Balcia insurance

Balcia Insurance SE

Annual Report

For the year ended 31 December 2022

Contents

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	Jānis Lucaus – Chairman of the Board Kaspars Ummers – Board member till 30.09.2022 Eleonora Zelmene – Member of the Board Laura Krastiņa – Board member from 04.11.2022 Ilgvars Girgensons – Board member from 04.11.2022
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 year	01.01.2022 – 31.12.2022
Auditors	KPMG Baltics SIA Roberta Hirša 1 Riga, Latvia, LV-1045 Licence No. 55

Management Report

Balcia Insurance SE (hereinafter referred to as – Company) is an insure-tech Company with a license in non-life insurance. The Company was founded in 1993 in Latvia and has extensive experience throughout the European Union. The Company is headquartered in Riga, Latvia, with over 100 professionals providing strategic planning and management functions such as financial risk management, internal audit management, non-life product innovation, information technology development and other functions critical to the Company's growth. The Company has expanded its activities by opening branches in Poland, Lithuania and Germany, and offers non-life insurance services in France and Italy under the principle of freedom to provide services (FoS). In 2022, Company started providing insurance services in Latvia.

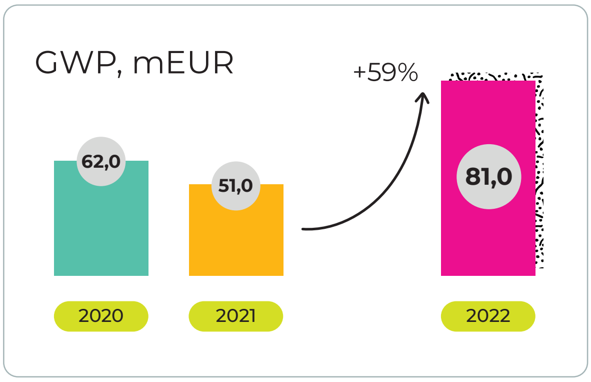
The Company is widely recognized for its flexible approach and dynamic response to the needs of today's clients and markets, becoming an international industry expert with ambitions to create the next generation of non-life insurance products. The Company cooperates with insurance brokers and agents from European Union countries in non-life underwriting.

In the fourth quarter of 2022, the composition of the Company's Board of Directors changed, clearly indicating the importance of the Company's internal culture, employee well-being and the growth of technological innovation. The existing members of the Board – Chairman Jānis Lucaus and Board Member Eleonora Zelmene – were joined by two professionals from the technology and start-up environment – Laura Krastiņa and Ilgvars Girgensons. Kaspars Ummers has left the Board of the Company. Since autumn 2022, Laura Krastiņa has been overseeing the HR, administrative, marketing and PR functions, while Ilgvars Girgensons has been in charge of the information technology area. The addition of new experts to the Company's team also means further digital transformation and growth. The new competencies at the senior management level will enable the development and implementation of the latest technological solutions in innovation processes and customer relations, as well as strengthen the Company's internal culture by putting the Company's employees at the forefront.

Financial information

In 2022, the Company experienced rapid growth, which is also reflected in its financial performance. Thanks to investments in brand awareness, customer interest in the Company's insurance products increased significantly. This contributed to high growth rates in the Company's main target countries. The Company's gross written premiums grew by 59%, further improving financial stability for the full year. The results were driven by efficient cost management, differentiation of revenue streams and successful investments in new insurance services and distribution channels. Investments in new technologies helped to improve Company's operational efficiency and the overall customer experience.

The Company's strategic decision in previous years to optimize its portfolio by re-segmenting products, discontinuing less profitable products and increasing the share of retail in the total insurance portfolio has yielded positive results in 2022. The Company's gross written premiums in 2022 amount to EUR 81.0 million and the top three positions in the insurance portfolio are held by compulsory third-party liability insurance, CASCO and property insurance. The financial results achieved by the Company's newest business country, Latvia, demonstrate that the Company's previously set objectives of portfolio restructuring and customer segmentation have been instrumental in driving positive performance.



TOP 3 products

- Third party liability insurance
- CASCO
- Property

The Company's Polish branch showed significant operational growth in 2022 compared to 2021. Thanks to the implementation of a number of efficiency-oriented processes, as well as the strengthening and expansion of the team's competences, the Company in Poland ensured the achievement of its business objectives. Total gross written premiums increased by 44% and the number of policies sold by 28% compared to 2021. During the reporting period, 10 new distribution partners were brought on board, thus diversifying the risks of the sales channels, significantly reducing distribution costs and facilitating a wider presence of the Company in Poland. The Company's management team is confident that the changes made to the branch organization, streamlining processes and attracting new intermediary partners, will help to achieve a significant increase in customer and partner satisfaction, business volume and profitability in the future.

+10
new distribution partners

The Lithuanian branch's gross written premiums in 2022 amounted to EUR 23.7 million, an increase of 57% compared to 2021. Thanks to the new e-commerce channel, the branch increased the number of policies issued to retail customers by 71% and significantly improved its operating profitability.

GWP, mEUR

Policies

The Company continued its operations in France on a FoS basis. Due to the difficult geopolitical situation and the war in Ukraine, the Company decided to postpone its chosen strategy of winding down its business in France until the uncertainty resulting from the geopolitical situation in the Baltic region and Poland has subsided. The Company is closely monitoring the situation in Ukraine and continues to take the necessary measures to mitigate potential risks to its business operations. Despite the external challenges, the Company is committed to quality portfolio management in France, ensuring strategic prudent risk management.

The Company's German branch team demonstrated a strong track record of high quality claims handling, contributing to faster and higher quality settlements for the Company's branches and FOS.

The Company's Italian motor business continues to perform well, maintaining the previous year's level of gross written premiums and ensuring consistently high profitability.

In Spain, the Company continued to implement the process of winding down its business operations and insured portfolio in 2022, securing the necessary resources from Latvia.

The Company's net technical provisions, including reinsurance, amounted to EUR 115.3 million at 31 December 2022, an increase of EUR 11.3 million or 11% compared to the previous year. The Company's 2022 combined ratio is 96%. In a highly challenging investment environment, the investment performance in 2022 contributed an additional EUR 0.2 million.

The Company consistently meets and exceeds the Solvency II regulatory capital adequacy indicator. As at the end of 2022, the Solvency ratio is 196%, an improvement of 16 percentage points compared to last year.

+11%

EUR 115.3 M

Net Technical Provisions

+96%

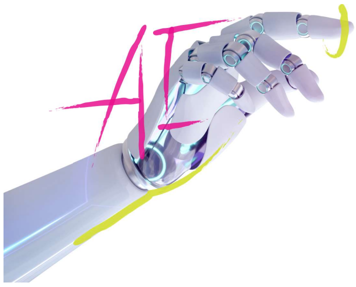
Combined ratio

+196%

Solvency ratio

Major Events and Development

Continuing the implementation of the projects started in the previous year, during the reporting period the Company continued to move purposefully towards its long-term goal – to provide the most affordable and high quality insurance to its customers, tailored to their personal lifestyles.



During the reporting period, the Company introduced several technical innovations, including work on various artificial intelligence solutions. Among the Company's priorities were the development of existing products and the optimization of claims processes. Continuing the adopted innovation course, the Company joined the start-up cooperation program, as a result of which an innovative solution for the automation of motor insurance claims was developed in cooperation with two international start-ups.

In 2023, the solution developed under the pilot program will be integrated into the Company's claims process, allowing customers to submit a claim and receive a claims decision within minutes of discovering damage to their vehicle.

Improving the insurance experience for customers is also among the Company's strategic priorities. In 2022, the range of available non-life insurance products was expanded and an e-commerce platform was developed for the Latvian market. The necessary preparatory work was carried out to launch the e-commerce platform in Poland in 2023.

In the second half of 2023, the Company plans to start offering its services in Estonia, thus, strengthening its presence in the Baltic market. In order to boost sales of insurance products in the retail segment, during the reporting period the Company started work on the development of new digital sales channels, including an innovative mobile application. The new application will be available to customers in the second half of 2023.

A significant part of the 2022 investment was made up of activities to strengthen the Company's brand in the Latvian and Lithuanian markets. This included promoting the unique features of Company's insurance products in the digital environment and raising the Company's profile as a competitive employer. The investments made have helped to boost private sector insurance sales and reinforced the Company's positive employer image.

The Company is proud of its great team. At the end of the year, the total number of employees was 217, an increase of 23% compared to the end of 2021. The number of employees has evolved in line with the Company's overall profile, adding to the team not only experienced professionals from the insurance industry, but also experts from the technology and financial sectors.

The Company will adopt the new IFRS (International Financial Reporting Standard) 17, which will replace IFRS 4, from 2023. The new standard will require changes how insurance contracts will be accounted for and presented. The application of the standard is not expected to result in any material impact on the Company's financial performance and equity.

Supervision and management of insurance products

In 2022, the Company improved its product oversight and governance (POG) process for new insurance products and material adjustments to existing insurance products. The POG process was enhanced in line with the requirements of Directive (EU) 2016/97 as well as Regulations 2017/2358 (EU) and 2021/1257 (EU), ensuring that in relation to the introduction of new products:

- All processes are described and documented;
- the target market for insurance products is clearly defined in terms of its target market characteristics, distribution and criteria;
- processes and measures are defined for new product launches to ensure customer-centric product development;
- the introduction of new products specifies when and in what circumstances insurance products are to be tested, the recommended types, methods and extent of testing.

Currently, each of the Company's new products is developed in accordance with a product-specific business plan approved by the Company's Board. Before the launch of each new product, as well as when significant product adjustments are made, product testing is ensured and customer needs (including sustainability needs) are identified and analyzed. Regular monitoring of the product throughout its life cycle, including checking its relevance to customer needs and the value for money it delivers to the customer.

Risk and operational compliance management

The Company has established and implements a unified and effective risk management system. Its objective is to ensure the timely and regular identification, measurement and assessment, monitoring, control and reporting of all individual and interrelated risks to which the Company is or may become exposed, and the taking of actions to mitigate risks. The risk management system is appropriate to the scale, nature and complexity of the Company's activities, ensuring the qualitative analysis and assessment of risks and the use of the resulting conclusions for business decision-making.

The risk management process actively involves the Company's operational business units, the core functions of the management system (risk management function, operational compliance function, internal audit function and actuarial function) and the Board. The Company's Risk Appetite Level (the maximum level of risk that the Company is willing to take within its business, expressed as a minimum Solvency II ratio) is continuously monitored. The Council of the Company monitors the risk management system and ensures that it is operating effectively.

In 2022, the Company identified areas of its operations that may be exposed to sustainability risks and integrated operational sustainability risks into its overall risk management system.

As part of the Own Risk and Solvency Assessment (ORSA) process, the Company performs stress testing to assess the impact of various adverse insurance, financial and operational risk scenarios on the Company's solvency. Stress test scenarios consist of single-risk scenarios and combined scenarios. The results of the stress tests provide evidence of the capital adequacy and solvency of the Company in the event of stress events.

The Company's Operational Compliance function supports the design of an effective system of internal control and is an important component of the effective functioning of the internal control system. The Operational Compliance function performs its own compliance risk assessment, identifying deficiencies, non-compliances and changes that affect compliance risk, as well as actions to manage this risk, ensuring compliance with external and internal regulations and effective remediation of deficiencies and non-compliances.

In light of the geopolitical situation, one of the Operational Compliance objectives in 2022 was to improve the Company's sanctions control process to ensure effective sanctions control and to prevent breaches of sanctions laws and regulations. As part of this process, the Company has partnered with an internationally renowned partner with a strong presence in the financial sector to provide the necessary technological solutions to meet the requirements more efficiently in 2023.

Corporate governance

In 2022, improvements were made to internal documentation and processes, including the Company's Articles of Association, taking into account the Corporate Governance Principles developed by the Ministry of Justice, promoting effective information flow in the Company's Board and Council, and facilitating the use of modern communication channels to inform about the decisions taken.

In order to promote transparency as one of the principles of corporate governance, the Regulations of the Board of Directors of the Company were drafted, defining clear competences of the Board, representation rights of the Board members and division of responsibilities in accordance with the organizational structure of the Company.

