BALCIA INSURANCE SE

PUBLIC QUARTERLY REPORT

1ST QUARTER 2023

The Report prepared in accordance with the Financial and Capital Market Commission Regulations No. 128 "Regulations on Preparation of Public Quarterly Reports of the Insurers" of 11 August 2020.

The Report includes summarised information on the Company's activities for **1st quarter 2023**. This information is in EUR and comparable with the previous reporting period.

COMPANY INFORMATION

Name of the Company	Balcia Insurance SE
Legal status	European Company
Number, place and date of registration	40003159840, Riga, 1993
Address	K. Valdemara 63, Riga
Members of the Board and their positions	Jānis Lucaus - Chairman of the Board Eleonora Zelmene - Board member Laura Krastiņa – Board member Ilgvars Girgensons – Board member
Members of the Council and their positions	Gints Dandzbergs - Chairman of the Council Pauls Dandzbergs - Deputy Chairman of the Council Marts Dandzbergs - Deputy Chairman of the Council Andrejs Galanders - Member of the Council Agris Dambenieks - Member of the Council
Reporting Period	01.01.2023 - 31.03.2023
Shareholders	

Shareholder	Number of shares	% of the share capital
B5 Holding Limited	41 393	29.357%
HTT Holding Company Limited	41 393	29.357%
MDA Holding Limited	41 393	29.357%
Other entities	16 821	11.929%

Face value of one share	142.20 EUR
Subscribed share capital	20 050 200 EUR
Paid-up share capital	20 050 200 EUR
Foreign branches	Germany, Wiesbaden D-65189, Mainzer Straße 75 Poland, Al. Jerozolimskie 136 02-305 Warszawa Lithuania, Perkūnkiemio g. 5, Vilnius LT-12129

INCOME STATEMENT

Item	For the Reporting Period	For the Respective Period of Previous Reporting Year
Insurance revenues	19 921 054	11 806 755
Insurance service expenses	(16 605 249)	(7 765 899)
Net expenses from reinsurance contracts held	(1 279 732)	(864 030)
Insurance service result	**2 036 073**	**3 176 826**
Net investment income	1 151 921	(83 452)
Net insurance finance expenses	(1 630 040)	(2 573 370)
Investment management services revenue	(24 458)	(43 292)
Other income	292 995	269 817
Result of derecognition of tangible and intangible assets, investment in own property	-	-
Other operating expenses	(39 006)	(100 067)
Change in negative value of intangible assets	-	-
Share of profit of associates and joint ventures accounted for using the equity method	-	-
Profit before income tax	**1 787 485**	**646 462**
Income tax expense	(154 408)	(7 255)
Profit	**1 633 077**	**639 207**
Items that will not be reclassified to profit or loss	-	-
Items that may be reclassified to profit or loss	-	-
Other comprehensive income, net of tax	-	-

INDICATORS BY TYPE OF INSURANCE

Type of Insurance	Total	Gross Premiums Written			
		Latvian contracts		Agreements concluded in the Member States	
		Latvian contracts	Including contracts with private individuals	Branches	Using the principle of freedom to provide service
Accident insurance	406 314	103 698	26 468	298 196	4 420
Health Insurance	14 892	-	-	14 892	-
Motor vehicle insurance (other than railway)	12 004 367	2 205 502	1 129 115	1 663 234	8 135 631
Railway transport insurance	-	-	-	-	-
Aircraft insurance	-	-	-	-	-
Vessel insurance	10 287	-	-	-	10 287
Cargo insurance	1 058	-	-	1 058	-
Property insurance against fire and natural disaster damages and against other risks	1 059 293	454 002	240 573	605 291	-
Civil liability insurance of motor vehicle owners	22 367 124	1 490 949	1 068 765	9 489 646	11 386 529
Civil liability insurance of aircraft owners	-	-	-	-	-
Civil liability insurance of vessel owners	7 449	-	-	-	7 449
General civil liability insurance	253 364	27 650	14 950	225 714	-
Loan insurance	-	-	-	-	-
Guarantee insurance	167 014	700	-	31 007	135 307
Insurance of various financial losses	24 248	24 248	9	-	-
Insurance of legal expenses	315	315	263	-	-
Assistance insurance	488 508	132 826	52 011	355 682	-
Total	**36 804 233**	**4 439 890**	**2 532 154**	**12 684 720**	**19 679 623**

