparency of the financial statements.
The most frequently occurring risks for property include pipe leakages and fire. Larger losses result most often from fire.
Generally, claims in the property insurance line are notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

## Management of risks

The key risks associated with this product are underwriting risk and claims development risk.
To determine premiums, appropriate specifics of different properties are assessed. For private property insurance, it is expected that there will be a large number of properties with similar risk profiles. However, for

## Notes to the Financial Statements

commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be more complex.
Property claims are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of the property insurance line of business. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and business environment in which it operates.

## General third party and professional liability insurance

Product features
The insurance indemnifies the losses arising from damages caused to third parties in the result of general or professional liability of the Insured. Depending on the scope of the coverage of particular type of liability insurance, the losses can be equally high for bodily damages and material damages. The claim, in case of bodily injuries or death (e.g. professional liability for medical employees), can result in long term indemnity as pensions or can result in a large claim due to person's death leading to pain and suffering payments to relatives, meaning that an accumulation risk is in place.

## Management of risks

The key risks associated with this product are underwriting risk and claims development risk. Setting the maximum liability limits for each loss allows fixing the maximum indemnity to be paid in case of one accident having more than one claimant. Setting maximum liability limit payable during insurance period, allows the fixing maximum liabilities during insurance contract period. Various factors related to particular specifics of each type of liability are taken into consideration when determining the ultimate premium for insurance contract. Most of the liability insurances are underwritten on individual basis; therefore, the claims statistics of the clients is also taken into consideration.

## Accident insurance

## Product features

Largest product classified as accident insurance is an insurance product covering the personal accident of drivers and passengers during usage of a vehicle indicated in insurance contract. The scope of insurance is to cover consequences of an accident if a bodily injury or a death of an Insured has incurred.

## Management of risks

The key risk associated with this product is underwriting risk. Setting the maximum liability limits allows fixing the maximum indemnity to be paid in case of one accident having more than one suffered person (e.g. driver and various passengers). Main factors used to calculate the premium are the type of the insured vehicle and the maximum seats per vehicle.
This type of insurance, taking into consideration that only fixed amounts are paid in the result of loss, is not considered to be a long tail business line.

## (c) Insurance risk concentration

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.
Risk concentration may occur as a result of different coincidences and regularities. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.
In addition, the management is aware that the possible risk concentration can arise in one company, for which several risks are insured, or an industry in total. When insuring such risks, a precondition is the assessment of the client's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the trends of economic growth and the risks that might impact this area are studied.

## Notes to the Financial Statements

In order to minimise losses that might be incurred in case of a risk concentration, the Company uses reinsurance - by reinsuring both proportionally, as well as non-proportionally. When placing reinsurance, the Company's share in the risk is fixed both for one object, as well as for one event, in which losses may be caused simultaneously for several objects. Such risks are reinsured in practically all types of insurance. The reinsurance policy, to which the Company adheres, has been approved by the Board.
The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its liability and property business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.
The Company sets out the total aggregate exposure that it is prepared to accept in relation to the concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation and to measure the effectiveness of the reinsurance programme and the net exposure to which the Company are exposed.

## Geographic concentration of risks

Geographic concentration of risks is a serious issue in insurance business. In view of this and to reduce the concentration risk, the Company operates in a number of countries in Europe. Major countries of operation for the Company are Poland 54\% (2018: 64\%), Lithuania 24\% (2018: 14\%) and France 15\% (2018: 15\%) of all business (by gross written premiums, note 5).

Exposure to various business lines and the key concentrations of risks of the Company are as follows:
$\left.\begin{array}{lrrrrr}\text { 2019 } & \begin{array}{r}\text { Total insured } \\ \text { amount }\end{array} & \begin{array}{rlr}\text { Reinsurance } \\ \text { amont }\end{array} & \begin{array}{r}\text { Net retention } \\ \text { (after } \\ \text { reinsurance) }\end{array} & \begin{array}{r}\text { Number of } \\ \text { contracts in } \\ \text { force }\end{array} & \begin{array}{r}\text { Average net } \\ \text { amount } \\ \text { insured }\end{array} \\ \text { EUR'000 }\end{array}\right]$

| 2018 | Total insured <br> amount | Reinsurance <br> amount | Net retention <br> (after <br> reinsurance) <br> EUR'000 | Number of <br> contracts in <br> force | Average net <br> amount <br> insured |
| :--- | ---: | ---: | ---: | ---: | ---: |
| EUR'000 |  |  |  |  |  |

* in one contract several objects/ persons can be covered
** gross insurance risk is unlimited Losses in excess of EUR 800 thousand (2018: EUR 800 thousand) are covered by reinsurance
*** Losses in excess of EUR 800 thousand per risk are covered by reinsurance


## (d) Catastrophes

The Company's management is aware that catastrophe risks are possible. In the Company's geographic position these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, ice, etc.). Large fires and earthquakes are unlikely, but they may occur. The most characteristic catastrophes are floods and storms. In order to minimise the impact of catastrophe risk on the Company, reinsurance is used. Reinsurance used is both proportional and non-proportional. For the largest risks, additional facultative reinsurance is purchased. The Company has developed a methodology for determining its own retention. It depends on many factors and the historical statistical information in each product group. According to management, the measures taken to reduce the impact of catastrophe risk on the Company are sufficient.

## (e) Insurance risk management

In order to manage insurance risk, the Company has developed different control and management mechanisms. For all insurance types, insurance terms and conditions have been developed, which are binding both for the Company, as well as for the customers. Methodologies have been developed for all insurance types, which should be followed when assessing and accepting the risk assumed by the Company. The Company has established a Risk Underwriting Department, in which there are employees who are responsible for the development of a specific insurance type, insurance terms and conditions and risk assessment methods. In addition, limits have been fixed, up to which each of the employees is allowed to make a decision about risk underwriting. When fixing limits, the hierarchy principle is observed; the higher the level of responsibility, the higher risk may be underwritten.
Irrespective of the steps detailed above and risks being managed, the Company's management is aware that there is a risk that the insurance risk might not be qualitatively assessed and an incorrect decision may be made. In addition, there is a risk that the insurance indemnity will be insufficient for the losses caused or the claims case will be administered for an extended amount of time.

## (f) Liability adequacy test

The Company assess its insurance liabilities annually by undertaking a liability adequacy test (LAT).
A liability adequacy test is carried out by lines of business, as defined in Latvia by supervisory authority, and countries at each reporting date and assesses whether recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. Current estimates of future cash flows are based on the best estimates without a risk margin. If the assessment indicates reserves are inadequate in the light of the established future cash flows, the deficiency is recognised in the statement of comprehensive income. Expected cash flows relating to claims and expenses are estimated by reference to the historical data, adjusted for significant individual losses which are not expected to recur.

## Notes to the Financial Statements

## Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject to. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.
Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of the corrections made during last year.
The recalculated technical reserves and the cumulative deficit or excess may subsequently vary due to changes in different factors.
Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolating past excesses or deficits to the balance of unpaid claims of this period.

## Claims development analysis, EUR'000

|  |  |  | Year of insurance event occurrence |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $2012$ <br> and before | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
| Estimate of cumulative claims at end of accident year | 382119 | 86574 | 115498 | 57454 | 44749 | 54217 | 69202 | 74356 | 74356 |
| - one year later | 381241 | 85045 | 94189 | 58848 | 49933 | 55940 | 66747 |  | 66747 |
| - two years later | 378294 | 79240 | 95808 | 61101 | 51014 | 59664 |  |  | 59664 |
| - three years later | 360900 | 79192 | 97995 | 61584 | 53492 |  |  |  | 53492 |
| - four years later | 362923 | 80474 | 101863 | 61088 |  |  |  |  | 61088 |
| - five years later | 364029 | 82269 | 104916 |  |  |  |  |  | 104916 |
| - six years later | 363908 | 82347 |  |  |  |  |  |  | 82347 |
| - seven years later | 364112 |  |  |  |  |  |  |  | 364112 |
| Cumulative payments to date | 359079 | 78323 | 97678 | 54659 | 40572 | 44175 | 44000 | 29540 | 748026 |
| Outstanding claims reserves at 31.12.2019* | 5033 | 4024 | 7238 | 6429 | 12920 | 15489 | 22747 | 44816 | 118696 |

## (g) Sensitivity analysis and assumptions made for general business

Assumptions that are used in the calculations are based on the Company's own experience, market data and expert opinions on market trends. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are verified to ensure that they are consistent with inflation rates observable in the market or other published information. There is more emphasis on the current trends. Where in previous years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.
The estimated amount of IBNR could be influenced by inflation, the risk that significantly large claims will be reported with delay, seasonality of the reporting of claims and other risks.
As at 31 December 2019, $93 \%$ of IBNR ( 31 December 2018: 94\%) consists of the following lines of business: compulsory motor TPL, guarantees and property (fire and catastrophes) insurance. Considering the current market situation, the Company believes that the most volatile assumption, which is as important as claim amount and average amount insured, is economic inflation.

## Notes to the Financial Statements

The tables below present the change in IBNR as at 31 December 2019 for the Company in the case if the annual economic inflation of $2 \%$ used for base scenario in the IBNR estimation would change as a result of a $3 \%$ change in economic inflation:

| 2019 |  |  |
| :--- | ---: | ---: | ---: |
| EUR'000 | IBNR if projected annual <br> inflation increase by <br> additional 3pp | IBNR without annual |
| inflation |  |  |

The main assumption used in the calculation of technical reserves is a stable claims statistics. The Management expects that development of claims in the future will have the same pattern as in the past. Reserves are not discounted except for annuities.
The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss amount and the historical evidence of the size of similar claims. Potential claim estimates are reviewed regularly and are updated as and when new information arises. The reserves are based on the information currently available. However, the claims paid may vary from the previously reserved amount as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The reserve estimation difficulties also differ by class of business due to differences in the underlying insurance contract, the volume of claims and the frequency of claims, determining the occurrence date of a claim, and reporting lags.
For most of the risks, the outstanding IBNR reserves are estimated using a range of statistical methods such as the Chain Ladder methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.
The key methods, which are used and have remained unchanged from prior years, are:

- Chain Ladder methods, which use historical data to estimate potential claims incurred in future;
- other chain coefficient method to evaluate the frequency of insurance events;
- loss ratio method is used, based on the Company's expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by line of business and observed historical claims development.
To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been taken into account by modifying the methods. Such reasons include:

- changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in mix of business;
- random fluctuations, including the impact of large losses.


## Notes to the Financial Statements

## Changes in assumptions used for estimation of MTPL claim reserves

IBNR estimation of MTPL claims is performed for the main part of claims incurred excluding pensions, for which a separate calculation is performed. If chain coefficients cannot be calculated using last 3-year historic data, the coefficients of country are used. Tail coefficient for Poland MTPL is assessed using Polish market average coefficients.
For pensions claims IBNR calculated using frequency and severity method using market development factors.

### 4.3 Financial risks and risk management

The Company is exposed to financial risks due to operations with financial instruments and operations with counterparties. Financial risks include market risk, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.
The Company's financial assets and liabilities, including investments, deposits with banks, loans, insurance receivables and receivables from reinsurance activities, are exposed to financial risk as follows:

- Market risk: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, fair value risk and currency risk;
- Credit risk: failure of a counterparty to fulfil a contractual obligation may cause financial losses to the Company;
- Liquidity risk: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.


## Market risks

All financial instruments and foreign exchange currency positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. The Company is subject to potential market risks and can incur losses from changes in the fair value of financial assets and financial liabilities as the result of changes in interest rates, currency exchange rates and changes in price of equity instruments.
In order to limit market risk, investments are made in different financial instruments. When choosing financial instruments, the requirements of the Insurance and Reinsurance Law are applied.
When carrying out investing activities, the employees of Financial Department are guided according to the Market risk management policy and Investment and Loan policy, which regulates many issues related to the control and limitation of investments risk.
The limitation of market risk is carried out in two ways - firstly, by diversifying the investments portfolio, and secondly, by analysing the specific asset before the purchase of this asset and following the available information on this asset.
The Company manages market risks by investing mostly in high credit rating investments. Deposits are mainly invested in Latvian and French commercial banks with high investment ratings.

## Currency risk

Currency risk: adverse changes to the currency exchange rate may cause financial loss to the Company.
Significant part of insurance liabilities are denominated in foreign currencies, especially in PLN. The Company's policy is to minimise the effect of currency risk with respect to known and expected transactions in foreign currencies. Currency risk management is based on investments in the respective currencies. The Company is not engaged in any speculative transactions that may increase the currency risk.

## Notes to the Financial Statements

Sensitivity analysis of the Company's net income for the year and equity to changes in the foreign currency exchange rates based on net open currency positions existing as at 31 December 2019 and 2018 and a simplified scenario of a $10 \%$ change in PLN to EUR exchange rate is as follows:

| EUR'000 | 2019 | 2018 |
| :---: | :---: | :---: |
|  | Net income and equity | Net income and equity |
| 10\% depreciation of PLN against EUR | (91) | 84 |
| 10\% appreciation of PLN against EUR | 91 | (84) |

Impact from open positions in other currencies is not significant.

