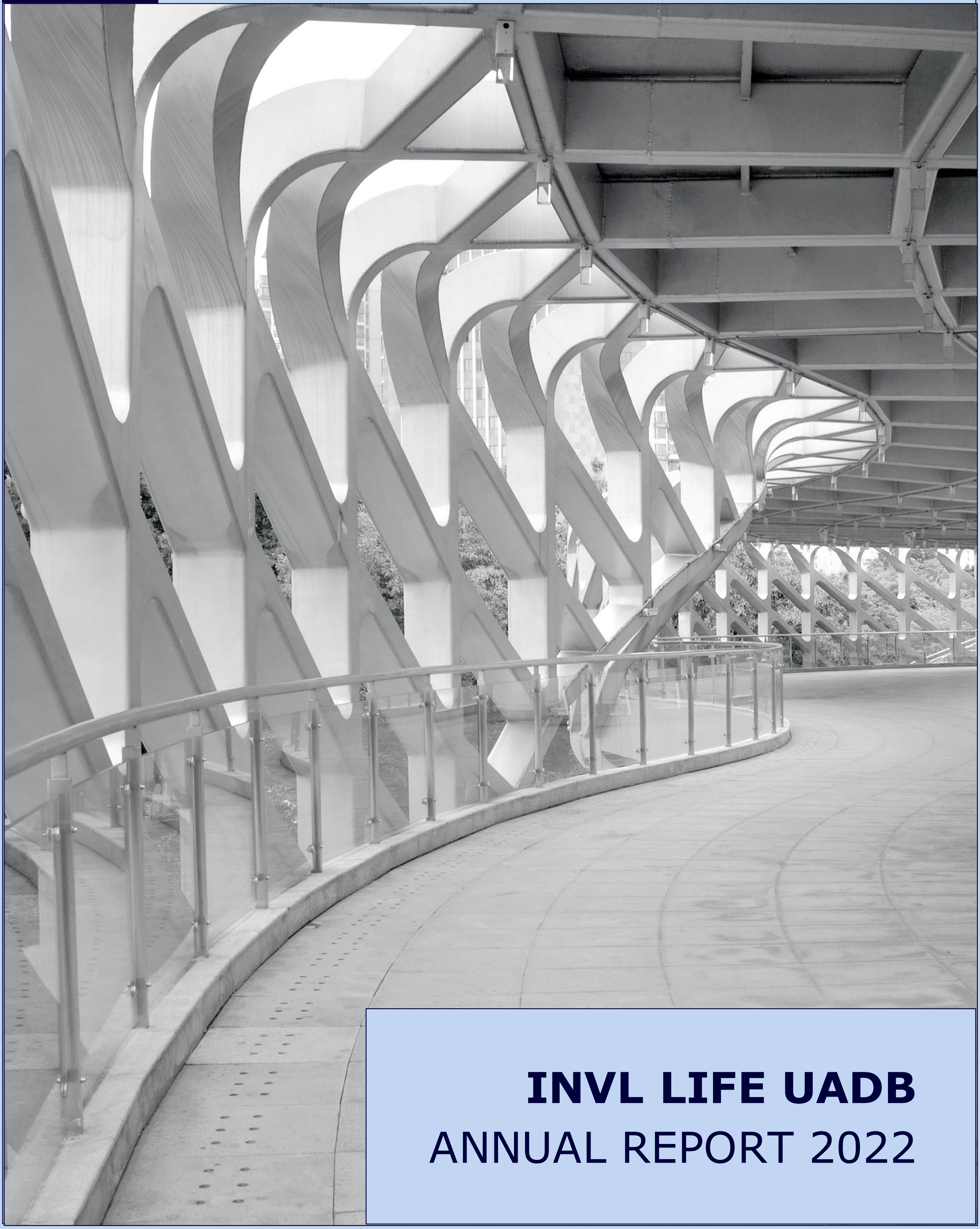

INVL LIFE UADB

ANNUAL REPORT 2022

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I. Management report for 2022

1. Ownership and corporate governance

INVL Life uždaroji akcinė draudimo bendrovė (hereinafter referred to as the Company) was established on 11 August 2021. Company headquarters address is Gynėjų str. 14, Vilnius. On 8 March 2022, the Bank of Lithuania issued to the Company an insurance license No. 36.

The Company is fully owned by Invalda INVL, AB. The Company has branches in Latvia and Estonia.