INDICATORS BY TYPE OF INSURANCE

		Gross Insurance Claims Paid				
		Latvian contracts		Agreements concluded in the Member States		
Type of Insurance	Total	Latvian contracts	Including contracts with private individuals	Branches	Using the principle of freedom to provide service	Net operating expenses
Accident insurance	133 019	51 998	25 171	81 021	-	26 455
Health Insurance	593	-	-	593	-	970
Motor vehicle insurance (other than railway)	2 052 676	634 573	425 970	591 265	826 838	781 598
Railway transport insurance	-	-	-	-	-	-
Aircraft insurance	-	-	-	-	-	-
Vessel insurance	-	-	-	-	-	670
Cargo insurance	6 668	-	-	6 668	-	69
Property insurance against fire and natural disaster damages and against other risks	872 666	116 484	80 661	184 089	572 093	68 970
Civil liability insurance of motor vehicle owners	10 120 373	474 785	348 498	8 546 608	1 098 980	1 456 311
Civil liability insurance of aircraft owners	-	-	-	-	-	-
Civil liability insurance of vessel owners	-	-	-	-	-	485
General civil liability insurance	109 458	4 963	4 710	73 444	31 051	16 496
Loan insurance	-	-	-		-	-
Guarantee insurance	20 741	-	-	2 651	18 090	10 874
Insurance of various financial losses	2 901	2 901	-	-	-	1 579
Insurance of legal expenses	-	-	-	-	-	21
Assistance insurance	453 928	193 451	15 161	260 477	-	31 805
Total	**13 773 023**	**1 479 155**	**900 171**	**9 746 816**	**2 547 052**	**2 396 303**

BALANCE SHEET

Item	For the Reporting Period	Previous Reporting Year End
Property and equipment	5 591 606	4 971 200
Land and buildings	5 083 595	5 108 886
Intangible assets	1 913 293	1 721 246
Investments in subsidiaries	-	-
Investments in associates	909 557	909 557
Financial assets designated at fair value through profit or loss	7 577 683	7 205 557
Financial assets measured at fair value with other comprehensive income	20 285 264	19 252 828
Financial assets measured at amortized cost	100 051 777	90 023 848
Accrued income and deferred expenses	1 325 925	1 244 187
Tax assets	-	-
Insurance and reinsurance assets	-	-
Reinsurance and retrocession contracts assets	16 410 831	17 752 926
Cash on hand and claims on demand on credit institutions	12 208 315	22 939 702
Total assets	**171 357 846**	**171 129 937**
Capital and reserves	**54 542 946**	**52 823 759**
Insurance and reinsurance liabilities	113 043 482	116 014 545
Reinsurance and retrocession contracts liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortized cost	1 116 881	1 083 144
Provisions	1 443 461	788 366
Tax liabilities	1 211 076	420 123
Accrued expenses and deferred income	-	-
Total liabilities	**116 814 900**	**118 306 178**
Capital and reserves and liabilities	**171 357 846**	**171 129 937**

THE EQUITY AND THE SOLVENCY CAPITAL REQUIREMENT CALCULATION

Item	Reporting Period
Basic own funds	58 631 418
Deductions of involvement in financial and credit institutions	-
The total basic own funds after deductions	**58 631 418**
Additional own funds total	**-**
The available and used own funds	
Total the available own funds to comply with the Solvency Capital Requirement	58 631 418
Total the available own funds to comply with the Minimum Capital Requirement	57 647 005
Total used own funds to comply with the Solvency Capital Requirement	58 631 418
Total used own funds to comply with the Minimum Capital Requirements	57 647 005
The Solvency Capital Requirement	**31 894 564**
The Minimum Capital Requirement	**14 352 554**
The own capital in the Solvency Capital Requirement	**183.83%**
The own capital in the Minimum Capital Requirement	**401.65%**

RISK MANAGEMENT REPORT

1 DESCRIPTION

Balcia implements a unified and effective risk management system. Its aim to identify, measure and assess, monitor and control, report and manage on a regular basis, the risks and their interdependencies, at individual and aggregated level, that are inherent or might be inherent in the business activities of Balcia. The Risk Management System executed through the Balcia Risk Management Policy and Risk Appetite.

