Lietuvos draudimas AB

*Independent Auditor's Report,
Annual Management Report and
Financial Statements for the Year
Ended 31 December 2021*

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Independent Auditor's Report

To the Shareholder of Lietuvos draudimas AB

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lietuvos draudimas AB ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholder equity for the year then ended,
- the statement of cash flows for the year then ended, and
- notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities 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' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. 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. Each audit matter and our respective response are described below.

Company code: 111494971
VAT code: LT114949716

Measurement of claim reserves

The Company's gross of reinsurance outstanding claims reserves as at 31 December 2021: EUR 134 million (31 December 2020: EUR 123 million). The change in gross reinsurance outstanding claims reserves in 2021: EUR 11 million (increase) (2020: 13 million (increase)).

Reference to the financial statements: "Technical reserves" on page 33 (Summary of significant accounting policies) and Note 7 "Outstanding claim reserves" on page 43 (Notes to the financial statements).

The key audit matter	How the matter was addressed in our audit
Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities in its statement of financial position. The most significant claim reserves are associated with the obligatory motor third party liability, motor own damage and property portfolios. The 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 yet reported (i.e. IBNR). The estimation of the amounts of claim reserves generally involves a significant degree of Management Board's judgment mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a material effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss ratios, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, regress and the expected payment period. The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus the completeness and accuracy of the data underlying the actuarial projections was also an area of our audit focus. Due to the above factors, we considered measurement of the non-life insurance claim reserves to be our key audit matter.	Our audit procedures, performed, where applicable, with the assistance of our own actuarial specialists, included, among others: • Testing of the design and implementation of the selected key controls related to the process of establishing and adjusting outstanding claim reserves. This included testing the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (claims paid and incurred, premiums written and earned, and number of claims), and data validation. • Assessing the appropriateness of the actuarial methodologies applied by the Company for consistency as well as against the requirements of the financial reporting standards and market/industry practice. • Challenging key inputs and assumptions applied in estimating claim reserves, including those in respect of the loss ratios, claim frequency and average size of claims, regress, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period - by reference to industry trends, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards. • For significant portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claim reserves recognized at the end of prior year, comparing this analysis to the Company's current year's actual experience, and seeking the Management Board's explanations for any significant differences.

	• For most significant insurance contract portfolios, including obligatory motor third party liability, motor own damage and property, developing an independent estimate of the gross outstanding claims liability for those not yet reported, comparing our independent estimates to the Company's estimates and seeking Management Board's explanations for any significant differences. • Assessing the Company's provision for outstanding claims-related disclosures against the requirements of the relevant financial reporting standards.

Other Information

The other information comprises the information included in the Company's annual management report, including Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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, 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.

In addition, our responsibility is to consider whether information included in the Company's annual management report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Company's annual management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Company's annual management report has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We are also required to report on whether the Corporate Social Responsibility Report has been provided to us by the Company. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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 International Financial Reporting Standards, 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.

Auditor's Responsibilities 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 auditor's 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 auditor's 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 auditor's 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 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, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders 'meeting we were appointed on 28 March 2013 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed each two years under decision of the general shareholders 'meeting, and the total uninterrupted period of engagement is 9 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report which we have submitted to the Company and its Audit Committee.

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to the statutory audit services we provided to the Company, there were no services, which would not have been disclosed in the financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
28 March 2022

Council

Name, Surname	*Position*
Katarzyna Anna Galus	Chairman of the Supervisory Board
Marcin Goral	Member of the Supervisory Board
Weronika Dejneka	Member of the Supervisory Board
Jan Pstragowski	Member of the Supervisory Board
Krzysztof Soltysik	Member of the Supervisory Board

Board

Name, Surname	*Position*
Kęstutis Šerpytis	Chairman of the Board, Chief Executive Officer
Artūras Juodeikis	Board Member, Claims Department Director
Aurelija Kazlauskienė	Board Member, Strategy, Clients and Marketing Department Director
Julius Kondratas	Board Member, Underwriting Department Director
Raimondas Geleževičius	Board Member, Private Sales Department Director
Mihkel Uibopuu	Board Member, Manager of Lietuvos draudimas AB Eesti filiaal
Simonas Lisauskas	Board Member, Commercial Sales Department Director
Arūnas Rumskas	Board Member, Finance Department Director

Disclosure of Council Members participating in other organisations

Katarzyna Anna Galus

Position:	*Director of Supervision of Foreign Operations Department*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Director of Supervision of Foreign Operations Department*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Chairman of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Chairman of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Member of the Supervisory Board*
Organisation:	*OPEC Pulawy*
Legal form of the organisation:	*Association*
Company code:	*0000012660*
Address:	*Izabelli St. 6, 24-100 Pulawy, Poland 7*

Position:	*Member of the Supervisory Board*
Organisation:	*Voxel SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000238176*
Address:	*Wielicka str. 265, 30-663 Krakow, Poland.*

Marcin Goral

Position:	*Executive Director of PZU Group Strategy*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Executive Director of PZU Group Strategy*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Member of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*

Weronika Dejneka

Position:	*Executive Director of Banking Services and Investment Products*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Executive Director of Banking Services and Investment Products*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Member of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*

Position:	*Coordinator*
Organisation:	*TFI PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000019102*
Address:	*Jana Pawla alėja II 24, 00-133 Warsaw, Poland*

Position:	*Chairman of Management Board*
Organisation:	*SA „PZU Cash"*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000688411*
Address:	*Jana Pawla alėja II 24, 00-133 Warsaw, Poland*

Jan Pstragowski

Position:	*Head of Project Management*
Organisation:	*TFI PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000019102*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Krzysztof Soltysik

Position:	*Director of Credit Risk and Related Parties*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Position:	*Director of Credit Risk and Related Parties*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*

Position:	*Member of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*

Position:	*Member of the Supervisory Board*
Organisation:	*PZU Ukraine PrJSC IC*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*20782312*
Address:	*62, Dehtiarivska str., Kyiv, 0411, Ukraine*

Position:	*Member of the Supervisory Board*
Organisation:	*PZU Ukraine Life Insurance PrJSC IC*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*32456224*
Address:	*62, Dehtiarivska str., Kyiv, 0411, Ukraine*

Disclosure of Board Members participating in other organisations

Kęstutis Šerpytis

Position:	*Chairman of the Council*
Organisation:	*Lithuanian Insurers Association*
Legal form of the organisation:	*Association*
Company code:	*121737585*
Address:	*Gedimino Ave. 45-11, LT-01109 Vilnius, Lithuania*

Position:	*Member of the Council*
Organisation:	*Motor Insurers' Bureau of the Republic of Lithuania*
Legal form of the organisation:	*Association*
Company code:	*125709291*
Address:	*Algirdo St. 38, LT-03606 Vilnius, Lithuania*

Raimondas Geleževičius

Position:	*Member of the Board*
Organisation:	*AB Lietuvos radijo ir televizijos centras*
Legal form of the organisation:	*Stock Company*
Company code:	*120505210*
Address:	*Sausio 13-osios St. 10, LT-04347 Vilnius, Lithuania*

Mihkel Uibopuu

Position:	*Member of the Board*
Organisation:	*MKU IDEED OU*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*12206020*
Address:	*Metsise St. 5-3 Tallinn, Estonia*

Arūnas Rumskas

Position:	*Coordinator of the Foreign Operations Supervision Department*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Position:	*Member of the Board, Chief Financial officer*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*

Position:	*Member of the Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*

Name and address of the independent auditor:

KPMG Baltics, UAB
Lvivo St. 101
LT-08104, Vilnius
Lithuania

Overview of the market

In 2021, the Lithuanian non-life insurance market recovered and compensated for the fall in 2020. According to the Bank of Lithuania, the non-life insurance market of the country, including the branches of foreign insurance companies doing business in Lithuania, reached EUR 721 million in insurance premiums written for 2021, which is 8.5% more than in 2020.

7.1 million contracts were concluded in 2021 in the Lithuanian non-life insurance market, which is 5.1% more than in 2020. There were 5.3 million valid non-life insurance contracts at the end of 2021, which is 6.8% more than in 2020. In 2021, the largest part of those insurance contracts accounted for compulsory motor third party liability insurance policies (MTPL), comprising 43% of all the contracts, which is slightly less than in 2020.

According to written premiums, the MTPL remained the largest non-life insurance type, generating EUR 239 million in premiums in 2021, which is 33% of all non-life insurance market premiums. In the business insurance segment, the MTPL grew by 4.5%, while in the resident insurance segment, this insurance type continued to fall in 2021, with the premiums decrease of 6.1% in 2021.

The second largest insurance type by the premiums written was the terrain vehicle Casco insurance. The Casco insurance premiums written in 2021 accounted for the same number (23%) of all the non-life insurance market premiums as in 2020, although the share of contracts is significantly more moderate, comprising 6%. In the resident insurance segment, the terrain vehicle insurance growth in 2021 amounted to nearly 16%, while the growth of the Casco insurance premiums written in the business segment increased by nearly 5%.

The third largest insurance type is property insurance, accounting for 19% of all insurance premiums. In 2021, property insurance almost doubled its growth compared to 2020, with the premiums increase of 15%.

According to the insurance premiums written, these three types of insurance – MTPL, Casco and property insurance – comprised nearly 76% of the entire non-life insurance market in Lithuania.

In 2021, the premiums written by Lietuvos draudimas AB in the non-life insurance products increased more than the market in Lithuania, and only somewhat less than in Estonia. The Company maintains its leading position in Lithuania, with its position secured among the top four largest non-life insurance companies in Estonia.

In 2021, the contracts concluded by Lietuvos draudimas AB amounted to 2 million, which nearly as many contracts as in 2020. The growth rate of the insurance premiums written increased by 8.8%. In 2021, the total premiums written by the Company in the Lithuanian market amounted to EUR 214 million. According to the country's market share held, Lietuvos draudimas AB remains a strong market leader, holding 29.7% of the entire market at the end of 2021.

The resident insurance market premiums amounted to EUR 324 million in 2021. In the resident insurance segment, the premiums grew by 5.3% as compared to 2020, with Lietuvos draudimas AB growth comprising correspondingly 3.3%. The growth in the Company's corporate customer segment was significantly greater than in the residential segment. The amount of business insurance premiums written by Lietuvos draudimas AB grew by 17.2% in 2021 and while the market grew at the rate of 11.3%.

In 2021, the market growth was largely determined by the health insurance, the premium amount of which increased by nearly 26% in comparison with 2020. The health insurance market share held by Lietuvos draudimas AB had the largest increase among all the insurers offering this service – from 15.2% to 17.5%.

Estonian Market

The Estonian non-life insurance market recognized EUR 399 million gross written premium in 2021 increasing by 4.2% compared to EUR 383 million in 2020. The number of non-life insurance gross written premiums by the Lietuvos draudimas AB Estonian branch in 2021 increased 3.6% compared to 2020 – amounting to a total of EUR 58 million. According to the data of the Estonian Department of Statistics Lietuvos draudimas AB market share was 14.5% decreasing slightly by 0.2% y/y. Lietuvos draudimas AB Estonian branch ended fourth according to the premiums in the Estonia non-life insurance market.

MTPL market premiums did not recover and remained under prior period by -4% (EUR -3.6 million). Market growth was supported mainly by health business strong growth (+190% or EUR 3.85 million), private vehicles insurance (+6.5% or EUR 4.1 million), private property (+5.6% or EUR 3.9 million) being the most resilient during the crises and insurance for pecuniary loss growth (+30% or EUR 4 million) driven by LHV.

The structure of non-life insurance in 2021 was dominated by motor insurance, which accounted for 55%, including motor own damage insurance accounting for 31% following by property insurance with 29% of the gross premium written in the market.

As of December 2021, there were 13 companies operating in the country's non-life insurance sector among which the biggest 4 companies held approx. 70% of Estonian non-life insurance market. Estonian capital based insurer LHV Kindlustus started the active offering of motor insurance in 2021. LHV Kindlustus is also providing home insurance, MTPL and travel insurance, as well as equipment, additional guarantee insurance and insurance for pecuniary loss.

Financial results of the Company

Non-life insurance premiums written in 2021 by Lietuvos draudimas AB together with its Estonian branch amounted to EUR 272 million and, compared to the EUR 253 million of premiums written in 2020, achieved a 7.5% growth. The Company successfully grew in both of its Lithuanian and Estonian markets.

The Lietuvos draudimas AB demonstrated profitable performance in both its markets. The net profit of Lietuvos draudimas AB in 2021, including the result of the Estonian branch, amounting to EUR 26.9 million, compared to EUR 25.7 million in 2020. The Company's operations were profitable in both the non-life insurance activities and investment portfolio management in 2021.

The Company earned EUR 27.9 million from direct non-life insurance activities in 2021 (EUR 27.6 million in 2020). The successful result in the non-life insurance segment and stable profits were determined by the further growth of premiums earned, which is the consequence of the increased business volumes in the Company and decreasing cost ratio. The fixed cost control in the Company and focus on efficiency prevent the increase of the expense indicators at the same or higher rate than income, resulting in the improvement of the Company's profitability.

The Company continued its conservative investment policy in 2021, concentrating its investments in the European government debt securities and safe securities of the strong companies.

In terms of investments, the Company's activities in 2021 were also successful. The profits from investment activities of Lietuvos draudimas AB together with the Estonian branch comprised EUR 3.2 million, as compared to EUR 2.8 million in profits from investment activities in 2020.

The sum of claims settled with the Company's customers continues to increase annually. In 2021, the Company together with the Estonian branch settled non-life insurance claims for the amount of EUR 142.9 million, i.e., 10% more than a year ago (EUR 130.3 million in 2020).

Corporate income tax expense of Lietuvos draudimas AB increased by 11% in 2021 and amounted to EUR 3.9 million (EUR 3.5 million in 2020).

Shareholders and structure

Lietuvos draudimas AB belongs to the Polish, Central and Eastern Europe insurance group Powszechny Zakład Ubezpieczen Spółka Akcyjna (PZU SA), which held 100% of Lietuvos draudimas AB shares in 2021. in 2021.

In 2021, the Company acquired, disposed and, as at 31 December 2021, held no own shares. In 2020 and as at 31 December 2021, Lietuvos draudimas AB did not have subsidiaries. The Company has a branch in Estonia, which operates under a registered name of Lietuvos Draudimas AB Eesti filiaal. Company code 12831829, head office address Parnu mnt. 141, Tallinn, Estonia.

Company strategy

In 2020-2021, Lietuvos draudimas operated in accordance with the Restart strategy. The strategy was focused on successful growth and optimising the company's cost base in order to maintain the position of the market leader and stable financial results: consistent profitability, ambitious combined insurance indicator and efficient cost management.

At the end of 2021, the Company approved a new strategy for 2022-2024. In this strategy, the company named its goals, linking them with the activities of the shareholder PZU SA. Lietuvos draudimas AB will continue to pursue consistent activities seeking stable growth and the best customer experience. The Company also plans to pay more attention to sustainability activities and continue to invest in the well-being of its employees.

The Company's customers and their experience

At the end of 2021, Lietuvos draudimas AB had 597,234 unique customers, of which 561,937 were natural persons and 31,297 legal entities. In 2020, the Company had 588,155 customers.

Seeking improvement of the services and contact points with the clients, since 2010, Lietuvos draudimas AB has been using the Voice of the Customer system. This system helps to listen to customers and consider their opinion. At the end of 2021, the Net Promoter Score indicator amounted to 77% (74% in 2020).

During 2021, the number of private customers grew the fastest in housing, casco and compulsory third-party liability insurance products. In the segment of corporate customers, the highest growth was recorded in the health and Casco insurances.

"It makes a difference where to acquire insurance" – a value strategy for private customers

Lietuvos draudimas AB continued the value strategy for private clients prepared in 2015, thus further improving and expanding the range of products with added value for clients.

Compulsory driver's third-party liability insurance:

In 2021, the Company improved the Driver's Third-Party Liability Insurance offer and offered customers a new added value to the usual insurance package – insurance against complete destruction of the vehicle, aimed at customers who do not have a casco insurance but want to protect themselves from losses when after the occurrence of the event the vehicle is deemed unrepairable (beyond economic repair). In this case, the customer can receive a maximum benefit of up to EUR 10,000.