The split of financial assets and liabilities and technical reserves by currencies of the Company as at year-end was as follows:

31 December 2019

| Financial assets | $\begin{array}{r} \text { EUR } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { USD } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { PLN } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { GBP } \\ \text { EUR'000 } \end{array}$ | Other currencies EUR'000 | Total EUR'000 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Shares and other non-fixed income securities | 1560 | 63 | - | - | - | 1623 |
| Debt securities and other fixed income securities | 24462 | - | 66086 | - | - | 90548 |
| Available-for-sale financial assets | 5903 | - | - | - | - | 5903 |
| Deposits with banks | 6000 | - | - | - | - | 6000 |
| Mortgage loans | 4608 | - | - | - | - | 4608 |
| Other loans | 6977 | - | - | - | - | 6977 |
| Receivables | 18048 | 22 | 4902 | 13 | - | 22985 |
| Cash and cash equivalents | 24867 | 200 | 1561 | 603 | - | 27231 |
| Total financial assets | 92425 | 285 | 72549 | 616 | - | 165875 |
| Technical reserves, net |  |  |  |  |  |  |
| Technical reserves for uneamed premiums and unexpired risks, net | 8523 | 22 | 22438 | - | $\bullet$ | 30983 |
| Outstanding claim technical reserves, net | 36421 | - | 46538 | 215 | 62 | 83236 |
| Total technical reserves, net | 44944 | 22 | 68976 | 215 | 62 | 114219 |
| Financial liabilities | 16836 | - | 2665 | - | - | 19501 |
| Technical reserves, net and |  |  |  |  |  |  |
| financial liabilities | 61780 | 22 | 71641 | 215 | 62 | 133720 |
| Open currency position, net | 30645 | 263 | 908 | 401 | (62) | 32155 |

## 31 December 2018

| Financial assets | $\begin{array}{r} \text { EUR } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { USD } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { PLN } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { GBP } \\ \text { EUR'000 } \end{array}$ | Other currencies EUR'000 | Total <br> EUR’000 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Shares and other non-fixed income securities | 1526 | 47 | - | - | - | 1573 |
| Debt securities and other fixed income securities | 22351 | - | 63206 | - | - | 85557 |
| Available-for-sale financial assets | 6070 | - | - | - |  | 6070 |
| Deposits with banks | 6000 | - | - | - |  | 6000 |
| Mortgage loans | 2205 | 28 | - | - | - | 2233 |
| Other loans | 2014 | - | - | - | - | 2014 |
| Receivables | 14722 | 31 | 5263 | (38) | - | 19978 |
| Cash and cash equivalents | 34776 | 164 | 761 | 289 | 12 | 36002 |
| Total financial assets | 89664 | 270 | 69230 | 251 | 12 | 159427 |
| Technical reserves, net |  |  |  |  |  |  |
| Technical reserves for unearned premiums and unexpired risks, net | 7953 | 31 | 31255 | - | - | 39239 |
| Outstanding claim technical reserves, net | 41016 | 1 | 37394 | 38 | 70 | 78519 |
| Total technical reserves, net | 48969 | 32 | 68649 | 38 | 70 | 117758 |
| Financial liabilities | 8510 | - | 1420 | - | - | 9930 |
| Technical reserves, net and |  |  |  |  |  |  |
| financial liabilities | 57479 | 32 | 70069 | 38 | 70 | 127688 |
| Open currency position, net | 32185 | 238 | (839) | 213 | (58) | 31739 |

## i) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument. The Company's exposure to the price risk arises from its investment in shares and other non-fixed income securities, debt securities and other fixed income securities.

An analysis of the sensitivity of the Company's profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2019 and a simplified scenario of a $5 \%$ change in all securities, which are classified as investments at fair value through profit or loss, prices are as follows:

|  | $\mathbf{2 0 1 9}$ | $\mathbf{2 0 1 8}$ |
| :--- | ---: | ---: |
| 5\% increase in securities prices | EUR'000 | EUR'000 |
| 5\% decrease in securities prices | 4609 | 4357 |

## ii) Interest rate risk

Interest rate risk is defined as the change in value resulting from a change in interest rates and is viewed both from the asset perspective and in relation to the interest-rate sensitivity of the liabilities.
Measures for management of the interest rate risk in the Company are based on the assessment of the impact of the interest rate risk on the Company's financial performance measures. The Company does not have significant interest bearing liabilities and a significant share of interest bearing assets are at a fixed interest rate, therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest re-pricing profile of the Company's interest bearing assets and liabilities.

## Notes to the Financial Statements

Interest rate sensitivity analysis of the Company:

| EUR'000 | 31.12.2019 |  | 31.12.2018 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Profit or loss | OCI | Profit or loss | OCI |
| 10 basis points parallel increase | 98 | 98 | 93 | 93 |
| 10 basis points parallel decrease | (98) | (98) | (93) | (93) |

Changes in fair value that are affected by the changes of interest rate of financial assets with fixed interest rate are reflected in price risk sensitivity analysis.
The following tables present the Company's financial assets analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing. The interest rate repricing profile of the Company's assets as at year-end was as follows:

| 31 December 2019 | Within 6 <br> months <br> EUR'000 | $\begin{array}{r} 6-12 \\ \text { months } \\ \text { EUR'000 } \end{array}$ | 1-2 years EUR'000 | 2-5 years EUR’000 | $\begin{array}{r} \text { Over } 5 \\ \text { years } \\ \text { EUR'000 } \end{array}$ | Noninterest bearing EUR'000 | Total <br> EUR’000 | Of which subject to fixed rates EUR'000 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Financial assets |  |  |  |  |  |  |  |  |
| Investments at fair value through profit or loss | 43448 | - | 11533 | 31189 | 4378 | 1623 | 92171 | 90548 |
| Available-for-sale |  |  |  |  |  |  |  |  |
| financial assets | - | - | - | - |  | 5903 | 5903 | - |
| Deposits with banks | 5000 | 1000 | - | - | - | - | 6000 | 6000 |
| Loans issued | - | 457 | 9199 | 1798 | 122 | 9 | 11585 | 11576 |
| Receivables | - | - | - | - | - | 22985 | 22985 |  |
| Cash and cash equivalents | - | - | - | - | - | 27231 | 27231 | - |
| Total financial assets | 48448 | 1457 | 20732 | 32987 | 4500 | 57751 | 165875 | 108124 |
| 31 December 2018 | $\begin{array}{r} \text { Within } 6 \\ \text { months } \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} \text { 6-12 } \\ \text { months } \\ \text { EUR’000 } \end{array}$ | 1-2 years EUR'000 | 2-5 years EUR’000 | Over 5 years EUR’000 | Noninterest bearing EUR'000 | Total EUR’000 | Of which subject to fixed rates EUR'000 |
| Financial assets Investments at fair value through profit |  |  |  |  |  |  |  |  |
| or loss <br> Available-for-sale | 22245 | 410 | 17856 | 42241 | 2805 | 1573 | 87130 | 85557 |
| financial assets | - | - | - | - | - | 6070 | 6070 | - |
| Deposits with banks | 5000 | 1000 | - | - | - | - | 6000 | 6000 |
| Loans issued | 68 | 1079 | 467 | 2620 | 13 | - | 4247 | 4247 |
| Receivables | - | - | - | - | - | 19978 | 19978 |  |
| Cash and cash equivalents | - | - | - | - | - | 36002 | 36002 |  |
| Total financial assets | 27313 | 2489 | 18323 | 44861 | 2818 | 63623 | 159427 | 95804 |

## Notes to the Financial Statements

## Liquidity risks

In accordance with the Market risk management policy, the Company's Financial Department is required to ensure that most of investments would be placed in high liquidity investments. Risk function, on regular basis, performs market risk monitoring and control process against the approved Risk appetite levels and limitations on investment structure.
High liquidity investments are deemed to be the following assets:

1) current accounts with credit institutions;
2) other claims to solvent credit institutions (term deposits, etc.) whose remaining repayment term does not exceed 30 days, and deposits with another term if the agreement stipulates an option to withdraw money before the due date (less the amount of contractual penalty for early withdrawal of deposits if such is provided);
3) investments in securities if they have a continuous, unrestricted market, i.e., they can be sold in a short time without considerable losses or can be used as a collateral for receiving a loan.
The tables below show the allocation of the Company's assets and liabilities to maturity groups based on the time remaining from the reporting period end date to the maturity dates or expected dates of settlement. While the tables below reflect the liquidity risk, it is based on time to contractual maturity. Investments classified as financial assets at fair value through profit and loss, are considered as highly liquid financial assets and management has the ability to sell them earlier than the contractual date, thereby helping to manage its liquidity gap, if needed.

| 31 December 2019 | Up to 12 <br> months <br> EUR'000 | From <br> 1 to 5 years EUR'000 | Over 5 years EUR'000 | No fixed maturity <br> EUR'000 | Total <br> EUR'000 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Financial assets |  |  |  |  |  |
| Investments at fair value through profit or loss | 43448 | 42722 | 4378 | 1623 | 92171 |
| Available-for-sale financial assets | - | - | - | 5903 | 5903 |
| Deposits with banks | 6000 | - | - | - | 6000 |
| Loans issued | 457 | 10997 | 122 | 9 | 11585 |
| Receivables from direct insurance activities | 14569 | - | - | - | 14569 |
| Receivables from reinsurance activities | 7573 | - | - | - | 7573 |
| Other receivables | 843 | - | - | - | 843 |
| Cash and cash equivalents | 27231 | - | - | - | 27231 |
| Total financial assets taking into account maturity | 100121 | 53719 | 4500 | 7535 | 165875 |
| Total financial assets taking into account liquidity | 148844 | 10997 | 122 | 5912 | 165875 |
| Technical reserves and financial liabilities |  |  |  |  |  |
| Technical reserves, net | 100528 | 14 | 207 | 13470 | 114219 |
| Financial liabilities | 17839 | 1389 | - | - | 19228 |
| Lease liabilities | 110 | 163 | - | - | 273 |
| Total technical reserves and financial liabilities | 118477 | 1566 | 207 | 13470 | 133720 |
| Maturity gap | (18 356) | 52153 | 4293 | ( 5935 ) | 32155 |
| Maturity gap taking into account liquidity | 30367 | 9431 | (85) | $(7558)$ | 32155 |

## Notes to the Financial Statements

| 31 December 2018 | Up to 12 <br> months <br> EUR'000 | From <br> 1 to 5 <br> years <br> EUR'000 | Over 5 years EUR’000 | No fixed maturity <br> EUR'000 | $\begin{array}{r} \text { Total } \\ \text { EUR'000 } \end{array}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Financial assets |  |  |  |  |  |
| Investments at fair value through profit or loss | 22655 | 60097 | 2805 | 1573 | 87130 |
| Available-for-sale financial assets | - | - |  | 6070 | 6070 |
| Deposits with banks | 6000 | - | - | - | 6000 |
| Loans issued | 1147 | 3087 | 13 | - | 4247 |
| Receivables from direct insurance activities | 13647 | - | - | - | 13647 |
| Receivables from reinsurance activities | 6052 | - | - | - | 6052 |
| Other receivables | 279 | - | - | - | 279 |
| Cash and cash equivalents | 36002 | - | - | - | 36002 |
| Total financial assets taking into account maturity | 85782 | 63184 | 2818 | 7643 | 159427 |
| Total financial assets taking into account liquidity | 150257 | 3087 | 13 | 6070 | 159427 |
| Technical reserves and financial liabilities |  |  |  |  |  |
| Technical reserves, net | 108084 | 9 | 234 | 9431 | 117758 |
| Financial liabilities | 9930 | - | - | - | 9930 |
| Total technical reserves and financial liabilities | 118014 | 9 | 234 | 9431 | 127688 |
| Maturity gap | $(32232)$ | 63175 | 2584 | $(1788)$ | 31739 |
| Maturity gap taking into account liquidity | 32243 | 3078 | (221) | (3 361) | 31739 |

The Company does not perform gross cash flows analysis, as the majority of financial liabilities and technical reserves have a maturity of up to 12 months.