The Balcia Risk Management Policy reflects risk management system that is consistent with Balcia's nature, scale and the risks inherent to its operations. The Risk Management System is one of the three building blocks of Governance Program (System of Governance, Risk Management System and Internal Control System), consistent with Balcia's long-term business strategy and objectives.

The risk management system covers all Balcia business areas, but expressly focusses on the following areas:

- **Underwriting and reserving.** This area includes activities undertaken by Balcia to assess and manage the risk of loss or risk associated with adverse changes in the value of insurance liabilities resulting from inadequate pricing and provisioning assumptions. Ensuring data adequacy and quality is an essential part of this area.

- **Asset and liability management.** This area includes activities aimed at managing the structural (e.g. currency) and duration mismatch between assets and liabilities: any dependency between risks of different asset and liability classes; dependencies between the risks of different insurance obligations and effect of relevant risk-mitigating techniques on asset-liability management.

- **Investments** (including derivatives and similar commitments). This area includes activities aimed to ensure that the investments comply with the prudent person principle, upholding the interests of policyholders and insured persons, taking into account Balcia's nature of business and Risk Appetite.

- **Liquidity and concentration risk management.** This area includes activities undertaken by Balcia to:

    - take into account both short-term and long-term liquidity risk that may arise from the non-compliance of composition of the assets in terms of their nature and duration in order to meet the obligations as they fall due;

    - identify the concentration risk and its limits, and actions to determine the impact of possible risks of contagion between concentrated exposures.

- **Operational risk management.** This area includes activities (including the transfer of responsibilities) undertaken by Balcia to identify, document and monitor operational risks, and its impact on the company on regular basis.

- **Reinsurance and other risk mitigation techniques.** This area includes activities undertaken by Balcia to ensure the selection of suitable reinsurance and other risk mitigation techniques in accordance with the Balcia Risk Profile.

The respective risk management regulations for each of the company's business areas described in Balcia's policies and internal documents.

Balcia's activities supervised and managed by two bodies: the Council and the Management Board. The Council is responsible for defining main goals, supervision, approving business decisions, controlling the Management Board, and other activities defined by Articles of Association and other Regulations. The Management Board is responsible for developing detailed strategy and other internal rules for achieving objectives, organizing management, communicating with stakeholders, and carrying out other tasks.

The following key functions have been introduced into company’s System of Governance, which are specified by the regulations:

- Internal Audit function;
- Actuarial function;
- Risk management function;
- Compliance function.

2 RISK CATEGORIES

The risk management system covers all risks that Balcia has or may be exposed to while performing its business operations. Risks are allocated among two risk groups:

- SF SCR risks and;
- NSF SCR risks.

All SF SCR risks are classified as Material risks and fall into the risk categories listed below according to Solvency II requirements, which adequately reflect the Balcia Risk Profile:

2.1. INSURANCE RISK CATEGORIES

Insurance risk is defined as a risk category that includes risks of losses associated with events arising from company’s insurance contracts coverages.

If the insurance risk can be classified under the sub-categories and its sub-parts of Table 1 according to Solvency II specified risk modules and their sub-modules (corresponding to the SF SCR assumptions), then such risk is classified as Material and belongs to the SF SCR risk group.

Table 1. Insurance risk sub-categories and its sub-parts.

Name of sub-category	Sub-category's sub-parts	Description - Causes of risks
Non-life underwriting risk	Risks arising from non-life insurance obligations:	
	Premium risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, as well as from inadequate pricing.
	Reserve risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, and amount of claim settlements, as well as from inadequate assumptions of provisioning.
	Lapse risk	the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
	Catastrophe risk	the risk of loss or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.
Health insurance underwriting risk	The risks arising from health insurance obligations:	
	Premium risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, as well as from inadequate pricing.
	Reserve risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, and amount of claim settlements, as well as from inadequate assumptions of provisioning.
	Lapse risk	the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
	Catastrophe risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.
Life insurance underwriting risk	The risks arising from life insurance obligations:	
	Longevity risk	the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
	Expenses risk	the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
	Revision risk	the risk of loss or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

If there are insurance risks that: 1) result from insurance contracts concluded by Balcia regarding the risks covered therein, and 2) under certain conditions, any of the SF SCR assumptions no longer apply or substantially deviate, then such risks belong to the NSF SCR risk group.