Understanding the Company's business processes and the importance of external cooperation, the Company participated in the Latvian Corporate Governance Award 2022 in the nomination "Stakeholder Management Practitioner", highlighting the fact that understanding the needs of both the Company and its business partners and active communication results in quality cooperation, promoting effective corporate governance.

Sustainability is increasingly important in all sectors, including insurance, and will continue to be one of the Company's growth drivers. In 2022, the Company conducted a comprehensive stakeholder sustainability survey, which led to the launch of the Company's first Environmental, Social and Governance (ESG) strategy document. The Company has prepared an ESG report for 2022, which will cover its self-assessment of sustainability components such as environment, social responsibility and corporate governance.

During the reporting period, the Company was actively involved in various public benefit activities, including providing significant support to the “Uzņēmēji Mieram” (Entrepreneurs for Peace) Association in support of the Ukrainian freedom struggle, as well as cooperating with Junior Achievement Latvia to help inspire young people to learn valuable life skills, the Latvian Children's Aid Foundation and other organizations.

The Company has been actively involved in various non-governmental business organizations to promote a business-friendly environment for the sector. The Company is represented in such organizations as the Employers' Confederation of Latvia, the Latvian Chamber of Commerce and Industry and the Baltic Institute of Corporate Governance.

Suggestion regarding profit distribution

The Board recommends that 60% of the Company's 2022 profit be allocated to dividend payments and the remaining 40% to strengthening the capital base.

Future perspectives

In 2023, the Company will continue to develop new digital sales channels to drive sales of non-life insurance products in the retail segment. One of the most strategically important projects is the development of an innovative mobile application. The Company's new mobile application will offer a customer-friendly experience, facilitating the purchase of insurance products and claims submission, as well as the possibility to interact with the Company. By investing in digital sales channels, the Company intends to provide the best possible user experience to its customers, increasing their loyalty and driving business growth.

The Company will further strengthen its position in the Baltic market by opening a branch in Estonia. In early 2023, the necessary documents will be submitted to the Latvian and Estonian authorities in order to obtain a branch operating permit and start offering a wide range of non-life insurance products to Estonian residents in the second half of the year.

The Company will continue the implementation of the digital HR processes launched at the end of 2022 by creating a new digital employee service portal, a feedback website and expanding internal communication channels to improve employee satisfaction and motivation. In 2023, the Company will also start streamlining its HR management functions, with clearer lines of responsibility and the creation of HR Business Partner positions in Latvia, Lithuania and Poland. This step will be taken to promote the development of the Company's internal culture, strengthen collaboration, foster employee development and support the Company's growing needs in expanding professional competencies.

In early 2023, the Company introduced a performance incentive scheme that allows the Company to focus on its strategic priorities. The process will include the definition of clear and precise performance objectives for employees who are managers, experts, senior and mid-level professionals, who, in turn, will cascade the Company's objectives to the Company's junior professionals and employees in entry-level positions . The performance incentive scheme will also offer additional financial motivation to employees and contribute to strengthening the culture of responsibility within the Company.

The Company has joined the Latvian Insurers Association, which will allow the Company to participate more fully in the legislative drafting process and to take a more active part in the promotion and development of the insurance industry.

On behalf of the Board and Council of the Company, we would like to express our sincere gratitude to the employees of the Company for their perseverance, strong teamwork and the results achieved. We are also grateful to our customers and business partners for their unwavering trust and loyalty in continuing to adapt with us to the changes and demands of today's market and customers. We are aware that our professional staff and loyal customers are essential for the Company's further development, the achievement of its objectives and the continuous improvement of our services. We would like to reiterate our sincere gratitude to all those who have contributed to the success of the Company and look forward to continuing on this positive course with our customers and partners.

We wish everyone success in their future endeavors.

On behalf of the Board and the Council:

Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

This management report is signed with a secure electronic signature and contains a time stamp.

Statement of Management Responsibility

In 2022, the Board of Directors of Balcia Insurance SE (hereinafter "the Company"), which consists of four 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 2022 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 2022 to 31 December 2022, as well as its financial position as at 31 December 2022.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2022 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 2022 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.

Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

This statement of management responsibility is signed with a secure electronic signature and contains a time stamp.

Statement of Comprehensive Income

	Note	2022 EUR'000	2021 EUR'000
Gross written premiums	5	80 989	50 852
Reinsurers' share in written premiums	5, 22	(3 125)	(2 687)
Net written premiums	5	**77 864**	**48 165**
Change in unearned premium and unexpired risk reserves			
Gross change	7	(12 068)	4 798
Reinsurers' share	7, 22	(113)	(296)
Change in net unearned premium and unexpired risk reserves	7	**(12 181)**	**4 502**
Net earned premiums	6	**65 683**	**52 667**
Other technical income, net	8	**1 205**	**1 019**
Incurred claims, net			
Paid claims, net			
Gross claims paid	9	(44 279)	(42 172)
Paid claims		(42 064)	(39 181)
Loss adjustment expenses		(5 762)	(5 549)
Recovered losses		3 547	2 558
Reinsurers' share of claims paid	9, 22	2 440	4 022
Net paid claims		**(41 839)**	**(38 150)**
Change in net outstanding claims technical reserves			
Gross change	10	2 488	8 933
Reinsurers' share	10, 22	(2 464)	(5 324)
Change in net outstanding claims technical reserves		**24**	**3 609**
Net incurred claims	11	**(41 815)**	**(34 541)**
Operating (expenses)/ income			
Client acquisition costs	12	(11 871)	(8 150)
Change in deferred client acquisition costs	12	1 220	(1 026)
Administrative expenses	13	(9 502)	(6 677)
Depreciation and amortisation		(843)	(628)
Reinsurance commissions and profit participation	14, 22	298	264
Change in unearned reinsurance commission	14, 22	40	97
Net operating expenses		**(20 658)**	**(16 120)**

The accompanying notes on pages 18 to 84 form an integral part of these financial statements.

Statement of Comprehensive Income

	Note	2022 EUR'000	2021 EUR'000
Other technical expenses	15	(1 993)	(1 840)
Investment management charges	16	(88)	(159)
Interest income/(expense) and dividend income	17	1 354	1 561
Gain/(loss) from financial assets at financial assets at FVTPL, net		(1 045)	417
Gain/(loss) from financial assets at financial assets at FVOCI, net	36	(191)	-
Gain/(loss) on foreign currency fluctuation		201	159
Impairment gain/(loss)	18	(41)	(54)
Other income	19	185	146
Other expenses	20	(254)	(105)
Profit/(loss) before tax		**2 543**	**3 150**
Income tax for the period	21	(627)	(547)
Profit/(loss) from operations for the period		**1 916**	**2 603**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Debt investments at FVOCI – net change in fair value	36	(642)	(72)
Currency revaluation impact, net	36	(67)	(36)
Other comprehensive income/(expense) for the year		**(709)**	**(108)**
Total comprehensive profit/(loss)		**1 207**	**2 495**

The accompanying notes on pages 18 to 84 form an integral part of these financial statements.

Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

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Statement of Financial Position

Assets	Note	31.12.2022 EUR'000	31.12.2021 EUR'000
Land and buildings	24	2 158	1 445
Property and equipment	23	904	662
Intangible assets	25	1 721	1 239
Investment property	24	7 045	5 597
Financial investments			
Financial investments at fair value through profit or loss	26	7 206	7 699
Investments in associates	29	910	910
Financial investments at fair value through other comprehensive income	27	19 253	10 239
Financial investments at amortised cost	28	70 605	68 992
Deposits with banks	30, 34	11 331	10 825
Total financial investments		109 305	98 665
Loans and receivables			
Loans issued			
Mortgage loans	31	813	4 138
Other loans	31	5 596	12 445
Total loans issued		6 409	16 583
Receivables			
Receivables from direct insurance activities			
Due from policy holders	32	14 829	10 662
Due from intermediaries	32	2 253	2 124
Total receivables from direct insurance activities		17 082	12 786
Receivables from reinsurance activities		2 359	2 203
Other receivables	33	2 057	2 195
Total receivables		21 498	17 184
Total loans and receivables		27 907	33 767
Accrued income and deferred expenses			
Deferred client acquisition costs	12	5 541	4 337
Other accrued income and deferred expenses		1 215	295
Total accrued income and deferred expenses		6 756	4 632
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	7	420	541
Reinsurers' share in outstanding claims technical reserves	10	16 398	18 930
Total assets from reinsurance contracts		16 818	19 471
Cash and on demand placements	34	23 478	19 754
Total assets		196 092	185 232

The accompanying notes on pages 18 to 84 form an integral part of these financial statements.

Statement of Financial Position

Equity and liabilities	Note	31.12.2022 EUR'000	31.12.2021 EUR'000
Equity			
Share capital		20 050	20 050
Share premium	36	18 464	18 464
Revaluation reserves	36	1 726	2 435
Reserve capital and other reserves	36	8 536	8 536
Retained earnings		4 252	3 377
Total equity		53 028	52 862
Liabilities			
Technical reserves			
Unearned premiums and unexpired risk reserves	7	35 168	23 277
Outstanding claims technical reserves	10	96 934	100 227
Total technical reserves		132 102	123 504
Creditors			
Direct insurance creditors			
Due to policy holders		4 507	4 352
Due to intermediaries		581	297
Total direct insurance creditors		5 088	4 649
Taxes and social contributions payable		420	355
Reinsurance creditors	38	1 805	1 411
Other creditors	39	2 714	1 794
Total creditors		10 027	8 209
Deferred tax liabilities	37	167	52
Provisions	42	621	415
Unearned reinsurance commission income	14	147	190
Total liabilities		143 064	132 370
Total equity and liabilities		196 092	185 232

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Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

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Statement of Cash Flows

	Note	2022 EUR'000	2021 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		90 762	52 006
Claims paid in direct insurance		(42 064)	(39 233)
Payments received from reinsurers		3 549	6 594
Payments made to reinsurers		(2 245)	(2 151)
Income tax paid		(137)	(450)
Obligatory payments	35	(1 146)	(833)
Payments to employees		(4 121)	(3 430)
Payments to intermediaries		(18 928)	(14 798)
Other taxes paid		(7 710)	(6 669)
Payments to other suppliers		(15 827)	(10 395)
Other payment made		(238)	(134)
Claim payments received for claims handled on behalf of other companies		2 633	13 026
Other payment received		668	2 449
Total cash flows from/(used in) operating activities		**5 196**	**(4 018)**
Cash flows from investing activities			
Acquisition of fixed and intangible assets		(1 667)	(909)
Acquisition of investments		(57 237)	(29 158)
Proceeds from disposal of investments		55 499	34 851
Investment income received		3 982	576
Dividends received		31	-
Total cash flows from investing activities		**608**	**5 360**
Cash flows from financing activities			
Dividends paid	36	(1 041)	(19 400)
Total cash flows used in financing activities		**(1 041)**	**(19 400)**
Cash and cash equivalents net increase/ (decrease)		**4 763**	**(18 058)**
Effect of exchange rate fluctuations on cash and cash equivalents held		**(33)**	**2**
Cash and cash equivalents at the beginning of the year		**30 079**	**48 135**
Cash and cash equivalents at the end of the year	34	**34 809**	**30 079**

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Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

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Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Reserves*	Reserve capital and other reserves	Retained earnings	Total Equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2020	20 050	18 464	2 543	8 536	774	50 367
Total comprehensive income						
Profit for the year	-	-	-	-	2 603	2 603
Net change in fair value reserve	-	-	(72)	-	-	(72)
Currency revaluation impact	-	-	(36)	-	-	(36)
Total comprehensive income for the year	-	-	(108)	-	2 603	2 495
31.12.2021	20 050	18 464	2 435	8 536	3 377	52 862
Transactions with owners of the Company						
Dividends distributed	-	-	-	-	(1 041)	(1 041)
Total transactions with owners of the Company	-	-	-	-	(1 041)	(1 041)
Total comprehensive income						
Profit for the year	-	-	-	-	1 916	1 916
Net change in fair value reserve	-	-	(642)	-	-	(642)
Currency revaluation impact	-	-	(67)	-	-	(67)
Total comprehensive income for the year	-	-	(709)	-	1 916	1 207
31.12.2022	20 050	18 464	1 726	8 536	4 252	53 028

* For details on Reserves, see Note 36.

The accompanying notes on pages 18 to 84 form an integral part of these financial statements.