Casco insurance

After the renewed casco product introduced to the market in 2020, Lietuvos draudimas further developed and improved this product in 2021, focusing on increasing the value for its customers. The sum insured of accident insurance has been increased from EUR 10,000 to EUR 15,000, the product terms and conditions have been updated, eliminating the "grey areas", increasing the technical assistance limit in the event of an accident abroad, and clarifying the definition of a motorhome.

Home insurance

In 2021, the Company substantially revised the terms and conditions of the housing product insurance and issued a new version of the terms and conditions to ensure that product coverage meets the current needs of customers. The changes were intended to correct the discrepancies, reduce the "grey areas" due to insured events and, of course, to add the most relevant values so that the insurance coverage is constantly relevant and best meets the growing needs of the customer in the market.

In 2021, Lietuvos draudimas continued to offer extended home insurance to new customers. In order to encourage non-insured residents to take out home insurance, the Company organised a communication campaign "Extended home insurance" and offered a 15-months housing coverage for a 12-months' price. During the campaign, we provided all new customers with the same additional values by choosing the home insurance that meets their needs: an increased sum insured of third-party liability insurance, free personal third-party liability insurance and extended insurance coverage.

Personal insurance

Lietuvos draudimas started the second half of 2021 with a campaign for customers "Two insurances as gifts" and paid great attention to personal insurance sales in the family segment. All new clients with family personal insurance were given two additional insurances free of charge: personal third-party liability and medical expenses.

Travel insurance

In response to the ongoing pandemic, in 2021, the Company offered its customers the opportunity to acquire the travel insurance product with a current COVID-19 risk option.

Customer service at company offices

In 2021, Lietuvos draudimas AB invested in the renovation of its offices throughout Lithuania and plans to continue these works in 2022. In total, the Company renovated 26 offices (compared to 5 offices renovated in 2020, and 10 in 2019), which were adapted for hybrid working.

The decision to work in a hybrid model means that the Company's employees, taking into account the ongoing pandemic, work in the office by a factor of 0.5 – part of the time working in the office and part at home. This work model also requires renovated premises that would enable efficient use of the space required for a smaller number of employees.

At the same time, renovation also means modern solutions for the Company's customers and comfort for employees. Each office adapted to hybrid working is equipped according to the prevailing modern trends: renovated interior, excellent plumbing and power networks, and spaces arranged for convenient customer service.

Customer service in e-space

2021 was another year of the digital leap that extended the growing need of customers to deal with insurance issued remotely that emerged with the onset of the COVID-19 pandemic. Realising the changing habits of customers, also this year the Company focused on customer service in e-space – further improved its self-service system Savas LD and expanded the range of services available in the e-space.

When assessing customer activity, the Company calculated the following self-service results:

- The number of successful logins to self-service in 2021 increased by as much as 54.2% compared to 2020.
- In 2021, we recorded + 0.5 million more successful logins.
- Along with the growth in logins, the payments via Savas LD also increased by 32%, amounting to nearly EUR 7 million more than in 2020.

During 2021, in order to improve the customer experience in self-service, the Company devoted most of its IT resources and made the following changes:

- Improvements in cash balance management and payments;
- Extending casco damage registration functionalities;
- Development of card payments;
- Improvements in the administration of business product offers;
- Process for claims registration and administration in compulsory driver's third party liability insurance;
- Process for property claims registration and administration.

In general, all actions allowed to significantly increase the share of active customers in the self-service. The Company recorded that in 2021, self-service had 49.9% active private customers (37.2% – in 2020), and 16.5% business customers (6.7% – in 2020).

In addition to the changes in the self-service space, the Company has developed new products that customers can conveniently purchase in e-space, i.e., home and casco insurance products. The team also worked to improve the customer's route on the Lietuvos draudimas website www.ld.lt to make it faster and more convenient for the customer.

Business customers – relationship based on trust

Close communication and trust are the key aspects that the Company fosters in its communication with Lietuvos draudimas business customers. In order to cooperate smoothly, we run various initiatives in our organisation – we invite legal clients to educational and entertainment events, we encourage them to talk not only about business or future contracts, but also to communicate in a slightly different informal environment.

According to the data of 2021, we achieved a market share of 22.8% in the business sector, and we grew by 17.2% in 12 months compared to 2020. We value business customers who trust us, choose us and allow us to contribute to the security of their business.

In 2021, the needs of business customers also responded to the general trend – businesses were looking for ways to improve the physical and psychological health of their employees, and people valued these steps taken by employers. As health coverage is in pursuit of important aspects, in 2021, Lietuvos draudimas AB continued expending the number of insured persons covered with health insurance and increased its market share in this product by offering a complex of additional actions, which allowed to expand the penetration of this segment and stimulated companies, which previously did not have this insurance, to acquire this product.

It is estimated that during 2021, Health Insurance grew by 25.9% in the entire market, and Lietuvos draudimas AB health insurance sales are growing every year, with a growth of 47.2% in 2020 and 44.7% in 2021, reaching the market share of 17.5%, which means the company has taken the second place in the market.

Contributing to emotional stability and health, the Company organised online lectures on health topics for its Health Insurance business customers. In 2021, Lietuvos draudimas AB created a new e-space to foster communication with brokers and intermediaries, where important information and expert insights are conveniently shared. The Company also ran a preventive communication line on the social network LinkedIn called #patarimasverslui (#tipsforbusiness).

The year 2021 also delighted us with new partnerships with other businesses in the Lithuanian market, creating the best experience for customers. Cooperation has been initiated with Lietuvos Paštas AB, Tele2 Lietuva and Elektrum Lietuva, which help each customer to acquire the services of Lietuvos draudimas AB in the most convenient way.

Innovations

Digitisation and teleworking, which began in 2020 in response to the crisis, turned into a transforming mechanism in 2021, which called for the expansion of business principles. The ambition of Lietuvos draudimas AB is to implement innovations in the insurance market, thus streamlining the activities of the company's employees and improving customer experience.

Claim settlement at the time most convenient time for customer

Since the beginning of the pandemic, Lietuvos draudimas AB has recorded a growing customer activity on the Internet: both in purchasing products and in self-service and claims administration. Adapting to new customer habits in 2021, Lietuvos draudimas AB significantly innovated the field of claims administration by implementing significant changes. The first change was implemented in August 2021, when the entire claims registration process was moved to the self-service website Savas LD.

Management of claims in self-service to customers means the most important things in this modern world: the freedom to handle claims at the convenient time, on day of the week (24/7), and data security. The self-service is protected by the customer's unique login credentials, making it the safest way to communicate with the insurer.

Self-service registration of the customer's claims also ensures faster claim administration, as the process itself becomes more straightforward – when all the customer's information is available in one place, the expert manages, reviews and analyses it faster, which means that the indemnification reaches the customer faster than usual.

For customers who use online services less frequently, the Company has prepared all the information materials that explain the new process step by step. The team of Lietuvos draudimas call centre was ready to help every customer by providing consultations during the claim registration. Moreover, the Company has installed self-service computers or tablets at all customer service points, which can be used to connect to the self-service platform, and the experts working there are always ready to assist if any questions arise.

At the end of 2021, assessing the success of the change, the Company recorded that 82% of private customers are already using the self-service Savas LD to register their claims. In the business customer sector, the change is also obvious – 66% of customers register claims in the self-service.

First claims settled without employee involvement

In the autumn of 2021, for the first time in the history of Lietuvos draudimas AB, motor claim was settled without the participation of employees, i.e., in a completely robotised manner. The robotic method is the calculator for Compulsory Driver's Third-Party Liability Insurance and Casco Insurance claims that was launched in self-service Savas LD.

The newly installed calculator enables the customer to not only notify about the fact of the damage, but also, after specifying the damages, to immediately receive the calculation of the indemnity performed with the use of an algorithm. The customer performs the entire claim administration independently: registers the claim in the self-service, assesses the loss, submits the documents and photos of damages, indicates the bank account and receives an indemnity after agreeing to the evaluated damage. No claims employee is involved in this entire process.

In order for the automatic algorithm to calculate the customer's damage, the tool was adapted to the needs of Lietuvos draudimas customers. The Company's employees have determined and implemented the rules for evaluating each possible damage to the vehicle, and it is according to these rules that the algorithm evaluates and calculates the indemnification amount payable to the customer.

Payment of indemnification takes place in three stages:

- Entering damages – the customer enters the required information into the system and marks the damages;
- Evaluation according to the rules – the internal algorithm evaluates the damage marked by the customer according to the established rules;
- Calculation mechanism – the indemnification calculated by the algorithm is sent to the customer, who confirms whether it is appropriate for him/her;
- If the customer does not agree with the amount specified by the algorithm, only then will the claim be passed on to the claims specialist for further administration.

Robotic claims regulation allows Lietuvos draudimas AB to minimise the claim cycle and pay indemnification to the customer within the shortest time, while also saving our team's work resources. It is planned that in the future this automatic process will be developed in such a way that after the customer's decision to click "I agree", he/she will receive a payment within a few hours or even minutes, i.e., no longer than it takes for an instant payment.

goLD – a modern sales system

In 2021, the Company started running all its sales to private customers and part of its business sales only by using its own innovative and intuitive sales system goLD. The functions of the system make the daily work of Lietuvos draudimas AB consultants, intermediaries and brokers simpler, faster and more efficient.

The system allows to create an offer for a customer in just a few steps, i.e., by entering the basic information about the client, an offer is generated with the help of several clicks, and the submitted offer can be converted into an insurance contract by a single click.

The new sales management system clearly provides the seller with all relevant information about the customer: insurance, ending contracts, upcoming payments, etc. This step allows the Company's sales team and brokers cooperating with Lietuvos draudimas AB to execute sales faster and more efficiently, while providing the customer with a more innovative insurance service purchasing experience and the employees with a modern user-friendly tool.

Activities of the Estonian Branch

At the end of 2020, Health Insurance product was launched to participate in strongly growing health market. In the first half year Lietuvos draudimas AB Estonian branch focus on Health Insurance product further development in production system and self-service platform enabling to participate in larger fleet tenders. The product was launched in July 2021 and the second half of the year has been very successful as sales are exceeded Plan.

Several initiatives initiated in claim handling for efficiency improvement:

- Direct handling with some reliable car repair shops was initiated and first agreements with car repair shops are signed in order to increase efficiency in MOD and MTPL claim handling activities;
- Client value (traffic light) development was completed and it has been launched into TIA – all claim and client fields show 3 values: clients total GWP, claim and policy pieces;
- Further development of automatic invoice payment process in claims handling to launch the project at the beginning of 2022. The main goal is to reduce the manual work of claim handlers and automate claim handling process.

Ongoing self-service portal phase II developments in pre-filled claim forms with policy details; cloning e-store for logged in users; form of termination of contract, create self-service advertising spaces – lives are planned in 2022. Further planned self-service development starting in 2022 is claims registering functionalities for repair shops.

Improvements in debt management by launching SMS delivery project by sending SMS to policyholder to notice unpaid invoices. Project is delivering expected results.

It was started to sell MTPL insurance as monthly prepaid instalments in the online store and in the direct sales channel.

Claim indemnification in Lithuania

During the year 2021, the number of cases of claims registered in Lithuania increased by 43.98% compared to 2020 and reached a total of 311.6 thousand claims. The largest part of claims handled by the Company in Lithuania in 2021 were health claims – 54.67% and transport claims – 22.30%.

In 2021, 73.20% of all claims (except health claims) were settled by the Company within a month, 28.23% – within 5 days, and 5.5% of claims – on the day of reporting. The pandemic brought a new approach to claim inspections. The Company administered more claims from photos of damaged property, vehicles and insured items provided by customers.

During the year 2021, the Company's clients were compensated with EUR 2.87 million for claims caused by storms and other natural disasters. In 2021, the most significant damage was caused by heavy snowfall in the winter, the loss amounted to EUR 1.27 million.

In 2021, the settlement and indemnification of the largest claim (EUR 0.553 million) to a legal person due to the fire that occurred in 2018, during which the grain warehouse had burned down.

The largest damage that took place and was compensated to a private client in 2021 amounted to EUR 0.145 million for a burnt down business structure.

The largest claim of the legal person that occurred and settled in 2021 was the sum amounting to EUR 0.551 million due to the fire in the biogas plant facility.

Compared to 2020, the Company identified 68.27% more fraudulent cases (1294 in 2021); however, their value (amounts unpaid) reached EUR 2.342 million, or 56.92%, more than in 2020. The most frequent types of fraud according to the identified number of fraud cases: 52.09 percent - increased value of damages – 17.08%; - falsification of circumstances of the event – 9.74%; - attempting to receive indemnification by purchasing insurance after the event. Even though according to the statistics, falsification of circumstances amounts to only 17.08%, these cases are of a higher value as the falsification of circumstances comprises 34.91% of value of all identified fraudulent actions in 2021 (comprising 34.90% in 2020). The largest revealed fraud of 2021, when the event circumstances were attempted to be tampered with to increase the damages, amounted to EUR 0.455 million.

Claim indemnification in Estonia

Lietuvos draudimas AB Estonian branch registered 29 083 claims in 2021, which is 7.2% more than in 2020. The largest share of claims in the Estonian branch were motor claims, comprising 68.5% (in 2020: 65.2%) of all the claims, private property claims – 18.8% (in 2020: 19.1%) and travel insurance claims – 3.9% (in 2020: 8.6%).

Human resources

In 2021, Lietuvos draudimas AB had 866 employees (958 in 2020). The average aggregate working time of Lietuvos draudimas AB employees is 10.6 years, average age – 42 years. This indicator is stable and has not changed for the past 6 years. In 2021, the turnover rate was 19.8% (voluntary turnover – 15.3%).

Employee engagement

Lietuvos draudimas AB monitors and analyses the engagement of its employees since 2000 and initiates actions that promote employee engagement.

The engagement survey of Lietuvos draudimas AB is used as a tool allowing to objectively measure the Company's success in creating a culture of trust and engagement, assess the strategic coherence, motivation and relations, as well as implementation of objectives. Lietuvos draudimas AB does its best for the employees to be proud of working at the Company, to recommend it to their friends and acquaintances, and to become true ambassadors of the Company.

We monitor the engagement survey in two directions: how many of engaged employees we have and what is the percentile rank compared to other organisations around the world. Percentile rank assessment is an organisation's diagnostics in which only quantitative data (the score given in answers to the questions) are assessed, while all questions and qualitative data, such as response time scores, comments and their nature, i.e., positive, negative or even not recorded, are taken into consideration to determine the engagement levels. We compared the result of our company this year with the result of 2019, because then we used the same methodology with the results of other companies conducting this study.

According to the survey, this year 27% of Lietuvos draudimas employees are engaged, and compared to 2019, this number has more than tripled. These employees are engaged and feel satisfied. They are motivated to work better than expected and also set a great example for others and are determined to go the extra mile every day for the good of the company.

64% of employees fall into the middle of the scale. This means that these employees perform their job well and are a very important part of the organisation. They need to be valued and recognised when they achieve their goals. However, these employees are reluctant to take the extra step.

9% of the organization's employees are classified as non-engaged. These employees are silently or passively non-engaged. They go with the flow or have given up, but many of them have the potential to become more engaged if the causes of dissatisfaction are eliminated.

The percentile ratio is measured by comparing the organisation's performance with that of other companies around the world. The lowest possible percentile rank is 1%, the highest is 99%. The percentile rank is used to evaluate 4 areas of the organisation:

- **Engagement culture** – does the organisation have a culture that ensures respect for employees, motivates them, gives them opportunities and offers challenges?
- **Motivation and relationships** – do managers motivate employees to achieve the best results? Do they build strong relationships and a united team?
- **Strategic coherence** – do employees understand the direction an organisation is moving and how they contribute to its success?
- **Implementation** – do managers clearly define expectations, ensure employee accountability and achieve tangible results?

The percentile rank 98% demonstrates that the activities that Lietuvos draudimas AB carries out for its employees are appreciated, and are suitable and clear to the employees. The employees essentially value what the Company provides for them: environment, culture, carrier opportunities, and they understand the company's strategic directions, etc. At the same time, this indicator shows that in terms of this aspect we are better than 98% of the companies participating in this survey, which is a really great result.