The Company hold 100% shares of subsidiary UAB Cedus Invest and 23,43% of shares of associated company UTIB INVL Baltic Real Estate, which were acquired in January 2022.

The Company's corporate governance is primarily determined on the basis of the Law on Insurance of the Republic of Lithuania. More detailed provisions regarding the corporate governance can be found in the Company's Articles of Association.

The Company acts in full compliance with the license issued and is subjected to financial supervision as conducted by the Bank of Lithuania.

The Company offers life insurance: unit-linked life insurance (when the investment risk is borne by a policyholder) and life insurance in so far as not foreseen in article 7 part 2 paragraphs 2 – 5 of the Law on Insurance of the Republic of Lithuania. Additionally, the Company offers accidental insurance and critical illness insurance riders.

More information about the Company and its business activities in the Baltic countries can also be found on the following web sites: www.invl.com, www.invl.lv, www.invl.ee.

Information about Invalda INVL AB can be found on web site www.invaldainvl.com.

2. Management and key functions

The Company's Management Board consisted of three members during 2022. The Chairman of the Management Board and the CEO is Rasa Kasperavičiūtė. Other members of the Management Board are Vytenis Lazauskas, the Company's CFO and UAB INVL Asset Management CFO, and Martynas Samulionis, managing partner of investment fund INVL Sustainable Timberland and Farmland Fund II.

The Actuarial Function Holder is Kati Ok, the Compliance Function Holder is Aistė Patašiūtė since 05.09.2022, the Internal Audit Manager is Elena Aleknavičienė since 15.11.2022 and the Risk Management Function Holder is Airi Heinapuu. The Company's Latvian Branch Manager is Andrejs Martinovs, Estonian Branch manager is Sven Jurgenson since 22.08.2022.

In 2022 the Company's external auditor was KPMG Baltics, UAB.

3. Shares and shareholders

The Company's sole shareholder is Invalda INVL. An investment management and life insurance group Invalda INVL is valued for its significant contribution to the development of the local capital market. The shares of Invalda INVL have been traded on the NASDAQ Baltic stock exchange since 1995.

Share capital of the Company is equal to 48 million euros (48 million of shares with nominal value 1 euro). It is among the biggest share capitals of life insurance companies registered in the Baltic countries.

4. Business results

The Company's business focus since the acquisition of Mandatum Life insurance business in the Baltics on 1st of July 2022 was on increasing a number of policies in force and sum at risk by concluding unit-linked insurance with regular savings and term life insurance policies with private and corporate customers. Unit-linked and term life insurance policies are usually sold with an accident and illness-related complementary insurances.

Since 1st July 2022, the Company increased the total number of insurance policies from 35.6 thousand to 36.2 thousand and total sum at risk from 1.36bn euros to 1.47bn euros. Largest increase in number of policies and sum at risk was noted in Lithuania. The Company's unit-linked assets under management declined since 1st July 2022 mainly due to decrease in assets under management in contracts with lump sum premiums.

Life insurance industry in the Baltic countries in 2022

In the Baltic life insurance market, the total of contractual payments received was 604,254 thousand euros in 2022.

The biggest life insurance market in the Baltic countries is in Lithuania where contractual payments received totalled 339,847 thousand euros, followed by the Latvian life insurance market with 184,966 thousand euros, and then by the Estonian life insurance market with 79,441 thousand euros.

In the Baltic unit-linked insurance market, the total of contractual payments received was 328,158 thousand euros in 2022.

The biggest unit-linked insurance market in the Baltics is in Lithuania where unit-linked insurance payments received totalled 236,469 thousand euros. In Estonia, unit-linked insurance payments received totalled 30,942 thousand euros. In Latvia unit-linked insurance payments received totalled 60,747 thousand euros.

INVL Life's total market share (based on total contractual payments received in Q4 2022) in the Baltic countries as of 31 December 2022 reached 3.45%.

INVL Life's unit-linked insurance market share (based on total contractual payments received in Q4 2022) in the Baltic countries reached 4.83% as of 31 December 2022.

INVL Life's unit-linked insurance market share (based on total contractual payments received in Q4 2022) in Lithuania as of 31 December 2022 reached 4.53%, in Estonia 8.54% and in Latvia 4.18%.