Jānis Lucaus / Chairman of the Board

Gints Dandzbergs / Chairman of the Council

March 31, 2023

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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 and Poland.

The registered addresses of the branches:

- in Lithuania – Perkūnkiemio g. 5, LT-12129, Vilnius;
- in Germany – Senefelderstr. 17, 63322 Rödermark;
- in Poland – Al. Jerozolimskie 136 02-305, Warsaw.

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

In early 2022, the Company has reopened operations in Latvia where the headquarters are located.

B Shareholders

Shareholders of the Company are three holding companies registered in the Republic of Malta and five legal entities registered in Latvia. None of the ultimate controlling parties controls 33% or more of shares. Information on the shareholders:

	31.12.2022		31.12.2021	
Company's shareholders:	Number of shares	Shareholding	Number of shares	Shareholding
B5 Holding Limited (Malta)	41 393	29.36%	41 393	29.36%
HTT Holding Company Limited (Malta)	41 393	29.36%	41 393	29.36%
MDA Holding Limited (Malta)	41 393	29.36%	41 393	29.36%
Other companies (Latvia)	16 821	11.92%	16 821	11.92%
	141 000	**100.00%**	**141 000**	**100.00%**

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 2023. 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 and Lithuania is the euro. The functional currency of the branch in Poland is the Polish zloty.

C Reporting period

The reporting period comprises 12 months from 1 January 2022 to 31 December 2022.

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:

- financial investments at fair value through profit or loss,
- financial investments at fair value through other comprehensive income,
- investment property which is carried at fair value, and
- land and buildings that are re-valued periodically, correspondingly applying revaluation to fair value.

Consistent accounting principles have been applied to the financial years disclosed in these financial statements. The financial statements have been prepared in accordance with the Going concern assumption that the Company will continue as a going concern.

E Changes in accounting policies

New standards and amendments to standards, including any consequential amendments to other standards, effective for annual periods beginning on or after 1 January 2022, have not had a material impact on these financial statements.

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 2022, and have not been applied in preparing these financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023)

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

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

The Company 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.

The Company has almost finished to assess the scope and necessary tasks in order to implement and apply this new standard. The Company has determined portfolios of insurance contracts and assessed that PAA model is to be used for all portfolios. In preparation for the adoption of the new standard, detailed calculations have been run for all portfolios.

The Company has assessed the estimated impact that the initial application of IFRS 17 will have on its financial statements. Based on assessments undertaken to date, the Company estimates that, on adoption of IFRS 17, the total adjustment (after tax) to the balance sheet of the Company's total equity is a decrease of EUR 0.3 million as at 1 January 2023 and less than EUR 0.1 million as at 1 January 2022. The Company will restate comparative information on adoption of IFRS 17. In terms of individual factors, a positive effect (i.e. an increase) on the net equity as at 1 January 2023 is assessed to come from discounting future cash flows related to liability for incurred claims, while the implementation of risk adjustment for liability for incurred claims is assessed to have a negative effect (i.e. a decrease) on net equity.

The assessment above is preliminary because not all of the transition work has been finalised. The actual impact of adoption of IFRS 17 on 1 January 2023 and 2022 may change because:

- the Company is continuing to refine the new accounting processes and internal controls required for applying IFRS 17;
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its financial statements that include the date of initial application.

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.

The PAA (Premium Allocation Approach) is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria. The Company plans to apply PAA model to all insurance and reinsurance contracts because, based on the management's preliminary assessment, the following criteria would be met at inception:

- the coverage period of each contract in the group is one year or less;
- risk-attaching reinsurance contracts: resulting measurement of the asset of remaining coverage would not differ materially from the result of applying the general measurement model.

On initial recognition of each group of insurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. Acquisition cash flows are recognised as expenses when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognized as insurance revenue for services provided. The Company expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, the Company will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at contract inception or at any time during the coverage period, facts and circumstance indicate that a group of contracts is onerous, then the Company will recognize a loss in income statement and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. As a result, a loss component would be recognized for onerous portfolios.

The Company will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows of insurance and reinsurance contracts will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

Although the PAA is similar to the Company's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting:

- under IFRS 17, the Company will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Company does not currently discount such future cash flows. As a result, a positive impact (increase) on equity on transition to IFRS 17 is expected.
- IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non-financial risk. This is not explicitly allowed for currently. As a result, a negative impact (decrease) on equity on transition to IFRS 17 is expected.

In estimating future cash flows, the Company will incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

Cash flows within the boundary of a contract are those that relate directly to the fulfilments of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows will be attributed to acquisition activities, other fulfilment activities and other activities using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities will be allocated to groups of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics.

The Company plans to use discount rates that are defined as Risk free rates (defined by EIOPA) and are inflation adjusted.

The risk adjustment for group of contracts, determined separately from the other estimates, is the compensation that the Company would require for bearing uncertainty about the amount and timing of the cash flows that arises from insurance. The Company uses confidence level technique for determining the risk adjustment for insurance and reinsurance contract groups. These techniques derive the amount of risk that reflect the compensation that the Company would require for bearing insurance risk and its degree of risk aversion. The risk adjustment for reinsurance represents the amount of risk being transferred by the Company to the reinsurer.

IFRS 17 will significantly change how insurance contracts and reinsurance contracts are presented and disclosed in the Company's financial statements.

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.

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using a full retrospective approach to the extent practicable.

Under the full retrospective approach the Company will identify, recognize and measure each group of insurance contracts and reinsurance contracts and insurance acquisition cash flows as if IFRS 17 had always been applied, and derecognize previously reported balances that would not have existed if IFRS 17 had always been applied.

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

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:

	31.12.2022	31.12.2021
USD	1.06660	1.13260
PLN	4.68080	4.59690
GBP	0.88693	0.84028

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 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 non-life 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).

B 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.

C 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 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.

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 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 claims technical reserves

Outstanding claims 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. The Company's loss adjustment specialists assess the potential for long-term claim payments and establish a reserve for future payments based on their estimate. Expected increase of future claims due to inflation is added to the estimated long-term claims reserve.

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 (g).

The IBNR reserve is calculated using statistical methods (chain ladder method and/or in combination with expected loss ratio method) for the following lines of insurance:

- motor own damage insurance in France and Italy;
- property insurance (fire risks) in France;
- property insurance (other risks) in France;
- general liability insurance in Poland and Italy;
- guarantee insurance in Spain;
- motor compulsory third party liability in Latvia, 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% or 10%) written in the last 12 months, but not less than 1 500 EUR for the following lines of business:

- accident insurance in Poland, France, Lithuania;
- health insurance in Poland;
- motor own damage insurance in Latvia, Poland, Lithuania;
- marine insurance in France;
- cargo insurance in Poland;
- property insurance (fire risks) in Latvia and Poland;
- property insurance (other risks) in Latvia and Poland;
- general liability insurance in Latvia and France;
- marine third part liability insurance in France;
- guarantee insurance in France and Poland;
- insurance of various financial losses in France;
- travel accident insurance in Latvia, 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 non-proportional 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 – EUR 345 thousand as at 31 December 2022 (EUR 939 thousand 31 December 2021) for insurance contracts under QS reinsurance.

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.

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, 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 from policyholders, agents and reinsurers are insurance contract assets and are included in insurance receivables. Amounts due to policyholders, agents and reinsurers are classified as financial liabilities carried at amortized cost.

3.3 Financial instruments

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

A Financial assets measured at amortized cost

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

B Financial liabilities

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

C Other financial instruments

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

Financial instruments at fair value through profit or loss are financial assets that are upon initial recognition designated by the entity as at fair value through the profit or loss. The Company holds financial assets that do not meet the solely payments of principal and interest criterion and are held for trading at fair value through profit or loss.

Financial instruments at fair value through other comprehensive income are financial assets that are upon initial recognition designated by the entity as at fair value through other comprehensive income. The Company holds financial investments, such as debt securities and other securities with fixed income, which are included in a regulated market and not issued or guaranteed by central governments or municipalities, apart from financial assets at fair value through profit or loss in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, as the main purpose of such business model is to ensure the funding and liquidity needed to settle the Company's insurance contract liabilities as they fall due.

Financial instruments at amortized cost are financial assets that are upon initial recognition designated by the entity as at amortised cost. The Company holds financial investments, such as debt securities issued or guaranteed by central governments or municipalities, apart from financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income in a business model whose objective is achieved by solely collecting contractual cash flows until maturity, as the main purpose of such business model is to invest excess liquidity on a long-term basis corresponding to the currency risk and funding needs of the Company's long-term insurance contract liabilities.

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

For debt instruments measured at amortized cost, interest revenue using the effective interest rate method, expected credit losses and foreign exchange gains and losses are recognised in profit or loss.

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

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

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

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

D 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.

E 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. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss.

Financial assets at fair value through other comprehensive income and at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are carried at amortised cost using the effective interest method.

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 assessment of expected credit losses.

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 financial instruments at fair value through other comprehensive income 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;
- 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.

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 third-party 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.

3.5 Impairment

A Financial assets – except Loans issued

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

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

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

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

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

B Financial assets – Loans issued

The economic conditions of the markets the Company and its borrowers operates in may have an impact on the borrowers' ability to repay their debts. The Company considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans is credit impaired and specific impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans, and it can be reliably estimated.

Loss allowances for expected credit losses on loan commitments are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits and the Company's performance in timely identification and termination of limits for deteriorating exposures.

Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date.

12-month expected credit losses are recognised for Stage 1 exposures, where credit risk has not increased since initial recognition. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and for Stage 3 exposures which are credit impaired. Days past due is one of the main quantitative indicators used to assess the 'significant increase in credit risk' (proxy for transferring exposures from Stage 1 to Stage 2) augmented by other additional risk factors (e.g. forbearance). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to Stage 2. The 'default' is defined as: exposure delayed for certain amount of days or more, exposure is individually impaired, significant forbearance and other unlikeliness to pay indicators. The 'default' is the criteria for a transfer to Stage 3. Exposure is no longer considered to have significantly increased credit risk (transfer from Stage 2 to Stage 1) or default (transfer from Stage 3 to Stage 2) when specific time period has passed from the moment when all increased risk of default factors are no longer observed. Significant forbearance measures are within risk factors for which an extended monitoring period applies. The length of the monitoring period is proportionate to the significance of the risk factor observed and forbearance measures undertaken. The transfer of exposures to lower stage happens only when a significant reduction in the risk of non-performance has been observed beforehand.

The Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For collective measurement of expected credit losses, the Company has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Company uses single scenario expected cash flow method. PDs and LGDs are derived from historic performance of entities operating in similar industries with a comparable credit rating. 'Point in time' probabilities are used for PDs. Correspondingly, estimated PDs are expected to change through the economic cycle. For measurement of expected credit loses loans are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry and collateral type of the borrower.

A loan is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a loan is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments, persistent and major covenant noncompliance;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a material concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

For a loan that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the expected credit losses are measured as the difference between the loan's gross carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Any adjustment is recognised as an impairment gain or loss. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For loans, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

Fully impaired loans, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined.

C Insurance assets

Insurance assets include receivables from direct insurance activities and from reinsurance activities.

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.

D 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 cash-generating 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	*20% per year*
Computers, electrical equipment	*35% per year*
Vehicles	*20% per year*
Buildings for own use	*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.

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 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

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 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.

IFRS 16 Leases introduced 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).

See Note 40.

3.10 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 tax rate is 19% and in France – 26.5%.

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, non-operating 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 2022 and 31 December 2021, 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.

3.11 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.

3.12 Dividends

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

3.13 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.

3.14 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.

3.15 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.

3.16 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. A 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.

3.17 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 run-off 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 3.4. 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. See Note 48.

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. See Note 24.

Impairment of loans

The Company regularly reviews its loans for assessment of impairment. The estimation of impairment losses is inherently uncertain and dependent upon many factors.

On an on-going basis expected credit losses are identified promptly as a result of large loan exposures being individually monitored. For these loan exposures expected credit losses are calculated on an individual basis with reference to expected future cash flows including those arising from the sale of collateral. The Company uses its experienced judgement to estimate the amount of any expected credit loses considering future economic conditions and the resulting trading performance of the borrower and the value of collateral. As a result, the individually assessed expected credit losses can be subject to variation as time progresses and the circumstances change or new information becomes available. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between expected credit loss estimates and actual credit loss experience.