Internal career

Lietuvos draudimas AB pays a lot of attention to the internal career of its employees and promotes growth of its employees inside of the Company: In 2021, 63% of vacancies were filled by internal candidates (in 2020 – 59%). In 2021, 90 employees made internal vertical or horizontal careers (in 2020 – 74). 3 specialists became managers (7 in 2020), and 7 managers became managers in the next level/in another field (4 in 2020).

The Company is a member of the Human Resource Management Professionals Association (PVPA) participating actively in the activities and events of this organisation. One of the Company's employees is a lecturer of the HR Standard Programme organised by PVPA.

Additional benefits

In today's society, when teleworking or hybrid working is becoming an integral part of all organisations, there is increasingly more focus not only on the specifics of such work, but also on the well-being of employees. When we work at home, we often feel the boundary between work and personal life has become blurred, and when we lack social contact with colleagues and a sense of community and belonging to an organisation, we have a harder time coping with rising emotions and we move less.

This is the second year that Lietuvos draudimas AB is working remotely and we plan to continue working in a hybrid method in the future, thus, we care that each of our employees is able to adapt and feel well. Realising the urgency of all this, the Company invited employees to take care of their emotional and physical well-being together and presented a continuous programme "I feel good". The employees attended lectures on emotions at work, psychological resilience and sympathy. The employees were also invited to improve their physical well-being by participating in walking challenges organised by the Company, such as the "LD Century Challenge" and the "Walk15 Organisations Challenge".

Taking into account the trends of teleworking and hybrid working, and taking care of the quality workplace of employees at home, the Company has allocated a financial gift of EUR 200 to each employee (excluding assistants) to improve their workplace at home.

In order to achieve a better work-life balance, the Company has approved a workation of 182 days per year in the European Union for all employees with the appropriate type of position. Workation is one of the things that came with teleworking, leadership based on trust and has been establish as a normal practice when an employee chooses to work remotely while being in another country.

Employees particularly appreciate the additional benefits of the Company – 5 additional days of leave per calendar year. This benefit is available to employees who have worked for more than two years. Lietuvos draudimas AB encourages employees to maintain a work-life balance and well-being, therefore the Company ensures that employees devote extra time to their rest.

Lietuvos draudimas AB continued to take care of the health of its employees and insured all its employees (after assessment and completion of the probationary period) with the Health Insurance. The Company also continued the added benefit of health days, i.e., a leave for improvement of health in the case of mild and short-term health problems. Such health days are provided to all employees, up to 4 day per year in cases where the employee does not seek help at a health care institution and recovers at home. The company also provided free flu vaccinations. As every year, Lietuvos draudimas AB insured its employees against accidents.

Strengthening the competencies of employees

The pandemic continued in 2021, which resulted in the emergence of teleworking or hybrid working. These forms of working have also led to distance learning and participation in conferences. As much as 95% of training took place in a remote format. In 2021, 1102 company employees attended at least one training. Lietuvos draudimas AB provided approximately 27 hours of training per employee per year. The employees improved their qualification by attending internal and external trainings and seminars, the lectures in the programme "I feel good" organised for all employees, as well as during the "Leadership Conference", gained experience in foreign and Lithuanian conferences. They also took courses at the electronic academy of Lietuvos draudimas AB – eLDa, and on other learning platforms.

In 2021, the Personal Development section has been created for employees on the intranet, where employees have the opportunity to watch video lectures, find recommended reading material and webcasts.

We participated in 18 conferences in Lithuania and 8 conferences abroad, with a total of 307 employees attending the conferences. In 2021, the training topics were mainly related to the strengthening of professional and general competencies, such as how to motivate oneself in a changing environment, resilience to change, personal effectiveness, building and maintaining relationships, negotiation, emotional cognition, psychological resilience, etc. We have also focused on strengthening the competencies of new managers.

The employees developed new skills not only in training with the help of external lecturers, but also shared their experience with colleagues during the internal initiatives "Afternoon Interviews", "E-coffee", etc.

Estonian Branch

Inspired by positive feedback from last year Estonian branch repeated donation activities to medical staff, ambulance and rescue services. This time organization contributed with refreshment and fruits to support frontline staff with vital vitamins in these difficult times.

Sustainable activities and environmental protection

Although the impact on nature and environmental pollution from the companies working in the same field as Lietuvos draudimas AB is minimal, we always search for ways for efficient consumption of resources we use every day and contribute to a more cherished environment. In 2021, the Company paid a lot of attention to planning and emphasising specific actions that it will more actively seek in the field of sustainability in 2022-2024.

In 2021, taking into account the activities of the shareholder PZU SA, Lietuvos draudimas AB has updated its Environmental Protection Policy, the aim of which is to reduce the Company's impact on the environment and provide its divisions with a consistent operating system based on which environmental impact must be measured and registered. The Company has also approved a new Human Rights Policy in accordance with the relevant policies of PZU SA. The aim of this policy is to protect human rights and create an organisation that supports diversity.

In October 2021, the Company took over and started following the PZU Group Sustainable Development Policy, according to which it planned actions allowing to manage environmental and sustainability risks. According to this document, the Company intends to take sustainability actions in the following directions:

- to reduce the impact of climate change by supporting the customers' sustainable choices through the Company's offers;
- to develop and offer customers greener service implementation solutions;
- to minimise environmental impact when choosing partners and suppliers;
- to carry out social responsibility actions related to the promotion of a healthier lifestyle and prevention of diseases both in the society and in our team;
- to maintain the balance of work and leisure and to take care of the emotional experience of the Lietuvos draudimas employees at work.

In line with the EU's Green Deal, in 2021, the Company began reviewing its existing risk management system in order to operate in accordance with the global sustainability risk management system ISO4001 and to become certified to this standard in the coming year.

Lietuvos draudimas AB included the relevant United Nations Sustainable Development Goals in its 2022-2024 strategy, in which it will carry out socially responsible and sustainable activities in the coming year.

"Less Paper!"

The Company started the year 2021 with a new, more sustainable habit and launched the "Less Paper" initiative. By the end of 2020, we calculated that by using paper in our processes, in terms of sustainability figures, we consume enough paper in one month to cut 31 trees. This figure became a reflection of the very significant changes in Lietuvos draudimas company. The "Less Paper" project covered almost every area of Lietuvos draudimas and became a significant part of new habits and a different culture.

In the scope of the project, the company reviewed its processes and assessed ways to reduce the number of paper documents. Based on the information gathered, the following actions have been taken:

- implementation of the electronic signature;
- focusing on development of the self-service website savasLD.lt and transfer of the processes to the digital space;
- reviewing the processes and moving some of them to the digital space: changing the debt notification process, thus reducing the number of paper letter notifications, and digitisation of the most commonly used documents that had to be sent by regular mail, etc.;
- increasing e-declaration awareness among our customers and encouraging its use;
- setting limits for printing using printers;
- introducing a duplex printing method;
- reducing the number of printers;
- reminding both employees and customers about digital solutions, e.g., that there is no need to have the compulsory third-party liability insurance in the vehicle, etc. We also encouraged employees to think before printing the document whether it is really necessary, thus strengthening the new habit.

The amount of paper used for printing in 2021 amounted to 2.92 tonnes, and compared to last year's indicator, decreased by 402%. In total, at the end of the year, the Company had 80% of customers whose service was handled without paperwork, allowing to reduce the amount of paper for customer service by 70%. Counting in trees, we reduced the use of paper so much that from the 31 trees we used to "cut" per month, it was only 8 trees in 2021.

Use of other resources

Since 2011, Lietuvos draudimas AB has been using energy from renewable energy sources as a part of its energy consumption. This is supported by the "Powered by Green" certificate. The Company strives to recycle as large a portion of secondary raw materials as possible, and choose more efficient means of transportation and more economical ways to travel for work assignments.

The Company consumed 1,582 MWh of electricity in 2021. In 2020, power consumption amounted to 1,493 MWh, which is 5.7% more.

In 2021, the energy consumption for heating of premises comprised 5,682 GJ, and, as compared to 2020, decreased by 3.5%.

In the course of the year 2021, in all its divisions in Lithuania, the Company used 3,364 m3 of water, which is by 57% less than in the previous year. The natural gas consumption in the said period amounted to 36.8 thousand m3.

The vehicles used by the Company employees travelled a total of 1,724 million km. The maximum, i.e., 1,368 million km, has been driven by diesel vehicles, and 338 thousand km – by petrol vehicles. In 2021, during the business trips, employees flew 45.503 thousand km.

In 2021, Lietuvos draudimas AB removed 824 m^3 of waste, which is 4.8% more than in 2020. The Company also contributed to the recycling of waste – in the course of the year, its employees separated and recycled 1.7 tonnes of paper.

Environmental protection in the Estonian branch

The electricity consumption of the Estonian branch amounted to 176 MW, in 2020 it was 194 MW. The heating energy consumption of the Estonian branch amounted to 253 GJ, in 2020 it was 194 GJ. The water consumption of the Estonian branch amounted to 344 m^3 in 2021, in 2020 it was 336 m^3.

The Estonian branch paper consumption remained in the same level as in 2020 - 0.8 t.

General Data Protection Regulation

Implementing the General Data Protection Regulation (GDPR), which came into force on 25 May 2018, Lietuvos draudimas AB act consistently ensuring high level of data protection, i.e., regularly reviewing and updating its internal procedures regulating processing of personal data to ensure that they conform to the current provisions of the legal framework (laws and requirements set forth by the State Data Protection Inspectorate) and relevant interpretation of the court rulings.

In 2021, the Privacy Policy of Lietuvos draudimas AB and the Procedure for Legal Protection of Personal Data of Lietuvos draudimas AB regulating the basic principles of personal data protection, the Procedure for Identifying and Investigating Personal Data Security Violations and the Procedure for Assessing the Impact on Personal Data Protection have been updated, and all the company's employees have been familiarised therewith. The employees of the Lietuvos draudimas AB annually broaden their knowledge in the field of protection of personal data by taking the assessment test compulsory to all employees.

Seeking to ensure protection of personal data and all information related to protection of insurance, as well as safe and convenient provision of insurance-related information to customers, the self-service portal Savas LD of Lietuvos draudimas AB is continuously expanded with additional functions.

Corruption prevention

Lietuvos draudimas AB takes a strict stance in its corruption and bribery prevention policy, which is binding for all Company employees and applies to all its activities. Lietuvos draudimas AB employees have no right to give, offer or accept any type of bribes or "process acceleration payments", as well as any inappropriate gifts or offerings. This commitment applies not only in interactions with the state officials but also with any natural or legal persons.

Lietuvos draudimas AB internal Company intranet webpage has published the rules and advice list on how and when employees can give or take presents or other services. without violating the anti-corruption legal acts. The Company has determined that employees who might encounter bribing and corruption in their activities should have access to anti-corruption policy implementation relevant trainings.

The Company's team members must immediately inform the law enforcement officials or their own management regarding any attempts of bribing. The Company has undertaken the obligation to combat bribery and corruption according to the legal acts in force in Lithuania, codes of conducts, and according to the best practice, which is disclosed in the Company's Corruption and Bribery Prevention Policy.

Lietuvos draudimas AB community also joins the fight against corruption, as well as adherence to the supporting principle, which prohibits to support and allocate funds to political parties, military organisations, organisations representing any single religion and persons who seek individual support.

Human rights

Acting as a socially responsible company, Lietuvos draudimas AB supports the human rights principles proclaimed in the Universal Declaration of Human Rights, the ILO Labour Core Conventions, and is a signatory of the UN Global Compact. The Company undertakes to ensure to prevent any human rights violations in its activities.

Lietuvos draudimas AB respects and upholds the right to equal opportunities and non-discriminatory behaviour, the right to security of persons, children's rights, freedom of association and the right to collective bargaining. In its activities, the Company ensures that no forced labour is used in its activities, that a safe and healthy workplace is provided to the employees, and that the employees are paid a fair wage, that no bribes are paid and the Company's products are not used to abuse human rights.

The Company continues construction of the new office and residential complex

In autumn of 2019, Lietuvos draudimas AB obtained the construction permit for construction of the administrative and residential complex on the land parcel on J. Basanavičiaus g. 10 in Vilnius held in its management. The construction of the complex was commenced on 2 January 2020. The complex construction will be ensured by the contractor selected in procurement procedure – Panevėžio statybos trestas UAB. The authors of the complex project are the team of architects from the Lithuanian and Danish companies Archinova and PLH Arkitekter A/S.

This complex of administrative and residential buildings for presented to the public in the summer of 2018. The project has been reviewed and approved by all competent authorities and the construction permit has already been issued.

The complex will comprise the administrative premises with an area of 3,600 sq. m and residential premises with an area of 2,000 sq. m, including the underground parking lots. All the employees of Lietuvos draudimas will be moved to the largest building of the complex.

It will be equipped workplaces suitable for the hybrid working model, and feature modern meeting rooms and lounges. The office complex and building with modern studio apartments will be built next to this building, which will be all joined by an inner yard. All the premises will be arranged autonomously and provided with separate drive-ins, entrances and car parking spaces. The buildings will feature the optimal microclimate from renewable energy sources, which will conform to efficiency class A+. Part of the underground parking spaces will be used for the public needs in accordance with the contract concluded with the Vilnius City Municipality.

The construction of the complex is expected to be completed in the autumn of 2022. Lietuvos draudimas AB investment into the project will amount to EUR 18.5 million.

The site under development is managed by Lietuvos draudimas AB according to the land use agreement concluded with the National Land Service under the Ministry of Agriculture. Its development with construction of administrative, commercial and residential buildings was approved in the detailed plan of the land parcel in 2007 by the Vilnius City Municipality.

Being a leader, creating value for employees, clients and shareholders

In 2021, the Company renewed its mission and values. "We work towards your secure and peaceful future" – by stating this mission, the Company speaks of the security for everyone – both its employees, to whom it promises to be the best employer, and its customers, whose trust is considered to be the main evaluation of its activities, and the shareholders, thanks to whose investments Lietuvos draudimas AB constantly strives to be market leader, and to operate profitably and sustainably.

Lietuvos draudimas AB is guided by three values in its activities:

- **Desire to win** for the benefit of customers, employees and shareholders;
- **Freedom to act**, enabling curiosity and leadership in market innovation;
- **Cooperation** based on a transparent, fair and effective partnership.

Kęstutis Šerpytis
Chief Executive Officer

28 March 2022

(All amounts in thousands of euro unless otherwise stated)

	Note	2021	2020
Insurance income			
Gross written premiums	4	272 161	253 251
Reinsurers share in premiums	4	(9 101)	(9 320)
Net written premiums	4	263 060	243 931
Change in gross unearned premiums reserve	5	(7 185)	1 971
Change in unearned premiums reserve, reinsurers' share	5	(18)	277
Change in unearned premiums reserve	5	(7 203)	2 248
Net premiums earned		**255 857**	**246 179**
Other technical income		24	14
Total insurance income		**255 881**	**246 193**
Insurance expense			
Gross claims paid to policyholders		(142 930)	(130 280)
Claims settlement expense		(11 986)	(12 258)
Recovered losses		8 723	6 972
Claims paid	6	(146 193)	(135 566)
Reinsurers share	6	1 812	2 115
Net claims paid		(144 381)	(133 451)
Change in outstanding claims reserve	7	(10 324)	(13 528)
Change in outstanding claims reserve, reinsurers' share	7	1 132	2 470
Net incurred claims		**(153 573)**	**(144 509)**
Acquisition costs	8	(55 953)	(54 543)
Administrative expense	9	(16 247)	(17 145)
Other expense related to insurance activities	10	(2 166)	(2 391)
Total operating expense		**(74 366)**	**(74 079)**
Total Insurance expense		**(227 939)**	**(218 588)**
Net result of insurance activities		**27 942**	**27 605**
Interest income	11	2 477	2 139
Other profit (loss) from investment activity	11	915	562
Change in expected credit loss	12	(16)	(18)
Net impairment profit (loss)	12	(203)	76
Financial income	13	4	17
Financial expense	13	(910)	(823)
Other income	14	637	485
Other expense	14	(76)	(833)
Profit / (loss) before tax		**30 770**	**29 210**
Income tax expense	15	(3 867)	(3 478)
Profit / (loss) for the year		**26 903**	**25 732**
Other comprehensive income (OCI)			
Items that are or may be reclassified to profit or loss	20	(3 998)	456
Items that will not be reclassified to profit or loss	20	229	394
Total comprehensive profit / (loss) for the reporting year		**23 134**	**26 582**

All profit / (loss) is attributable to the owners of Lietuvos draudimas AB.