Contracts portfolio

As of 31 December 2022, INVL Life serviced a total of 36,198 life insurance contracts. The biggest share of total insurance contracts in force consisted of unit-linked insurance contracts, representing a share of 78%.

As of 31 December 2022, INVL Life's contracts portfolio included 41,866 insured persons.

In 2022, INVL Life concluded 3,265 new contracts and matured or surrendered 2,130 contracts.

Contractual payments received, assets under management and total sum at risk

Contractual payments received by INVL Life in the Baltics totalled 10,327 thousand euros in 2022.

Contractual payments received from new business in 2022 (such as contractual payments received from new contracts concluded in 2022 and additional lump sum payments received for unit-linked insurance contracts) totalled 2,817 thousand euros, and contractual payments received from previous years contracts in force totalled 7,510 thousand euros.

As of 31 December 2022, INVL Life's financial assets covering financial liabilities for investment and insurance contracts, i.e., customer assets under management (AUM) were 150,452 thousand euros. These assets included financial assets covering unit-linked financial liabilities and financial assets covering insurance liabilities from traditional products. The biggest share in AUM was constituted by financial assets covering financial liabilities from unit linked contracts, which made 94% of customers' total AUM.

New contractual sum at risk sold in 2022 (insurance risk covers as part of unit-linked and term life contracts) totalled 243,664 thousand euros.

As of 31 December 2022, INVL Life's insured persons' insurance risks under management (RUM, i.e., total sum at risk) were 1,473,988 thousand euros.

Claims incurred

For INVL Life in 2022, the total claims incurred with pay-outs were 10,897 thousand euros. The majority of pay-outs from contracts were made from unit-linked AUM. The share of total claims incurred from total contractual payments received in 2022 was 106%.

Investments

INVL Life's investment objective is to produce the highest possible return on the risk level that is acceptable by the Company.

INVL Life manages the following investment portfolios:

- Investment portfolio related to unit-linked insurance and investment contracts where investment risk is borne by policyholders and all proceeds from these investments are directed to the clients;

- Investment portfolio covering Company's shareholders equity and all liabilities except for unit-linked financial liabilities. The Company applies single investment management policy and the same key risk indicators for this investment portfolio. In the Annual Report and the Financial Statements this portfolio is further on referred to as Own book and traditional portfolio (OB&T portfolio). Part of this portfolio consists of financial assets that share liquidity and cashflow pattern characteristics suitable to cover expected cash outflow pattern from traditional and with profit products (endowment, annuities). These financial assets are referred to as assets covering insurance liabilities from traditional products.

Investments related to unit-linked insurance and investment contracts amounted to 142,133 thousand euros at the end of 2022. The investments split according to asset classes was the following: equity investments approx. 59%; bonds investments approx. 38%; cash 3%. Majority of unit-linked equity investments were made through investments in equity funds.

At the end of 2022, the total value of the Own book and traditional portfolio was 63,955 thousand euros (31.12.2021: 9,208 thousand euros). Investments into equity instruments made 86% of the total value of these portfolios and the remaining part was invested in debt instruments. Total net income from these investments amounted to 7.2m euros in 2022, 6.6m euros related to unrealised gains and 0.6m euros – dividends received (2021: net income from investments amounted to 1.5m euros of unrealised gains).

Customer bonuses

INVL Life did not pay additional bonuses into guaranteed interest life insurance contracts for 2022 in any Baltic country. The guaranteed interest rate for respective insurance contracts in the Estonian branch is 3.5%; in the Latvian branch the guaranteed interest is between 2% and 4%, depending on the contract; in Lithuania, the guaranteed interest is between 2.5% and 4%, depending on the contract. The average annual return for the last ten years of the assets covering insurance liabilities from traditional products was 2.15%.

Risk management

Risk is an essential and inherent element of INVL Life's business activities and operating environment. A high-quality risk management process is a prerequisite for running the Company's business activities. In managing its insurance risk, market risk, credit risk and operational risk, INVL Life follows its risk management policy. The principal goal of the Company's risk management is to ensure that risks have been correctly identified, assessed, and analysed, and that there is enough capital to cover the accepted risks. The biggest risk groups for the Company are market risk (including equity prices risk and the interest rate risk) in investment portfolios, as well as the insurance risk of customers. The Company's Management Board is ultimately responsible for the risk management, whereas the Risk Management Committee, Operational Risk Management Committee and Insurance Risk Committee also regularly supervise risk management in INVL Life.