All NSF SCR risks can be classified as Material or Non-material risks, depending on the outcome of the risk assessment process.

2.2. MARKET RISK CATEGORIES

Market risk is defined as a risk category that involves risks associated with adverse changes in financial position that arise directly or indirectly from the volatility and fluctuation of assets, liabilities and FI market prices. This risk is covers part of the credit risk that is associated with the market risk concentration.

If market risk can be classified under the sub-categories of Table 2 according to the Solvency II specified risk sub-modules (corresponding to SF SCR assumptions), then such risk is classified as Material and belongs to SF SCR risk group.

Table 2. Market risk sub-categories.

Name of sub-category	Sub-category's sub-parts	Description - Causes of risks
Market risk	Interest rate risks	Risk of the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates or in the volatility of interest rates. This risk originates from a portfolio of financial instruments and an investment strategy.
	Equity risk	Risk of the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.
	Property risk	Risk of the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate.
	Spread risk	Risk of the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
	Currency risk	Risk of the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.
	Concentration risk	risks stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

If there are market risks that: 1) arise from fluctuations and volatility of the Company's assets, liabilities or FI market price levels; and 2) under certain conditions, any of the SF SCR assumptions no longer apply or significantly deviate, then such risks belong to the NSF SCR risk group.

2.2.1. DERIVATIVES

Balcia invests all its assets according to prudent principle manner. Investments are made in FIs whose risks Balcia can adequately identify, measure, monitor and control, report and manage. When investing in derivatives whose nominal exposure exceeds a certain percentage of the Investment Portfolio, it must assess the FI impact on Balcia's capital position.

The use of derivatives is only allowed if they contribute to:

- Effective Portfolio Management. In this case, Balcia demonstrates how the use of derivatives improve the quality, safety, liquidity or profitability of investment portfolio;
- Risk reduction or risk mitigation. Balcia documents and demonstrates the effectiveness of risk mitigation using derivatives.

Balcia currently does not hold derivatives.

2.3. COUNTERPARTY DEFAULT RISK (INCLUDING CREDIT RISK) CATEGORIES

The counterparty default risk (hereinafter - CDR) is a risk category that reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors over the following 12 months. The counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries, as well as any other credit exposures which are not covered under the spread risk.

If the CDR risk can be classified under the sub-categories of Table 3 according to the Solvency II specified risk sub-modules (corresponding to the SF SCR assumptions), then such risk is classified as Material Risk and falls within the SF SCR risk group.

Table 3. Counterparty default risk sub-categories.

Name of sub-category	Sub-category's sub-parts	Description - Causes of risks
CDR	Type 1 exposures *(banks, reinsurers)*	Risks, which consist of exposures in relation to the following: › risk mitigation contracts, including reinsurance contracts; › cash at banks; › deposits with ceding companies where the number of single name exposures does not exceed 15; › commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid, where the number of single name exposures does not exceed 15; › legally binding commitments which the undertaking has provided or arranged and which may create payment obligations depending on the credit standing or default on a counterparty including guarantees, letters of credit, letters of comfort which the undertaking has provided.
	Type 2 exposures *(intermediary debts, policyholders' debts, others)*	Risks, which consist of all credit exposures which are not covered under the spread risk and which are not type 1 exposures, including the following: › Receivables from intermediaries; › policyholders debtors; › mortgage loans; › deposits with ceding companies where the number of single name exposures exceeds 15; › commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid where the number of single name exposures exceeds 15.

If there is CDR that: 1) arise from contracts concluded by the Company or possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors, and 2) under certain circumstances, any of the SF SCR assumptions no longer apply or significantly deviate, then such risks belong to NSF SCR risk group.

2.4. OPERATIONAL RISK CATEGORIES

Operational risk is defined as a risk category that includes the risks of inadequate or failed internal processes, personnel errors or internal fraud, systems or external events. Operational risk includes legal risk (legal uncertainty); however, excludes risks arising from strategic decisions as well as reputation risk.