Changes in all applied LGD rates by 500 basis points would result in a change in the estimated impairment allowance and provisions for loans as at 31 December 2022 by EUR 34 thousand. Changes in the PD rates for not overdue category as at 31 December 2022 by 100 basis points would result in a change in the estimated impairment allowance for loans by EUR 13 thousand. See Note 3.5 (b).

Changes in all applied LGD rates by 500 basis points would result in a change in the estimated impairment allowance and provisions for debt securities as at 31 December 2022 by EUR 15 thousand. Changes in the PD rates for not overdue category by 10 basis points would result in a change in the estimated impairment allowance for debt securities as at 31 December 2022 by EUR 14 thousand. See Note 3.5 (a).

Impairment of insurance receivables

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. See Note 3.5 (c).

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.

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 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.

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 the 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 36% (2021: 40%), Lithuania 29% (2021: 30%) and France 24% (2021: 27%) 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:

2022	Total insured amount	Reinsurance amount	Net retention (after reinsurance)	Number of contracts in force	Average net amount insured
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Insurance type					
Motor own damage insurance	1 287 919	(45 158)	1 242 761	19 625	63
Compulsory motor third party liability**	-	-	-	496 413	-
Property insurance*	5 245 050	(2 179 331)	3 065 719	10 505	292
Various financial risks	3 719	-	3 719	194	19
General third party liability	939 572	(34 078)	905 494	10 353	87
Personal accident insurance*	4 760 745	-	4 760 745	83 161	57
Travel accident insurance	5 911 819	-	5 911 819	67 649	87
Marine insurance	631	-	631	14	45
Guarantee insurance	38 348	(12 288)	26 060	424	61
Cargo insurance	367	-	367	44	8
Marine third party liability insurance***	-	-	-	14	-
Health insurance	458 327	-	458 327	1 966	233
Legal expenses	-	-	-	222	-
Total	18 646 497	(2 270 855)	16 375 642	690 584	-

2021	Total insured amount	Reinsurance amount	Net retention (after reinsurance)	Number of contracts in force	Average net amount insured
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Insurance type					
Motor own damage insurance	677 330	-	677 330	9 252	73
Compulsory motor third party liability**	-	-	-	388 393	-
Property insurance*	2 115 796	(1 560 517)	555 279	9 418	59
Various financial risks	85 931	(52 931)	33 000	12	2 750
General third party liability	919 264	(27 133)	892 131	5 443	164
Personal accident insurance*	759 378	-	759 378	56 192	14
Travel accident insurance	991 374	-	991 374	21 889	45
Marine insurance	453	-	453	10	45
Guarantee insurance	26 797	(7 975)	18 822	557	34
Cargo insurance	335	-	335	40	8
Marine third party liability insurance***	-	-	-	10	-
Health insurance	105 756	-	105 756	3 452	31
Total	5 682 414	(1 648 556)	4 033 858	494 668	-

* in one contract several objects/ persons can be covered

** gross insurance risk is unlimited. Losses in excess of EUR 800 thousand (2021: EUR 800 thousand) are covered by reinsurance

*** Losses in excess of EUR 800 thousand (2021: 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 assesses 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.

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

	2015 and before	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of cumulative claims at end of accident year	484 231	44 749	54 217	69 202	74 356	51 537	42 039	53 129	**53 129**
• one year later	489 220	49 933	55 939	66 746	68 480	42 903	39 322		**39 322**
• two years later	496 050	51 014	59 664	66 719	67 755	42 487			**42 487**
• three years later	502 076	53 492	58 625	66 107	66 019				**66 019**
• four years later	504 915	53 166	59 262	64 508					**64 508**
• five years later	507 034	51 729	58 052						**58 052**
• six years later	508 438	50 281							**50 281**
• seven years later	506 559								**506 559**
Cumulative payments to date	489 886	44 467	49 145	53 013	57 651	33 554	28 025	22 724	**778 465**
Outstanding claims reserves at 31.12.2022*	16 673	5 814	8 907	11 495	8 368	8 933	11 297	30 405	**101 892**

* The amount does not include total estimated recovered losses reserves of EUR 4 959 thousand as at 31 December 2022.

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 2022, 94% of IBNR (31 December 2021: 96%) 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.

The tables below presents the change in net IBNR as at 31 December 2022 and 31 December 2021 for the Company in the case if the annual economic inflation, which is estimated depending on the line of business and country, used for base scenario in the IBNR estimation would change as a result of a 5% change in economic inflation:

EUR'000	Outstanding claims technical reserves, as at 31.12.2022	Outstanding claims technical reserves if economic inflation would increase by 5pp	Outstanding claims technical reserves, as at 31.12.2021	Outstanding claims technical reserves if economic inflation would increase by 5pp
IBNR, net	21 117	22 173	22 011	23 112

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, while for motor compulsory third party liability insurance Chain Ladder in combination with expected loss ratio method (except for Germany) is used. 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.

Assumptions used for estimation of MTPL claim reserves

IBNR estimation of MTPL claims is performed for the main part of claims paid 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.

For pensions claims IBNR calculated using frequency and severity method adjusted with expected loss ratio method.

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 USD and 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.

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 2022 and 2021 and a simplified scenario of a 10% change in USD and PLN to EUR exchange rate is as follows:

	31.12.2022	31.12.2021
EUR'000	Net income and equity	Net income and equity
10% depreciation of USD against EUR	(331)	(356)
10% appreciation of USD against EUR	331	356
10% depreciation of PLN against EUR	(54)	(247)
10% appreciation of PLN against EUR	54	247

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:

31.12.2022	EUR	USD	PLN	GBP	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets						
Financial investments at fair value through profit or loss	4 121	3 085	-	-	-	7 206
Financial investments at fair value through other comprehensive income	19 253	-	-	-	-	19 253
Financial investments at amortised cost	19 022	-	51 583	-	-	70 605
Deposits with banks	11 331	-	-	-	-	11 331
Mortgage loans	813	-	-	-	-	813
Other loans	5 596	-	-	-	-	5 596
Receivables	18 682	24	2 792	-	-	21 498
Cash and on demand placements	22 088	233	310	847	-	23 478
Total financial assets	**100 906**	**3 342**	**54 685**	**847**	**-**	**159 780**
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	20 176	29	14 543	-	-	34 748
Outstanding claim technical reserves, net	42 178	-	37 099	1 129	130	80 536
Total technical reserves, net	**62 354**	**29**	**51 642**	**1 129**	**130**	**115 284**
Financial liabilities	7 522	-	2 505	-	-	10 027
Technical reserves, net and financial liabilities	**69 876**	**29**	**54 147**	**1 129**	**130**	**125 311**
Open currency position, net	**31 030**	**3 313**	**538**	**(282)**	**(130)**	**34 469**

31.12.2021	EUR	USD	PLN	GBP	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets						
Financial investments at fair value through profit or loss	4 270	3 361	-	-	68	7 699
Financial investments at fair value through other comprehensive income	10 239	-	-	-	-	10 239
Financial investments at amortised cost	17 437	-	51 555	-	-	68 992
Deposits with banks	10 825	-	-	-	-	10 825
Mortgage loans	4 138	-	-	-	-	4 138
Other loans	12 445	-	-	-	-	12 445
Receivables	14 782	23	2 379	-	-	17 184
Cash and on demand placements	18 101	190	230	1 233	-	19 754
Total financial assets	**92 237**	**3 574**	**54 164**	**1 233**	**68**	**151 276**
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	12 946	12	9 778	-	-	22 736
Outstanding claim technical reserves, net	40 008	-	**39 668**	**1 476**	**145**	**81 297**
Total technical reserves, net	**52 954**	12	49 446	1 476	145	104 033
Financial liabilities	5 961	-	2 248	-	-	8 209
Technical reserves, net and financial liabilities	**58 915**	**12**	**51 694**	**1 476**	**145**	**112 242**
Open currency position, net	**33 322**	**3 562**	**2 470**	**(243)**	**(77)**	**39 034**

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 2022 and 31 December 2021 and a simplified scenario of a 5% change in all securities, which are classified as financial investments at fair value through profit or loss and financial investments at fair value through other comprehensive income, prices are as follows:

	31.12.2022		31.12.2021	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
5% increase in securities prices	360	963	385	512
5% decrease in securities prices	(360)	(963)	(385)	(512)

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.

Interest rate sensitivity analysis of the Company:

	31.12.2022		31.12.2021	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10 basis points parallel increase	16	(19)	18	(10)
10 basis points parallel decrease	(16)	19	(18)	10
100 basis points parallel increase	158	(193)	180	(102)
100 basis points parallel decrease	(158)	193	(180)	102

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:

31.12.2022

EUR'000	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest bearing	Total	Of which subject to fixed rates
Financial assets								
Financial investments at fair value through profit or loss	-	-	-	-	-	7 206	**7 206**	-
Financial investments at fair value through OCI	-	5 012	8 704	4 969	568	-	**19 253**	19 253
Financial investments at amortised cost	-	18 612	13 902	25 754	12 337	-	**70 605**	70 605
Deposits with banks	11 331	-	-	-	-	-	**11 331**	11 331
Loans issued	470	2 572	2 469	798	91	9	**6 409**	6 400
Receivables	-	-	-	-	-	21 498	**21 498**	-
Cash and on demand placements	-	-	-	-	-	23 478	**23 478**	-
Total financial assets	11 801	26 196	25 075	31 521	12 996	52 191	159 780	107 589

31.12.2021

EUR'000	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest bearing	Total	Of which subject to fixed rates
Financial assets								
Financial investments at fair value through profit or loss	-	-	-	-	-	7 699	**7 699**	-
Financial investments at fair value through OCI	252	833	7 568	981	605	-	**10 239**	10 239
Financial investments at amortised cost	11 074	2 413	40 190	7 413	7 902	-	**68 992**	68 992
Deposits with banks	10 000	825	-	-	-	-	**10 825**	10 825
Loans issued	11 019	790	2 764	1 543	460	7	**16 583**	16 576
Receivables	-	-	-	-	-	17 184	**17 184**	-
Cash and on demand placements	-	-	-	-	-	19 754	**19 754**	-
Total financial assets	32 345	4 861	50 522	9 937	8 967	44 644	151 276	106 632

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 investments at fair value through profit and loss and financial investments at fair value through other comprehensive income 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.

While the Company holds financial assets classified as financial investments at amortised cost in a business model whose objective is achieved by solely collecting contractual cash flows until maturity and sales of such financial assets before maturity are, generally, not expected, they 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 such unexpected circumstances would arise. Significant sales of such assets before maturity would subject the Company to reassess the business model, as well the fair value of these assets, which differs from the carrying amount, is disclosed in Note 28.