INVL Life conducts an annual self-assessment of risks in each business area. Results of this assessment influence planning and risk management activities.

Also, as a part of the Solvency 2 requirements, the Company conducts its Own Risks and Solvency Assessment, where the Company's solvency position in different business and economic scenarios is tested.

Internal audits are conducted by the Company's Internal Audit Manager. Management Board approves Internal audit plan based on risk assessment. In 2022, no internal audits were performed in INVL Life due to focus on portfolio transfer and related rapid changes in organization, processes, and personnel. At the same time business transfer projects included external reviews of key business areas that contributed to the risk management process in the Company.

Operating expenses

The Company's operating expenses amounted to 5,709 thousand euros in 2022 (in 2021: 98 thousand euros). Client acquisition expenses accounted for 58% of all operating expenses in 2022. Administrative expenses accounted for 34% and other expenses for 8% of all operating expenses.

Operating result

In 2022, INVL Life's net profit for the financial year amounted to 10,425 thousand euros (profit of the year 2021 was 1,402 thousand euros). The main contributors to the net profit were net income from financial investments (amounting to 7,248 thousand euros) and gain from negative goodwill (amounting to 3,885 thousand euros). INVL Life return on equity (ROE, i.e., the ratio of net profit against the shareholders equity) was 17.34% in 2022 (in 2021: 15.23%).

Balance sheet

Total assets of the Company amounted to 215,293 thousand euros as of 31 December 2022 (9,525 thousand euros as of 31 December 2021). Total liabilities for insurance and investment contracts amounted to 150,452 thousand euros at the end of 2022; financial liabilities for with-profit insurance, unit-linked insurance and investment contracts formed 143,876 thousand euros thereof. Company's shareholders equity increased from 9,202 thousand euros as of 31 December 2021 to 60,127 thousand euros as of 31 December 2022. The main contributors to the increase in shareholders equity were increase in share capital (by 40,500 thousand euros during 2022) made before the acquisition of life insurance business from Mandatum Life, and net profit earned in 2022.

5. Personnel of the Company

As of 31 December 2022, there were 72 employees (recalculated to FTE) working in INVL Life, of whom 15 were employed in the sales area. In the Lithuanian unit there were 30 employees, in the Latvian branch 15 employees, and in the Estonian branch 27 employees. As of 31 December 2021, there was 1 (FTE) employee employed in Lithuania.

Salaries and wages (including payroll taxes) for the year 2022 amounted to 2,039 thousand euros (in 2021: 26 thousand euros). Remuneration paid to the Company's management (which includes the members of the management board) amounted to 149 thousand euros in 2022 (in 2021: 9 thousand euros).

6. Activities

Sales and development activities

The Company's sales distribution is based on a multi-channel strategy, including the Company's own sales unit and external sales channels i.e., brokers and tied agents.

Upon acquisition of insurance business from Mandatum Life, in July 2022 the Company's own sales team in Lithuania was transferred to the related company UAB INVL Financial Advisors that performs distribution of all retail products of INVL Group, including pension and investment funds, as well as life insurance products.

Environmental, social and governance activities

INVL Group to which the Company belongs has a dedicated sustainability officer who drives sustainability initiatives in INVL Group and educates employees. The Company manages various asset classes through different products and/or services and cannot currently ensure that all financial products would take into account the principal adverse impact on sustainability factors. However, the Company takes into consideration ESG (Environment, Social and Governance) criteria when performing investing activities and the Company's investment decision making process includes analysis and measurement of sustainability risks of each potential investment. Also, one of the unit-linked investment baskets of the Company is disclosing information according to Article 9 requirements of SFDR. This unit-linked investment basket will report separately as set out in the Regulatory Technical Standards (RTS) of the SFDR.

Other activities

In 2022 upon business acquisition from Mandatum Life, the Company was engaged in updating and setting up business processes to integrate the business to INVL Group. The following are among the key developments:

- setting up of new unit-linked investment baskets and the related unit-linked assets investment management and investment baskets accounting processes;
- upgrade of the Company's Risk Management Policy and forming Risk Management Committee;
- setting up of full Solvency II reporting process .

Also, a number of processes coming from new regulations took place. The Company was actively working with implementation of IFRS 17 accounting standard which comes into force since 1 January 2023. Accounting policy was set up, IT system supporting IFRS 17 calculations were implemented and application of the new accounting framework started.