## Credit risk

The Company takes on exposure to credit risk which is the risk that a 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. The Company has developed and implemented a Counterparty default risk management policy, for timely and regular risk identification, measurement and assessment, monitoring and control.
Exposure to credit risk is managed through the 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.
The current market value of collateral, where relevant, is regularly assessed by either independent appraisal companies or the Company's specialists.
Maximum credit risk of the Company as at 31 December 2019 and 2018 was as follows:

|  | $\begin{gathered} 31.12 .2019 \\ \text { EUR'000 } \end{gathered}$ |  | 31.12.2018 <br> EUR'000 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Gross | Net | Gross | Net |
| Government bonds | 87752 | 87752 | 83386 | 83386 |
| Corporate bonds | 2796 | 2796 | 2171 | 2171 |
| Deposits with banks | 6000 | 6000 | 6000 | 6000 |
| Investment funds and equity securities | 1623 | 1623 | 1573 | 1573 |
| Loans issued | 11939 | 11585 | 5226 | 4247 |
| Due from policy holders | 15065 | 12931 | 13019 | 10516 |
| Due from intermediaries | 2520 | 1638 | 4018 | 3131 |
| Receivables from reinsurance activities | 7573 | 7573 | 6052 | 6052 |
| Other debtors | 940 | 843 | 376 | 279 |
| Cash and cash equivalents | 27231 | 27231 | 36002 | 36002 |
| Total | 163439 | 159972 | 157823 | 153357 |

For credit quality details of loans, due from policyholders and intermediaries refer to notes 29 and 30 respectively.

## Notes to the Financial Statements

Credit risk arises on the financial investments, loans, direct insurance amounts receivable and the reinsurance amounts receivable and is the risk the counterparty defaults on the payment of the amount due.
Investment analysis by ratings of the issuer:

| 31 December 2019 | Ratings | Investment funds and equity securities | Corporate bonds | Government bonds | Total |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Agency |  | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Fitch | BB | - | - | 792 | 792 |
| Moody's | Baa2 | - | 1524 | - | 1524 |
|  | Baa3 | - | - | 721 | 721 |
| S\&P | A | - | - | 77464 | 77464 |
|  | A- | - | - | 6913 | 6913 |
|  | BB+ | - | 213 | - | 213 |
|  | BB- | - | 1059 | - | 1059 |
| No rating |  | 1623 | - | 1862 | 3485 |
|  | Total | 1623 | 2796 | 87752 | 92171 |
| 31 December 2018 | Ratings | Investment funds and equity securities | Corporate bonds | Government bonds | Total |
| Agency |  | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Fitch | AAA | - | - | 528 | 528 |
|  | BBB- | - | 211 | - | 211 |
|  | BB | - | - | 791 | 791 |
| Moody's | Baa2 | - | 1752 | - | 1752 |
|  | Baa3 | - | - | 702 | 702 |
| S\&P | AA | 303 | - | - | 303 |
|  | A+ | 55 | - | - | 55 |
|  | A | - | - | 74454 | 74454 |
|  | A- | - | - | 6911 | 6911 |
|  | BBB + | 102 | - | - | 102 |
|  | BBB- | 27 | - | - | 27 |
| No rating | BB+ | - | 198 | - | 198 |
|  |  | 1086 | 10 | - | 1096 |
|  | Total | 1573 | 2171 | 83386 | 87130 |

## Insurance receivables

Direct insurance amounts receivable are monitored by management on a periodic basis and policies are cancelled if appropriate notification has been provided to the policy holder and the amounts due are not paid.

## Reinsurance

The Company reinsures a share of underwritten risks in order to control its exposures to losses and protect own capital. The Company buys facultative, proportional and non-proportional portfolio protection reinsurance to reduce the net exposure and not to exceed the actual solvency margin. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event or occurrence.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after deductions for known counterparty insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically according to requirements of Reinsurance Policy. Reinsurance is carried out with world-known reinsurance companies with a good reputation.
When carrying out reinsurance, the ratings of a reinsurance company are, generally, not lower than the Standard \& Poor's evaluation BBB- (or analogous assessment of another international rating agency). Almost all reinsurance is carried out in reinsurance companies whose rating is not lower than the Standard \& Poor's

## Notes to the Financial Statements

assessment A-. Reinsurance companies cover their liabilities in the time period of up to 30 days. Reinsurance agreements also provide cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.
During 2019, there have been no cases where a reinsurance company has not met its liabilities to the Company.

| Rating | Reinsurance debtors <br> EUR'000 | Reinsurer's share on <br> written premiums | Reinsurer's share in <br> claims paid |
| :--- | ---: | ---: | ---: |
|  |  | 1575 | EUR'000 |


| Rating | 2018 |  |  |
| :---: | :---: | :---: | :---: |
|  | Reinsurance debtors EUR'000 | Reinsurer's share on written premiums EUR'000 | Reinsurer's share in claims paid EUR'000 |
| AA-, AA, AA + | 499 | 1001 | (758) |
| A-, A, A+ | 5548 | 14111 | 8139 |
| BBB-, BBB, BBB + | 5 | 13 | (34) |
| Total | 6052 | 15125 | 7347 |

Due to reinsurance agreements, the Company's maximum liability for each insurance risk for the main business lines is as follows:

|  | $\mathbf{2 0 1 9}$ <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Motor own damage insurance | Retained on net <br> Retained on net |  |
| CMTPL | 800 | 800 |
| Property insurance | 2802 | 2802 |
| General third party liability | 500 | 500 |
| Various financial risks | 2802 | 2802 |
| Guarantee insurance | 800 | 800 |
| Personal accident insurance | Retained on net | Retained on net |

### 4.4 Operating risks and risk management

The Company has determined that customers should receive high quality service. The most significant risk in the provision of these services has been defined to be qualified and knowledgeable employees representing the Company. In order to attract and keep middle and top level qualified employees in the Company, the Company has implemented a competitive salary and motivation system thus achieving a very high retention on the top and middle management level.
In the management's opinion, the risk that any of the employees may intentionally or unintentionally influence the technical result of an insurance line of business by fixing an unreasonably low price or granting unreasonably high discounts has been minimised. Internal methodologies should be strictly followed when pricing, but any deviations that are related to market situation are approved by top management. A discount policy is fixed by the Company's Board and no deviations from this policy are permitted.
A significant tool in ensuring the efficiency of these activities is the information systems (IS). The Company's management pays much attention to ensure that these systems work and comply with up-to-date requirements. The Company's IT Department assignment is to ensure and maintain a stable and safe environment in the Company's IS. The activities of the Department are regulated by IS security regulations, which have been developed in accordance with the legislation requirements. IS systems should ensure constant performance and it should comply with the employees' and clients' requirements.

## Notes to the Financial Statements

### 4.5 Capital adequacy requirements and Capital management

## Capital risk management

The Company has adopted the Solvency II regulation, which entered into force on 1 January 2016 and served as the main formula for capital risk management in the reporting period. The Company has chosen to use the Standard model for calculating and reporting the capital requirements according to principles described by the regulation.
In accordance with the Insurance and Reinsurance Law, which includes the Solvency II requirements, the Company implements a unified and efficient capital management with the aim of timely detection and prevention of deterioration of the financial position of the Company. The management of the Company's capital is carried out through a Risk management policy and Own funds management policy.
Similarly, in accordance with the requirements of the Own Risk and Solvency Assessment (ORSA) policy, the Company performs an annual own risk and solvency assessment to ensure that it is and will be sufficiently capitalized to be able to implement its business strategy in forward looking perspective over period of three years.

| Equity and solvency compliance | $\mathbf{3 1 . 1 2 . 2 0 1 9}$ <br> EUR'000 | $\mathbf{3 1 . 1 2 . 2 0 1 8}$ <br> EUR'000 |
| :--- | ---: | ---: |
| Total own funds to comply with the Solvency Capital Requirement | 42881 | 46742 |
| Total own funds to comply with the Minimum Capital Requirements | 40479 | 44608 |
| The Solvency Capital Requirement | 34527 | 40062 |
| The Minimum Capital Requirement | 14556 | 17300 |
| The own capital in the Solvency Capital Requirement | $\mathbf{1 2 4 \%}$ | $\mathbf{1 1 7 \%}$ |
| The own capital in the Minimum Capital Requirement | $\mathbf{2 7 8 \%}$ | $\mathbf{2 5 8 \%}$ |

## (5) Written premiums

|  | $\begin{gathered} 2019 \\ \text { EUR'000 } \\ \hline \end{gathered}$ |  |  | 2018 <br> EUR'000 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Gross written premiums | Reinsurers' share in premiums | Net written premiums | Gross written premiums | Reinsurer's share in premiums | Net written premiums |
| CMTPL | 64801 | (15804) | 48997 | 79698 | (12 684) | 67014 |
| CASCO | 9800 | - | 9800 | 7897 | - | 7897 |
| Property insurance | 7531 | (1439) | 6092 | 11548 | (1874) | 9674 |
| Personal accident insurance | 1981 | - | 1981 | 2532 | - | 2532 |
| Travel accident insurance | 1126 | (456) | 670 | 1197 | - | 1197 |
| Guarantee insurance | 942 | - | 942 | 970 | (396) | 574 |
| General third party liability | 790 | (85) | 705 | 854 | (126) | 728 |
| Various financial risks | 176 | (37) | 139 | 298 | (44) | 254 |
| Health insurance | 73 | - | 73 | 1 | - | 1 |
| Cargo insurance | 3 | - | 3 | 4 | (1) | 3 |
| Marine insurance | 1 | - | 1 | 1 | - | 1 |
| Marine third party liability insurance | 1 | - | 1 | - | - | - |
| Total | 87225 | (17821) | 69404 | 105000 | (15 125) | 89875 |

## Notes to the Financial Statements

Gross premiums from direct insurance business and reinsurance assumed are underwritten in the following territories:

|  | 2019 <br> EUR'000 | $\mathbf{2 0 1 8}$ <br> EUR'000 |
| :--- | ---: | ---: |
| Poland | 46998 | 67043 |
| Lithuania | 20874 | 15186 |
| France | 13030 | 15779 |
| Germany | 4530 | 6009 |
| Italy | 1276 | 868 |
| Latvia | 517 | 83 |
| Spain | - | $\mathbf{3 2}$ |
| Total | $\mathbf{8 7 2 2 5}$ | $\mathbf{1 0 5 0 0 0}$ |

## (6) Net earned premiums

|  | $\begin{gathered} 2019 \\ \text { EUR'000 } \\ \hline \end{gathered}$ |  |  | $\begin{gathered} 2018 \\ \text { EUR'000 } \\ \hline \end{gathered}$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Gross earned premiums | Reinsurers' share in premiums | Net earned premiums | Gross earned premiums | Reinsurers' share in premiums | Net carned premiums |
| CMTPL | 70977 | (14 403) | 56574 | 84207 | (14 213) | 69994 |
| CASCO | 8890 | - | 8890 | 6221 | - | 6221 |
| Property insurance | 8733 | $(177)$ | 7556 | 13123 | (1874) | 11249 |
| Personal accident insurance | 2365 | - | 2365 | 2226 | - | 2226 |
| Travel accident insurance | 1508 | (335) | 1173 | 1183 | - | 1183 |
| General third party liability | 721 | (27) | 694 | 834 | (145) | 689 |
| Guarantee insurance | 592 | (143) | 449 | 457 | (158) | 299 |
| Various financial risks | 168 | (28) | 140 | 300 | (44) | 256 |
| Health insurance | 55 | - | 55 | - | - | - |
| Cargo insurance | 3 | - | 3 | 4 | (1) | 3 |
| Marine insurance | 1 | - | 1 | 1 | - | 1 |
| Marine third party liability insurance | 1 | - | 1 | - | - | - |
| Total | 94014 | (16 113) | 77901 | 108556 | (16 435) | 92121 |

## Notes to the Financial Statements

## (7) Technical reserves for unearned premiums and unexpired risks

|  | $\begin{array}{r} \text { Gross } \\ \text { EUR'000 } \end{array}$ | Reinsurers' share EUR'000 | $\begin{array}{r} \text { Net } \\ \text { EUR’000 } \end{array}$ |
| :---: | :---: | :---: | :---: |
| Balance at 31 December 2017 | 50360 | (7897) | 42463 |
| Written premiums | 105000 | (15 125) | 89875 |
| Premiums earned | (108 556) | 16435 | (92 121) |
| Changes during the year | (3 556) | 1310 | (2 246) |
| Currency revaluation impact | (986) | 8 | (978) |
| Balance at 31 December 2018 | 45818 | (6579) | 39239 |
| Written premiums | 87225 | (17821) | 69404 |
| Premiums earned | (94 014) | 16113 | (77901) |
| Changes during the year | (6 789) | (1708) | (8497) |
| Currency revaluation impact | 248 | (7) | 241 |
| Balance at 31 December 2019 | 39277 | $(8294)$ | 30983 |

## (8) Other technical income

|  | $\mathbf{2 0 1 9}$ | $\mathbf{2 0 1 8}$ |
| :--- | ---: | ---: |
| Fee for the claims handling services | EUR'000 | EUR’000 |
| Fee for policy amendments and cancellation | 1264 | 772 |
| Other technical income | 142 | 458 |
|  | 1055 | $\mathbf{2 4 6 1}$ |

The Company does not accept insurance risks and receives full reimbursement of claims paid when handling claims on behalf of other insurance companies. The Company receives an agent fee for the claims handling services.