31.12.2022	Up to 12 months	From 1 to 5 years	Over 5 years	No fixed maturity	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Financial investments at fair value through profit or loss	-	-	-	7 206	**7 206**
Financial investments at fair value through other comprehensive income	5 012	13 673	568	-	**19 253**
Financial investments at amortised cost	18 612	39 656	12 337	-	**70 605**
Deposits with banks	11 331	-	-	-	**11 331**
Loans issued	3 042	3 267	91	9	**6 409**
Receivables from direct insurance activities	17 082	-	-	-	**17 082**
Receivables from reinsurance activities	2 359	-	-	-	**2 359**
Other receivables	2 057	-	-	-	**2 057**
Cash and on demand placements	23 478	-	-	-	**23 478**
Total financial assets taking into account maturity	**82 973**	**56 596**	**12 996**	**7 215**	**159 780**
Total financial assets taking into account liquidity	**156 413**	**3 267**	**91**	**9**	**159 780**
Technical reserves and financial liabilities					
Technical reserves, net	100 567	63	159	14 495	**115 284**
Financial liabilities	9 899	-	-	-	**9 899**
Lease liabilities	100	28	-	-	**128**
Total technical reserves and financial liabilities	**110 566**	**91**	**159**	**14 495**	**125 311**
Maturity gap	**(27 593)**	**56 505**	**12 837**	**(7 280)**	**34 469**
Maturity gap taking into account liquidity	**45 847**	**3 176**	**(68)**	**(14 486)**	**34 469**

31.12.2021	Up to 12 months	From 1 to 5 years	Over 5 years	No fixed maturity	Total
Financial assets	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial investments at fair value through profit or loss	-	-	-	7 699	**7 699**
Financial investments at fair value through other comprehensive income	1 085	8 549	605	-	**10 239**
Financial investments at amortised cost	13 487	47 603	7 902	-	**68 992**
Deposits with banks	10 825	-	-	-	**10 825**
Loans issued	11 809	4 307	460	7	**16 583**
Receivables from direct insurance activities	12 786	-	-	-	**12 786**
Receivables from reinsurance activities	2 203	-	-	-	**2 203**
Other receivables	2 195	-	-	-	**2 195**
Cash and on demand placements	19 754	-	-	-	**19 754**
Total financial assets taking into account maturity	**74 144**	**60 459**	**8 967**	**7 706**	**151 276**
Total financial assets taking into account liquidity	**146 502**	**4 307**	**460**	**7**	**151 276**
Technical reserves and financial liabilities					
Technical reserves, net	88 801	11	173	15 048	**104 033**
Financial liabilities	7 953	-	-	-	**7 953**
Lease liabilities	117	139	-	-	**256**
Total technical reserves and financial liabilities	**96 871**	**150**	**173**	**15 048**	**112 242**
Maturity gap	**(22 727)**	**60 309**	**8 794**	**(7 342)**	**39 034**
Maturity gap taking into account liquidity	**49 631**	**4 157**	**287**	**(15 041)**	**39 034**

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 2022 and 2021 was as follows:

EUR'000	31.12.2022		31.12.2021	
	Gross	Net	Gross	Net
Government bonds	70 607	70 605	68 994	68 992
Corporate bonds	19 347	19 253	10 252	10 239
Deposits with banks	11 332	11 331	10 826	10 825
Investment funds and equity securities	7 206	7 206	7 699	7 699
Loans issued	6 550	6 409	16 765	16 583
Due from policy holders	15 565	14 829	14 035	10 664
Due from intermediaries	2 395	2 253	3 078	2 122
Receivables from reinsurance activities	2 359	2 359	2 203	2 203
Other debtors	2 297	2 057	2 383	2 195
Cash and on demand placements	23 478	23 478	19 754	19 754
Total	**161 136**	**159 780**	**155 989**	**151 276**

For credit quality details of loans issued, due from policyholders and intermediaries refer to notes 31 and 32 respectively.

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:

31.12.2022

Agency	Ratings	Investment funds and equity securities EUR'000	Corporate bonds EUR'000	Government bonds EUR'000	Total EUR'000
Moody's	A1	-	3 857	-	3 857
	A2	-	498	2 104	2 602
	A3	-	1 215	3 634	4 849
	Ba2	-	301	-	301
	Baa1	-	2 024	-	2 024
	Baa2	-	2 436	-	2 436
	Baa3	-	994	677	1 671
S&P	A	-	-	54 379	54 379
	A+	-	-	7 968	7 968
	BB+	-	910	-	910
	BB-	-	373	-	373
	BBB+	112	-	-	112
	BBB	-	984	-	984
	BBB-	-	352	-	352
No rating*		6 863	5 309	1 843	14 015
	Total	6 975	19 253	70 605	96 833

* For ECL assessment purposes, the Company has assessed a rating of Ba1 (Moody's) / BB+ (S&P) for unrated corporate bonds and a rating of Ba (Moody's) / BB (S&P) for unrated government bonds.

Investment funds and equity securities are classified as Financial investments at fair value through profit or loss. Corporate bonds are classified as Financial investments at fair value through other comprehensive income. Government bonds are classified as Financial investments at amortised cost.

31.12.2021

Agency	Ratings	Investment funds and equity securities EUR'000	Corporate bonds EUR'000	Government bonds EUR'000	Total EUR'000
Moody's	A2	-	507	-	507
	A3	-	252	-	252
	Ba2	-	306	-	306
	Baa1	-	-	1 068	1 068
	Baa2	-	3 236	1 082	4 318
	Baa3	-	1 676	697	2 373
S&P	A	-	-	62 888	62 888
	A+	-	252	3 257	3 509
	BB+	-	996	-	996
	BB-	-	492	-	492
	BBB	-	1 012	-	1 012
	BBB-	-	363	-	363
No rating*		6 848	1 147	-	7 995
	Total	6 848	10 239	68 992	86 079

* For ECL assessment purposes, the Company has assessed a rating of Ba1 (Moody's) / BB+ (S&P) for unrated corporate bonds and a rating of Ba (Moody's) / BB (S&P) for unrated government bonds.

Investment funds and equity securities are classified as Financial investments at fair value through profit or loss. Corporate bonds are classified as Financial investments at fair value through other comprehensive income. Government bonds are classified as Financial investments at amortised cost.

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 assessment A-. Most 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 2022, there have been no cases where a reinsurance company has not met its liabilities to the Company.

31.12.2022

Rating	Reinsurance debtors	Reinsurer's share on written premiums	Reinsurer's share in claims paid
	EUR'000	EUR'000	EUR'000
AA-, AA, AA+	414	1 314	393
A-, A, A+	1 905	1 537	2 002
B-, B, B+	40	274	42
No rating	-	-	3
Total	2 359	3 125	2 440

31.12.2021

Rating	Reinsurance debtors	Reinsurer's share on written premiums	Reinsurer's share in claims paid
	EUR'000	EUR'000	EUR'000
AA-, AA, AA+	1 056	1 422	672
A-, A, A+	1 139	1 060	3 248
B-, B, B+	8	205	101
No rating	-	-	1
Total	2 203	2 687	4 022

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

	2022	2021
	EUR'000	EUR'000
Motor own damage insurance	Retained on net	Retained on net
CMTPL	800	800
Property insurance	1 000	1 000
General third party liability	500	500
Various financial risks	1 000	1 000
Guarantee insurance	620	620
Personal accident insurance	Retained on net	Retained on net

4.4 Operational 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, which, in the remote working conditions implemented as a response to COVID-19, has proved to benefit the business continuity of the Company's operations, as well to ensure the continued operation of internal controls. 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.

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

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Total own funds to comply with the Solvency Capital Requirement	58 054	50 755
Total own funds to comply with the Minimum Capital Requirements	57 074	48 989
The Solvency Capital Requirement	29 632	28 141
The Minimum Capital Requirement	13 334	11 693
The own capital in the Solvency Capital Requirement	**196%**	**180%**
The own capital in the Minimum Capital Requirement	**428%**	**419%**

5 Written premiums

	2022 EUR'000			2021 EUR'000		
	Gross written premiums	Reinsurers' share in premiums	Net written premiums	Gross written premiums	Reinsurers' share in premiums	Net written premiums
CMTPL in EU*	58 923	(2 066)	56 857	38 938	(1 641)	37 297
CASCO	15 750	-	15 750	8 324	-	8 324
Property insurance	2 219	(922)	1 297	1 274	(939)	335
Personal accident insurance	1 558	-	1 558	962	-	962
Travel accident insurance	1 453	-	1 453	455	-	455
General third party liability	579	(21)	558	456	(13)	443
Guarantee insurance	362	(116)	246	307	(91)	216
Health insurance	82	-	82	120	-	120
Marine third party liability insurance	47	-	47	4	-	4
Marine insurance	7	-	7	6	-	6
Ship third party liability insurance	5	-	5	-	-	-
Cargo insurance	3	-	3	2	-	2
Various financial risks	1	-	1	4	(3)	1
Total	**80 989**	**(3 125)**	**77 864**	**50 852**	**(2 687)**	**48 165**

* Gross written premiums of CMTPL insurance in the EU (Poland, Lithuania, France and Latvia) include the obligatory deductions to the transport insurance offices of the respective Member States in the total amount of EUR 987 thousand (2021: EUR 718 thousand).

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

	2022	2021
	EUR'000	EUR'000
Poland	29 381	20 334
Lithuania	23 690	15 092
France	19 568	13 690
Latvia	6 626	22
Italy	1 723	1 711
Spain	1	3
Total	**80 989**	**50 852**

6 Net earned premiums

	2022 EUR'000			2021 EUR'000		
	Gross written premiums	Reinsurers' share in premiums	Net written premiums	Gross written premiums	Reinsurers' share in premiums	Net written premiums
CMTPL in EU	50 816	(2 066)	48 750	41 910	(1 640)	40 270
CASCO	12 019	-	12 019	8 463	-	8 463
Property insurance	2 312	(922)	1 390	2 475	(1 026)	1 449
Personal accident insurance	1 286	-	1 286	1 030	-	1 030
Travel accident insurance	1 235	-	1 235	468	-	468
Guarantee insurance	618	(229)	389	679	(289)	390
General third party liability	510	(21)	489	492	(25)	467
Health insurance	90	-	90	117	-	117
Various financial risks	21	-	21	4	(3)	1
Marine insurance	7	-	7	6	-	6
Marine third party liability insurance	5	-	5	4	-	4
Cargo insurance	2	-	2	2	-	2
Total	**68 921**	**(3 238)**	**65 683**	**55 650**	**(2 983)**	**52 667**

7 Technical reserves for unearned premiums and unexpired risks

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31 December 2020	**28 163**	**(841)**	**27 322**
Written premiums	50 852	(2 687)	48 165
Premiums earned	(55 650)	2 983	(52 667)
Changes during the year	(4 798)	296	(4 502)
Currency revaluation impact	(88)	4	(84)
Balance at 31 December 2021	**23 277**	**(541)**	**22 736**
Written premiums	80 989	(3 125)	77 864
Premiums earned	(68 921)	3 238	(65 683)
Changes during the year	12 068	113	12 181
Currency revaluation impact	(177)	8	(169)
Balance at 31 December 2022	**35 168**	**(420)**	**34 748**

As at 31 December 2022 and 31 December 2021 there was no unexpired risk reserve recognized.

8 Other technical income

	2022	2021
	EUR'000	EUR'000
Fee for the claims handling services	467	764
Fee for policy amendments and cancellation	71	111
Other technical income	667	144
	1 205	1 019

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

	2022			2021		
	EUR'000			EUR'000		
	Gross claims paid	Reinsurers' share in claims paid	Net claims paid	Gross claims paid	Reinsurers' share in claims paid	Net claims paid
CMTPL in EU	(32 338)	1 410	(30 928)	(30 785)	3 445	(27 340)
CASCO	(6 925)	-	(6 925)	(3 994)	-	(3 994)
Guarantee insurance	(2 043)	258	(1 785)	(939)	223	(716)
Property insurance	(1 765)	715	(1 050)	(6 047)	334	(5 713)
Travel accident insurance	(711)	-	(711)	(173)	-	(173)
General third party liability	(376)	57	(319)	(186)	20	(166)
Personal accident insurance	(104)	-	(104)	(43)	-	(43)
Health insurance	(9)	-	(9)	(5)	-	(5)
Various financial risks	(8)	-	(8)	-	-	-
Total	**(44 279)**	**2 440**	**(41 839)**	**(42 172)**	**4 022**	**(38 150)**

The Company's gross claims paid include:

	2022	2021
	EUR'000	EUR'000
Claims paid	(42 064)	(39 181)
Loss adjustment expenses*	(5 762)	(5 549)
Recovered losses	3 547	2 558
	(44 279)	(42 172)

* Loss adjustment expenses in 2022 for the Company include EUR 1'236 thousand (2021: EUR 1'031 thousand) of salary and social contributions to employees dealing with claims handling.