Product oversight and governance (POG) guidelines were set up, which includes description of the segmentation of products offered by the Company, introduces product development life cycle, target markets and product suitability testing.

7. Outlook for 2023, activity plans and forecast, subsequent events

In 2023 the Company's key focus is preparation for the strategic merge with SB Draudimas, a life insurance company of Siauliai bank group (for more details see note 5.4.19 of the Financial Statements). Also, in April 2023 the cooperation with external sales partners in Estonia and Latvia were stopped and the options of further development of insurance business in the Company's branches in Latvia and Estonia are being investigated.

Rasa Kasperavičiūtė
Chief Executive Officer

Vilnius, 29 April 2023

II. Financial statements

1. Statement of comprehensive income

in thousands of euros	**2022**	2021	Notes
Discontinued operations			
Premium income	**2,943**	-	
Insurance premiums	2,977	-	5.3.1
Reinsurance premiums	(34)	-	
Net income from investments	**(132)**	**-**	5.3.3
Net income from financial investments	5	-	
Net income from unit-linked investments	(137)	**-**	
Fee income	2,710	-	5.3.2
Reinsurance commissions and share in profits	6	-	
Other income	3,910	-	5.3.4
Claims incurred	(2,259)	-	5.3.5
Reinsurance' share in claims incurred	2	-	5.3.5
Change in value of financial liabilities from insurance contracts with guaranteed interest	(37)	-	5.4.10
Change in fair value of unit-linked financial liabilities	144	-	5.3.7
Change in life insurance provision	1,559	-	5.3.6
Staff costs	(2,039)	(26)	5.3.8
Other operating expenses	(3,670)	(72)	5.3.8
Profit before income tax from discontinued operations	*3,137*	*(98)*	
Income tax on discontinued operations	33	-	5.4.3
Profit from discontinued operations	***3,170***	***(98)***	
Net income from financial investments	7,242	1,500	5.3.3
Income tax on continued operations	13	-	5.4.3
Profit for the financial year	**10,425**	**1,402**	
Total comprehensive income for the financial year	**10,425**	**1,402**	

Notes on the accounts presented on pp 12 - 54 form an integral part of the Financial Statements.

These financial statements were signed and approved for issue on behalf of the Company by:

Chief Executive Officer	Rasa Kasperavičiūtė	29.04.2023
Baltic Chief Accountant	Stella Tomson	29.04.2023

2. Statement of financial position

in thousands of euros	31.12.2022	31.12.2021	Notes
Assets			
Disposal group related to life insurance discontinued operations			
Property, plant and equipment	200	-	5.4.1
Intangible assets	5,464	-	5.4.2
Financial assets through profit or loss			
Financial assets covering unit-linked insurance and investment contracts	142,133	-	5.4.5
Financial assets, other	8,898	-	5.4.4
Reinsurers' share of insurance liabilities	2	-	5.4.12
Other assets	231	-	5.4.8
Cash and cash equivalents	336	-	5.4.9
Assets held for sale	*157,264*	-	5.4.19
Financial assets through profit or loss	55,057	9,208	5.4.4
Deferred tax assets	14	-	
Cash and cash equivalents	2,972	317	5.4.9
Total assets	**215,307**	**9,525**	
Liabilities			
Disposal group related to life insurance discontinued operations			
Financial liabilities for unit-linked insurance and investment contracts	141,641	-	5.4.11
Financial liabilities for with-profit insurance contracts	2,235	-	5.4.10
Technical provision for insurance contracts	6,576	-	5.4.12
Other liabilities	1,495	-	5.4.15
Deferred tax liabilities	653	-	5.4.3
Liabilities directly associated with assets held for sale	*152,600*	-	
Other liabilities	2,580	323	5.4.15
Total liabilities	**155,180**	**323**	
Share capital	48,000	7,500	
Legal reserve	370	300	
Retained earnings	11,757	1,402	
Total equity	**60,127**	**9,202**	5.4.16
Total equity and liabilities	**215,307**	**9,525**	

Notes on the accounts presented on pp 12 – 54 form an integral part of the Financial Statements.