## (9) Paid claims

|  | $\begin{gathered} 2019 \\ \text { EUR'000 } \end{gathered}$ |  |  | $\begin{gathered} 2018 \\ \text { EUR'000 } \end{gathered}$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Gross claims paid | Reinsurers' share in claims paid | Net claims paid | Gross <br> claims paid | Reinsurers' share in claims paid | Net claims paid |
| CMTPL |  |  |  |  | 8836 |  |
| Property insurance | (10 043) | (1332) | (11 375) | $(5529)$ | $(1702)$ | (7231) |
| Guarantee insurance | (4542) | 58 | (4 484) | (774) | 40 | (734) |
| CASCO | (3927) | - | (3927) | (2473) | - | (2473) |
| Travel accident insurance | (471) | - | (471) | (687) | - | (687) |
| General third party liability | (313) | 57 | (256) | (446) | 173 | (273) |
| Personal accident insurance | (90) | - | (90) | (99) | - | (99) |
| Various financial risks | (26) | - | (26) | - | - | - |
| Cargo insurance | (6) | - | (6) | (1) | - | (1) |
| Total | (62 693) | 9609 | $(53084)$ | (50777) | 7347 | $(43$ 430) |

## Notes to the Financial Statements

The Company's gross claims paid include:

|  | 2019 | 2018 |
| :---: | :---: | :---: |
|  | EUR'000 | EUR'000 |
| Claims paid | (60 000) | (47 854) |
| Loss adjustment expenses* | $(7467)$ | (6783) |
| Recovered losses | 4774 | 3860 |
|  | (62 693) | (50777) |

* Loss adjustment expenses in 2019 for the Company include EUR 729 thousand (2018: EUR 722 thousand) of salary and social contributions to employees dealing with claims handling.
(10) Outstanding claims technical reserves

|  | $\begin{array}{r} \text { Gross } \\ \text { EUR’000 } \end{array}$ | Reinsurers' share EUR'000 | $\begin{array}{r} \text { Net } \\ \text { EUR’000 } \end{array}$ |
| :---: | :---: | :---: | :---: |
| Balance at 31 December 2017 | 69978 | (11 826) | 58152 |
| Claims incurred | 77988 | (13 282) | 64706 |
| Claims paid | (50777) | 7347 | (43 430) |
| Changes during the year | 27211 | (5935) | 21276 |
| Currency revaluation impact | (940) | 31 | (909) |
| Balance at 31 December 2018 | 96249 | (17 730) | 78519 |
| Claims incurred | 80599 | (23 295) | 57304 |
| Claims paid | (62 693) | 9609 | (53084) |
| Changes during the year | 17906 | (13 686) | 4220 |
| Currency revaluation impact | 534 | (37) | 497 |
| Balance at 31 December 2019 | 114689 | (31 453) | 83236 |

The outstanding claims technical reserves for the Company were as follows:

|  | 31.12.2019 |  | 31.12.2018 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Gross | Net | Gross | Net |
| RBNS | 85257 | 58744 | 73891 | 59048 |
| IBNR | 29432 | 24492 | 22358 | 19471 |
|  | 114689 | 83236 | 96249 | 78519 |

## Notes to the Financial Statements

## (11) Net incurred claims

|  |  | $2019$ <br> EUR'000 |  |  | $\begin{gathered} 2018 \\ \text { EUR'000 } \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Gross claims incurred | Reinsurers' share in claims incurred | Net claims incurred | Gross claims incurred | Reinsurers' share in claims incurred | Net claims incurred |
| CMTPL | (59 351) | 17660 | (41 691) | (60 281) | 14264 | (46017) |
| Property insurance | (12 700) | 5221 | (7479) | (10 267) | (1268) | (11 535) |
| CASCO | $(4706)$ | - | (4 706) | (2973) | - | (2973) |
| Guarantee insurance | (2030) | 78 | (1952) | (2156) | 95 | (2061) |
| General third party liability | (1281) | 316 | (965) | $(1569)$ | 254 | (1315) |
| Travel insurance | (436) | - | (436) | (621) | - | (621) |
| Personal accident | (59) | - | (59) | (123) | - | (123) |
| Financial risks | (20) | 20 | - | 2 | (63) | (61) |
| Health insurance | (10) | - | (10) | - | - | - |
| Cargo insurance | (6) | - | (6) | - | - | - |
| Total | (80 599) | 23295 | $(57304)$ | (77988) | 13282 | (64706) |

## (12) Change in deferred client acquisition costs



## Notes to the Financial Statements

## (13) Administrative expenses

|  | 2019 | 2018 |
| :---: | :---: | :---: |
|  | EUR'000 | EUR'000 |
| Salaries and social contribution expenses | 4188 | 4072 |
| Computer programs maintenance | 457 | 391 |
| Audit and consulting services | 264 | 292 |
| Advertising and presentation expenses | 247 | 230 |
| Rent payments | 238 | 251 |
| Obligatory payments* | 212 | 240 |
| Legal expenses | 171 | 140 |
| Other personnel expenses | 164 | 129 |
| Car maintenance costs | 143 | 148 |
| Utility expenses (electricity, heating, water) | 126 | 143 |
| Telecommunication costs | 109 | 114 |
| Other business related costs | 107 | 134 |
| Repairs and maintenance of own property | 76 | 67 |
| Press subscription, documentation, books | 43 | 38 |
| Computer maintenance | 34 | 38 |
| Expenses for printing | 20 | 57 |
| Cleaning expenses | 20 |  |
| Public relations expenses | 16 | - |
| Other administrative expenses | 214 | 234 |
|  | 6849 | 6718 |
| * Obligatory payments include payments to FCMC. |  |  |
| Administrative expenses allocated by insurance types: |  |  |
|  | 2019 | 2018 |
|  | EUR'000 | EUR'000 |
| CMTPL | 5089 | 5107 |
| CASCO | 769 | 503 |
| Property insurance | 591 | 736 |
| Personal accident | 156 | 161 |
| Guarantee insurance | 88 | 62 |
| Travel insurance | 74 | 76 |
| General third party liability | 62 | 54 |
| Financial risks | 14 | 19 |
| Health insurance | 6 | - |
|  | 6849 | 6718 |

For the accounting policy on the allocation of administrative expenses, see note 3 (i).

## (14) Change in unearned reinsurance commission

|  | EUR'000 |
| :---: | :---: |
| Statement of financial position at 31 December 2017 | 2124 |
| Written commissions | 754 |
| Deferred commissions allocated to the statement of comprehensive income | (2 248) |
| Changes during the year | (1 494) |
| Statement of financial position at 31 December 2018 | 630 |
| Written commissions | 1565 |
| Deferred commissions allocated to the statement of comprehensive income | (1891) |
| Changes during the year | (326) |
| Statement of financial position at 31 December 2019 | 304 |

## Notes to the Financial Statements

(15) Other technical expenses

|  | $\mathbf{2 0 1 9}$ | $\mathbf{2 0 1 8}$ |
| :--- | ---: | ---: |
|  | EUR'000 <br> Deductions paid | 1258 |
| EUR'000 |  |  |
| Impairment allowance for receivables and sold receivables from policyholders | 7680 |  |
| Expenses related to distribution of policies | 320 | 993 |
| Insurance tax | 74 | 744 |
| Other | 60 | 140 |
|  | $\mathbf{2 4 4 2}$ | $\mathbf{3 6 4 2}$ |
|  |  |  |

(16) Investment management charges

|  | 2019 <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Transaction commissions | 100 | 74 |
| Other charges | 10 | 15 |
|  |  | $\mathbf{1 1 0}$ |

## (17) Interest income and dividend income

|  | 2019 <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Interest income from financial assets at fair value through profit or loss | 1037 | 246 |
| Interest income/(expense) from deposits with credit institutions, net | 52 | 59 |
| Interest income/(expense) from loans issued, net | 414 | 68 |
| Dividends and other income from investments held as available for sale | $\mathbf{6 2 6}$ | 665 |
|  | $\mathbf{2 1 2 9}$ | $\mathbf{1 0 3 8}$ |

(18) Impairment (gain)/ loss

|  | 2019 | 2018 |
| :---: | :---: | :---: |
|  | EUR'000 | EUR'000 |
| (Increase)/ decrease in allowances for bad debts, other than insurance debts, net | (29) | (80) |
| (Increase)/ decrease in allowances for available-for-sale financial assets | (167) |  |
| (Increase)/ decrease in allowances for loans, net | 82 | 3 |
|  | (114) | (77) |

## (19) Other income

|  | 2019 <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Gain from sale of investment property | 118 | 2. |
| Other income | 268 | $\mathbf{2 2 2}$ |
|  |  | $\mathbf{3 6 8}$ |

(20) Other expenses

|  | 2019 <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Real estate tax | 42 | 65 |
| Other expenses | 29 | 113 |
|  |  | $\mathbf{7 1}$ |

## Notes to the Financial Statements

## (21) Income tax expense

|  | 2019 <br> EUR'000 | 2018 <br> EUR'000 |
| :--- | ---: | ---: |
| Corporate income tax | 525 | 111 |
| Change in deferred tax | $(202)$ | $\mathbf{3 2 3}$ |
|  |  | $\mathbf{3 1 7}$ |

Income declared by the Company's branches in France, the UK, Lithuania, Germany and Poland is taxable in the corresponding countries, as well as in Latvia.

For the profits earned as of 1 January 2018, the corporate income tax in Latvia is payable only on dividend distribution, irrespective of profits earned in the particular reporting period. In other countries, where the Company operates, Corporate Income tax is calculated from current period taxable income. See also Note 3.11. The current version of the amended tax legislation retains certain conditional transitional provisions where the new corporate income tax does not apply to distribution of retained earnings from the previous tax regime until 31 December 2017 (currently no expiry date), which the Company has used during the reporting year, and unutilised tax losses may be offset against certain corporate income tax payable ( 5 year expiry date). The Company, in case dividends were to be distributed, might have positive tax benefits from these transitional provisions, but as the deferred tax is calculated using the tax rate which applies to undistributed profit, no deferred tax asset may be recognised until the actual distribution date.
(22) Reinsurance cession result

|  | 2019 <br> EUR'000 | $\mathbf{2 0 1 8}$ <br> EUR'000 |
| :--- | ---: | ---: |
| Reinsurance premiums | $(17821)$ | $(15125)$ |
| Changes in reinsurers' share in unearned premiums reserve | 1708 | $(1310)$ |
| Reinsurers' share in claims paid | 9609 | 7347 |
| Changes in reinsurers' share in reserve for outstanding claims | 13686 | 5935 |
| Reinsurance commissions and profit participation | 1565 | 754 |
| Change in unearned reinsurance commissions | $\mathbf{3 2 6}$ | $\mathbf{1 4 9 4}$ |
| Total reinsurance cession result | $\mathbf{9 0 7 3}$ | $\mathbf{( 9 0 5 )}$ |

## Notes to the Financial Statements

## (23) Property and equipment

The Company's property and equipment movement table for the years 2019 and 2018 is presented as follows:

| Cost | 31.12.2017 | Vehicles <br> EUR'000 | Other property and equipment EUR’000 | Total <br> EUR'000 |
| :---: | :---: | :---: | :---: | :---: |
|  |  | 361 | 1117 | 1478 |
| Purchased |  | - | 123 | 123 |
| Disposals |  | (27) | (1) | (28) |
|  | 31.12.2018 | 334 | 1239 | 1573 |
| Adjustment on initial application of IFRS 16 01.01.2019 |  | - | 105 | 105 |
| Purchased |  | 1 | 119 | 120 |
| ROU assets recognized |  | - | 203 | 203 |
| Disposals |  | (102) | (92) | (194) |
|  | 31.12.2019 | 233 | 1574 | 1807 |
| Accumulated depreciation |  |  |  |  |
|  | 31.12.2017 | (296) | (719) | (1 015) |
| Depreciation for the year |  | (39) | (207) | (246) |
| Depreciation on disposed assets |  | 27 | 2 | 29 |
|  | 31.12.2018 | (308) | (924) | $(1232)$ |
| Depreciation for the year |  | (13) | (216) | (229) |
| Depreciation for the year for ROU assets |  | - | (35) | (35) |
| Depreciation on disposed assets $\begin{aligned} & \\ & \\ & \\ & \\ & \\ & \text { Balanc } \\ & \text { Balanc }\end{aligned}$ |  | 101 | 93 | 194 |
|  | 31.12.2019 | (220) | $(1082)$ | $(1302)$ |
|  | t 31.12.2018 | 26 | 315 | 341 |
|  | t 31.12.2019 | 13 | 492 | 505 |

Depreciation for the year is presented in the statement of Comprehensive Income under Depreciation and amortisation caption.

Right-of-use assets recognized in accordance with IFRS 16 are reported as part of Other property and equipment in the amount of EUR 273 thousand as at 31.12.2019.