10 Outstanding claims technical reserves

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31 December 2020	109 530	(24 284)	85 246
Claims incurred	33 240	1 301	34 541
Claims paid	(42 173)	4 023	(38 150)
Changes during the year	(8 933)	5 324	(3 609)
Currency revaluation impact	(370)	30	(340)
Balance at 31 December 2021	100 227	(18 930)	81 297
Claims incurred	41 791	24	41 815
Claims paid	(44 279)	2 440	(41 839)
Changes during the year	(2 488)	2 464	(24)
Currency revaluation impact	(805)	68	(737)
Balance at 31 December 2022	96 934	(16 398)	80 536

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

	31.12.2022 EUR'000		31.12.2021 EUR'000	
	Gross	Net	Gross	Net
RBNS	75 472	59 419	77 277	59 286
IBNR	21 462	21 117	22 950	22 011
	96 934	80 536	100 227	81 297

11 Net incurred claims

	2022			2021		
	EUR'000			EUR'000		
	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred
CMTPL in EU	(29 675)	(1 502)	(31 177)	(26 984)	(1 152)	(28 136)
CASCO	(9 999)	-	(9 999)	(4 923)	-	(4 923)
Travel insurance	(592)	(244)	(836)	373	(528)	(155)
Guarantee insurance	(540)	263	(277)	(1 554)	223	(1 331)
Property insurance	(448)	1 340	892	(80)	234	154
General third party liability	(336)	119	(217)	(43)	(78)	(121)
Personal accident	(186)	-	(186)	(21)	-	(21)
Financial risks	(8)	-	(8)	1	-	1
Health insurance	(7)	-	(7)	(6)	-	(6)
Marine insurance	-	-	-	(3)	-	(3)
Total	**(41 791)**	**(24)**	**(41 815)**	**(33 240)**	**(1 301)**	**(34 541)**

12 Change in deferred client acquisition costs

	EUR'000
Balance at 31 December 2020	**5 546**
Change in intermediary commission of future periods	(164)
Calculated commissions	8 150
Deferred commissions allocated to statement of comprehensive income	(9 176)
Changes during the year	(1 026)
Currency revaluation impact	(19)
Balance at 31 December 2021	**4 337**
Change in intermediary commission of future periods	(19)
Calculated commissions	11 871
Deferred commissions allocated to statement of comprehensive income	(10 651)
Changes during the year	1 220
Currency revaluation impact	3
Balance at 31 December 2022	**5 541**

13 Administrative expenses

	2022	2021
	EUR'000	EUR'000
Salaries and social contribution expenses	4 951	4 052
Advertising and presentation expenses	1 870	388
Audit and consulting services	469	389
Computer programs rent and maintenance	310	299
Rent payments	267	366
Other business related costs	259	175
Other personal expenses	256	98
Utility expenses (electricity, heating, water)	177	114
Other administrative expenses	172	183
Obligatory payments*	160	116
Car maintenance costs	144	109
Legal expenses	132	155
Telecommunication costs	104	106
Other administrative costs	231	127
	9 502	6 677

* Obligatory payments include payments to FCMC.

Audit and consulting service expenses include other services received from the independent auditor's company. Total amount of such services received is EUR 7 thousand in 2022 (2021: EUR 1 thousand).

Administrative expenses allocated by insurance types:

	2022	2021
	EUR'000	EUR'000
CMTPL	6 913	5 112
CASCO	1 848	1 093
Property insurance	260	167
Personal accident	183	126
General third party liability	170	60
Travel insurance	68	60
Guarantee insurance	42	40
Health insurance	10	16
Financial risks	6	1
Marine insurance	1	1
Marine third party liability insurance	1	1
	9 502	6 677

For the accounting policy on the allocation of administrative expenses, see Note 3.2 (i).

14 Change in unearned reinsurance commission

	EUR'000
Balance at 31 December 2020	289
Calculated commissions	264
Deferred commissions allocated to the statement of comprehensive income	(361)
Changes during the year	(97)
Currency revaluation impact	(2)
Balance at 31 December 2021	190
Calculated commissions	298
Deferred commissions allocated to the statement of comprehensive income	(338)
Changes during the year	(40)
Currency revaluation impact	(3)
Balance at 31 December 2022	147

15 Other technical expenses

	2022 EUR'000	2021 EUR'000
CMTPL deductions and Guarantee fund contributions paid	1 095	718
Impairment allowance for receivables from policyholders, net	630	757
Expenses related to distribution of policies	251	291
Insurance tax	17	13
Other	-	61
	1 993	1 840

16 Investment management charges

	2022 EUR'000	2021 EUR'000
Transaction commissions	78	149
Other charges	10	10
	88	159

17 Interest income/ (expense) and dividend income

	2022 EUR'000	2021 EUR'000
Interest income from financial assets at amortised cost	422	561
Interest income from financial assets at FVOCI	231	252
Interest and dividend income from financial assets at FVTPL	85	62
Interest income from loans issued	541	762
Dividends and other income from investments in associates	31	-
Interest income/(expense) on balances with credit institutions	44	(76)
	1 354	**1 561**

18 Impairment gain/ (loss)

	2022 EUR'000	2021 EUR'000
(Increase)/ decrease in allowances for financial assets at FVOCI, net	(82)	-
(Increase)/ decrease in allowances for loans, net	41	(54)
	(41)	**(54)**

19 Other income

	2022 EUR'000	2021 EUR'000
Other income	185	146
	185	**146**

Other income mainly represents income from rent of premises. See note 24.b.

20 Other expenses

	2022 EUR'000	2021 EUR'000
Donations	175	30
Real estate tax	79	68
Other expenses	-	7
	254	**105**

21 Income tax expense

	2022	2021
	EUR'000	EUR'000
Corporate income tax	511	562
Change in deferred tax	116	(15)
	627	547

	2022	2021
	EUR'000	EUR'000
Profit/ (loss) before tax	2 543	3 150
Theoretical tax using the 0% domestic tax rate	-	-
Effect from tax rates in other jurisdictions	325	864
Tax exempt income and other permanent deductible differences	-	-
Non-deductible expenses and other permanent taxable differences	221	45
Effect of changes in unrecognized temporary differences, net	81	(362)
Tax expenses	627	547

Income declared by the Company's branches in France, 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 3.12.

Should all distributable retained earnings as of period end in the amount of EUR 4 252 thousand be distributed, EUR 344 thousand could be distributed without additional income tax consequences, while the distribution of all distributable retained earnings would result in corporate income tax implications of EUR 977 thousand. The distribution of Share premium and Reserve capital and other reserves to shareholders would not result in additional income tax consequences.

22 Reinsurance cession result

	2022	2021
	EUR'000	EUR'000
Reinsurance premiums	(3 125)	(2 687)
Changes in reinsurers' share in unearned premiums reserve	(113)	(296)
Reinsurers' share in claims paid	2 440	4 022
Changes in reinsurers' share in reserve for outstanding claims	(2 464)	(5 324)
Reinsurance commissions and profit participation	298	264
Change in unearned reinsurance commissions	40	97
Total reinsurance cession result	(2 924)	(3 924)

23 Property and equipment

The Company's property and equipment movement table for the years 2022 and 2021 is presented as follows:

		Vehicles	Other property and equipment	Total
		EUR'000	EUR'000	EUR'000
Cost				
	31.12.2020	217	1 911	2 128
Purchased		125	176	301
ROU assets recognized		-	18	18
Disposals		(34)	(20)	(54)
	31.12.2021	308	2 085	2 393
Purchased		128	321	449
ROU assets recognized		-	70	70
Disposals		(47)	(45)	(92)
	31.12.2022	389	2 431	2 820
Accumulated depreciation				
	31.12.2020	(212)	(1 283)	(1 495)
Depreciation for the year		(16)	(85)	(101)
Depreciation for the year for ROU assets		-	(189)	(189)
Depreciation on disposed assets		34	20	54
	31.12.2021	(194)	(1 537)	(1 731)
Depreciation for the year		(44)	(32)	(76)
Depreciation for the year for ROU assets		-	(198)	(198)
Depreciation on disposed assets		46	43	89
	31.12.2022	(192)	(1 724)	(1 916)
	Balance at 31.12.2021	114	548	662
	Balance at 31.12.2022	197	707	904

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 128 thousand as at 31.12.2022 (31.12.2021: EUR 256 thousand).

24 Land and buildings and Investment property

A Land and buildings

	Land and Buildings EUR'000	Construction in progress EUR'000	Total EUR'000
Cost 31.12.2020	2 794	-	2 794
Additions	-	641	641
Cost 31.12.2021	2 794	641	3 435
Additions	-	815	815
Cost 31.12.2022	2 794	1 456	4 250
Accumulated depreciation			
31.12.2020	(1 889)	-	(1 889)
Depreciation	(101)	-	(101)
31.12.2021	(1 990)	-	(1 990)
Depreciation	(102)	-	(102)
31.12.2022	(2 092)	-	(2 092)
Balance at 31.12.2021	804	641	1 445
Balance at 31.12.2022	702	1 456	2 158

Revalued assets

In December 2020, valuation of land and buildings was performed by an external certified valuation expert. The valuation was based on comparative transactions technique where possible and the income capitalisation approach. During 2021, the Company began significant reconstruction works in the building located in Riga, which continued in 2022. The Company management has assessed that the carrying amount consisting of the previous valuation results and the capitalized costs of the reconstruction works during the reporting year together form a reasonable estimate of the fair value of the building. As the reconstruction works are in progress, the Company management has assessed it impracticable to obtain an independent valuation as at 31 December 2022, and it will be done after the completion of reconstruction works.

The fair value measurement for land and buildings of EUR 2 158 thousand (2021: EUR 1 445 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 2022:

Type	Fair value, 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	2 099	Comparative transactions, cost	Price EUR 1 584 per m2	The estimated fair value would increase/ (decrease) if price per m2 was higher/ (lower).
Buildings and land located in Tukums	59	Discounted cash flows technique	Rental income of EUR 3.50 per m2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). 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.
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 2021:

Type	Fair value, 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	1 386	Comparative transactions	Price EUR 815 per m2	The estimated fair value would increase/ (decrease) if price per m2 was higher/ (lower).
Buildings and land located in Tukums	59	Discounted cash flows technique	Rental income of EUR 3.50 per m2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)

B Investment property

	EUR'000
Deemed cost 31.12.2020	**4 406**
Construction in progress	1 191
Disposals	-
Deemed cost 31.12.2021	**5 597**
Construction in progress	1 448
Disposals	-
Deemed cost 31.12.2022	**7 045**
Balance at 31.12.2021	**5 597**
Balance at 31.12.2022	**7 045**

Rental income and operating expense for the year ended 31 December 2022:

	Book value EUR'000	Rental income EUR'000	Operating expenses EUR'000
Investment property rented out	7 045	170	55
Investment property not rented out	-	-	-
Total	**7 045**	**170**	**55**

Rental income and operating expense for the year ended 31 December 2021:

	Book value EUR'000	Rental income EUR'000	Operating expenses EUR'000
Investment property rented out	5 597	135	68
Investment property not rented out	-	-	-
Total	**5 597**	**135**	**68**

Investment property rented out includes investment property that is partially rented out.
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 18 thousand (2021: EUR 11 thousand).

During 2021, the Company began significant reconstruction works in the building located in Riga, which continued in 2022. The Company management has assessed that the carrying amount consisting of the previous valuation results and the capitalized costs of the reconstruction works during the reporting year together form a reasonable estimate of the fair value of the building. As the reconstruction works are in progress, the Company management has assessed it impracticable to obtain an independent valuation as at 31 December 2022, and it will be done after the completion of reconstruction works. The fair value measurement for Investment property of EUR 7 045 thousand (2021: EUR 5 597 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.

Type	Fair value, 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 area	6 833	Comparative transactions, cost	Price per m2 in the range of EUR 815 to EUR 1 584	The estimated fair value would increase/ (decrease) if price per m2 was higher/ (lower).
Buildings and land located in Liepaja	212	Discounted cash flows technique	Rental income per m2 in the range between EUR 3.45 and EUR 4.30	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower)
			Discount rate 10.30%	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.