If the operational risk can be classified under the sub-categorization of Table 4 according to the Solvency II specified risk module assumptions (corresponding to the SF SCR assumptions), then such risk is classified as Material and belongs to the SF SCR risk group.

Table 4. Operational risk sub-category breakdown.

Name of sub-category	Sub-category's sub-parts	Description - Causes of risks
Operational risk	Process risk	Risk of loss arising from an inadequate or failed internal process.
	Personnel risk (including fraud)	Risk of loss arising from inadequate human resource management policy, intentional or unintentional action or inaction of employees.
	System risk	Risk of loss arising from inadequate or non-existent information technology, system and / or information security violations, or lack of information security measures resulting in incomplete, inconsistent and misleading data.
	External event risk	Risk of loss arising from actions or external factors.
	Legal risk (legal uncertainty)	The risk of loss arising from legal proceedings, adverse court ruling, unenforceable agreements affecting the company's operational activities or position.

If there are operational risks that: 1) can not be classified as belonging to one of the sub-categories in Table 4, and 2) under specific conditions, any of the SF SCR assumptions no longer apply or significantly deviate, then such risks belong to the NSF SCR risk group.

3 RISK MANAGEMENT PROCESS

The risk management process includes risk identification, measurement and assessment, monitoring and control, reporting and management actions.

3.1. RISKS IDENTIFICATION

Risk identification is integrated into the following business processes:

- Development of new insurance line or product, as well as amendments to existing ones;
- Purchase of financial instruments;
- Changes in operational processes;
- Any daily decision-making, if it involves potential risk;
- Reporting on operational incidents, events or losses;

3.2. RISK MEASUREMENT AND ASSESSMENT

All identified risks are measured and assessed taking into account:

- SF SCR calculation and/or;
- QQ method.

3.2.1. RISK MEASUREMENT USING SF SCR

If the identified risk is classified as SF SCR risk, then the value of risk shall be determined by (risk measured as) the size of changes in Balcia's Solvency Capital Requirement risk modules and/or risk sub-module using SF SCR. Otherwise, QQ method will be used (see below).

3.2.2. QQ METHOD

If the identified risk is classified as an NSF SCR risk, then the QQ method is used. For example, using an expert assessment, by obtaining risk's probability and its financial impact, Balcia's risk materiality is determined.

3.3. RISK MONITORING AND CONTROL

All Balcia risks are monitored and controlled on regular basis:

- Material risks are monitored and controlled at least quarterly;
- Non-material risks are monitored once per a calendar year, which are to be revalued on its materiality using the QQ method.

Material risks that are measured and assessed by SF SCR are controlled according to its rating, which is measured by the utilization of risk category to CRA and CRT, i.e. the proportion of the Solvency Capital Requirement of risk modules and/or risk sub-modules categories' value to the size of CRA or CRT. The rating is used as a control tool for management actions of a particular risk category.

Risk monitoring and control is also based on:

- Changes in the amount of material risks from the previous reporting period;
- Forecasts of material risk values;
- Assessment of QQ method – the assessment of risk materiality is based on the financial impact and probability of risk;
- Expert judgement and recommendations.

3.4. RISK REPORTING

Risk reporting enables the Management Board and the Council to assess the impact of the decisions made on Balcia's capital adequacy and provide a basis for assessing the effectiveness of the risk management system.

Each employee reports to the director of its department about potential risks that may pose a threat to Balcia or risks that have already materialised and may affect Balcia's capital.

3.5. MANAGEMENT ACTIONS

The purpose of management actions is to reduce the risk that Balcia faces or may face in business operations. The following mitigation actions are distinguished:

- Risk reduction - reducing or limiting the exposure to risk or the likelihood of its occurrence;
- Risk transfer - transferring risk management processes to other institutions (eg reinsurance companies);
- Risk acceptance - accepting the risk, without any additional risk elimination measures, when the exposure's impact on Company's operation is Immaterial;
- Risk avoidance - refraining from activities or to halting activities that cause or increase the amount of risk.

3.5.1. REINSURANCE

Reinsurance is part of the Risk Management System and one of the essential risk mitigation techniques. Reinsurance transfers risk to other institutions, reducing or limiting the impact of net risks.