Notes on pages 29 to 70 are an integral part of these financial statements.

Kęstutis Šerpytis Chief Executive Officer	Tatjana Kozlova Accounting and reporting manager	Kęstutis Gadeikis Chief Actuary

28 March 2022

Lietuvos draudimas AB
Company's code 110051834, J. Basanavičiaus st. 12, Vilnius

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2021	31.12.2020
ASSETS			
Intangible assets	16	**4 989**	**3 590**
Property and equipment	17,38	**18 225**	**16 126**
Investment property	18	**1 500**	**1 500**
Financial assets at fair value through other comprehensive income	19	293 890	269 495
Financial asset at fair value through profit or loss	19	25 781	24 335
Total investments		**319 671**	**293 830**
Receivables due from policyholders	21	53 473	50 791
Receivables due from intermediaries	21	1 277	1 188
Reinsurance receivables	22	1 171	3 384
Other receivables	24	2 894	2 500
Total receivables		**58 815**	**57 863**
Reinsurers' share in unearned premium reserve	5	1 078	1 096
Reinsurers' share in outstanding claims reserve	7	14 943	13 811
Reinsurers' share of reserves		**16 021**	**14 907**
Prepaid income tax		**298**	**213**
Deferred acquisition costs	8	22 663	20 981
Other accrued income and deferred expense	23	2 276	1 946
Accrued income and deferred expense		**24 939**	**22 927**
Cash and cash equivalents	25	**9 223**	**15 982**
TOTAL ASSETS		**453 681**	**426 938**

Notes on pages 29 to 70 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

28 March 2022

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2021	31.12.2020
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	26	11 665	11 665
Share premium	26	937	937
Reserves	26	5 335	9 209
Retained earnings		126 588	114 580
TOTAL EQUITY AND RESERVES		**144 525**	**136 391**
LIABILITIES			
Unearned premium and unexpired risk reserves	5	134 488	127 303
Outstanding claims reserve	7	133 807	123 484
Technical reserves		**268 295**	**250 787**
Direct insurance creditors		3 519	3 828
Reinsurance creditors		1 947	2 258
Taxes	27	254	236
Corporate income tax liability		-	-
Deferred income tax liability	15	103	796
Accrued expenses and deferred income	28	17 254	16 202
Other liabilities	29,38	17 784	16 440
Total creditors		**40 861**	**39 760**
TOTAL LIABILITIES		**309 156**	**290 547**
TOTAL EQUITY, RESERVES AND LIABILITIES		**453 681**	**426 938**

Notes on pages 29 to 70 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

28 March 2022

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2021
(All amounts in thousands of euro unless otherwise stated)

	Share capital	Share premium	Legal reserve	Fair value reserve	Retained earnings	Total
Balance at 31 December 2019	**11 665**	**937**	**2 333**	**5 992**	**88 882**	**109 809**
Net profit for the reporting period	-	-	-	-	25 732	**25 732**
Other comprehensive income	-	-	-	884	(34)	**850**
Transactions with owners of the Company						
Dividends paid	-	-	-	-	-	-
Balance at 31 December 2020	**11 665**	**937**	**2 333**	**6 876**	**114 580**	**136 391**
Net profit for the reporting period	-	-	-	-	26 903	**26 903**
Other comprehensive income	-	-	-	(3 874)	105	**(3 769)**
Transactions with owners of the Company						
Dividends paid	-	-	-	-	(15 000)	**(15 000)**
Balance at 31 December 2021	**11 665**	**937**	**2 333**	**3 002**	**126 588**	**144 525**

Notes on pages 29 to 70 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

28 March 2022

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
(All amounts in thousands of euro unless otherwise stated)

	Note	2021	2020
Cash flows from operating activities			
Premiums received from direct insurance		266 635	253 608
Claims paid for direct insurance		(146 671)	(135 897)
Payments received from ceded reinsurance		3 472	1 476
Payments made for ceded reinsurance		(8 056)	(8 297)
Operating expenses paid		(51 814)	(50 056)
Taxes paid on ordinary activities		(22 242)	(20 936)
Amounts received on other operating activities of insurance		366	234
Net cash from / (used in) operating activities:		**41 690**	**40 132**
Cash flows from investing activities			
Disposal of investments		14 814	33 990
Acquisition of investments		(51 195)	(69 055)
Interest received		4 616	5 019
Amounts from other investing activities		(525)	(404)
Net cash generated from / (used in) investing activities:		**(32 290)**	**(30 450)**
Cash flows from financing activities			
Dividends paid		(15 000)	-
Payments made for lease liabilities including fees and interest		(1 159)	(1 385)
Net cash from / (used in) financing activities:		**(16 159)**	**(1 385)**
Net increase / (decrease) in cash and cash equivalents		**(6 759)**	**8 297**
Cash and cash equivalents at the beginning of reporting year		**15 982**	**7 685**
Cash and cash equivalents at the end of reporting year	25	**9 223**	**15 982**

Notes on pages 29 to 70 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

28 March 2022

1. GENERAL INFORMATION

Lietuvos draudimas AB (hereinafter "the Company") is an insurance joint stock company which was registered in Vilnius, the Republic of Lithuania in 1996. The Company offers a wide range of non-life insurance services both to corporate clients and to private individuals.

Name of the Company:	Insurance Joint Stock Company LIETUVOS DRAUDIMAS.
Legal address of the Company:	J. Basanavičiaus str. 12, LT-03600 Vilnius, Lithuania
Phone, fax:	(+370) 5266 6612, 1828, (+370) 5231 4138
Tax payer's code in Lithuania:	10051834
State Revenue Service department:	Department of large tax payers
Shareholder:	POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company, Poland (100%)

The Company's shares are not listed. The Company belongs to a group whose parent company trades its shares on the Warsaw Stock Exchange and whose main shareholder is the State Treasury of Poland owning more than 34% of the shares.

The Company has a branch in Estonia, by the name Lietuvos Draudimas AB Eesti filiaal. Registration number 12831829, registered address Parnu mnt 141, Tallinn, Estonia.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. Consistent accounting principles have been applied to the financial years presented in these financial statements. Financial statements have been authorised by the Management Board. The shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements be issued.

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union (hereinafter "EU"), and Lithuanian legislation applicable to insurance companies.

2.1.2 Functional and presentation currency

All amounts in the financial statements and disclosures are presented in thousands of euro (EUR thousand), unless otherwise stated, which is the Company's functional currency.

2.1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial statements captions that are stated at fair value: financial investments measured at fair value and investment property.

Reporting year

The reporting period comprises the 12 months from 1 January 2021 to 31 December 2021.

2.1.4 Estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgments are significant to the financial statements are disclosed in Note 3.

2.2 New standards and interpretations, reclassification of balances in the financial statements

2.2.1 Standards and interpretations effective in the reporting period and adopted by the Company

Standards adopted by the EU for annual periods beginning on or after 1 January 2022:

(i) Amendments to References to Conceptual Framework in IFRS Standards

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The amendments did not have a material impact on the Company's financial statements.

(ii) Amendments to IAS 1 and IAS 8: Definition of Material

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments did not have a material impact on the Company's financial statements.

(iii) Amendments to IFRS 3: Definition of business

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments did not have a material impact on the Company's financial statements.

(iv) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform, Phase 1

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. The amendments did not have an impact on the Company's financial statements.

(v) Amendments to IFRS 16 – payment modifications due to the COVI –19 pandemic

This amendment permits a lessee to treat all changes in lease payments arising from facilities as if they did not constitute a modification of lease, without making the judgments required by the standard. The payment modifications in question must be a direct consequence of the COVID–19 pandemic. The amendments did not have a material impact on the Company's financial statements.

2.2.2 New Standards and Interpretations not yet adopted

Some new standards, amendments to standards and clarifications for annual periods beginning after 1 January 2021 have not yet been effective and have not been applied in preparing these financial statements in advance.

(i) IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.)

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

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

The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods.

In accordance with IFRS 17, contracts will be measured by one of the following methods:

- General Measurement Model (further – GMM) – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of discounted value of the best estimate of future cash flows, risk adjustment (further – RA) and contractual service margin (further – CSM);
- Premium allocation approach (further – PAA) – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM);
- Variable fee approach (further – VFA) – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions.

The Company does not plan to adopt this standard early.

The Company launched a separate project to prepare for the implementation of IFRS 17 standard, i.e. to review internal processes, analyse data, evaluate IT systems and reporting tools, etc. The Company expects that this new standard, when initially applied, might have a material impact on the financial statements of the Company. One of the changes, among others, will be in the presentation of insurance contract revenue, as written premiums will be no more part of the statement of comprehensive income. The Company's net profit will be impacted by new requirements on discounting, risk adjustment for non-financial risks and contract recognition rules. Therefore, as part of the implementation project, the Company intensively works on practical implementation aspects of the new standard, also including methodological ones which are solved together with PZU Group.

According to the implementation plan, the Company will run calculation and trial reporting according to the requirements of the new standard in 2022 to ensure its full readiness in 2023.

(ii) Annual Improvements to IFRS 2018-2020 Cycle (issued on 14 May 2020. Effective for later periods.)

The amendments pertain to:

- IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS;
- Amendments to IFRS references to Conceptual Framework (amendments to IFRS 3);
- Definition of accounting estimates (amendments to IAS 8);
- IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability;
- IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties).

None of these changes are expected to have a material impact on the financial statements of the Company.

Other standards

The following amended standards are not expected to have a significant impact on the Company's consolidated financial statements:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) (not yet endorsed by EU);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (not yet endorsed by EU);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

2.3 Insurance contracts, reinsurance

a) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. All contracts concluded are classified as non-life insurance contracts and the Company does not conclude any investment contracts.

b) Ceded reinsurance

The Company cedes reinsurance in the normal course of business for limiting its net loss potential. Assets, liabilities, 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 reserves.

Amounts recoverable from reinsurers are measured on the basis of the reserve for outstanding claims or the settled claims from policies falling within the scope of a reinsurance contract.

Reinsurance commissions include commissions received or receivable from reinsurers based on the reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

Unearned reinsurance commissions are included in the statement of financial position under item Accrued expenses and deferred income.

The main obligatory reinsurance contract forms in reinsurance are excess-of-loss treaties. For risks exceeding the limits of obligatory reinsurance treaties or falling outside their scope due to their nature, facultative reinsurance is used.

c) Premiums

Written insurance premiums are insurance premiums for policies, which become effective during the year, irrespective of whether the premium has become due or not. Premiums underwritten are decreased by the premiums cancelled and terminated over the accounting year. Premiums are disclosed gross of commission payable to intermediaries.

The earned portion of premiums written is recognised as revenue. Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage. The unearned portion of premiums is recognised as an unearned premium technical reserve.

Ceded reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance premiums attributable to future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

d) Incurred claims

Claims incurred include claims attributable to the reporting year and loss claims handling expenses. Claims paid are decreased by the amount received from salvage or subrogation.

e) Administrative expense

Administrative expense is related to the collection of premiums, management of portfolios, processing of bonuses and discounts and incoming and outgoing reinsurance. They include personnel expenses and depreciation to the extent they are not included in acquisition, claims handling or investing expenses. Expenses are accounted on an accrual basis.

Administrative expenses that are not directly related to a specific type of insurance are divided by type of insurance proportionally to the amount of gross written premiums, net earned premiums and insured objects.

f) Client acquisition costs

Acquisition costs of insurance contracts arise from the conclusion of insurance contracts and consist of direct costs such as commissions and indirect expenses incurred related to the conclusion of contracts.

g) Deferred client acquisition costs (DAC)

Direct incremental costs associated with acquisition of new or renewal of insurance contracts are deferred, to the extent that such costs are deemed recoverable from future premiums or gross profits. Commissions and other acquisition costs, such as, among others, sales personnel remuneration and social contributions and maintenance, that in the Company's management judgement, vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred. Deferred client acquisition cost assets are attributed to profit or loss over the terms of the corresponding policies and lines of insurance as premium is earned.

h) Technical reserves

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

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 recognised during the reporting year for valid policies are adequate.

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 unexpired risk reserve (Note 34), recognised in the same way as changes in unearned premium reserve.

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet paid. Outstanding claims reserve includes reserves for reported but not settled claims and reserve for incurred but not reported claims. The claims reserve is also created for claims handling expenses that will be necessary in order to settle the claims incurred during the reporting and previous years. Only MTPL annuities are discounted due to low discounting effect for other liabilities.

i) Fronting insurance

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

2.4 Interest income and expense

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

2.5 Financial instruments

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

The Company classifies non-derivative financial liabilities into the following categories:

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Company initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Measured at amortized cost

These assets are initially measured at fair value plus any directly attributable transaction costs. Assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

A financial asset is measured at amortized cost if the following two conditions are met and is not designated at fair value through profit loss:

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets measurement at fair value

A financial asset is measured at fair value if the following two conditions are met and the financial asset is not measured at fair value through profit or loss:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

Debt instruments measured at fair value through other comprehensive income

Debt securities are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling debt securities. These assets do not generate any other sort of income, which is why they are carried at fair value through other comprehensive income. These assets are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at fair value through other comprehensive income

The Company holds equity instruments for strategic purposes for a long time. Trading equity securities is not a normal part of the business model. For these reasons, the Company has opted to measure equity instruments at fair value through other comprehensive income.

For equity investments held for non-trade purpose the Company elects to apply fair-value-through-other-comprehensive income option. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequently these financial instruments are measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial instruments at fair value through profit or loss

The Company's investments in collective investment undertakings do not meet the criteria to account for these investments in other categories of financial assets than the assets measured at fair value through profit or loss.

These assets are initially measured at fair value plus any directly attributable transaction costs. The fair value option is available on initial recognition to irrevocably designate a financial asset as recognised at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in profit or loss.

(ii) Non-derivative financial liabilities – Measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

2.6 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.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that 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.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

2.7 Receivables from direct insurance operations

When amounts due from policyholders and intermediaries become overdue, the policy is cancelled and respective amounts are reversed against premiums written. No impairment allowances are made with respect to amounts that have not yet become due and, accordingly, no portion of the premiums is taken to income.

2.8 Intangible assets

Intangible assets are stated at historical cost, less any subsequent accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. Assets are amortized on a straight-line basis over their estimated useful lives, which are from 1 to 14 years. The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets.

2.9 Property and equipment

Assets are controlled and managed by the Company, it is reasonably expected to gain economic benefit from the assets in the future periods, which will be used in the supply of services or for administrative purposes by the Company for more than one-year period, the acquisition cost can be reliably measured and which is higher than EUR 1 000 including VAT.

Assets are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated.

Calculation of depreciation is started from the month following the month of putting the asset into operation using the straight-line method over the estimated useful life of the tangible asset. Estimated useful lives of key groups of assets are as follows:

Buildings	30–80 years
Vehicles	8 years
Office equipment	3–6 years

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Leasehold improvements are depreciated on a straight-line basis during leasehold period.

Profit or loss from disposal of property and equipment is calculated as the difference between the book value of the property and equipment and income generated from sale, and charged to profit or loss as incurred.

Property and equipment also include assets from operating leases of land and premises. The value of such assets in the financial statements is shown at the present value of all future lease payments.

2.10 Investment property

Investment property constitutes real estate maintained in order to earn lease revenue and/or profit from property value increase, and is accounted for at fair value, and the depreciation thereof is not calculated. The fair value of investment property is reviewed each time financial statements are drawn up, and any changes thereof are reflected in the profit and loss.

Any repair works for the investment property reflected in the financial statements at their fair value are recognised as costs of the period during which they were incurred.

(All amounts in thousands of euro unless otherwise stated)

2.11 Foreign currency revaluation

Foreign currency transactions are translated into euro applying the euro foreign exchange reference rate published by the European Central Bank at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date foreign exchange reference rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of the respective period.

	31.12.2021	**31.12.2020**
1 USD	EUR 0.8823	EUR 0.8149
1 GBP	EUR 1.1915	EUR 1.1123
1 PLN	EUR 0.2176	EUR 0.2193

2.12 Corporate income tax

Corporate income tax expense represents the sum of the tax currently payable and deferred income tax change.

Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position. Income tax rate applied for the Company was 15% in 2021 (15% in 2020).

Deferred income tax

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is accounted for in profit or loss, except when it relates to items accounted for directly in equity, in which case the deferred tax is also dealt with in equity and the change of deferred tax is recognised in OCI. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.13 Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Impairment

Impairment of property and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation cannot be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets

Impairment of financial assets is recognised based on expected credit loss (ECL) which could be suffered due to counterparty default. Expected credit losses model is applied on financial assets measured at fair value through other comprehensive income (except equity instruments) and on financial instruments measured at amortised cost. It is not applicable on financial instruments measured at fair value through profit or loss as well as on equity instruments measured at fair value through other comprehensive income.

<u>Terms and definitions:</u>

Expected Credit Loss (ECL) – the probable decrease in future cash-flows due to default event or impairment of receivables;
Probability of default (PD) – probability that over particular time liabilities to the Company will not be fulfilled.
Loss Given Default (LGD) – share of financial asset expected to lose in the case of default event;
Exposure at Default (EAD) – the amount which is exposed to default risk and for which expected credit losses are calculated;
Lifetime ECL – the expected credit losses from all possible default events over the expected life of the financial instrument;
12-month ECL – the part of the credit loss for the period of validity, resulting from loss events likely to occur within the next 12 months from the assessment date;
Recovery rate – is the extent to which defaulted debt can be recovered.

<u>ECL on debt instruments measured at FVOCI</u>

ECL on debt instruments is calculated based on probability of counterparty default (PD) and expected loss given default (LGD). PDs are determined by using statistics (default history of issuers with the same rating) published by major credit rating agencies. Certain probabilities of default are calculated and assigned to each financial instrument according credit rating of issuer. LGDs evaluation is also based on historical recovery rates published by credit agencies.

The Company applies 12-month ECL on debt instruments. Except if credit risk of a financial asset at the reporting date increased significantly compared to credit risk at date of initial recognition the Company applies Life-time ECL. Credit risk is determined based on external credit rating. Company considers that a financial asset's credit risk has not increased significantly if the asset has low credit risk (credit rating is under investment-grade class) at the reporting date.

Presentation in financial statements

For financial assets measured at amortised cost the loss allowance is deducted from the gross carrying amount of the assets. For debt investments measured at FVOCI the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position. The impairment on receivables is recognised in profit or loss for the period.

2.15 Employee benefits

The Company calculates annual bonuses for personnel based on the Company's reporting year's financial results and the achievement of personal goals. Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on an accrual basis. For some employees, a part of the annual bonus may be deferred and paid out in up to several years subsequent to the calculation year. The accruals for personnel bonuses represent the amount accrued as at the year end. The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

Outstanding claims reserve is one of the main Company's evaluations which estimate the ultimate liability arising from claims made under insurance contracts. Outstanding claims reserve includes the reserve for reported but not settled claims (RBNS), incurred but not reported claims (IBNR), claims handling provision and recourse outstanding provision. Outstanding claims reserve is disclosed in Note 7.

The reserve for reported but not settled claims (RBNS) is calculated automatically when entering preliminary case settlement amount into the insurance system set by claims specialists as at the accounting date. For newly reported cases initial case estimates derived by actuaries from claims data are used, which are then updated by claims specialists based on additional information received.

The reserve for incurred but not reported claims (IBNR) is calculated by lines of business using Bornhuetter-Ferguson, Loss Ratio and Average Pay-out methods. Loss Ratio for Bornhuetter-Ferguson method is derived using frequency, severity and average premiums, also taking seasonality effect into account. It means that the method is supported by Chain-Ladder and Average Pay-out or Loss Ratio methods.

IBNR for most reserving classes in Lithuania and Estonia is calculated using Bornhuetter-Ferguson method due to sufficient claims history and stable development pattern. IBNR for other reserving classes is calculated using simplified Bornhuetter-Ferguson method where development pattern is assumed. For remaining reserving classes, due to insufficient claims data or unstable development pattern, Loss Ratio method is used. Also, IBNR is formed for specific liabilities arising from particular situations such as pain and suffering claims periodic payments, indexation of net retention and reopening claims.

Claims handling provision is calculated as a percentage from outstanding claims assuming that on average half of reported, but not settled claims are not yet handled. Coefficients for claims handling reserve are selected analysing historical ratios of claims handling expenses.

Reserves for recourse outstanding and recourse asset are calculated deriving historic recovery percentages by accident quarters and applying them on outstanding claims amounts.

(All amounts in thousands of euro unless otherwise stated)

4. NET WRITTEN PREMIUMS

	2021 Gross amount	2021 Reinsurers' share	2021 Net amount	2020 Gross amount	2020 Reinsurers' share	2020 Net amount
Motor vehicle third party liability insurance	81 702	(1 638)	80 065	83 268	(1 627)	81 641
Motor own damage insurance	80 569	(1 632)	78 937	74 018	(1 501)	72 517
Fire and other damage to property insurance	69 488	(3 531)	65 957	61 562	(3 673)	57 889
Income protection insurance	15 741	(63)	15 678	14 129	(68)	14 061
Medical expense insurance	12 540	(13)	12 526	8 437	(17)	8 420
General liability insurance	5 947	(537)	5 410	5 988	(248)	5 740
Credit and suretyship insurance	2 458	(309)	2 149	2 538	(610)	1 928
Miscellaneous financial loss	2 385	(1 310)	1 075	2 217	(1 520)	697
Marine, aviation and transport insurance	1 331	(68)	1 263	1 094	(56)	1 038
	272 161	**(9 101)**	**263 060**	**253 251**	**(9 320)**	**243 931**

Premiums earned

	2021 Gross premiums earned	2021 Reinsurers' share	2021 Net premiums earned	2020 Gross premiums earned	2020 Reinsurers' share	2020 Net premiums earned
Motor vehicle third party liability insurance	81 965	(1 633)	80 332	88 010	(1 638)	86 372
Motor own damage insurance	77 221	(1 638)	75 583	75 142	(1 515)	73 627
Fire and other damage to property insurance	67 272	(3 510)	63 762	60 983	(3 711)	57 272
Income protection insurance	14 852	(63)	14 789	13 450	(68)	13 382
Medical expense insurance	10 818	(13)	10 805	7 350	(17)	7 333
General liability insurance	6 030	(474)	5 556	5 865	(272)	5 593
Credit and suretyship insurance	3 092	(513)	2 579	896	(628)	268
Miscellaneous financial loss	2 549	(1 207)	1 342	2 409	(1 137)	1 272
Marine, aviation and transport insurance	1 178	(68)	1 110	1 117	(57)	1 060
TOTAL	**264 977**	**(9 119)**	**255 858**	**255 222**	**(9 043)**	**246 179**

(All amounts in thousands of euro unless otherwise stated)

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 2019	**129 274**	**(819)**	**128 455**
Written premiums	253 251	(9 320)	243 930
Earned premiums	255 222	(9 043)	246 178
Total change for the year	(1 971)	(277)	(2 248)
Balance at 31 December 2020	**127 303**	**(1 096)**	**126 207**
Written premiums	272 161	(9 101)	263 060
Earned premiums	264 976	(9 119)	255 857
Total change for the year	7 185	18	7 203
Balance at 31 December 2021	**134 488**	**(1 078)**	**133 410**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2021

Motor own damage insurance	3 348	6	3 354
Fire and other damage to property insurance	2 216	(21)	2 195
Medical expense insurance	1 722	-	1 722
Income protection insurance	889	-	889
Marine, aviation and transport insurance	153	-	153
General liability insurance	(83)	(63)	(146)
Credit and suretyship insurance	(164)	(103)	(267)
Motor vehicle third party liability insurance	(263)	(5)	(268)
Miscellaneous financial loss	(633)	204	(429)
	7 185	**18**	**(7 203)**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2020

	Gross amount	Reinsurers' share	Net amount
Miscellaneous financial loss	1 642	18	1 660
Medical expense insurance	1 087	-	1 087
Income protection insurance	679	-	679
Fire and other damage to property insurance	579	38	617
General liability insurance	123	24	147
Marine, aviation and transport insurance	(23)	-	(23)
Credit and suretyship insurance	(192)	(383)	(575)
Motor own damage insurance	(1 124)	15	(1 109)
Motor vehicle third party liability insurance	(4 742)	11	(4 731)
	(1 971)	**(277)**	**(2 248)**

(All amounts in thousands of euro unless otherwise stated)

d) Gross unearned premium reserve as at end of year

	31.12.2021	**31.12.2020**
Motor own damage insurance	42 261	38 913
Motor vehicle third party liability insurance	36 781	37 044
Fire and other damage to property insurance	34 400	32 184
Income protection insurance	8 169	7 280
Medical expense insurance	6 341	4 599
General liability insurance	3 231	3 314
Credit and suretyship insurance	1 566	1 730
Miscellaneous financial loss	1 273	1 926
Marine, aviation and transport insurance	466	313
	134 488	**127 303**

6. CLAIMS PAID

	2021			**2020**		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Motor own damage	(49 720)	704	(49 015)	(46 929)	761	(46 168)
Motor vehicle third party liability insurance	(46 138)	352	(45 787)	(46 457)	112	(46 345)
Fire and other damage to property insurance	(31 689)	230	(31 459)	(28 689)	982	(27 707)
Medical expense insurance	(9 371)	-	(9 371)	(6 272)	-	(6 272)
Income protection insurance	(5 028)	46	(4 982)	(4 223)	-	(4 223)
General liability insurance	(2 608)	-	(2 608)	(2 402)	12	(2 390)
Miscellaneous financial loss	(1 044)	20	(1 023)	(423)	210	(213)
Marine, aviation and transport insurance	(445)	237	(208)	(125)	22	(103)
Credit and suretyship insurance	(150)	223	72	(46)	16	(30)
Other	-	-	-	-	-	-
	(146 193)	**1 812**	**(144 381)**	**(135 566)**	**2 115**	**(133 451)**

(All amounts in thousands of euro unless otherwise stated)

7. OUTSTANDING CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2021 Gross amount	2021 Reinsurers' share	2021 Net amount	2020 Gross amount	2020 Reinsurers' share	2020 Net amount
At beginning of year						
Notified claims	84 132	(13 050)	71 082	75 985	(10 636)	65 349
Incurred, but not reported	39 352	(761)	38 591	33 971	(704)	33 267
Total at beginning of year	**123 484**	**(13 811)**	**109 673**	**109 956**	**(11 340)**	**98 616**
Cash paid for claims notified in prior years	(23 821)	948	(22 873)	(27 957)	290	(27 667)
Changes in liabilities arising from current and prior year claims	34 145	(2 080)	32 065	41 485	(2 761)	38 724
Total change in year	10 324	(1 132)	9 192	13 528	(2 471)	11 057
Total at end of year	**133 807**	**(14 943)**	**118 864**	**123 484**	**(13 811)**	**109 673**
Notified claims	94 152	(13 899)	80 253	84 132	(13 050)	71 082
Incurred, but not reported	39 655	(1 044)	38 611	39 352	(761)	38 591
Total at end of year	**133 807**	**(14 943)**	**118 864**	**123 484**	**(13 811)**	**109 673**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2021:

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	6 751	(662)	6 089
Motor own damage insurance	3 793	(36)	3 756
General liability insurance	1 110	(965)	146
Marine, aviation and transport insurance	297	22	319
Income protection insurance	103	-	103
Medical expense insurance	(31)	-	(31)
Credit and suretyship insurance	(88)	(145)	(233)
Miscellaneous financial loss	(670)	74	(596)
Fire and other damage to property insurance	(941)	580	(361)
	10 324	**(1 132)**	**9 192**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2020:

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	6 648	95	6 743
Fire and other damage to property insurance	4 496	(2 339)	2 157
Miscellaneous financial loss	1 861	(110)	1 751
General liability insurance	941	50	991
Medical expense insurance	474	-	474
Credit and suretyship insurance	278	(291)	(13)
Marine, aviation and transport insurance	180	4	184
Income protection insurance	104	-	104
Motor own damage insurance	(1 454)	121	(1 333)
	13 528	**(2 470)**	**11 058**

(All amounts in thousands of euro unless otherwise stated)

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

	31.12.2021	31.12.2020
Motor vehicle third party liability insurance	86 427	79 675
Fire and other damage to property insurance	19 948	20 889
Motor own damage insurance	10 960	7 169
General liability insurance	8 448	7 337
Credit and suretyship insurance	2 234	2 323
Medical expense insurance	1 951	1 983
Miscellaneous financial loss	1 465	2 135
Income protection insurance	1 352	1 248
Marine, aviation and transport insurance	1 022	725
	133 807	**123 484**

8. ACQUISITION COSTS

	2021	2020
Commissions to brokers and other intermediaries	(27 813)	(24 218)
Personnel expenses	(15 722)	(14 712)
Commissions and other agent related expense	(7 533)	(7 356)
Office expenses	(2 633)	(2 671)
Marketing and representation expenses	(1 612)	(1 622)
Premises expenses	(1 503)	(1 681)
Depreciation and amortisation	(701)	(883)
Other acquisition costs	(551)	(345)
Compulsory state social security contributions related to agents	(351)	(261)
Reinsurance commission	786	773
Change of deferred acquisition costs	1 682	(1 567)
	(55 953)	**(54 543)**

Deferred client acquisition costs

As at 31 December 2019	**22 548**
Deferred client acquisition costs additions to new contracts	40 070
Amortisation of deferred acquisition costs	(41 636)
As at 31 December 2020	**20 981**
Deferred client acquisition costs additions to new contracts	38 428
Amortisation of deferred acquisition costs	(36 747)
As at 31 December 2021	**22 663**

Deferred acquisition cost (DAC) change during 2021 is EUR 1 681 thousand (during 2020: EUR (1 566) thousand) and presented in Statement of comprehensive income Acquisition costs position as disclosed above.

9. ADMINISTRATIVE EXPENSE

	2021	2020
Wages and salaries:		
- salaries to staff	(10 015)	(10 121)
- state compulsory social insurance contributions	(942)	(903)
Information technology and communication expense	(1 633)	(1 574)
Office expenses	(1 298)	(1 257)
Premises utility, maintenance, repair expense and rent	(710)	(793)
Advertisement and public relations	(688)	(836)
Professional services	(406)	(645)
Depreciation and amortisation	(273)	(555)
Other administrative expense	(206)	(341)
Transport	(76)	(120)
	(16 247)	**(17 145)**

(All amounts in thousands of euro unless otherwise stated)

10. OTHER EXPENSE RELATED TO INSURANCE ACTIVITIES

	2021	2020
Motor Bureau fee	(1 585)	(1 807)
Fees to regulatory institutions and other expenses	(581)	(584)
	(2 166)	**(2 391)**

11. INVESTMENT ACTIVITY RESULT

	2021	2020
Interest income:		
Government debt securities	2 207	1 924
Corporate debt securities	270	215
	2 477	**2 139**
Other profit (loss) from investment activity:		
Equity instruments measured at FVOCI:		
Dividend income	102	123
Realisation result	-	-
Debt instruments measured at FVOCI realised gains/(losses):		
Government debt securities	4	92
Corporate debt securities	-	58
Financial assets at fair value through profit or loss:		
Collective investment undertakings unrealised gains/(losses)	1 447	805
Investment valuation and management expenses:		
Revaluation of investment property	-	-
Investment management expenses	(637)	(516)
	915	**562**
	3 392	**2 701**

There were no derecognised equity instruments measured at FVOCI dividend income during the 2021 financial year (EUR 12 thousand in 2020), fair value at the date of derecognition in 2020 was EUR 140 thousand.

12. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS AND NET IMPAIRMENT PROFIT (LOSS)

ECL amounts and amounts of assets exposed to ECL at reporting date are presented in the table below:

	Exposure 31.12.2021	ECL 31.12.2021	Change in ECL 31.12.2021	Exposure 31.12.2020	ECL 31.12.2020	Change in ECL 31.12.2020
Debt instruments measured at FVOCI (Note 19)	291 319	(113)	(16)	266 970	(97)	(18)
Other receivables (Note 24)	2 949	(55)	-	2 555	(55)	-
	294 268	**(168)**	**(16)**	**269 525**	**(152)**	**(18)**

Net impairment profit (loss) in 2021 is EUR (203) thousand (76 EUR thousand in 2020).