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 2021:

Type	Fair value, 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 area	5 385	Comparative transactions	Price per m2 in the range of EUR 815	The estimated fair value would increase/ (decrease) if price per m2 was higher/ (lower).
Buildings and land located in Liepaja	212	Discounted cash flows technique	Rental income per m2 in the range between EUR 3.45 and EUR 4.30	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower)
			Discount rate 10.30%	The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)

25 Intangible assets

The table below represents Intangible assets movement for the Company:

	Software EUR'000
Cost	
31.12.2020	**2 973**
Additions arising from internal development	315
Additions acquired separately	190
Disposals	(11)
31.12.2021	**3 467**
Additions arising from internal development	423
Additions acquired separately	627
Disposals	(11)
31.12.2022	**4 506**
Accumulated amortization	
31.12.2020	**(1 824)**
Amortization for the year	(415)
Amortization on disposed assets	11
31.12.2021	**(2 228)**
Amortization for the year	(568)
Amortization on disposed assets	11
31.12.2022	**(2 785)**
Balance at 31.12.2021	**1 239**
Balance at 31.12.2022	**1 721**

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

26 Financial investments at fair value through profit or loss

	31.12.2022 Fair value EUR'000	31.12.2021 Fair value EUR'000
Non-fixed income securities		
Investments in investment funds	6 710	7 080
Shares and other equity securities	496	619
	7 206	**7 699**

27 Financial investments at fair value through other comprehensive income

	31.12.2022	31.12.2021
	Fair value	Fair value
Fixed income securities	EUR'000	EUR'000
Debt securities with fixed income, which are included in a regulated market	19 253	10 239
	19 253	**10 239**

	31.12.2022	31.12.2021
Investment portfolio of fixed income securities by geography:	EUR'000	EUR'000
Latvia	3 933	2 129
Other European Union countries	9 872	6 014
North America	3 508	1 593
Other countries	1 940	503
	19 253	**10 239**

As at 31 December 2022, all financial investments at fair value through other comprehensive income are assessed as Stage 1 in line with IFRS 9 requirements, except for one financial investment, net of impairment allowance, in the amount of EUR 122 thousand that is assessed as Stage 2 in line with IFRS 9 requirements. Impairment allowance for expected credit loss as at 31 December 2022 amounts to EUR 96 thousand (31 December 2021: EUR 19 thousand). For the movement of fair value reserve of financial investments at FVOCI refer to Note 36.

28 Financial investments at amortised cost

	31.12.2022	31.12.2022	31.12.2021	31.12.2021
	Amortised value	Fair value	Fair value	Fair value
Fixed income securities	EUR'000	EUR'000	EUR'000	EUR'000
Debt securities issued or guaranteed by central governments or municipalities	70 605	64 461	68 992	64 990
	70 605	64 461	68 992	64 990

	31.12.2022	31.12.2021
Investment portfolio of fixed income securities by geography:	EUR'000	EUR'000
Poland	51 583	51 555
Latvia	11 911	14 258
Lithuania	6 434	2 482
Other European Union countries	421	432
Other countries	256	265
	70 605	**68 992**

As at 31 December 2022, all financial investments at amortised cost are assessed as Stage 1 in line with IFRS 9 requirements. Impairment allowance for expected credit loss is considered as immaterial, thus, not disclosed separately.

29 Investments in associates

The caption represents investment in the share capital of associate Megape Īpašumi AS in the amount of EUR 910 thousand representing 36.90% of its share capital. Megape Īpašumi AS is a related party of the Company that manages the Company's real estate properties. As at 31 December 2022 and 31 December 2021, no impairment was recognized for this investment.

30 Deposits with banks

	31.12.2022	31.12.2021
Investment maturity structure:	EUR'000	EUR'000
With original maturity not longer than 3 months (refer to Note 34)	11 331	10 325
With original maturity from 1 to 5 years	-	500
	11 331	**10 825**

	31.12.2022	31.12.2021
Investment structure by geographic split:	EUR'000	EUR'000
France	5 007	10 000
Poland	1 324	325
Latvia	5 000	500
	11 331	**10 825**

As at 31 December 2022, all deposits with banks are assessed as Stage 1 in line with IFRS 9 requirements. Impairment allowance for expected credit loss is considered as immaterial, thus, not disclosed separately.

31 Loans issued

	31.12.2022	31.12.2021
Structure of loan portfolio	EUR'000	EUR'000
Amount of loans, gross	6 523	16 715
Accrued interest payments	28	51
Specific impairment allowance	(9)	(9)
Portfolio level impairment allowances	(133)	(174)
	6 409	**16 583**

	Gross
	EUR'000
Allowance as at 31 December 2020	**(353)**
IFRS 9 day-one implementation impact	(121)
Net change in impairment loss recognized	(53)
Write-off	344
Allowance as at 31 December 2021	**(183)**
Net change in impairment loss recognized	41
Write-off	-
Allowance as at 31 December 2022	**(142)**

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

	31.12.2022	31.12.2021
	Amortised cost	Amortised cost
	EUR'000	EUR'000
Mortgage loans	813	4 138
Other loans secured by commercial pledge	5 596	12 445
Total loans	**6 409**	**16 583**

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Overdue mortgage loans		
Overdue more than 12 months	8	17
Overdue up to 3 months	-	-
Not overdue mortgage loans	340	4 161
Specific impairment allowance	(8)	(9)
Portfolio level impairment allowances	(3)	(31)
Mortgage loans	**337**	**4 138**
Overdue other loans		
Overdue more than 12 months	-	-
Overdue up to 3 months	-	-
Not overdue other loans	6 203	12 588
Impairment allowance	-	-
Portfolio level impairment allowances	(131)	(143)
Other loans	**6 072**	**12 445**
Total loans	**6 409**	**16 583**

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Mortgage loans:		
Loans to non-financial institutions	323	4 151
Loans to individuals	25	27
Specific impairment allowance	(8)	(9)
Portfolio level impairment allowances	(3)	(31)
	337	4 138

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Other loans:		
Loans to non-financial institutions	6 203	12 588
Loans to individuals	-	-
Specific impairment allowance	-	-
Portfolio level impairment allowances	(131)	(143)
	6 072	**12 445**

As at 31 December 2022, loans with the carrying amount of EUR 421 thousand (2021: EUR 460 thousand) had a final repayment maturity of more than 5 years.

As at 31 December 2022, other loans issued to non-financial institutions with the carrying amount of EUR 4 924 thousand (2021: EUR 2 479 thousand) represent the Company's direct exposure to a single counterparty in Latvia. According to the Company management's estimates, as at 31 December 2022 and as at 31 December 2021 the fair value of the collateral (goods purchased with the financing) for loans exceeds the carrying amount of loans issued.

As at 31 December 2022, 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 474 thousand (2021: EUR 9 436 thousand).

Loans by impairment stage as at 31 December 2022:

Loans	Gross amount	Expected credit loss allowance	Net carrying amount
Mortgage loans	**348**	**(11)**	**337**
Stage 1	340	(3)	337
Stage 2	-	-	-
Stage 3 and POCI	8	(8)	-
Other loans	**6 203**	**(131)**	**6 072**
Stage 1	6 203	(131)	6 072
Stage 2	-	-	-
Stage 3 and POCI	-	-	-
Total loans	**6 551**	**(142)**	**6 409**

Loans by impairment stage as at 31 December 2021:

Loans	Gross amount	Expected credit loss allowance	Net carrying amount
Mortgage loans	**4 178**	**(40)**	**4 138**
Stage 1	4 161	(31)	4 130
Stage 2	-	-	-
Stage 3 and POCI	17	(9)	8
Other loans	**12 588**	**(143)**	**12 445**
Stage 1	12 588	(143)	12 445
Stage 2	-	-	-
Stage 3 and POCI	-	-	-
Total loans	**16 766**	**(183)**	**16 583**

No events of insolvency or delays of payments have been identified during the reporting year. The Company has restructured certain loans issued during the year by extending their repayment maturities. In all cases, this has been assessed to arise from the Company and the borrower wanting to extend their cooperation for mutual business purposes, and no specific credit risk triggers have been identified.

32 Receivables from direct insurance activities

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Due from policyholders	15 532	14 035
Due from intermediaries	2 428	3 078
Impairment allowance for bad debtors	(878)	(4 327)
	17 082	**12 786**

	Allowance for policy holders	Allowance for intermediaries	Total allowance for insurance debtors
	EUR'000	EUR'000	EUR'000
Allowance as at 31 December 2020	(2 693)	(902)	(3 595)
Impairment loss charge	(884)	(93)	(977)
Impairment loss reversed and written-off	206	39	245
Allowance as at 31 December 2021	(3 371)	(956)	(4 327)
Impairment loss charge	(630)	(53)	(683)
Impairment loss reversed and written-off*	3 265	867	4 132
Allowance as at 31 December 2022	(736)	(142)	(878)

*In 2022, the Company partly sold and partly wrote-off receivables due from policyholders in Poland, which were overdue for more than 1 year, at the time of the sale and write-off respectively, and for which impairment allowance had been recognized in the total amount of EUR 3 037 thousand. The net result from this sale and write-off was close to zero, as impairment allowance for bad debts was recognized in line with the Company's policy.

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Overdue receivables		
Less than 3 months	165	964
More than 3 months	167	182
Outstanding receivables not yet due	2 063	1 934
Allowances for doubtful debts	(142)	(956)
Intermediaries	**2 253**	**2 124**
Overdue receivables		
Less than 3 months	931	3 503
More than 3 months	1 142	1 101
Outstanding receivables not yet due	13 492	9 429
Allowances for doubtful debts	(736)	(3 371)
Policyholders	**14 829**	**10 662**
Total direct insurance debtors	**17 082**	**12 786**

33 Other receivables

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Non-financial assets		
Advance payments	317	263
Total non-financial assets	**317**	**263**
Financial assets		
Receivables for claims handling services provided	449	912
Other debtors	1 531	1 208
Impairment allowance	(240)	(188)
Total financial assets	**1 740**	**1 932**
Total other receivables	**2 057**	**2 195**

	Gross
	EUR'000
Allowance as at 31 December 2020	**(186)**
Additional allowance, net	(2)
Allowance as at 31 December 2021	**(188)**
Additional allowance, net	(52)
Allowance as at 31 December 2022	**(240)**

Other receivables – financial assets by impairment stage as at 31 December 2022:

	Gross amount	Expected credit loss allowance	Net carrying amount
Other receivables			
Stage 1	1 740	-	1 740
Stage 2	-	-	-
Stage 3 and POCI	240	(240)	-
Total Other receivables	**1 980**	**(240)**	**1 740**

Other receivables – financial assets by impairment stage as at 31 December 2021:

	Gross amount	Expected credit loss allowance	Net carrying amount
Other receivables			
Stage 1	1 932	-	1 932
Stage 2	-	-	-
Stage 3 and POCI	188	(188)	-
Total Other receivables	**2 120**	**(188)**	**1 932**

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Overdue receivables		
Less than 3 months	-	-
More than 3 months	240	188
Outstanding receivables not yet due	1 740	1 932
Allowances for doubtful debts	(240)	(188)
Total Other receivables – financial assets	**1 740**	**1 932**

34 Cash and cash equivalents

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Current accounts with credit institutions	22 940	19 480
Deposits with original maturity less than 3 months	11 331	10 325
Current accounts with financial intermediaries	538	274
Cash and cash equivalents	**34 809**	**30 079**

Deposits with original maturity less than 3 months are included in the Statement of Financial Position in the caption Deposits with banks (refer to Note 30).

Current accounts with credit institutions and financial intermediaries are included in the Statement of Financial Position in the caption Cash and on demand placements.

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

35 Obligatory payments disclosed in the Statement of Cash Flows

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Paid to:		
Transport Insurance Bureau	1 022	717
FCMC (Financial and Capital Market Commission)	144	94
Foreign insurance supervisory institutions	16	22
Total obligatory payments	**1 182**	**833**

36 Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2022 was EUR 20 050 200 (31 December 2021: EUR 20 050 200) and was comprised of 141 000 shares (31 December 2021: 141 000), and was fully paid. Nominal value of one share was EUR 142.20 (31 December 2021: EUR 142.20).

	31.12.2022		31.12.2021	
	Number of shares	EUR'000	Number of shares	EUR'000
Ordinary shares with voting rights	137 000	19 481	137 000	19 481
Preference shares without voting rights	4 000	569	4 000	569
	141 000	**20 050**	**141 000**	**20 050**

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.

Revaluation reserves

The revaluation reserves includes revaluation of land and buildings used by the Company for its own activities, currency revaluation impact from the Company's foreign operations and the fair value reserve of financial investments at FVOCI.

	Land and buildings revaluation reserve	Currency revaluation impact	Fair value reserve – financial investments at FVOCI	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 31 December 2020	**2 892**	**(338)**	**-**	**2 554**
Adjustment on initial application of IFRS 9 as at 1 January 2021	-	-	(11)	(11)
Currency revaluation impact, net	-	(36)	-	(36)
Changes in fair value reserve	-	-	(72)	(72)
Reclassified to profit or loss on derecognition of debt securities	-	-	-	-
Balance at 31 December 2021	**2 892**	**(374)**	**(83)**	**2 435**
Currency revaluation impact, net	-	(67)	-	(67)
Changes in fair value reserve	-	-	(833)	(833)
Reclassified to profit or loss on derecognition of debt securities	-	-	191	191
Balance at 31 December 2022	**2 892**	**(441)**	**(725)**	**1 726**

Share premium

In previous years, together with the increase of the Company's share capital additional share premium was paid in for the total amount of EUR 18 464 thousand. Share premium is available to shareholders for distribution, and there are no restrictions on the share premium.