## (24) Land and buildings and Investment property

(a) Land and buildings

|  | Land and Buildings <br> EUR’000 |
| :--- | ---: |
| Deemed cost 31.12.2017 | $\mathbf{3 1 1 7}$ |
| Revaluation | $(279)$ |
| Deemed cost 31.12.2018 | 2838 |
| Reclassification to investment property | $(44)$ |
| Deemed cost 31.12.2019 | 2794 |

Deemed cost 31.12.2019
2794
Accumulated depreciation

| 31.12.2017 | $(\mathbf{1 5 6 4 )}$ |
| :--- | ---: | ---: |
| Depreciation | $(119)$ |
| 31.12.2018 | $(1683)$ |
| Depreciation | $(105)$ |
| 31.12.2019 | $(1788)$ |
| Balance at 31.12.2018 | 1155 |
| Balance at 31.12.2019 | 100 |
| 1 |  |

## Revalued assets

## Notes to the Financial Statements

In April 2018, independent experts undertook revaluation of land and building and impairment of EUR 970 thousand was recognised. The Company booked EUR 691 thousand (Note 24b) in the statement of comprehensive income as Revaluation of investment property and EUR 279 thousand directly to shareholders' equity as Revaluation of Land and buildings.
The fair value measurement for land and buildings of EUR 1006 thousand (2018: EUR 1155 thousand) has been categorised as a Level 3 in the fair value hierarchy.
The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as the significant unobservable inputs used as at 31 December 2019:

| Type | Fair <br> value, <br> EUR'000 | Valuation technique | Significant unobservable inputs | Inter-relation between significant unobservable inputs and fair value measurement |
| :---: | :---: | :---: | :---: | :---: |
| Buildings and land located in Riga and Riga region | 942 | Discounted cash flows technique | Rental income per $\mathrm{m}^{2}$ in the range between EUR 2.00 and EUR 9.00 Discount rate in the range between $7.12 \%$ and $8.62 \%$ | The estimated fair value would increase/ (decrease) if rental income per $\mathrm{m}^{2}$ was higher/ (lower). <br> The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher) |
| Buildings and land located in Tukums | 64 | Discounted cash flows technique | Rental income of EUR 3.50 per m ${ }^{2}$ <br> Discount rate 10.30\% | The estimated fair value would increase/ (decrease) if rental income per $\mathrm{m}^{2}$ was higher/ (lower). <br> The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher) |

The model of discounted cash flows technique is based on discounted cash flows from rental income. Building and Land in Liepaja was transferred to Investment property during 2019.

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as the significant unobservable inputs used as at 31 December 2018:

| Type | Fair <br> value, <br> EUR’000 | Valuation <br> technique | Significant <br> unobservable <br> inputs | Inter-relation between significant <br> unobservable inputs and fair value <br> measurement |
| :--- | :---: | :--- | :--- | :--- |
| Buildings and land <br> located in Riga and Riga <br> region | 1038 | Discounted <br> cash flows <br> technique | Rental income per <br> $\mathrm{m}^{2}$ in the range <br> between EUR 2.00 <br> and EUR 9.00 <br> Discount rate in <br> the range between <br> 7.12\% and 8.62\% | The estimated fair value would <br> increase/ (decrease) if rental income per <br> $\mathrm{m}^{2}$ was higher/ (lower). <br> The estimated fair value would <br> increase/ (decrease) if discount rate was <br> lower/ (higher) |
| Buildings and land |  |  |  |  |
| located in Tukums |  |  |  |  |

## Notes to the Financial Statements

(b) Investment property

|  | EUR'000 |
| :---: | :---: |
| Deemed cost 31.12.2017 | 5197 |
| Disposals | (12) |
| Changes in fair value recognized in profit or loss | (691) |
| Deemed cost 31.12.2018 | 4494 |
| Disposals | (132) |
| Reclassification from own used properties | 44 |
| Deemed cost 31.12.2019 | 4406 |
| Balance at 31.12.2018 | 4494 |
| Balance at 31.12.2019 | 4406 |

Please see note 19 for gain on sale of investment property during the year.
Rental income and operating expense for the year ended 31 December 2019:

|  | Book value EUR’000 | Rental income EUR’000 | Operating expenses EUR’000 |
| :---: | :---: | :---: | :---: |
| Investment property rented out | 4406 | 221 | 57 |
| Investment property not rented out | - | - | - |
| Total | 4406 | 221 | 57 |

Rental income and operating expense for the year ended 31 December 2018:

|  | Book value <br>  <br>  <br> EUR'000 | Rental income <br> EUR'000 | Operating expenses <br> EUR'000 |  |
| :--- | ---: | ---: | ---: | ---: |
| Investment property rented out | 4319 | 181 | 47 |  |
| Investment property not rented out | 175 | - | - |  |
| Total | $\mathbf{4 4 9 4}$ |  | $\mathbf{1 8 1}$ |  |
|  |  |  |  |  |

Rental income and operating expenses are recognized in the statement of Comprehensive Income under Other income and Other expense captions respectively. Non-cancellable rental income for the Company is EUR 11 thousand (2018: EUR 11 thousand).

## Notes to the Financial Statements

The fair value measurement for Investment property of EUR 4406 thousand (2018: EUR 4494 thousand) has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used which have not changed significantly since 31 December 2019.

|  | Fair <br> value, <br> EUR'000 | Valuation <br> technique | Significant unobservable <br> inputs | Inter-relation between significant <br> unobservable inputs and fair value <br> measurement |
| :--- | :---: | :--- | :--- | :--- |
| Buildings and land | 4194 | Discounted <br> cash flows <br> technique | Rental income per m2 in <br> the range between EUR <br> located in Riga and <br> Riga area |  |
|  |  | The estimated fair value would <br> increase/ (decrease) if rental income <br> iscount rate in the range |  |  |
| between 7.12\% and |  |  |  |  |
| per m ${ }^{2}$ was higher/ (lower). |  |  |  |  |

The model of discounted cash flows technique is based on discounted cash flows from rental income. The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used as at 31 December 2018:

| Type | Fair <br> value, <br> EUR'000 | Valuation <br> technique | Significant <br> unobservable inputs | Inter-relation between significant <br> unobservable inputs and fair value <br> measurement |
| :--- | :---: | :--- | :--- | :--- |
| Buildings and land | 4194 | Discounted <br> cash flows <br> technique | Rental income per m2 <br> in the range between <br> located in Riga and |  |
| Riga area |  |  |  |  |

## Notes to the Financial Statements

## (25) Intangible assets

The table below represents Intangible assets movement for the Company:

|  | Software EUR’000 |
| :---: | :---: |
| Cost |  |
| 31.12.2017 | 1597 |
| Purchased | 532 |
| 31.12.2018 | 2129 |
| Purchased | 472 |
| 31.12.2019 | 2601 |
| Accumulated amortization |  |
| 31.12.2017 | (646) |
| Amortization for the year | (504) |
| 31.12.2018 | (1150) |
| Amortization for the year | (265) |
| 31.12.2019 | (1415) |
| Balance at 31.12.2018 | 979 |
| Balance at 31.12.2019 | 1186 |

Amortisation for the year is presented in the statement of Comprehensive Income under Depreciation and amortisation caption.
(26) Investments at fair value through profit or loss

| Non-fixed income securities | $\begin{gathered} \text { 31.12.2019 } \\ \text { EUR'000 } \end{gathered}$ |  | $\begin{gathered} 31.12 .2018 \\ \text { EUR'000 } \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Purchase cost | Fair value | Purchase cost | Fair value |
| Investments in investment funds | 1062 | 1413 | 1189 | 1444 |
| Shares and other equity securities | 315 | 210 | 201 | 129 |
|  | 1377 | 1623 | 1390 | 1573 |
|  | 31.12.2019 <br> EUR'000 |  | 31.12.2018 <br> EUR'000 |  |
| Fixed income securities | Purchase cost | Fair value | Purchase cost | Fair value |
| Debt securities issued or guaranteed by central governments or municipalities | 86631 | 87752 | 82049 | 83386 |
| Other debt securities with fixed income, which are included in a regulated market | 2693 | 2796 | 2218 | 2171 |
|  | 89324 | 90548 | 84267 | 85557 |
| Investment portfolio of fixed income securities by geography: |  |  | 31.12.2019 | 31.12.2018 |
|  |  |  | EUR'000 | EUR'000 |
| Poland |  |  | 66086 | 63206 |
| Latvia |  |  | 11807 | 8782 |
| Lithuania |  |  | 9617 | 9575 |
| Other European Union countries |  |  | 1974 | 2929 |
| Other countries |  |  | 1064 | 1065 |
|  |  |  | 90548 | 85557 |

## Notes to the Financial Statements

## (27) Available-for-sale financial assets

Equities classified as available-for-sale financial assets are shares in other companies which are not quoted. These are stated at cost as fair value is not practicable to be determined. The gross amounts and net of impairment are as follows:

|  | 31.12.2019EUR'000 |  | $\begin{gathered} 31.12 .2018 \\ \text { EUR'000 } \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Gross | Net, after impairment recognised | Gross | Net, after impairment recognised |
| BTA Baltic Insurance Company AAS (9.17\%) | 4881 | 4881 | 4881 | 4881 |
| Megape İpašumi AS (36.90\%) | 910 | 910 | 910 | 910 |
| Vest OOO (19.50\%) | 289 | 112 | 289 | 279 |
|  | 6080 | 5903 | 6080 | 6070 |

BTA Baltic Insurance Company AAS ("BTA Baltic") is the former Company's subsidiary, $90 \%$ of which has been sold to Vienna Insurance Group in 2016.
During 2017, BTA Baltic increased its share capital. The Company contributed additional capital of EUR 917 thousand and its share in BTA Baltic dropped from $10 \%$ to $9.17 \%$.
At the end of $2015,100 \%$ ownership in BTA Baltic was classified as Investment in subsidiary in the value of EUR 29000 thousand. The management based its assessment of the value of retained $10 \%$ shareholding on the expected return of equity from the investment. Given that BTA Baltic is not a listed company and that fair value cannot be measured reliably in the subsequent periods, the Company measures the respective financial asset at its notional cost subject to impairment testing.
Megape Īpašumi AS is a related party of the Company that manages the Company's real estate properties.
Vest OOO's line of business is the development of real estate projects. The Company management has assessed the expected recoverability of the investment and recognized an impairment allowance in 2019.
The Company's management has assessed whether it controls the companies classified as available for sale investments. Based on the management's assessment, the Company does not have control over these investees since it does not hold more than half of the voting rights and it does not have ability to direct the relevant activities. Therefore, the Company does not consolidate these investments. The Company also does not have a significant influence over the respective entities and none of them is classified as an investment in an associate.

## (28) Deposits with banks

## Investment maturity structure:

With original maturity not longer than 3 months (refer to note 32 )
With original maturity from 1 to 5 years

## Investment structure by geographic split:

France
Latvia

| $\mathbf{3 1 . 1 2 . 2 0 1 9}$ | $\mathbf{3 1 . 1 2 . 2 0 1 8}$ |
| ---: | ---: |
| EUR'000 | EUR'000 |
| 5000 | 5000 |
| 1000 | 1000 |
| $\mathbf{6 0 0 0}$ | $\mathbf{6 0 0 0}$ |
| $\mathbf{3 1 . 1 2 . 2 0 1 9}$ | $\mathbf{3 1 . 1 2 . 2 0 1 8}$ |
| EUR'000 | EUR'000 |
| 5000 | 5000 |
| 1000 | 1000 |
| $\mathbf{6 0 0 0}$ | $\mathbf{6 0 0 0}$ |

## Notes to the Financial Statements

(29) Loans issued

|  | 31.12.2019 | 31.12.2018 |
| :---: | :---: | :---: |
| Structure of loan portfolio | EUR'000 | EUR'000 |
| Amount of loans, gross | 11866 | 5201 |
| Accrued interest payments | 73 | 25 |
| Impairment allowance | (354) | (979) |
|  | 11585 | 4247 |
|  |  | $\begin{array}{r} \text { Gross } \\ \text { EUR'000 } \end{array}$ |
| Allowance as at 31 December 2017 |  | (984) |
| Impairment loss reverse |  | 5 |
| Allowance as at 31 December 2018 |  | (979) |
| Impairment loss reversed |  | 82 |
| Write-off |  | 543 |
| Allowance as at 31 December 2019 |  | (354) |

The following table provides an analysis of the Company's loan portfolio, net of impairment, by types of collateral:
31.12.2019

| Amortised cost <br> EUR'000 | Amortised cost <br> EUR'000 |
| :---: | :---: |
| 4608 | 2233 |
| 6977 | 2014 |
| 11585 | 4247 |