13. FINANCIAL INCOME AND EXPENSE

	2021	2020
Financial income		
Gain from foreign currency fluctuations	4	17
Financial expense		
Bank commission	(858)	(755)
Interest from operating lease (see Note 38)	(52)	(68)
Total financial expense	**(910)**	**(823)**

(All amounts in thousands of euro unless otherwise stated)

14. OTHER INCOME AND EXPENSES

	2021	2020
Other income		
Income from properties	112	111
Other income	525	374
Total other income	**637**	**485**
Other expenses	**(76)**	**(833)**

15. CORPORATE INCOME TAX

	2021	2020
Corporate income tax for the reporting year	(3 876)	(3 369)
Change in deferred income tax recognized through profit or loss	9	(109)
Total income tax expense	**(3 867)**	**(3 478)**

Corporate income tax is different from the theoretically calculated amount of tax to be paid if the Company's losses were taxed at the statutory rate.

	2021	2020
Profit / (loss) before tax	**30 770**	**29 210**
Theoretically calculated tax at a tax rate of 15%	4 616	4 382
Theoretical effect of non-deductible expenses and non-taxable income	(749)	(904)
Total tax	**3 867**	**3 478**

Effective corporate income tax rate in 2021 is 12.6% (2020: 11.9%).

Deferred tax assets (liabilities) at the end of the reporting period

	2021	2020
Deferred income tax asset (liability) as at the beginning of the reporting year	(796)	(531)
Deferred income tax changes recognised through profit or loss	10	(109)
Deferred income tax changes recognised through other comprehensive income	683	(156)
Deferred income tax asset (liability) as at the end of the reporting year	**(103)**	**(796)**

Deferred income tax is calculated from the following temporary differences between the carrying amounts of assets and liabilities and their values for the purpose of the calculations of corporate income tax:

	31.12.2021	31.12.2020
Deferred income tax effect of:		
temporary difference for accrued expenses	1 783	1 568
temporary difference for impairment for overdue debtors	107	99
temporary difference for property revaluation and depreciation	16	16
other temporary differences	(736)	(755)
temporary difference for recoverable regress	(196)	(179)
temporary difference for financial assets at fair value through other comprehensive income revaluation	(530)	(1 213)
temporary difference for financial asset at fair value through profit or loss revaluation	(547)	(332)
Deferred income tax asset (liability) as at the end of the reporting year	**(103)**	**(796)**

The Company does not have significant tax positions that are subject to uncertainties and therefore does not form an amount of uncertainty in the calculation of income tax in accordance with IFRIC Interpretation 23 Uncertainties relating to the measurement of income taxes.

(All amounts in thousands of euro unless otherwise stated)

Movement in deferred income tax balances:

	Net balance 31 December 2020	Recognised		Net balance 31 December 2021	31 December 2021	
		In P/L	In OCI		Deferred tax asset	Deferred tax liability
Accrued expenses	1 568	215	-	1 783	1 783	-
Trade and other receivables	99	8	-	107	107	-
Property	16	-	-	16	16	-
Other amounts causing temporary differences	(755)	19	-	(736)	-	(736)
Recoverable regress	(179)	(17)	-	(196)	-	(196)
Financial assets at fair value through other comprehensive income (former available-for-sale)	(1 213)	-	683	(530)	-	(530)
Financial asset at fair value through profit or loss	(332)	(215)	-	(547)	-	(547)
Deferred tax asset/ (liability) before set-off					**1 906**	**(2 009)**
Set-off of tax					(1 906)	1 906
Net deferred tax asset/ (liability)					**-**	**(103)**

	Net balance 31 December 2019	Recognised		Net balance 31 December 2020	31 December 2020	
		In P/L	In OCI		Deferred tax asset	Deferred tax liability
Accrued expenses	1 509	59	-	1 568	1 568	-
Trade and other receivables	131	(32)	-	99	99	-
Property	5	11	-	16	16	-
Other amounts causing temporary differences	(640)	(115)	-	(755)	-	(755)
Recoverable regress	(265)	86	-	(179)	-	(179)
Financial assets at fair value through other comprehensive income (former available-for-sale)	(1 057)	-	(156)	(1 213)	-	(1 213)
Financial asset at fair value through profit or loss	(214)	(118)	-	(332)	-	(332)
Deferred tax asset/ (liability) before set-off					**1 683**	**(2 479)**
Set-off of tax					(1 683)	1 683
Net deferred tax asset/ (liability)					**-**	**(796)**

(All amounts in thousands of euro unless otherwise stated)

16. INTANGIBLE ASSETS

	Software	Total
As at 31 December 2019		
Acquisition cost	23 174	23 174
Accumulated amortisation	(19 843)	(19 843)
Net book value	**3 331**	**3 331**
In 2020		
Additions	1 080	1 080
Amortisation charge	(821)	(821)
Closing net book value	**3 590**	**3 590**
As at 31 December 2020		
Acquisition cost	24 254	24 254
Accumulated amortisation	(20 664)	(20 664)
Net book value	**3 590**	**3 590**
In 2021		
Additions	2 348	2 348
Amortisation charge	(949)	(949)
Closing net book value	**4 989**	**4 989**
As at 31 December 2021		
Acquisition cost	26 602	26 602
Accumulated amortisation	(21 613)	(21 613)
Net book value	**4 989**	**4 989**

(All amounts in thousands of euro unless otherwise stated)

17. PROPERTY AND EQUIPMENT

	Land and buildings	Lands and premises lease by IFRS 16[1]	Other (structures)	Construction in progress and prepayments	Leasehold improve-ments	Motor vehicles	Office and other equipment	Total
As at 31 December 2019								
Acquisition cost	14 856	2 570	1 146	670	788	4 574	2 514	**27 118**
Accumulated depreciation	(7 269)	(583)	(785)	-	(600)	(1 740)	(2 219)	**(13 196)**
Net book value	**7 587**	**1 987**	**361**	**670**	**188**	**2 834**	**295**	**13 922**
In 2020								
Additions	39	-	-	2 391	34	315	150	**2 929**
Additions by IFRS 16	-	1 180	-	-	-	-	-	**1 180**
Disposals	-	-	(10)	-	-	(571)	(1)	**(582)**
IFRS 16 decreases (cancellations)	-	(7)	-	-	-	-	-	**(7)**
Reclassification	-	-	-	-	-	19	-	**19**
Discarded	-	-	(69)	-	-	-	(39)	**(108)**
Depreciation charge	(280)	-	(61)	-	(47)	(493)	(159)	**(1 040)**
Depreciation by IFRS 16	-	(650)	-	-	-	-	-	**(650)**
Depreciation on disposed assets	-	-	10	-	-	345	-	**355**
Depreciation on discarded assets	-	-	69	-	-	-	39	**108**
Closing net book value	**7 346**	**2 510**	**300**	**3 061**	**175**	**2 449**	**285**	**16 126**
As at 31 December 2020								
Acquisition cost	14 895	3 743	1 067	3 061	822	4 337	2 624	**30 549**
Accumulated depreciation	(7 549)	(1 233)	(767)	-	(647)	(1 888)	(2 339)	**(14 423)**
Net book value	**7 346**	**2 510**	**300**	**3 061**	**175**	**2 449**	**285**	**16 126**
In 2021								
Additions	41	-	74	3 584	111	147	116	**4 073**
Additions by IFRS 16	-	473	-	-	-	-	-	**473**
Disposals	(1)	-	-	-	-	(1 438)	(5)	**(1 444)**
IFRS 16 decreases (cancellations)	-	(754)	-	-	-	-	-	**(754)**
Reclassification	-	-	-	-	-	-	-	**-**
Discarded	-	-	(20)	-	-	-	(5)	**(25)**
Depreciation charge	(281)	-	(61)	-	(49)	(412)	(153)	**(956)**
Depreciation by IFRS 16	-	(130)	-	-	-	-	-	**(130)**
Depreciation on disposed assets	1	-	-	-	-	831	5	**837**
Depreciation on discarded assets	-	-	20	-	-	-	5	**25**
Closing net book value	**7 106**	**2 099**	**313**	**6 645**	**237**	**1 577**	**248**	**18 225**
As at 31 December 2021								
Acquisition cost	14 935	3 462	1 121	6 645	933	3 046	2 730	**32 872**
Accumulated depreciation	(7 829)	(1 363)	(808)	-	(696)	(1 469)	(2 482)	**(14 648)**
Net book value	**7 106**	**2 099**	**313**	**6 645**	**237**	**1 577**	**248**	**18 225**

[1] Land and premises lease by IFRS 16 is disclosed in Note 38.

(All amounts in thousands of euro unless otherwise stated)

18. INVESTMENT PROPERTY

Net book value at 31 December 2019	**1 500**
Change in fair value in 2020	-
Net book value at 31 December 2020	**1 500**
Change in fair value in 2021	-
Net book value at 31 December 2021	**1 500**

Investment property comprises commercial property, building located in Vilnius, that the Company rents out to a third party. The fair value of investment property is reviewed at each reporting date, and any changes are reflected in profit or loss. No disposal or reclassification of investment property during 2021 and 2020 respectfully were recognised. Rental income during 2021 year is EUR 112 thousand (2020: EUR 111 thousand) recognised in the statement of Comprehensive Income under Other income as disclosed in Note 14. No operating expenses for Investment property were recognised during 2021 and 2020 respectfully.

Measurement of investment property is sensitive to macroeconomic environment (e.g. economic growth, inflation rate, interest rate), supply and demand on individual local property markets, the value may change depending on the current market situation. The Company assesses the fair value of investment property based on the opinion of independent property valuation agency that holds a recognised and relevant qualification. Fair value measurement for Investment property of EUR 1 500 thousand in 2021 (2020: EUR 1 500 thousand) has been categorised as Level 3 in the fair value hierarchy. Valuation technique used measuring fair value of investment property, as well as the significant unobservable inputs used as at 31 December 2021 was discounted cash flows technique. Discount rate used was 8.78% and rental income per sq. m. is in the range between EUR 8 to 16. Anticipated future rental price growth is from 0% to 2%.

19. FINANCIAL INVESTMENTS

	31.12.2021		31.12.2020	
	Acquisition cost	Fair value	Acquisition cost	Fair value
Financial investments at fair value through other comprehensive income:				
Lithuania government debt securities	130 179	130 737	131 611	133 936
Poland government debt securities	36 460	34 727	40 246	39 508
Romania government debt securities	19 451	18 969	19 451	19 538
Croatia government debt securities	21 926	21 101	21 926	21 847
Bulgaria government debt securities	12 138	11 987	12 138	12 353
Hungary government debt securities	12 591	12 495	14 109	14 254
Latvia government debt securities	5 286	5 420	5 286	5 492
Spain government debt securities	2 414	2 425	2 414	2 447
Ireland government debt securities	1 744	1 585	1 744	1 654
Italy government debt securities	17 707	17 176	-	-
Mexico government debt securities	1 469	1 483	-	-
Serbia government debt securities	1 496	1 469	-	-
Peru government debt securities	1 496	1 525	-	-
Morocco government debt securities	1 484	1 487	-	-
Corporate debt securities	28 386	28 734	15 337	15 941
Shares (irreversible option)	1 422	2 571	1 522	2 525
Total Financial investments at fair value through other comprehensive income:	**295 647**	**293 890**	**265 784**	**269 495**
Financial investments at fair value through profit or loss:				
Collective investment undertakings	22 022	25 781	22 022	24 335
Total financial investments:	**317 669**	**319 671**	**287 806**	**293 830**

(All amounts in thousands of euro unless otherwise stated)

Financial investments at FVOCI in total of EUR 293 890 thousand at fair value are quoted. In accordance with IFRS 13 definitions, based on inputs used in the valuation techniques, fair values of quoted assets are categorised into the fair value hierarchy Level 1: unadjusted quoted prices in active markets for identical assets. As at 31 December 2021, the Company did not have unquoted financial investments measured at FVOCI.

Financial investments at FVTPL in total of EUR 2 491 thousand at fair value are quoted (Level 1 - listed equity financial instruments in the fair value hierarchy). Assets amounting to EUR 23 290 thousand are categorised as Level 2 as unlisted equity financial instruments in the fair value hierarchy.

No movements between levels of the fair value hierarchy occurred throughout the financial year.

Changes in ECL of financial instruments are presented below:

Debt instruments measured at FVOCI	**12-month ECL**	**Life-time ECL not credit-impaired**	**Life-time ECL credit-impaired**	**Total**
As at 31 December 2020	**(97)**	-	-	**(97)**
ECL measurements	4	-	-	4
New assets acquired	(24)	-	-	(24)
Financial assets derecognised	4	-	-	4
As at 31 December 2021	**(113)**	-	-	**(113)**

Equity instruments measured at FVOCI and financial assets measured at FVTPL are not subject to the ECL model.

20. OTHER COMPREHENSIVE INCOME (OCI)

	2021	**2020**
Items that are or may be reclassified to profit or loss:		
Revaluation of debt securities measured at fair value through OCI	(4 002)	307
Realisation result reclassified to profit or loss	4	150
Items that will not be reclassified to profit or loss:		
Revaluation of equity instruments measured at fair value through OCI	229	393
	(3 769)	**850**

Amounts are presented net of related tax effect.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2021	**31.12.2020**
Gross receivables from direct insurance operations	55 314	52 345
Impairment for receivables from direct insurance operations	(564)	(366)
	54 750	**51 979**

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

	Gross 31.12.2021	**Life-time ECL 31.12.2021**	**Gross 31.12.2020**	**Impairment 31.12.2020**
Current	54 368	(311)	51 439	(163)
Past due 0-30 days	648	(54)	663	(43)
Past due 31-60 days	78	(7)	71	(6)
Past due more than 60 days	220	(192)	172	(154)
	55 314	**(564)**	**52 345**	**(366)**

(All amounts in thousands of euro unless otherwise stated)

The movement in the allowance for impairment in respect of receivables from direct insurance operations during the year was as follows:

As at 31 December 2019	**561**
Additional allowances	1 186
Recovered debts	(1 191)
Written-off debts	(190)
As at 31 December 2020	**366**
ECL assessment	650
Recovered debts	(123)
Written-off debts	(329)
As at 31 December 2021	**564**

22. REINSURANCE RECEIVABLES

	31.12.2021	**31.12.2020**
Gross receivables from reinsurance operations	1 296	3 662
Impairment for receivables from reinsurance operations	(125)	(278)
	1 171	**3 384**

23. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2021	**31.12.2020**
Deferred Motor Bureau fee	684	732
Deferred information system maintenance fees	970	574
Other deferred expenses	622	640
	2 276	**1 946**

24. OTHER RECEIVABLES

	31.12.2021	**31.12.2020**
Receivables for subrogation transactions	1 608	1 326
Receivables from the Motor Bureau	807	673
Other receivables	271	275
Receivables from prepayments	263	281
Impairment of other receivables	(55)	(55)
Total other receivables	**2 894**	**2 500**

Other receivables are due within 12 months from the Statement of Financial Position date and carry no interest.

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

As at 31 December 2019	**55**
ECL measurements	-
Debts recovered	-
Debts written-off	-
As at 31 December 2020	**55**
ECL measurements	-
Debts recovered	-
Debts written-off	-
As at 31 December 2021	**55**

(All amounts in thousands of euro unless otherwise stated)

25. CASH AND CASH EQUIVALENTS

	31.12.2021	31.12.2020
Cash in banks	9 223	15 982
	9 223	**15 982**

In 2021 and 2020, the Company did not have any term deposits in credit institutions.

26. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 805 620 (as at 31 December 2020 the number of ordinary shares was the same). The nominal value of one share as at 31 December 2021 is EUR 14.48 (as at 31 December 2020, the nominal value of one share was the same). All issued shares are fully paid. The share capital of the Company as at 31 December 2021, is EUR 11 665 thousand (as at 31 December 2020 – EUR 11 665 thousand).

The Company's shares are not listed.

b) The shareholder

As at 31 December 2021 and as at 31 December 2020, the shareholder of the Company with 100% shares was POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a stock company.

c) Share premium

According to the share issue rules, a share premium was set in addition to the nominal value of the shares.

d) Reserve capital and other reserves

Reserves include legal reserve and revaluation reserve for financial instruments measured at fair value through OCI. The Company's legal reserve as at 31 December 2021 was the same as at 31 December 2020 and amounted to EUR 2 333 thousand. Legal reserve was formed in full capacity and cannot be distributed.