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 8 536 thousand. These reserves are available to shareholders for distribution, and there are no restrictions on those reserves.

Dividends

In December 2020, the shareholders decided to distribute interim dividends in the amount of EUR 19 400 thousand for the 10 months period ended 31 October 2020. In January 2021, the Company received permission from FCMC to pay out these dividends. In January 2021 the dividends for year 2020 in the amount of EUR 19 400 thousand were paid out to shareholders. In 2022, the shareholders decided to distribute dividends in the amount of EUR 1 041 thousand, which were fully paid during the period.

37 Deferred tax

Movement in temporary differences during the year ended 31 December 2022:

EUR'000	Net balance as at 1 January 2022	Recognized in profit or loss statement	Recognized directly in equity	Currency revaluation effect	Net balance as at 31 December 2022	Deferred tax asset	Deferred tax liability
Deferred client acquisition costs	(423)	(76)	-	7	(492)	-	(492)
Bad debts	552	(471)	-	(10)	71	71	-
Tax loss carried forward	-	138	-	-	138	138	-
Other temporary differences, net	(181)	293	-	4	116	116	-
	(52)	(116)	-	1	(167)	325	(492)
					Set off of tax	(325)	325
					Net deferred tax liability	**-**	**(167)**

Movement in temporary differences during the year ended 31 December 2021:

EUR'000	Net balance as at 1 January 2021	Recognized in profit or loss statement	Recognized directly in equity	Currency revaluation effect	Net balance as at 31 December 2021	Deferred tax asset	Deferred tax liability
Tax loss carried forward	283	(283)	-	-	-	-	-
Deferred client acquisition costs	(589)	162	-	4	(423)	-	(423)
Bad debts	430	126	-	(4)	552	552	-
Other temporary differences, net	(201)	10	-	10	(181)	-	(181)
	(77)	**15**	**-**	**10**	**(52)**	**552**	**(604)**
					Set off of tax	(552)	552
					Net deferred tax liability	**-**	**(52)**

38 Reinsurance creditors

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Reinsurance companies	193	62
Reinsurance brokers	1 612	1 349
	1 805	**1 411**

	31.12.2022	31.12.2021
Reinsurance creditors geographic segmentation:	EUR'000	EUR'000
European Union member countries	1 805	1 411
	1 805	**1 411**

39 Other creditors

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Financial liabilities		
Due to employees (remuneration)	229	220
Due to the Bank of Latvia (previously – FCMC), Latvia	40	24
Due to the Transport Insurance Bureau	96	55
Due to shareholders for interim dividends	2	2
Other suppliers and creditors	878	912
Total financial liabilities	1 245	1 213
Non-financial liabilities		
Accrued liabilities – commission payables to intermediaries	1 469	581
Total non-financial liabilities	1 469	581
	2 714	1 794

40 Lease liabilities

	Note	Lease liabilities
As at 1 January 2021		427
Changes from financing cash flows		
Payment of lease liabilities		(189)
Total changes from financing cash flows		238
Liability-related other changes		
New leases	23	18
Total liability-related other changes		18
As at 31 December 2021		256
Changes from financing cash flows		
Payment of lease liabilities		(198)
Total changes from financing cash flows		58
Liability-related other changes		
New leases	23	70
Total liability-related other changes		70
As at 31 December 2022		128

Lease liabilities are included in the Statement of Financial Position under Other creditors caption – Other suppliers and creditors.

The maturity profile of lease liabilities are disclosed in Note 4.3, and undiscounted cash flows of lease liabilities are disclosed below.

31.12.2022	Carrying amount	up to 12 months	1-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Lease liabilities	**128**	69	59	-	**128**

31.12.2021	Carrying amount	up to 12 months	1-5 years	Over 5 years	Total
Non-derivative financial liabilities					
Lease liabilities	**256**	46	210	-	**256**

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.

41 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 3.18.

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:

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Other loans issued to the related parties	474	9 717
Loans issued to related parties, net	**474**	**9 717**

The interest rate on loans issued according to agreements varies from 2.7% to 3.9%. Interest income on loans issued to related parties in 2022 amounted to EUR 180 thousand (2021: EUR 359 thousand).

Other balances with related parties:

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Due from intermediaries	342	613
Other receivables	287	209
Other payables	(14)	(86)
	615	736

Information about other transactions with related parties:

A property maintenance agreement was signed and property provided for maintenance to a related party. Megape Īpašumi AS is a related party of the Company that manages the Company's real estate properties. The Company's ownership share in Megape Īpašumi AS is 36.90%. In the regular course of business, the Company receives claims handling and administrative services from its related parties. Members of the management or their related parties acquire insurance products of the Company.

Total administrative expenses for services received from related parties in 2022 amounted to EUR 181 thousand (2021: EUR 180 thousand). Total commission expenses to related parties in 2022 amounted to EUR 2 772 thousand (2021: EUR 5 421 thousand).

The amount of these transactions is insignificant individually; thus, aggregated information is disclosed in these financial statements.

42 Provisions

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Provisions for unused employee vacations	513	355
Other provisions	108	60
	621	**415**

	Gross amount
	EUR'000
Provisions as at 31 December 2020	**516**
Increase of provisions	855
Paid	(956)
Provisions as at 31 December 2021	**415**
Increase of provisions	571
Paid	(365)
Provisions as at 31 December 2022	**621**

43 Number of employees and information on branches

The Company's Headquarters are in Latvia with 3 foreign branches in Poland, Lithuania and Germany. Number of employees as at the end of the year:

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Latvia	125	102
Branch in Poland	53	42
Branch in Lithuania	36	25
Branch in Germany	3	4
Branch in France	-	3
	217	**176**

44 Personnel expenses

	2022	2021
	EUR'000	EUR'000
Remuneration	5 216	4 196
Social contribution expenses	971	887
	6 187	5 083
Employees (included in administrative expenses)	4 951	4 052
Employees (included in loss adjustment expenses)	1 236	1 031
	6 187	5 083

45 Remuneration of the members of the Board of Directors and Supervisory Council

	2022	2021
	EUR'000	EUR'000
Supervisory Council	150	148
Board of Directors	420	300
Social contribution expenses	135	106
	705	554

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

46 Remaining maturities of insurance liabilities

	31.12.2022 EUR'000			31.12.2021 EUR'000		
	Gross liabilities	Reinsurance	Net liabilities	Gross liabilities	Reinsurance	Net liabilities
Unearned premium and unexpired risk technical reserves	35 168	(420)	34 748	23 277	(541)	22 736
Outstanding claim technical reserves	96 934	(16 398)	80 536	100 227	(18 930)	81 297
Total	132 102	(16 818)	115 284	123 504	(19 471)	104 033
Up to 1 year	117 385	(16 818)	100 567	108 272	(19 471)	88 801
1-5 years	63	-	63	11	-	11
Over 5 years	159	-	159	173	-	173
No fixed maturity	14 495	-	14 495	15 048	-	15 048

47 Contingent liabilities and commitments

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 2022, there were no other material open legal claims against the Company that were not related to insurance business (31 December 2021: none).

Credit related commitments

As at 31 December 2022, the Company did not have any off balance sheet credit related commitments (31 December 2021: none).

Contingent liabilities

As at 31 December 2022, the Company did not have any contingent liabilities (31 December 2021: none).

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.

31.12.2022	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	6 522	-	684	7 206
Financial investments at fair value through other comprehensive income	6 786	10 008	2 459	19 253
	13 308	10 008	3 143	26 459

31.12.2021	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	7 467	-	232	7 699
Financial investments at fair value through other comprehensive income	6 349	3 685	205	10 239
	13 816	3 685	437	17 938

As at 31 December 2022, debt securities in the amount of EUR 3 318 thousand were reclassified from Level 1 to Level 2 fair value hierarchy and debt securities in the amount of EUR 500 thousand were reclassified from Level 2 to Level 3 fair value hierarchy due to a more limited market activity and availability of quoted market prices for these securities. As at 31 December 2021, debt securities in the amount of EUR 5 847 thousand were reclassified from Level 2 to Level 1 fair value hierarchy due to increased market activity and availability of quoted market prices for these securities. No other reclassifications of financial investments between the levels of fair value hierarchy have taken place in 2022 or 2021.

	EUR'000
Financial assets Level 3 as at 31 December 2020	**1 146**
Reclassified to investment in associates	(910)
Purchased	255
Revaluation	(54)
Financial assets Level 3 as at 31 December 2021	**437**
Purchased	2 537
Reclassified from Level 2	500
Revaluation	(127)
Sold	(204)
Financial assets Level 3 as at 31 December 2022	**3 143**

Total gains or losses for the year of the financial instruments measured at fair value are presented in the statement of comprehensive income as follows:

2022	Financial assets at fair value through profit or loss EUR'000	Financial assets at fair value through other comprehensive income EUR'000
Total gains included		
in profit or loss	(960)	(42)
in OCI	-	(642)
	(960)	**(684)**

2021	Financial assets at fair value through profit or loss EUR'000	Financial assets at fair value through other comprehensive income EUR'000
Total gains included		
in profit or loss	479	252
in OCI	-	(72)
	479	**180**

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:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Financial instruments at fair value through profit or loss and Financial investments at fair value through other comprehensive income	Quoted market prices with limited market activity (Level 2)	None	None
Financial instruments at fair value through profit or loss and Financial investments at fair value through other comprehensive income	Discounted cash flows (Level 3)	Discount rates	The fair value would increase/ (decrease) if the discount rate was lower (higher).

B Financial instruments not measured at fair value

Cash and on demand placements and Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value. Receivables from direct insurance and Reinsurance activities are short-term assets whose carrying amount approximates the fair value. Other receivables includes short-term receivables whose carrying amount approximates the fair value. Direct insurance and Reinsurance creditors and Other creditors are short-term financial liabilities whose carrying amount approximates the fair value.

The table below analyses financial instruments not measured at fair value, where carrying amount does not approximate the 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. See also Note 28.

31.12.2022	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at amortized cost	61 940	2 521	-	64 461
	61 940	**2 521**	**-**	**64 461**

31.12.2021	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at amortized cost	41 963	23 027	-	64 990
	41 963	**23 027**	**-**	**64 990**

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Financial instruments at amortised cost	Quoted market prices with limited market activity (Level 2)	None	None

49 Subsequent events

As of the last day of the reporting period until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in these financial statements or notes thereto.

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Independent Auditors' Report

To the shareholders of Balcia Insurance SE

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Balcia Insurance SE ("the Company") set out on pages 12 to 84 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2022,
- 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

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

Measurement of gross outstanding claims technical reserves

The Company's gross outstanding claims technical reserves as at 31 December 2022 amounted to EUR 96 934 thousand (31 December 2021: EUR 100 227 thousand).

Reference to the financial statements: Note 10 "Outstanding claims technical reserves", Note 46 "Remaining maturities of insurance liabilities", Note 2 "Basis of preparation" point (f) "New standards and interpretations not yet adopted", Note 3 "Significant accounting policies" point 3.2 (f) "Outstanding claims technical reserves" and Note 4.2 "Insurance risks and risk management" (Notes to the financial statements).

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. IBNR).

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

The complexity of the models applied may give rise to 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

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 claims amounts, 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 the relevant financial reporting standards.
- For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the

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.	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. • Assessing the Company’s gross outstanding claims technical reserves-related disclosures against the requirements of the applicable financial reporting standards, including the estimated impact of IFRS 17 that has not yet been adopted.

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 10 of the accompanying Annual Report,
- Statement of Management Responsibility, as set out on page 11 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. 114 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and branches of foreign insurers.

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

- the information given in the 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. 114 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and branches of foreign insurers.

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the shareholders' meeting on 24 May 2021 to audit the financial statements of Balcia Insurance SE for the year ended 31 December 2022. Our total uninterrupted period of engagement is 18 years, covering the reporting periods ending 31 December 2005 to 31 December 2022.

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, which have not been disclosed in the Management Report or in the financial statements of the Company.

KPMG Baltics SIA
Licence No. 55

Rainers Vilāns
Member of the Board
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
31 March 2023

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