## Notes to the Financial Statements

|  | $\begin{array}{r} 31.12 .2019 \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} 31.12 .2018 \\ \text { EUR'000 } \end{array}$ |
| :---: | :---: | :---: |
| Overdue mortgage loans |  |  |
| Overdue more than 12 months | 216 | 286 |
| Overdue up to 3 months | - | - |
| Not overdue mortgage loans | 4599 | 2779 |
| Impairment allowance | (207) | (832) |
| Mortgage loans | 4608 | 2233 |
| Overdue other loans |  |  |
| Overdue more than 12 months | 147 | 147 |
| Overdue up to 3 months | - | - |
| Not overdue other loans | 6977 | 2014 |
| Impairment allowance | (147) | (147) |
| Other loans | 6977 | 2014 |
| Total loans | 11585 | 4247 |
|  | 31.12.2019 | 31.12.2018 |
|  | EUR'000 | EUR'000 |
| Mortgage loans: |  |  |
| Loans to non-financial institutions | 4779 | 3026 |
| Loans to individuals | 36 | 39 |
| Impairment allowance | (207) | (832) |
|  | 4608 | 2233 |
|  | 31.12.2019 | 31.12.2018 |
|  | EUR'000 | EUR'000 |
| Other loans: |  |  |
| Loans to non-financial institutions | 7038 | 2075 |
| Loans to individuals | 86 | 86 |
| Impairment allowance | (147) | (147) |
|  | 6977 | 2014 |

As at 31 December 2019, loans with the carrying amount of EUR 1813 thousand (2018: EUR 583 thousand) had a maturity of more than 5 years.
As at 31 December 2019, Mortgage loans issued to non-financial institutions with the carrying amount of EUR 4608 thousand (2018: EUR 2233 thousand) represent the Company's indirect exposure to the hotel industry in Latvia and Estonia. According to the Company management's estimates, as at 31 December 2019 and as at 31 December 2018 the fair value of the collateral for mortgage loans significantly exceeds the carrying amount of loans issued and, correspondingly, the Company management has not identified any impairment indications as at the end of the years ending 31 December 2019 and 31 December 2018.
As at 31 December 2019, Other loans issued to non-financial institutions include loans issued to related parties for the purpose of being loaned to a lending company in the European Union providing loans with real estate collateral. The carrying amount of these loans amounted to EUR 6977 thousand (2018: EUR 2014 thousand). According to the Company management's evaluation, as at 31 December 2019 and as at 31 December 2018 the Company management has not identified any impairment indications regarding these loans.
In March 2020, with the outbreak of COVID-19, the hotel and real estate industries in the European Union have seen a drastic decline, which, in turn, may potentially have a negative impact on the future market developments in these industries, and, thus, the loan exposures held by the Company outlined above.

## Notes to the Financial Statements

(30) Receivables from direct insurance activities

|  |  | $\begin{array}{r} 31.12 .2019 \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} 31.12 .2018 \\ \text { EUR’000 } \end{array}$ |
| :---: | :---: | :---: | :---: |
| Due from policy holders |  | 15066 | 13176 |
| Due from intermediaries |  | 2520 | 3862 |
| Impairment allowance for bad debtors |  | (3 017) | (3 391) |
|  |  | 14569 | 13647 |
|  | Allowance for policy holders EUR'000 | Allowance for intermediaries EUR'000 | Total allowance for insurance debtors EUR’000 |
| Allowance as at 31 December 2017 | $(1601)$ | (842) | (2443) |
| Impairment loss reversed | - | - | - |
| Impairment loss charge | (903) | (45) | (948) |
| Allowance as at 31 December 2018 | $(2504)$ | (887) | (3 391) |
| Impairment loss reversed | 421 | - | 421 |
| Impairment loss charge | (52) | 5 | (47) |
| Allowance as at 31 December 2019 | (2 135) | (882) | (3 017) |
|  |  | 31.12.2019 | 31.12.2018 |
|  |  | EUR'000 | EUR'000 |
| Overdue receivables |  |  |  |
| Less than 3 months |  | 885 | 876 |
| More than 3 months |  | 76 | 180 |
| Outstanding receivables not yet due |  | 1559 | 2962 |
| Allowances for doubtful debts |  | (882) | (887) |
| Intermediaries |  | 1638 | 3131 |
| Overdue receivables |  |  |  |
| Less than 3 months |  | 2360 | 2936 |
| More than 3 months |  | 1798 | 1876 |
| Outstanding receivables not yet due |  | 10908 | 8208 |
| Allowances for doubtful debts |  | (2 135) | $(2504)$ |
| Policyholders |  | 12931 | 10516 |
| Total direct insurance debtors |  | 14569 | 13647 |

## (31) Other receivables

|  | $\begin{array}{r} 31.12 .2019 \\ \text { EUR'000 } \end{array}$ | $\begin{array}{r} 31.12 .2018 \\ \text { EUR'000 } \end{array}$ |
| :---: | :---: | :---: |
| Non-financial assets |  |  |
| Advance payments | 352 | 541 |
| Other tax advance payments | 490 | 174 |
| Total non-financial assets | 842 | 715 |
| Financial assets |  |  |
| Receivables for claims handling services provided | 566 | 352 |
| Other debtors | 374 | 24 |
| Impairment allowance | (97) | (97) |
| Total financial assets | 843 | 279 |
| Total other receivables | 1685 | 994 |

## Notes to the Financial Statements

|  |  | $\begin{array}{r} \text { Gross } \\ \text { EUR'000 } \\ \hline \end{array}$ |
| :---: | :---: | :---: |
| Allowance as at 31 December 2017 |  | (17) |
| Additional allowance |  | (80) |
| Allowance as at 31 December 2018 |  | (97) |
| Additional allowance |  | - |
| Allowance as at 31 December 2019 |  | (97) |
| (32) Cash and cash equivalents |  |  |
|  | 31.12.2019 | 31.12.2018 |
|  | EUR'000 | EUR'000 |
| Current accounts with credit institutions | 27231 | 36002 |
| Deposits with original maturity less than 3 months | 5000 | 5000 |
| Cash and cash equivalents | 32231 | 41002 |

Deposits with original maturity less than 3 months are included in the Statement of Financial Position in the caption Deposits with banks.
(33) Obligatory payments disclosed in the Statement of Cash Flows

|  | 31.12 .2019 <br> Paid to: <br> EUR'000 | EUR'000 |
| :--- | ---: | ---: |
| Transport Insurance Bureau | 1258 | 1680 |
| FCMC (Financial and Capital Market Commission) | 189 | 231 |
| Foreign insurance supervisory institutions | 21 | 8 |
| Insured Protection Fund | 1 | 1 |
| Total obligatory payments | $\mathbf{1 4 6 9}$ | $\mathbf{1 9 2 0}$ |

## (34) Capital and reserves

## Share capital

The authorized and issued share capital of the Company at 31 December 2019 was EUR 20050200 (31 December 2018: EUR 14220000 ) and was comprised of 141000 shares (31 December 2018: 100000 ), and was fully paid. Nominal value of one share was EUR 142.20 (31 December 2018: EUR 142.20).

|  | 31.12.2019 |  | 31.12.2018 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Number of shares | EUR'000 | Number of shares | EUR'000 |
| Ordinary shares with voting rights | 137000 | 19481 | 96000 | 13651 |
| Preference shares without voting rights | 4000 | 569 | 4000 | 569 |
|  | 141000 | 20050 | 100000 | 14220 |

In 2019, the shareholders distributed dividends in the amount of EUR 14022 thousand and, at the same time, increased share capital and share premium by the same amount, settling the transactions on a net basis.

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 rank equally with regard to the Company's residual assets. Holders of preference shares are entitled to receive dividends, but do not have voting rights. The holders of preference shares have preference over ordinary shareholders on the residual assets.

The rights to purchase preference shares are given to employees and the management of the Company by a decision of the shareholders' meeting.

## Notes to the Financial Statements

## Revaluation reserve

The revaluation reserve relates to revaluation on land and buildings used by the Company for its own activities and currency revaluation impact from the Company's foreign operations.

|  | $\mathbf{3 1 . 1 2 . 2 0 1 9}$ | $\mathbf{3 1 . 1 2 . 2 0 1 8}$ |
| :--- | ---: | ---: |
| EUR'000 | EUR'000 |  |
| Land and buildings revaluation reserves | 2892 | 2892 |
| Currency revaluation impact | $(84)$ | $(115)$ |
|  | $\mathbf{2 8 0 8}$ | $\mathbf{2 7 7 7}$ |


|  | EUR'000 |
| :--- | ---: |
| Balance at 31 December 2017 | $\mathbf{3 1 4 8}$ |
| Revaluation reserve decrease |  |
| Currency revaluation impact, net | $(279)$ |
| Balance at 31 December 2018 |  |
| Currency revaluation impact, net | $(92)$ |
| Balance at 31 December 2019 | 2777 |

## Reserve capital and other reserves

In previous years, a part of the profit had been transferred to reserve capital and other reserves in total amount of EUR 8536 thousand. These reserves are available to shareholders for distribution, and there are no restrictions on those reserves.

## Dividends

In 2019, dividends in the amount of EUR 14022 thousand (2018: EUR 0 ) were distributed and, at the same time, the share capital and share premium were increased by the same amount, settling the transactions on a net basis.
In 2020, the Company will reduce presence in segments and business lines in France and other countries that turned out to be unprofitable. This will put stress on the Company to achieve the gross written premiums targets; however, the Company's profitability and ability to distribute dividends is expected to improve.

## (35) Deferred tax

Movement in temporary differences during the year ended 31 December 2019:

| EUR'000 | Net balance as at 1 January 2019 | Recognized in profit or loss statement | Recognized directly in equity | Currency revaluation effect | Net balance as at 31 December 2019 | Deferred tax asset | Deferred tax liability |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Tax loss carried forward | 508 | (227) | - | 2 | 283 | 283 |  |
| Deferred client acquisition costs | (1 406) | 441 | - | (14) | (979) | - | (979) |
| Other temporary differences, net | 195 | (12) | - | 3 | 186 | 186 | - |
|  | (703) | 202 | - | (9) | (510) | 469 | (979) |
|  |  |  |  | Set off of tax Net deferred tax liability |  | (469) | 469 |
|  |  |  |  |  |  | - | (510) |

## Notes to the Financial Statements

Movement in temporary differences during the year ended 31 December 2018:

| EUR'000 | Net balance as at 1 January 2018 | Recognized in profit or loss statement | Recognized directly in equity | Currency revaluation effect | Net balance as at 31 December 2018 | Deferred tax asset | Deferred tax liability |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Tax loss carried forward | 979 | (453) | - | (18) | 508 | 508 |  |
| Deferred client acquisition costs | (1631) | 175 | - | 50 | (1 406) | - | (1 406) |
| Other temporary differences, net | 130 | 72 | - | (7) | 195 | 195 |  |
|  | (522) | (206) | - | 25 | (703) | 703 | (1406) |
|  |  |  |  |  | Set off of tax | (703) | 703 |
|  |  |  |  | Net deferre | tax liability | - | (703) |

## (36) Taxes and social contributions

| Tax type | Balance at <br> 31.12.2018 <br> EUR’000 | Calculated in 2019 EUR'000 | $\begin{array}{r} \text { Paid in } \\ 2019 \\ \text { EUR'000 } \end{array}$ | Correction/ redirected to another tax 2019 EUR'000 | Balance at <br> 31.12.2019 <br> EUR'000 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Social tax | 137 | 1362 | (1266) | (37) | 196 |
| Personal income tax | 3 | 611 | (611) |  | 3 |
| VAT | (12) | 372 | (357) | - | 3 |
| Property tax | - | 71 | (71) | - |  |
| Insurance premium tax | 209 | 2867 | (2794) | - | 282 |
| Other taxes | 3 | 7 | (7) | - | 3 |
| CIT in Latvia | - | 24 | (24) | - | - |
| CIT in other countries | (306) | 509 | (417) | - | (214) |
|  | 34 | 5823 | $(5547)$ | (37) | 273 |

As taxes are calculated for each country of operations separately, tax prepayments and liabilities for different branches of the Company are not netted, and are presented in the Statement of Financial position as follows:

## Including:

| Other tax prepayment |  |
| :--- | ---: |
| Other tax liabilities | $\mathbf{( 1 7 4 )}$ |

Other tax liabilities

| Tax type | Balance at 31.12.2017 | Calculated in 2018 | Paid in 2018 | Balance a 31.12.2018 |
| :---: | :---: | :---: | :---: | :---: |
|  | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Social tax | 123 | 1282 | $(1268)$ | 137 |
| Personal income tax | 6 | 557 | (560) | 3 |
| VAT | 21 | 318 | (351) | (12) |
| Property tax | - | 92 | (92) | - |
| Insurance premium tax | 106 | 3517 | (3 414) | 209 |
| Other taxes | 3 | 5 | (5) | 3 |
| CIT in Latvia | - | 3 | (3) | - |
| CIT in other countries | (132) | 101 | (275) | (306) |
|  | 127 | 5875 | (5968) | 34 |