The revaluation reserve decreased throughout the year from EUR 6 876 thousand at 31 December 2020 to EUR 3 002 thousand at 31 December 2021.

e) Profit distribution as dividends

In accordance with the Company's Dividend Policy, the amount of dividends determined as available for distribution for the year ended 31 December 2021 is EUR 13.5 million. The final amount of dividends is subject to recommendation of the Management Board, proposal of the Supervisory Board and the decision of the General Shareholders' Meeting.

f) Dividends per share

Dividends paid during 2021 for 2020 year results value per share is 18.62 EUR. Planned value of dividends paid per share for 2021 year results is EUR 16.76.

27. TAXES

	31.12.2021	31.12.2020
Compulsory state social security contributions	254	236

(All amounts in thousands of euro unless otherwise stated)

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2021	31.12.2020
Accrued expenses		
Commissions	7 438	7 225
Operating expenses	5 783	5 044
Intermediary commissions	1 013	1 177
Additional sales bonuses	706	548
Audit expenses and related services	39	57
Total accrued expenses	**14 979**	**14 051**
Other accrued expenses and deferred income		
Not settled insurance prepayments	2 059	1 951
Other deferred income	216	200
Total accrued expenses and deferred income	**2 275**	**2 151**
	17 254	**16 202**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2020	**7 225**	**5 044**	**3 933**	**16 202**
Additions	40 651	7 479	25 818	73 948
Used and reversed	(40 438)	(6 740)	(25 718)	(72 896)
As at 31 December 2021	**7 438**	**5 783**	**4 033**	**17 254**
Long-term part	-	-	-	-
Short-term part	**7 438**	**5 783**	**4 033**	**17 254**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2019	**7 664**	**4 500**	**3 544**	**15 708**
Additions	42 892	6 485	20 973	70 350
Used and reversed	(43 331)	(5 941)	(20 584)	(69 856)
As at 31 December 2020	**7 225**	**5 044**	**3 933**	**16 202**
Long-term part	-	-	-	-
Short-term part	**7 225**	**5 044**	**3 933**	**16 202**

29. OTHER LIABILITIES

	31.12.2021	31.12.2020
Payable salaries, bonuses and other related payments	10 553	10 258
Finance lease liability by IFRS 16 (see Note 38)	2 177	2 569
Due to the Motor Insurers' Bureau	151	213
Other payables related to insurance activities	320	294
Other liabilities	4 583	3 106
	17 784	**16 440**

(All amounts in thousands of euro unless otherwise stated)

30. RESULT OF CEDED REINSURANCE

	2021	2020
Reinsurers' share in written premiums (see Note 4)	(9 101)	(9 320)
Reinsurers' share in changes in unearned premiums (see Note 5)	(18)	277
Reinsurance commission income (see Note 8)	786	773
Reinsurers' share in claims (see Note 6)	1 812	2 115
Reinsurers' share in changes in outstanding claims reserve (see Note 7)	1 132	2 470
Net result of ceded reinsurance activities:	**(5 389)**	**(3 685)**

31. RELATED PARTIES TRANSACTIONS

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

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

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

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

a) Transactions with related parties

Reinsurance and fronting insurance

POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):	2021	2020
Reinsurance premiums ceded	(6 765)	(7 327)
Change of reinsurance unearned premium reserve	(117)	261
Reinsurance claims	990	1 467
Change of reinsurance outstanding claims reserve	940	2 595
	(4 952)	**(3 004)**

Balta AAS (Group company):	2021	2020
Master agreement's premiums	229	217
Reinsurance premiums ceded	-	(2)
Change of reinsurance unearned premium reserve	-	(14)
Reinsurance claims	-	20
Change of reinsurance outstanding claims reserve	-	(15)
	229	**206**

(All amounts in thousands of euro unless otherwise stated)

Other transactions

	2021	2020
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Dividends paid	(15 000)	-
Indemnity cost and handling fee	213	293
	(14 787)	**293**

	2021	2020
Other Group companies (Balta AAS, LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI, PZU CENTRUM OPERACIJI S.A.):		
Indemnity cost and handling fee	(142)	(207)
Compensation of expenses	18	92
Other purchases	-	-
	(124)	**(115)**

Balances with related parties

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

	31.12.2021	31.12.2020
Reinsurers' share in unearned premium reserves with PZU	721	838
Reinsurers' share in outstanding claims reserves with PZU	12 471	11 531
Reinsurers' share in unearned premium reserves with Balta AAS	-	-
Reinsurers' share in outstanding claims reserves with Balta AAS	-	-
Reinsurance receivables from PZU	248	2 417
Reinsurance receivables from Balta AAS	59	43
Receivables from PZU	136	77
Receivables from Balta AAS	10	63
Receivables from other related parties	39	35
Reinsurance payables to PZU	(739)	(1 382)
Reinsurance payables to Balta AAS	-	-
Payables to other related parties	(49)	-
	12 896	**13 622**

b) Management remuneration

In 2021, the Company paid remuneration, including compulsory state social security contributions, to the Management Board in the amount of EUR 2 072 thousand (2020: EUR 1 922 thousand) and to the Supervisory Board in the amount of EUR 0 thousand (2020: EUR 0 thousand).

32. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

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

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2021 there were EUR 3 673 thousand (31 December 2020: EUR 3 732 thousand) where the Company is defendant in legal disputes. The management is of the opinion that no material unrecognised losses will be incurred.

c) Capital commitments

The Company does not have significant capital commitments as at 31 December 2021.

33. RISK MANAGEMENT

The Risk Management Strategy defines a consistent framework of the Risk Management System (including security management as part of operational risk management) and the Internal Control System (including Compliance function) as the element supporting Risk Management System in the Company.

The Company implements the Strategy, policies and methodologies with specific rules for risk identification, measurement and assessment, monitoring and control, reporting as well as taking management actions in response to this risk.

Risk Management Strategy is the main document describing the risk management framework in the Company. Risk Management Strategy is supported by the risk management policies and various additional documents (procedures, methodologies, etc.). Risk Appetite document as an integral part of Risk Management Strategy determines the maximum level of admissible risk by setting limits and thresholds for risks categories.

The risk management process consists of the following steps:

- Identification;
- Measurement and assessment;
- Monitoring and control;
- Reporting;
- Management actions.

The Risk Appetite framework is established in order to determine the maximum level of admissible risk when setting limits and thresholds on risks categories and as a level which, if exceeded, determines management actions necessary to reduce further growth of the risk.

34. INSURANCE RISK MANAGEMENT

The Company's activity is a conclusion of contracts between the insured and the Insurer by which the Insured (policyholder) transfer the risk to the Insurer (the Company). An insurance contract is one that contains an agreement by the Insurer to provide, in exchange for insurance premiums, benefits to a beneficiary of the contract upon occurrence of specified uncertain future events affecting the life or property of the insured party (the Insured). This section summarises these risks coming from that process and the way the Company manages them.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By calculating the amount and type of risk to insure, the distribution of possible losses should be evaluated and understood. The quantity of losses within a specific period is the frequency of loss. In addition to loss frequency, the insurance company should be also concerned with the severity of losses. Loss severity is typically the amount that an insurer pays out for a benefit or a claim. These principal risks are due to the claims paid varying in size, number, or timing of benefit payments and actual calculation premiums amount covering possible indemnities paid. For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risk that the Company faces under its insurance contracts is that the actual claims payments will exceed the carrying amount of the insurance liabilities.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of indemnities paid for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. It is achieved by managing different type of insurance contracts aggregated into insurance portfolios grouped by similar lines of business or similar type of insurance contracts.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Types of significant insurance contracts

Motor third party liability insurance

It is a compulsory insurance type, the policy conditions and indemnification rules of which are prescribed by the Motor Third Party Liability Insurance Act and other related legislation.

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

Accident insurance

The accident insurance is a money compensation for the facts of bodily injury where one type of contracts indemnifies death, permanent incapacity for work or trauma arising from an accident. It includes some insurance cover of costs for medical treatment as well as medical expenses, caused by accident. In addition, it is possible to get daily allowances for the time spent in a hospital or temporary disability. Typical losses are generally small and they are indemnified as lump sums. Death events rarely occur on the basis of accident insurance contracts.

Travel insurance

The travel insurance indemnifies for the medical treatment costs incurred during a trip abroad if such costs are caused by an illness or an accident started during the trip, repatriation, if needed. As an additional cover, the cover loss of a baggage, insurance against trip cancellations, travel interruptions and delays as well as General Third-Party Liability (GTPL) or personal accident coverage could be included. The indemnity limit for the medical treatment and repatriation costs of passenger is usually limited to EUR 100 thousand. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of the injured is large.

Typical losses are generally small. The amount of an indemnity depends on the location of the loss occurrence and the number of claims depends on the season.

Motor own damage insurance

The insurance indemnifies for losses which arise from damage to the vehicle, its destruction, theft or robbery. Several additional insurance covers may also be purchased (like possibility to repair the vehicle with new spare-parts for vehicles up to certain year age, possibility to choose auto repair workshop, cover for additional equipment, cover for passengers). Insurance premiums are determined individually for each customer based on both customer as well as vehicle-based risk criteria. Product package includes road assistance and a replacement car.

Property insurance, business interruption insurance and building risks insurance

Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary), collision. Client has an option to insure by All Risks cover for extra premium. There is a possibility for individuals (private persons) to insure their contents (property) and civil third-party liability in addition to private property insurance.

Business interruption insurance covers lost business profits and fixed costs incurred, which arise as a result of any risk covered by property insurance of the Insured.

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

The most frequent events for private property are from all Risks cover, water leakage, theft, fire and weather losses (storm, snowing and flood). The largest losses usually are because of fire.

Livestock insurance also includes risks related to the injuries resulting in death of animals. Most risky part of the cover is against very dangerous epizootic diseases.

(All amounts in thousands of euro unless otherwise stated)

Largest losses resulting from property type damages are managed by concluding appropriate reinsurance contracts depending on realistic risk scenarios based on accepted exposure under insurance contracts.

General liability insurance

This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity or by an insured company, due to its operations or products. In respect of property damages, only direct losses are covered, but in respect of bodily injuries, direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents.

Reinsurance contract assets

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

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

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

Sensitivity to insurance risk

Based on the fact that the Company provides non-life insurance services, only the accounting estimates and assumptions for reserve for incurred but not reported claims, as disclosed in Note 3, are assessed by the Company to have a material effect on the timing and uncertainty of the Company's future cash flows. The Company performs sensitivity testing of IBNR claims reserves and the amounts below represent the test losses impacting result before taxes. Sensitivity of RBNS relating to annuities is also considered, which depends on indexation of social benefits and discounting rate used. The Company applies a joint 5% rate which did not change compared to the last year. Annuity RBNS as consisting of non-current liabilities naturally is rather sensitive to the rate, and small 0.1% change would result in RBNS change of approximately EUR 0,35 million.

Sensitivity analysis for claims reserves at 31.12.2021:

	Impact if loss ratio 1 percent points higher than used in IBNR estimates	**Impact if loss ratio 1 percent points lower than used in IBNR estimates**	**Impact if claims handling expenses 1% higher than used in reserve estimates**	**Impact if claims handling expenses 1% lower than used in reserve estimates**
Motor vehicle third party liability insurance	701	(700)	23	(23)
General liability insurance	129	(129)	8	(8)
Fire and other damage to property insurance	32	(27)	5	(5)
Medical expense insurance	24	(24)	1	(1)
Credit and suretyship insurance	22	(22)	1	(1)
Miscellaneous financial loss	19	(19)	1	(1)
Income protection insurance	10	(10)	2	(2)
Motor own damage insurance	8	(8)	6	(6)
Marine, aviation and transport insurance	(2)	2	1	(1)
Total	**943**	**(937)**	**48**	**(48)**

(All amounts in thousands of euro unless otherwise stated)

Concentration by territory

All insurance contracts have been issued in Lithuania and Estonia. The insured risk territorial coverage is mainly Lithuania and Estonia except travel policies and MTPL policies in cases of abroad insurance accidents.

Geographical concentration of financial assets, financial liabilities and claims reserves as at the reporting date:

Year 2021	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	143 534	150 356	293 890
Financial asset at fair value through profit or loss	4 891	20 890	25 781
Insurance and reinsurance debtors	38 758	17 163	55 921
Reinsurers' share of outstanding claims reserves	9 913	5 030	14 943
Cash and cash equivalents	8 125	1 098	9 223
Other receivables	2 810	84	2 894
Total financial assets and reinsurers' share of outstanding claims reserves	**208 031**	**194 621**	**402 652**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(72 478)	(61 329)	(133 807)
Insurance and reinsurance creditors	(3 050)	(2 416)	(5 466)
IFRS 16 lease financial liability	(1 013)	(1 164)	(2 177)
Other financial liabilities	(103)	(254)	(357)
Total financial liabilities and outstanding claims reserves	**(76 644)**	**(65 163)**	**(141 807)**
Net position as at 31 December 2021	**131 387**	**129 458**	**260 845**

Year 2020	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	135 710	133 785	269 495
Held-to-maturity financial investments	4 168	20 167	24 335
Insurance and reinsurance debtors	38 667	16 696	55 363
Reinsurers' share of outstanding claims reserves	9 005	4 806	13 811
Cash and cash equivalents	14 900	1 083	15 983
Other receivables	2 454	46	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**204 904**	**176 582**	**381 486**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(67 212)	(56 272)	(123 484)
Insurance and reinsurance creditors	(3 401)	(2 685)	(6 086)
IFRS 16 lease financial liability	(1 213)	(1 356)	(2 569)
Other financial liabilities	(796)	(236)	(1 032)
Total financial liabilities and outstanding claims reserves	**(72 622)**	**(60 549)**	**(133 171)**
Net position as at 31 December 2020	**132 282**	**116 033**	**248 315**

(All amounts in thousands of euro unless otherwise stated)

Reinsurance coverage

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company for each insurance risk has following own retention:

Maximum own retention:

	2021	2020
Personal accident & Travel medical expense	98	106
Motor own damage	150	150
Motor vehicle third party liability	600	600
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 083	1 174
General TPL insurance	325	352
Debt securities and guarantees	433	470

Liability adequacy test

The technical provision for unexpired risks is formed for unexpired risks under general insurance contracts when the probable value of insurance benefits and expenses attributable to unexpired periods of insurance policies valid at the end of the reporting period exceeds the technical provision for unearned premiums related to these insurance policies. At the end of the financial reporting period, the Company assesses the adequacy of liabilities and determines whether the insurance liabilities recognized for insurance policies valid during the reporting year are sufficient. If the assessment of the adequacy of liabilities reveals that the carrying amount of liabilities is insufficient, this shortfall is recognized as a loss for the financial year in the formation of a technical provision for unexpired risks.