Risks are transferred to reinsurance in accordance with the Balcia Risk Appetite. This is done with:

- Obligatory reinsurance contracts; or
- Facultative reinsurance contracts, if:
    - the total sum insured of the object exceeds the limits specified in the obligatory reinsurance contract or is outside the coverage of the obligatory reinsurance contract;
    - the respective insurance line does not have an obligatory reinsurance contract.

4 RISK APPETITE

In order to achieve its strategic goals, Balcia sets the Risk Appetite, which reflects the company's maximum-permissible total risk amount, as well as the amount of each Material Risk that is expressed as the Category risk appetite or Category risk tolerance.

If Balcia's maximum risk level is exceeded, Balcia's Management Board immediately takes appropriate action to mitigate the risks that may affect capital adequacy.

Balcia determines the Risk Appetite taking into account the maximum permissible financial loss both at aggregate and at individual level, impairment of assets or increase in liabilities over a period of one year.

5 OWN RISK AND SOLVENCY ASSESSMENT

Balcia, at least once a year, carries out an Own Risk and Solvency Assessment (ORSA). It enables Balcia to ensure that

- it is and will be adequately capitalized in order to achieve its business strategy for a projected period of 3 years;
- it will be adequately resistant against those Material risks to which Balcia is exposed or can be exposed while performing its long-term business objectives.

During ORSA, Balcia performs stress tests and scenario analysis. This is done in order to determine and assess the likely impact of various extreme and adverse events on Balcia's ability to fully honour its obligations under insurance contracts, and to ensure its financial stability. Taking into account the results of the stress tests (including the pandemic risk of the COVID-19 as a separate risk drivers), Balcia has sufficient capital to cover any losses that may result from extreme adverse events.

6 STANDARDS INTRODUCED DURING THE REPORTING PERIOD

This quarterly report presents implementation of IFRS 17 which replaces IFRS 4, 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.

For insurance and reinsurance contracts, the Company does not expect significant changes arising from the application of IFRS 17 requirements on identification of contracts in scope, compared to the contracts currently in scope of IFRS 4.

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines or issued in different countries are in different portfolios. Each portfolio is then divided into annual cohorts (i.e. by year of issue) and each annual cohort into three groups:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

Compared to IFRS 4, the level of aggregation under IFRS 17 is more granular.

Under IFRS 17, for insurance and reinsurance contracts, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. No significant changes in contract boundaries are expected under IFRS 17, compared to current IFRS 4 requirements.

Under IFRS 17, portfolios of insurance contracts and portfolios of reinsurance contracts that are assets and those that are liabilities will be presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis, therefore, balances such as receivables from direct insurance and reinsurance activities and direct insurance and reinsurance creditors will no longer be presented separately.

Under IFRS 17, amounts recognized in the statement of profit or loss and OCI will be disaggregated into:

- an insurance service result, comprising insurance revenue and insurance service expenses;
- insurance finance income and expenses.

Amounts recovered from reinsurers and reinsurance expenses will be presented separately on a net basis.

The Company does not expect a significantly different pattern of insurance revenue recognition than under IFRS 4. Disclosures will generally be made at a more granular level than under IFRS 4.

KEY COOPERATION PARTNERS

REINSURERS

Reinsurer	Reinsurer's Rating	Rating Agency	Place (Country) of Registration of the Insurer
SWISS RE EUROPE S.A.	AA-	Standard & Poor's	Luxemburg
DEUTSCHE RUECKVERSICHERUNG AG	A+	Standard & Poor's	Germany
GENERAL REINSURANCE AG	AA+	Standard & Poor's	Germany
VIG RE ZAJISTOVNA, AS	A+	Standard & Poor's	Czech Republic
GENERAL INSURANCE CORPORATION OF INDIA	B++	A.M. Best	India

REINSURANCE BROKERS

Brokerage Company	Service	Place (Country) of Registration
Aon Versicherungsmakler Deutschland GmbH	Reinsurance mediation	Germany
Guy Carpenter & Company GmbH	Reinsurance mediation	Germany

OPERATIONAL STRATEGY AND OBJECTIVES

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

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

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

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

DEPARTMENTS AND BRANCHES OF THE COMPANY

Customer service locations that offer Balcia insurance services can be found here: www.balcia.com.