As taxes are calculated for each country of operations separately, tax prepayments and liabilities for different branches of the Company are not netted, and are presented in the Statement of Financial position as follows:

```
Including:
Other tax prepayment
Other tax liabilities

\section*{Notes to the Financial Statements}

Tax prepayments are included in the Statement of Financial Position under Other receivables caption.
\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline & \[
\begin{array}{r}
\text { Tax } \\
\text { payable } \\
\text { 31.12.2018 } \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Tax } \\
\text { receivable } \\
\text { 31.12.2018 } \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Calculated } \\
\text { in } 2019 \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Paid in } \\
2019 \\
\text { EUR'000 }
\end{array}
\] & Correction/ redirected to another \(\operatorname{tax} 2019\) EUR'000 & Tax
payable
31.12.2019
EUR'000 & \[
\begin{array}{r}
\text { Tax } \\
\text { receivable } \\
\text { 31.12.2019 } \\
\text { EUR'000 }
\end{array}
\] \\
\hline Latvia & 78 & - & 1295 & \((1288)\) & - & 85 & - \\
\hline Lithuania & 27 & - & 832 & (533) & - & 326 & \\
\hline Germany & 48 & - & 876 & (797) & - & 127 & \\
\hline United Kingdom & 6 & - & 65 & (64) & - & 7 & \\
\hline Italy & - & (30) & 181 & (126) & - & 25 & - \\
\hline France & 48 & - & 2268 & (2153) & - & 163 & - \\
\hline Spain & 1 & - & (2) & - & - & (1) & - \\
\hline Poland & - & (144) & 308 & (586) & (37) & 31 & (490) \\
\hline Total & 208 & (174) & 5823 & (547) & (37) & 763 & (490) \\
\hline
\end{tabular}
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline & \[
\begin{array}{r}
\text { Tax payable } \\
\text { 31.12.2017 } \\
\text { EUR’000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Tax } \\
\text { receivable } \\
\text { 31.12.2017 } \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Calculated } \\
\text { in } 2018 \\
\text { EUR’000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Paid in } \\
2018 \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Tax payable } \\
31.12 .2018 \\
\text { EUR’000 }
\end{array}
\] & \[
\begin{array}{r}
\text { Tax } \\
\text { receivable } \\
\text { 31.12.2018 } \\
\text { EUR'000 }
\end{array}
\] \\
\hline Latvia & 94 & - & 1240 & (1256) & 78 & \\
\hline Lithuania & 29 & - & 299 & (301) & 27 & \\
\hline Germany & 102 & - & 1395 & (1449) & 48 & \\
\hline United Kingdom & 7 & - & 59 & (60) & 6 & - \\
\hline Italy & - & (83) & 140 & (87) & - & (30) \\
\hline France & 93 & - & 2437 & (2482) & 48 & \\
\hline Spain & - & - & 1 & - & 1 & - \\
\hline Poland & - & (115) & 304 & (333) & - & (144) \\
\hline Total & 325 & (198) & 5875 & (5968) & 208 & (174) \\
\hline
\end{tabular}

\section*{(37) Reinsurance creditors}
\begin{tabular}{|c|c|c|}
\hline & \[
\begin{array}{r}
31.12 .2019 \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
31.12 .2018 \\
\text { EUR'000 }
\end{array}
\] \\
\hline Reinsurance companies & 10308 & 1140 \\
\hline Reinsurance brokers & 1659 & 3304 \\
\hline & 11967 & 4444 \\
\hline & 31.12.2019 & 31.12.2018 \\
\hline Reinsurance creditors geographic segmentation: & EUR'000 & EUR'000 \\
\hline European Union member countries & 11967 & 4444 \\
\hline & 11967 & 4444 \\
\hline
\end{tabular}

In 2019, the Company had a significant increase of business volume with the reinsurer of truck portfolio in Lithuania, therefore outstanding balances increased as at 31.12.2019 comparing to 31.12.2018.

\section*{Notes to the Financial Statements}

\section*{(38) Other creditors}
\begin{tabular}{|c|c|c|}
\hline & \[
\begin{array}{r}
31.12 .2019 \\
\text { EUR'000 }
\end{array}
\] & \[
\begin{array}{r}
31.12 .2018 \\
\text { EUR'000 }
\end{array}
\] \\
\hline \multicolumn{3}{|l|}{Financial liabilities} \\
\hline Due to employees (remuneration) & 108 & 106 \\
\hline Due to the FCMC, Latvia & 40 & 45 \\
\hline Due to the Transport Insurance Bureau & - & 11 \\
\hline Due to owners for current year dividends & 2 & 2 \\
\hline Other suppliers and creditors & 1251 & 918 \\
\hline Long-term claim payable & 1300 & - \\
\hline Total financial liabilities & 2701 & 1082 \\
\hline \multicolumn{3}{|l|}{Non-financial liabilities} \\
\hline Accrued liabilities & 545 & 502 \\
\hline Total non-financial liabilities & 545 & 502 \\
\hline & 3246 & 1584 \\
\hline
\end{tabular}

\section*{(39) Lease liabilities}
\begin{tabular}{|c|c|c|}
\hline & Note & Lease liabilities \\
\hline As at 1 January 2019 & & - \\
\hline Adjustment on initial application of IFRS 16 & 23 & 105 \\
\hline \multicolumn{3}{|l|}{Changes from financing cash flows} \\
\hline Payment of lease liabilities & & (35) \\
\hline Total changes from financing cash flows & & 70 \\
\hline \multicolumn{3}{|l|}{Liability-related other changes} \\
\hline New leases & & 203 \\
\hline Total liability-related other changes & & 203 \\
\hline As at 31 December 2019 & & 273 \\
\hline
\end{tabular}

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

Lease liabilities are included in the Statement of Financial Position under Other creditors caption.
Expenses relating to leases, including short-term and low value leases, recognized in profit and loss in 2019 amounted to EUR 238 thousand (including VAT).

The maturity profile of lease liabilities are disclosed in note 4.3, and undiscounted cash flows of lease liabilities are disclosed below.
31.12.2019 \begin{tabular}{rlrlrl} 
Carrying \\
amount & months & 1-5 years & Over 5 years & Total
\end{tabular}
\begin{tabular}{llllll}
\begin{tabular}{l} 
Non-derivative fïnancial \\
liabilities
\end{tabular} & & & & \\
Lease liabilities & 273 & 110 & 163 & \(\mathbf{2 7 3}\)
\end{tabular}

Incremental borrowing rates and corresponding interest expenses on leases are not disclosed separately as the impact from the related amounts on the financial statements, based on management's judgement, is immaterial.

\section*{Notes to the Financial Statements}

\section*{(40) Related parties}

Related parties are defined as shareholders of the Company, members of the Board and the Supervisory Council, their close relatives and companies in which they have significant influence or control. See also Note 3.17.

A number of key management personnel, or their related parties, hold ownership in other companies that result in them having control or significant influence over the financial or operating policies of these companies. The Company has the following significant transactions with related parties:
Loans issued to related parties:

Mortgage loans issued to the companies controlled by Board or Council members
31.12.2019 31.12.2018

EUR'000 EUR'000
Impairment allowance
\begin{tabular}{rrr}
- & \((625)\) \\
- & \(\mathbf{5 9}\)
\end{tabular}
net
\begin{tabular}{rl}
6520 & 1547 \\
\hline 6520 & \(\mathbf{1 5 4 7}\) \\
\hline 650 \\
\hline
\end{tabular}

The interest rate on loans issued according to agreements varies from \(2.7 \%\) to \(6.5 \%\).
During the year impairment reversal amounting to EUR 82 thousand relating to related party mortgage loans was recognised.

Other balances with related parties:
\begin{tabular}{|c|c|c|}
\hline & \[
\begin{gathered}
31.12 .2019 \\
\text { EUR'000 }
\end{gathered}
\] & \begin{tabular}{l}
31.12.2018 \\
EUR'000
\end{tabular} \\
\hline Other receivables & 245 & 118 \\
\hline Other payables & (45) & (51) \\
\hline & 200 & 67 \\
\hline
\end{tabular}

Information about other transactions with related parties:
A property maintenance agreement was signed and property provided for maintenance to a related party. Members of the management or their related parties acquire insurance products of the Company. The amount of these transactions is insignificant both individually and in aggregate and therefore is not separately disclosed in these financial statements.
Megape İpašumi AS is a related party of the Company that manages the Company's real estate properties. The share of the Company in Megape Īpašumi AS is \(36.90 \%\).

\section*{Notes to the Financial Statements}
(41) Provisions
\begin{tabular}{|c|c|c|}
\hline & \[
\begin{gathered}
31.12 .2019 \\
\text { EUR'000 }
\end{gathered}
\] & \[
\begin{array}{r}
31.12 .2018 \\
\text { EUR’000 }
\end{array}
\] \\
\hline Provisions for unused employee vacations & 240 & 221 \\
\hline Provision for staff bonuses & 110 & 110 \\
\hline Other provisions & 70 & 51 \\
\hline & 420 & 382 \\
\hline & & \[
\begin{array}{r}
\text { Gross } \\
\text { EUR'000 }
\end{array}
\] \\
\hline Provisions as at 31 December 2017 & & 431 \\
\hline Paid & & (156) \\
\hline Increase of provisions & & 107 \\
\hline Provisions as at 31 December 2018 & & 382 \\
\hline Paid & & (113) \\
\hline Increase of provisions & & 151 \\
\hline Provisions as at 31 December 2019 & & 420 \\
\hline
\end{tabular}

\section*{(42) Number of employees and information on branches}

The Company's Headquarters are in Latvia with 5 foreign branches in Germany, France, Poland, Lithuania and the UK.

Number of employees as at the end of the year:
\begin{tabular}{lrr} 
& 2018 \\
Latvia & 2019 & \(\mathbf{7 6}\) \\
Branch in Poland & 27 & 24 \\
Branch in Lithuania & 26 & 19 \\
Branch in France & 11 & 13 \\
Branch in Germany & 8 & 9 \\
Branch in the United Kingdom & \(\mathbf{8}\) & 8 \\
& \(\mathbf{1 5 6}\) & \(\mathbf{1 4 9}\) \\
\hline
\end{tabular}
(43) Personnel expenses
\begin{tabular}{|c|c|c|}
\hline & 2019 & 2018 \\
\hline & EUR'000 & EUR'000 \\
\hline Remuncration & 4015 & 3778 \\
\hline Social contribution expenses & 907 & 1016 \\
\hline & 4922 & 4794 \\
\hline Employees (included in administrative expenses) & 4188 & 4072 \\
\hline Employees (included in loss adjustment expenses) & 734 & 722 \\
\hline & 4922 & 4794 \\
\hline
\end{tabular}
(44) Remuneration of the members of the Board of Directors and Supervisory Council
\begin{tabular}{lrr} 
& \begin{tabular}{r}
\(\mathbf{2 0 1 9}\)
\end{tabular} & \begin{tabular}{r}
\(\mathbf{2 0 1 8}\) \\
EUR'000
\end{tabular} \\
Supervisory Council & EUR'000 & 142 \\
Board of Directors & 149 & 262 \\
Social contribution expenses & 255 & 97 \\
& & \(\mathbf{9 7}\) \\
\cline { 2 - 3 } & \(\mathbf{5 0 1}\) & \(\mathbf{5 0 1}\) \\
\hline
\end{tabular}

Remuneration to the Board and Council members includes remuneration for their direct responsibilities.

\section*{Notes to the Financial Statements}

\section*{(45) Remaining maturities of insurance liabilities}
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{} & \multicolumn{3}{|c|}{\[
\begin{gathered}
2019 \\
\text { EUR'000 }
\end{gathered}
\]} & \multicolumn{3}{|c|}{\[
\begin{gathered}
2018 \\
\text { EUR'000 }
\end{gathered}
\]} \\
\hline & Gross liabilities & Reinsurance & Net liabilities & Gross liabilities & Reinsurance & Net liabilities \\
\hline Unearned premium and unexpired risk technical reserves & 39277 & (8294) & 30983 & 45818 & (6 579) & 39239 \\
\hline Outstanding claim technical reserves & 114689 & (31 453) & 83236 & 96249 & (17730) & 78519 \\
\hline Total & 153966 & (39 747) & 114219 & 142067 & \((24309)\) & 117758 \\
\hline Up to 1 year & 140275 & (39747) & 100528 & 132393 & (24 309) & 108084 \\
\hline 1-5 years & 14 & - & 14 & 9 & - & 9 \\
\hline Over 5 years & 207 & - & 207 & 234 & - & 234 \\
\hline No fixed maturity & 13470 & - & 13470 & 9431 & - & 9431 \\
\hline
\end{tabular}

\section*{(46) Operating leases}

Non-cancellable operating lease rentals payable for the Company as at 31 December 2018 amounted to EUR 248 thousand. As of 1 January 2019, the Company has adopted IFRS 16 (see Note 39).

\section*{(47) Contingent liabilities and commitments}

\section*{General claims}

In the normal course of the business, the Company receives claims from policyholders and is subject to litigation. The management has reviewed all such claims and believes that no material liabilities will arise from these cases other than already provided for.
As at 31 December 2019, there were no other material open legal claims against the Company that were not related to insurance business.
Credit related commitments
As at 31 December 2019, the Company did not have off balance sheet credit related commitments.

\section*{Capital commitments}

As at 31 December 2019, the Company did not have any capital commitments, or any other contingent liabilities.

\section*{Notes to the Financial Statements}
(48) Fair value of financial instruments
(a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.
\begin{tabular}{|c|c|c|c|c|}
\hline 31 December 2019 & Level 1 EUR'000 & \begin{tabular}{l}
Level 2 \\
EUR’000
\end{tabular} & Level 3 EUR'000 & \begin{tabular}{l}
Total \\
EUR'000
\end{tabular} \\
\hline \multicolumn{5}{|l|}{Financial assets} \\
\hline Financial instruments at fair value through profit or loss & 91973 & - & 198 & 92171 \\
\hline Available-for-sale financial assets & - & - & 5903 & 5903 \\
\hline & 91973 & - & 6101 & 98074 \\
\hline \multicolumn{5}{|l|}{31 December 2018} \\
\hline \multicolumn{5}{|l|}{Financial assets} \\
\hline Financial instruments at fair value through profit or loss & 87110 & - & 20 & 87130 \\
\hline Available-for-sale financial assets & - & - & 6070 & 6070 \\
\hline & 87110 & - & 6090 & 93200 \\
\hline
\end{tabular}

In 2019 and 2018, no financial instruments were transferred into or out of Level 3.
\begin{tabular}{|c|c|}
\hline & Gross EUR'000 \\
\hline Financial assets Level 3 as at 31 December 2017 & 6092 \\
\hline Purchased & - \\
\hline Revaluation & (2) \\
\hline Financial assets Level 3 as at 31 December 2018 & 6090 \\
\hline Purchased & 178 \\
\hline Revaluation & (167) \\
\hline Financial assets Level 3 as at 31 December 2019 & 6101 \\
\hline
\end{tabular}

Total gains or losses for the year of the financial instruments included in the above table are presented in the statement of comprehensive income as follows:


\section*{Notes to the Financial Statements}

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:
\begin{tabular}{llll} 
Type & Valuation technique & \begin{tabular}{l} 
Significant \\
unobservable \\
inputs
\end{tabular} & \begin{tabular}{l} 
Inter-relation between \\
significant unobservable inputs \\
and fair value measurement
\end{tabular} \\
\hline \begin{tabular}{l} 
Financial instruments at \\
fair value through profit \\
or loss
\end{tabular} & Discounted cash flows & Discount rates & \begin{tabular}{l} 
The fair value would increase/ \\
(decrease) if the discount rate was \\
lower (higher).
\end{tabular} \\
\hline \begin{tabular}{l} 
Available-for-sale \\
financial assets
\end{tabular} & Discounted cash flows & Discount rates & \begin{tabular}{l} 
The fair value would increase/ \\
(decrease) if the discount rate was \\
lower (higher).
\end{tabular} \\
\hline
\end{tabular}

\section*{(b) Financial instruments not measured at fair value}

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:
\begin{tabular}{|c|c|c|c|c|c|}
\hline 31 December 2019 & \begin{tabular}{l}
Level 1 \\
EUR'000
\end{tabular} & \begin{tabular}{l}
Level 2 \\
EUR'000
\end{tabular} & \[
\begin{array}{r}
\text { Level } 3 \\
\text { EUR’000 }
\end{array}
\] & Total fair values EUR'000 & Total carrying amount EUR’000 \\
\hline \multicolumn{6}{|l|}{Financial assets} \\
\hline Cash and cash equivalents & - & - & - & 27231 & 27231 \\
\hline Mortgage loans & - & - & 4508 & 4508 & 4608 \\
\hline Other loans & - & - & 6932 & 6932 & 6977 \\
\hline Deposits with banks \({ }^{1}\) & - & - & 6000 & 6000 & 6000 \\
\hline Receivables from direct insurance \({ }^{2}\) & - & - & 14569 & 14569 & 14569 \\
\hline Receivables from reinsurance & - & - & 7573 & 7573 & 7573 \\
\hline Other receivables \({ }^{3}\) & - & - & 1198 & 1198 & 1198 \\
\hline \multicolumn{6}{|l|}{Financial liabilities} \\
\hline Direct insurance creditors \({ }^{4}\) & - & - & 4833 & 4833 & 4833 \\
\hline Reinsurance creditors \({ }^{5}\) & - & - & 11967 & 11967 & 11967 \\
\hline Other creditors \({ }^{5}\) & - & - & 2973 & 2973 & 2373 \\
\hline Leases creditors & & & 273 & 273 & 273 \\
\hline
\end{tabular}

No level of fair value has been assigned for cash and cash equivalents on the basis that these are available on demand and therefore no modelling of fair value is required.

\footnotetext{
\({ }^{1}\) Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.
\({ }^{2}\) Receivables from direct insurance and Reinsurance activities are short-term financial assets whose carrying amount approximates the fair value.
\({ }^{3}\) The item includes short-term receivables whose carrying amount approximates the fair value.
\({ }^{4}\) Direct insurance and Reinsurance creditors are short-term financial liabilities whose carrying amount approximates the fair value.
\({ }^{5}\) The item includes short-term payables whose carrying amount approximates their fair value.
}

\section*{Notes to the Financial Statements}

31 December 2018
Financial assets
Cash and cash equivalents
Mortgage loans
Other loans
Deposits with banks \({ }^{6}\)
Receivables from direct insurance \({ }^{2}\)
Receivables from reinsurance
Other receivables \({ }^{8}\)
\begin{tabular}{|c|c|c|c|c|}
\hline Level 1 EUR'000 & Level 2 EUR'000 & \begin{tabular}{l}
Level 3 \\
EUR'000
\end{tabular} & Total fair values EUR’000 & Total carrying amount EUR'000 \\
\hline - & - & - & 36002 & 36002 \\
\hline - & - & 2221 & 2221 & 2233 \\
\hline - & - & 2001 & 2001 & 2014 \\
\hline - & - & 6000 & 6000 & 6000 \\
\hline - & - & 13647 & 13647 & 13647 \\
\hline - & - & 6052 & 6052 & 6052 \\
\hline - & - & 279 & 279 & 279 \\
\hline - & - & 4404 & 4404 & 4404 \\
\hline - & - & 4444 & 4444 & 4444 \\
\hline - & - & 1082 & 1082 & 1082 \\
\hline
\end{tabular}

The following table shows the valuation techniques use in measuring fair values of financial instruments not measured at fair value, as well as the significant unobservable inputs used:
\begin{tabular}{lll} 
Type & Valuation technique & Significant unobservable inputs \\
\hline Mortgage loans & \begin{tabular}{l} 
Discounted cash flows. Discount \\
rates in range between 2\% and 16\%
\end{tabular} & \begin{tabular}{l} 
The estimated fair value would increase/ \\
(decrease) if discount rates were lower \\
(higher).
\end{tabular} \\
\hline Other loans & \begin{tabular}{l} 
Discounted cash flows. Discount \\
rates in range between 2\% and 21\%
\end{tabular} & \begin{tabular}{l} 
The estimated fair value would increase/ \\
(decrease) if discount rates were lower \\
(higher).
\end{tabular} \\
\hline
\end{tabular}

\section*{(49) Subsequent events}

On 27 February 2020 Jānis Lucaus joined the Company as the new Chairman of the Board. Lauris Boss was appointed as the director of Poland branch - the largest operation of the Company, to manage the changes during turbulent times in Poland.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID - 19 presents to public health, the governments across Europe and globally have taken measures to contain the outbreak, including suspension of international passenger flows and wider 'lock-downs' of certain industries or the wider society depending on the governments, pending further developments.

\footnotetext{
\({ }^{6}\) Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.
\({ }^{7}\) Receivables from direct insurance and Reinsurance activities are short-term financial assets whose carrying amount approximates the fair value.
\({ }^{8}\) The item includes short-term receivables whose carrying amount approximates the fair value.
\({ }^{9}\) Direct insurance and Reinsurance creditors are short-term financial liabilities whose carrying amount approximates the fair value.
\({ }^{10}\) The item includes short-term payables whose carrying amount approximates their fair value.
}

\section*{Notes to the Financial Statements}

The wider economic impacts of these events include:
- Disruption to business operations and economic activity in Europe, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company operates in non-life insurance sector across a number of European countries, amongst these Poland, Lithuania, Italy and France. As of the date of approval of the financial statements for issue, the Company has not been significantly affected by the outbreak of COVID - 19, and over the last few weeks the Company's underwriting of new business has been in line with the management's expectations and, according to the management's assessment, its underwriting, claims handling and administrative/back-office operations have not been significantly disrupted. Based on the publicly available information as of the same date, the management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Company and economic environments, in which the entity operates, including the measures already taken by the governments, where the Company's major business partners and customers are located.

As at 31 December 2019, the Company's liquidity position included cash equivalents amounting to EUR 32,2 million and debt securities portfolio, most of which contains investment grade government bonds, amounting to 92,5 million EUR. The management is of the view that these liquid assets serve as a sufficient basis for any drops in business activity that may imply decreased asset base.

Management considered the following operating risks that may adversely affect the Company:
- Unavailability of staff for extended period of time - to address this risk the Company has access to the necessary IT solutions and has implemented remote working across its operations, ensuring business continuity;
- Recession in the region that would significantly reduce the purchasing power of end consumers and businesses - a significant part of the Company's insurance product offering consists of MTPL, which is required by legislation. As well, a temporary decrease in the business volume would result in a corresponding decrease in the Company's risk exposure and capital requirement. Responding to insurance market trends and adjusting its underwriting strategy is already a part of the Company's operations;
- Negative impact on asset values from deteriorating economic environment - the Company's main financial assets include government bonds with fixed interest rates as well as a significant cash and deposits position. Further the management considered the possible negative impacts of different scenarios on the Solvency Capital Ratio, which as of 31 December 2019 was at \(124 \%\), and concluded that the Company will be in a position to meet regulatory requirements under all such scenarios.

Based on the currently publicly available information, the Company's current KPI's and in view of the actions initiated by the management, the management does not anticipate a direct immediate and significant adverse impact of the COVID - 19 outbreak on the Company, its operations, financial position and operating results. The management cannot, however, preclude the possibility that extended lock-down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment the Company operates in will not have an adverse effect on the Company and its financial position and operating results in the medium and longer term. The management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

\section*{Independent Auditors' Report}

\section*{To the shareholders of Balcia Insurance SE}

\section*{Report on the Audit of the Financial Statements}

\section*{Our Opinion on the Financial Statements}

We have audited the accompanying financial statements of Balcia Insurance SE ("the Company") set out on pages 9 to 73 of the accompanying Annual Report, which comprise:
- the statement of financial position as at 31 December 2019,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.
In our opinion, the accompanying financial statements give a true and fair view of the financial position of Balcia Insurance SE as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

\section*{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.

\section*{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 gross outstanding claims technical reserves
The Company's gross outstanding claims technical reserves as at 31 December 2019 amounted to EUR 114689 thousand (31 December 2018: EUR 96249 thousand).

Reference to the financial statements: Note 10 "Outstanding claims technical reserves", Note 45 "Remaining maturities of insurance liabilities", and Note 3 "Significant accounting policies" point 3.2 (f) "Outstanding claims technical reserves".

\section*{Key audit matter}

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

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 claims reserves. The assumptions most subject to estimation uncertainty are those in respect of expected loss ratios and claim development, claim frequency, average claim amounts, expected court settlements, discount rates, changes in the amount of future annuity payments, and the expected payment period.
The complexity of the models applied may give rise to material errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus, the completeness and accuracy of the data

\section*{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 the appropriateness of the actuarial methodologies and the reasonableness of the assumptions applied by the Company, including in particular the expected loss ratios and claim development, claim frequency and average size of claims, expected trends in court settlement, allowance for future claims inflation (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
underlying the actuarial projections was also our area of audit focus.

Due to the above factors, we considered measurement of the non-life insurance gross outstanding claims technical reserves to be our key audit matter.
the relevant financial reporting standards.
- For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claims technical 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 guarantee insurance, developing an independent estimate of the gross outstanding claims technical reserves, comparing our amounts to the Company's estimates and seeking Management Board's explanations for any significant differences.

\section*{Reporting on Other Information}

The Company's management is responsible for the other information. The other information comprises:
- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- Management Report, as set out on pages 4 to 7 of the accompanying Annual Report,
- Statement on Management 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 Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 201 - Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.
Based solely on the work required to be undertaken in the course of our audit, in our opinion:
- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 201 - Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

\section*{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.

\section*{Auditors' Responsibility for the Audit of the Financial Statements}

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is
higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

\section*{Report on Other Legal and Regulatory Requirements}

\section*{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 shareholders' meeting on 1 October 2019 to audit the financial statements of Balcia Insurance SE for the year ended 31 December 2019. Our total uninterrupted period of engagement is 15 years, covering the reporting periods ending 31 December 2005 to 31 December 2019.

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

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

KPMG Baltics AS
Licence No. 55


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