Unexpired risk reserve as at 31 December 2021 is EUR 5.2 million (31 December 2020: EUR 5.4 million). The reserve is included in Unearned premium and unexpired risk reserves statement of financial position item and is disclosed below:

	31.12.2021	31.12.2020
Motor vehicle third party liability insurance	1 659	1 896
Motor own damage insurance	1 184	1 007
Miscellaneous financial loss	52	716
Credit and suretyship insurance	378	710
Medical expense insurance	1 148	710
General liability insurance	388	315
Fire and other damage to property insurance	375	74
Income protection insurance	92	24
Marine, aviation and transport insurance	0	0
	5 276	**5 452**

35. FINANCIAL RISK MANAGEMENT

Risk management framework:

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

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

(All amounts in thousands of euro unless otherwise stated)

35.1 Credit risk

The Company takes an 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. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

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

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. This requires considerable judgement about how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The impairment model applies to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments. The Company considers expected credit loss for receivables at both a specific asset and collective level. 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.

a) Maximum credit exposure:

	31.12.2021	31.12.2020
Lithuania government debt securities	130 737	133 936
Poland government debt securities	34 727	39 508
Corporate debt securities	28 734	15 941
Collective investment undertakings	25 781	24 335
Croatia government debt securities	21 101	21 847
Romania government debt securities	18 969	19 538
Italy government debt securities	17 176	-
Hungary government debt securities	12 495	14 254
Bulgaria government debt securities	11 987	12 353
Cash and cash equivalents	9 223	15 982
Latvia government debt securities	5 420	5 492
Shares	2 571	2 525
Spain government debt securities	2 425	2 447
Ireland government debt securities	1 585	1 654
Peru government debt securities	1 525	-
Morocco government debt securities	1 487	-
Mexico government debt securities	1 483	-
Serbia government debt securities	1 469	-
Credit risk	**328 894**	**309 812**
Receivables due from policyholders	53 473	50 791
Outstanding claims reserve, reinsurers' share	14 943	13 811
Other receivables	2 894	2 500
Reinsurance debtors	1 171	3 384
Receivables due from intermediaries	1 277	1 188
Reinsurers' share in unearned premium reserve	1 078	1 096
	74 836	**72 770**
Maximum credit exposure, total	**403 730**	**382 582**

(All amounts in thousands of euro unless otherwise stated)

b) Reinsurance risk breakdown by counterparty ratings as at reporting date:

Rated:	31.12.2021	31.12.2020
AA	1 331	1 378
A	14 497	16 238
Without rating	1 363	675
Assets related to reinsurance	**17 191**	**18 291**

c) Investment breakdown by ratings as at the reporting date:

Year 2021	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	1 585	170 882	87 161	2 956	-	262 584
Corporate debt securities	-	-	2 652	22 016	4 066	-	28 734
Collective investment undertakings	-	-	-	-	-	25 781	25 781
Shares	-	-	-	-	-	2 571	2 571
Total investment assets	**-**	**1 585**	**173 535**	**109 177**	**7 022**	**28 352**	**319 671**

Year 2020	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	1 654	178 934	70 440	-	-	251 029
Corporate debt securities	-	-	154	12 639	3 149	-	15 941
Collective investment undertakings	-	-	-	-	-	24 335	24 335
Shares	-	-	-	-	-	2 525	2 525
Total investment assets	**-**	**1 654**	**179 088**	**83 079**	**3 149**	**26 860**	**293 830**

35.2 Liquidity risk

The Company is exposed to regular calls on its available cash resources from claims settlements. The Management sets the minimum level of cash resources, which must be available to meet its liabilities.

There has been the following distinction of financial assets, financial liabilities and claim reserves by their remaining maturities as at the reporting date:

Year 2021	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	40 739	167 954	110 978	319 671
Insurance and reinsurance debtors	55 642	244	35	55 921
Reinsurers' share of outstanding claims reserves	10 554	2 002	2 387	14 943
Cash and cash equivalents	9 223	-	-	9 223
Other receivables	2 894	-	-	2 894
Total financial assets and reinsurers' share of outstanding claims reserves	**119 052**	**170 200**	**113 400**	**402 652**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(75 037)	(35 642)	(23 128)	(133 807)
Insurance and reinsurance creditors	(5 466)	-	-	(5 466)
IFRS 16 lease financial liability	(444)	(1 239)	(494)	(2 177)
Other financial liabilities	(357)	-	-	(357)
Total financial liabilities and outstanding claims reserves	**(81 304)**	**(36 881)**	**(23 622)**	**(141 807)**
Net position as at 31 December 2021	**37 748**	**133 319**	**89 778**	**260 845**

(All amounts in thousands of euro unless otherwise stated)

Year 2020	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	13 015	182 358	98 457	293 830
Insurance and reinsurance debtors	54 751	583	29	55 363
Reinsurers' share of outstanding claims reserves	8 866	2 949	1 996	13 811
Cash and cash equivalents	15 982	-	-	15 982
Other receivables	2 500	-	-	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**95 114**	**185 890**	**100 482**	**381 486**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(63 625)	(34 939)	(24 920)	(123 484)
Insurance and reinsurance creditors	(6 086)	-	-	(6 086)
IFRS 16 lease financial liability	(554)	(1 270)	(745)	(2 569)
Other financial liabilities	(1 032)	-	-	(1 032)
Total financial liabilities and outstanding claims reserves	**(71 297)**	**(36 209)**	**(25 665)**	**(133 171)**
Net position as at 31 December 2020	**23 817**	**149 681**	**74 817**	**248 315**

35.3 Market risk

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

a) Exposure to interest rate risk

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

	2021	**2020**
Corporate debt securities	1.25%	1.64%
Government debt securities	0.74%	0.80%
Collective investment undertakings	0.03%	0%

Risk measurement is regularly analysed by applying back tests and comparing revaluation profit / (loss) from positions with the respective potential risk.

Change in investment value and effect on net result due to market interest rate changes was as follows:

		2021	**2020**
Market interest rate and impact on fair value	+0.5 percent point	(6 028)	(5 800)
	-0.5 percent point	6 028	5 800

(All amounts in thousands of euro unless otherwise stated)

b) Fair value determination

Financial assets fair value hierarchy consists of three levels. Level 1 – measured based on listed prices (unadjusted) from active markets for identical assets, i.e. listed liquid debt instruments, listed shares, listed derivatives. Level 2 assets measured based on input data other than listed prices, classified to Level 1, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market, i.e. fund units, listed debt instruments measured based on the valuations published by an authorised information service and others. Level 3 are assets measured based on input data unobserved on existing markets, they include investment property. The split of financial values by levels is described in Notes 18 and 19.

Financial assets and financial liabilities other than those reflected at their fair value are receivables, term deposits with credit institutions and cash and cash equivalents.

Insurance, reinsurance and other financial debtors and financial liabilities have their remaining maturities of less than one year and carry no interest, thus, their fair value is deemed not to materially differ from their carrying amounts.

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

c) Currency risk

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

Split of financial assets, financial liabilities and claim reserves by currencies as at the reporting:

Year 2021	EUR	Other	Total
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	293 890	-	293 890
Financial asset at fair value through profit or loss	25 781	-	25 781
Insurance and reinsurance debtors	55 921	-	55 921
Reinsurers' share of outstanding claims reserves	14 304	639	14 943
Cash and cash equivalents	9 223	-	9 223
Other receivables	2 894	-	2 894
Total financial assets and reinsurers' share of outstanding claims reserves	**402 013**	**639**	**402 652**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(128 169)	(5 638)	(133 807)
Insurance and reinsurance creditors	(5 466)	-	(5 466)
IFRS 16 lease financial liability	(2 177)	-	(2 177)
Other financial liabilities	(357)	-	(357)
Total financial liabilities and outstanding claims reserves	**(136 169)**	**(5 638)**	**(141 807)**
Net position as at 31 December 2021	**265 844**	**(4 999)**	**260 845**

(All amounts in thousands of euro unless otherwise stated)

Year 2020 **Financial assets and reinsurers' share of outstanding claims reserves**	**EUR**	**Other**	**Total**
Available-for-sale financial investments	269 495	-	269 495
Held-to-maturity financial investments	24 335	-	24 335
Insurance and reinsurance debtors	55 363	-	55 363
Reinsurers' share of outstanding claims reserves	13 643	168	13 811
Cash and cash equivalents	15 968	14	15 982
Other receivables	2 500	-	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**381 304**	**182**	**381 486**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(118 645)	(4 839)	(123 484)
Insurance and reinsurance creditors	(6 086)	-	(6 086)
IFRS 16 lease financial liability	(2 569)	-	(2 569)
Other financial liabilities	(1 032)	-	(1 032)
Total financial liabilities and outstanding claim reserves	**(128 332)**	**(4 839)**	**(133 171)**
Net position as at 31 December 2020	**252 972**	**(4 657)**	**248 315**

Changes in the exchange rates do not have a material impact on net position. The main share of financial assets and liabilities is held in euros.

36. CAPITAL RISK MANAGEMENT

The Company is obliged to achieve and continuously maintain an appropriate level of capital to cover the solvency requirement. The Risk Appetite determines a targeted minimum level of own funds ensuring the defined minimum solvency ratio. The Management Board must be confident that the business holds enough capital to sustain it through significant (but realistic) negative impacts, yet at the same time provide itself with enough capital resource to satisfy its future growth ambitions.

In addition, the Company must ensure it maintains capital levels that comply with European solvency regulations and the requirements of the Bank of Lithuania. Starting from 1 January 2016, the Solvency II legislation is effective, and since then Solvency Capital Requirement (SCR) for the Company is calculated using the Standard Formula.

Own Risk and Solvency Assessment (ORSA) process is designed to make a clear link between the risks the Company has and the capital requirements resulting from taking on these risks as well as the prospective capital positions over the planning period. This Capital Management Plan is a significant element of the ORSA process that communicates the current capital position and the prospective capital position over the planning period and the need for any capital issuance or redemption.

Capital Management policy sets the minimum requirement for the capital management planning, organization, monitoring and remediation actions as well as for the measurement and reporting of capital position in order for the management of the Company to take timely and necessary actions.

The Company aims at:

- Maintenance of target solvency ratio above the lower level provided for the green zone, as defined in Risk Appetite;
- Effective capital management by optimizing the use of capital;
- Total shareholders return maximization for parent company investors in particular by optimizing the use of capital while maintaining safety;
- Maintenance of sufficient funds to cover the Company's liabilities to clients.

(All amounts in thousands of euro unless otherwise stated)

The Company's capital management process consists of the following stages:

- Planning;
- Organization;
- Monitoring;
- Remediation actions.

The main principles of determining the amount of proposed dividends to be paid out, as well as its approval and payment process are defined in the Company's Dividend Policy.

As at 31 December 2021 the Company assessed facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

37. LOSS DEVELOPMENT TABLE

Loss development table illustrates the Company's estimate of ultimate claims outstanding for each accident year:

	2011 and earlier	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Gross outstanding claims reserves at the end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	0	0	0	19 338	26 224	29 434	41 760	49 543	57 996	54 583	55 851	
1 year later	0	0	4 877	19 759	24 529	29 008	40 625	45 888	51 882	45 655		
2 years later	0	3 335	6 301	18 553	24 692	28 891	38 795	43 160	47 912			
3 years later	11 097	2 858	5 450	17 955	23 934	28 131	37 475	40 079				
4 years later	8 995	1 808	4 674	17 094	21 365	26 652	34 746					
5 years later	8 167	1 521	4 581	17 263	20 157	24 991						
6 years later	8 385	1 424	4 451	17 033	19 693							
7 years later	8 013	1 556	4 593	16 858								
8 years later	8 395	1 632	4 583									
9 years later	8 160	1 611										
10 years later	7 491											
Estonia Branch gross outstanding claims reserves as at acquisition date, 31 May 2015	**82**	**553**	**1 979**	**2 923**	**4 319**	**4 319**	**-**	**-**	**-**	**-**	**-**	**9 856**
Gross claims paid												
1 year later	0	0	0	11 995	15 930	17 128	26 774	27 475	24 817	19 844		
2 years later	0	0	855	1 190	1 139	3 317	1 520	1 872	2 146			
3 years later	0	108	361	473	651	826	635	765				
4 years later	818	48	263	580	192	488	566					
5 years later	527	62	281	26	239	266						
6 years later	428	(24)	46	(31)	109							
7 years later	925	(61)	55	84								
8 years later	34	30	40									
9 years later	(147)	(20)										
10 years later	20											
Cumulative gross claims paid	**2 605**	**143**	**1 901**	**14 317**	**18 260**	**22 025**	**29 495**	**30 112**	**26 963**	**19 844**		**165 665**
CY (deficiency) excess	**668**	**20**	**10**	**175**	**464**	**1 660**	**2 729**	**3 082**	**3 970**	**8 928**		**21 706**

(All amounts in thousands of euro unless otherwise stated)

38. ASSET LEASE

a) Lease when a company is a lessee

The Company assesses lease agreements concluded during the financial period to determine whether they meet the criteria for right-of-use assets under IFRS 16. In assessing a lease, the leased asset is identified, the consideration for the use of the property, the contractual right to control the use of the property and the right to receive full economic benefits from its use over a period of time. At the inception of the lease, the right-of-use asset is measured at its acquisition cost, at the present value of all future payments. In the statement of financial position, right-of-use assets are classified in 'Property and equipment' position.

IFRS 16 right-of-use assets as at 31 of December 2021 consist of the lease of office premises of EUR 1 673 thousand (EUR 585 thousand in Lithuania and EUR 1 088 thousand in Estonia) and lease of land under buildings where insurance activities are carried out in Lithuania of EUR 426 thousand. As at 31 December 2021, the total value of right-of-use assets amounts to EUR 2 099 thousand. As at 31 December 2020, lease of office premises right-of-use assets amounted to EUR 2 078 thousand (EUR 778 thousand in Lithuania and EUR 1 300 thousand in Estonia) and the lease of land in Lithuania amounted to EUR 432 thousand. Total value of right-of-use assets as at 31 December 2020 amounted to EUR 2 510 thousand.

When the contract lacks interest rate implicit in the lease the Company sets lessee's incremental borrowing rate. Lessee's incremental borrowing rate is settled based on average interest rates for loans of similar characteristics as lease liabilities. As at 31 December 2021 the weighted average interest rate on recognition of lease liabilities in Lithuania was 2.94%, for the Estonian branch 2.28%. As at 31 December 2020, the weighted average interest rate on recognition of lease liabilities in Lithuania was 3.14% and 2.65% for the Estonian branch.

IFRS 16 right of use assets liabilities change:

31 December 2019	**2 018**	**31 December 2020**	**2 569**
New agreements, amendments	1 172	New agreements amendments	(62)
Lease liability payment	(690)	Lease liability payment	(382)
Lease liability interest	69	Lease liability interest	52
31 December 2020	**2 569**	**31 December 2021**	**2 177**
Short-term	554	Short-term	444
Long-term	2 015	Long-term	1 733

Short-term and long-term lease liability:

	2021	2020
Short-term (payable up to 1 year)	**444**	**554**
Up to 3 months	150	144
From 3 months to 1 year	294	410
Long-term (payable after 1 year)	**1 733**	**2 015**
From 1 to 2 years	362	406
From 2 to 3 years	301	324
From 3 to 4 years	285	303
From 4 to 5 years	291	237
More than 5 years	494	745
Total lease liability	**2 177**	**2 569**

IFRS 16 lease liabilities are classified in the statement of financial position under "Other liabilities".

(All amounts in thousands of euro unless otherwise stated)

The Company paid lease expenses for right-of-use assets for the total amount of EUR 382 thousand during 2021, which are attributed to the item "Amounts from other financial activities" in the statement of cash flows (during 2020: EUR 690 thousand).

The Company has opted for exemptions from the IRFS 16 requirements for short-term contracts and low value leases, that is, recognizing the cost of such leases as operating leases.

	2021	2020
Depreciation of right-of-use assets:	**(549)**	**(652)**
- Land lease	(2)	(4)
- Premises lease	(547)	(648)
Right-of-use assets interest	(52)	(69)
Expenses relating to short-term leases and low value assets	(492)	(511)
Total lease expense	**(1 093)**	**(1 232)**

Depreciation of land as right-of-use asset is included in the statement of comprehensive income item "Acquisition costs" and depreciation of premises lease presented in an item of "Administrative expense". Right-of-use assets interest is attributed to the statement of comprehensive income, item "Financial income and expense".

b) Lease when a company is a lessor

The Company leases premises and classifies those leases as operating leases as it does not transfer substantially all the risks and rewards of the asset. Premises subleases are short-term or low value assets and are therefore classified as operating leases.

	2021	2020
Premises lease income	218	218

The table below provides an analysis of the off-balance sheet receivables for undue operating lease payments. Undiscounted amounts receivable after the reporting period from operating leases are disclosed.

Receivable amounts	2021	2020
Up to 1 year	211	197
From 1 to 2 years	175	127
From 2 to 3 years	101	125
From 3 to 4 years	10	59
From 4 to 5 years	2	3
More than 5 years	1	-
Total	**500**	**511**

39. COVID – 19 PANDEMIC IMPACT ASSESMENT

In spite of possible effects of COVID-19 pandemic continuation, the Management concluded that the Company would have sufficient resources to continue its activity for a period of at least 12 months from the reporting date, Management's use of going concern basis of accounting is appropriate.

40. SUBSEQUENT EVENTS

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

41. RUSSIA – UKRAINE WAR

In spite of possible effects of the war between Russia and Ukraine, the Management concluded that the Company would have sufficient resources to continue for a period of at least 12 months from the reporting date.