3. Statement of cash flows

in thousands of euros	**2022**	2021	Notes
Cash flows from operating activities			
Premiums covering insurance risk and fees received	4,242	-	
Savings component of insurance premiums	6,090	-	
Paid claims	(2,086)	-	5.3.5
Paid claims handling expenses	(122)	-	
Financial liability outflows	(8,811)	-	
Paid operating expenses	(4,134)	(23)	
Total cash flows from operating activities (discontinued operations)	**(4,821)**	**(23)**	
Cash flows from investing activities			
Amounts received from investing activities	172	-	
Amounts received on maturity or sales of investments	69,582	-	
Amounts paid on acquisition of investments	(149,349)	-	
Taxes paid on investing activities	(14)	-	
Total cash flows from investing activities (discontinued operations)	**(79,609)**	**-**	
Consideration paid for insurance business, net of cash acquired	83,080		5.4.18
Amounts paid on acquisition of investments	-	(7,459)	
Taxes paid on investing activities	-	(1)	
Dividends received from own book investments	576	-	
Proceeds from sale of own book investments	238	-	
Total cash flows from investing activities	**4,285**	**(7,460)**	
Cash flows from financing activities			
Amounts received on issue of ordinary shares	3,856	7,800	5.4.16
Amounts paid on other financing activities	(500)	-	
Total cash flows from financing activities (continued operations)	**3,356**	**7,800**	
Total cash flows from financing activities (discontinued operations)	**-**	-	
Currency exchange impact	**171**	**-**	
Total cash flow, net	**2,991**	**317**	
Cash and cash equivalents at the beginning of the period	317	-	5.4.9
Change in cash and cash equivalents	2,991	317	
Cash and cash equivalents at the end of the period	3,308	317	5.4.9

Notes on the accounts presented on pp 12 - 54 form an integral part of the Financial Statements.

4. Statement of changes in equity

in thousands of euros	Share capital	Legal reserve	Retained earnings	Total equity
Paid in capital	7,500	300	-	7,800
Profit for the year 2021	-	-	1,402	1,402
Total comprehensive income for the year 2021	**-**	**-**	**1,402**	**1,402**
As of 31.12.2021	**7,500**	**300**	**1,402**	**9,202**
Paid in capital	40,500	-	-	40,500
Changes in reserves	-	70	(70)	-
Profit for the financial year	-	-	10,425	10,425
Total comprehensive income for the year 2022	**-**	**-**	**10,425**	**10,425**
As of 31.12.2022	**48,000**	**370**	**11,757**	**60,127**

Notes on the accounts presented on pp 12 - 54 form an integral part of the Financial Statements.

5. Notes to the financial statements

5.1. Accounting policies

5.1.1. Basis of preparation

The Company's 2022 Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). International Financial Reporting Standards are standards and interpretations that have been issued by the International Accounting Standards Board and adopted by the European Union.

The Financial Statements have been drawn up by using the principle of acquisition cost, except for certain financial assets that are designated at their fair value with changes through profit or loss.

The preparation of financial statements in conformity with the International Financial Reporting Standards as adopted by EU requires the adoption of decisions based on estimates and assumptions. Decisions and estimates adopted affect the Company's assets, liabilities, income and expenses presented as of balance sheet day. Although those estimates and decisions are based on the best knowledge of the management, the subsequent actual result may be different.

All amounts in the notes are presented in thousands of euros, unless stated otherwise.

Pursuant to the Law on Companies of Republic of Lithuania, the General Meeting of Shareholders approves the annual report, including the Company's annual financial statements. Shareholders are entitled to refrain from approving the annual report which has been prepared and approved by the Company's management and instead may request the preparation of a new annual report.

Financial statements include the accounts of the Lithuanian headquarters and the accounts of the branch offices in Latvia and Estonia. Branches use the same accounting principles as applied in the Company as a whole. All inter-branch balances and transactions are eliminated in full.

These financial statements of the Company are prepared on a stand-alone basis. The Company is not obliged to prepare consolidated financial statements and consolidate its subsidiaries and associates because its sole shareholder AB Invalda INVL is a public company which prepares consolidated financial statements where all of its subsidiaries and associates are either consolidated or accounted for applying other accounting principles, as required by IFRS 10.

Financial statements of the Company for the year that ended on 31 December 2022 were authorised by the members of the Management Board on 29 April 2023.

Financial statements of the parent company, AB Invalda INVL, are available for public at www.invaldainvl.com

5.1.2. Changes in accounting policy and disclosures

The financial statements are composed on the basis of consistency and comparability principles, which means that the Company continues to apply the same accounting principles and presentation format. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS and interpretations, or if the new accounting policy and / or presentation give(s) a more objective overview of the financial position, financial results and cash flow of the Company.

Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Company

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2023, including IFRS 17 amendments, issued on 9 December 2021): IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. For more information on the effect of implementation of IFRS 17 to the Company see note 5.1.19.

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

- Liability in a Sale and Leaseback (Amendment to IFRS 16; not adopted by EU);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1; not adopted by EU);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8);
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

5.1.3. Business combinations and accounting for subsidiaries and associates

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company applies the permission of IFRS 4.31 to use the expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed and (ii) the amount described in (a).

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.
If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement as a gain from negative goodwill.

Investments into subsidiaries and associates in these financial statements are accounted for at fair value as they make part of own book financial assets portfolio of the Company.

5.1.4. Discontinued Operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

If component of an entity meets a definition of discontinued operations, the entity discloses:

(a) a single amount in the statement of comprehensive income comprising the total of: (i) the post-tax profit or loss of discontinued operations; and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
(b) an analysis of the single amount in (a) into: (i) the revenue, expenses and pre-tax profit or loss of discontinued operations; (ii) the related income tax expense; (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and (iv) the related income tax expense;
(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations;
(d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent.

An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position.

5.1.5. Foreign currency translation

Financial statements are presented in euros, which is the functional and reporting currency of the Republic of Lithuania and in all branches of the Company.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the date of each transaction. Monetary balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date. Non-monetary balance sheet items measured at historical cost are presented on the balance sheet using the historical rate existing at the date of the transaction.

5.1.6. Cash and its equivalents

Cash and cash equivalents include bank accounts, demand deposits, short-term deposits with an original maturity of three months or less and money market fund shares that have no material market value change risk. The Company has no cash in hand.

5.1.7. Financial assets

The Company's financial assets include cash, Own book and traditional portfolio investments, investments covering unit-linked financial liabilities, receivables from customers and other short- and long-term receivables. The financial assets are classified into measurement categories based on the business model under which they are managed and the characteristics of the contractual cash-flows.

Financial assets of the Company are divided into the following two measurement categories:

- Measured at fair value through profit or loss;
- Measured at amortised cost.

Reinsurers' receivables are recognised on the balance sheet and their calculation principles are described separately, although they are considered to be financial assets.

Sales and purchases of financial assets are recognised on the trade date, which is the date on which the Company commits to purchase or sell any such asset.

Financial assets are recognised at their acquisition cost, which is the fair value of payment made for the assets. Initial acquisition cost includes all direct transaction costs related to the acquisition of assets, except expenses related to the acquisition of financial assets measured at fair value through profit or loss.

The recognition of financial assets on the balance sheet will come to an end if the Company loses its contractual rights to cash flows arising from financial assets or if it transfers these cash flows and most of the risks and benefits related to financial assets to a third party.

The book value of loans and receivables approximate their fair value.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss includes Own book and traditional portfolio investments and investments related to unit-linked insurance contracts. These assets are classified as measured at fair value through profit or loss since they are managed and reported internally on the basis of their fair values.

Financial assets recognised at fair value are re-evaluated on each balance sheet day based on their current fair value; i.e., not deducting potential transaction costs arising out of the sale of assets.

The fair value of financial assets is based on prices quoted on the active market. In the case of securities which have been listed on the stock exchange, the Company uses closing bid prices for the balance sheet day and official exchange rates from the European Central Bank; however, in the case of securities that are not listed, the Company uses all information available to it in respect of the value of a particular investment.

Gains and losses arising from changes in fair value, or realised on disposals, together with related interest income and dividends, are recognised in the statement of comprehensive income (note 5.3.3).

All assets and liabilities for which fair value is measured in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable in the market;

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable in the market.

Investment income

All the income and expenses arising from investments are included in the income from investments. Gains and losses comprise realised gains and losses on sales, unrealised changes in fair values.

Interest income is recognised in the income statement using the effective interest rate method on accrual basis. Dividends on equity securities are recognised when the right to receive payment is established.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are assets that are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Financial assets are recognised initially at fair value, including transaction costs. Subsequently they are measured at amortised cost using the effective interest rate method.

IFRS 9 requires using an expected credit loss model for estimation of an impairment of financial assets measured at amortised cost. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Specifically, IFRS 9 requires recognising a loss allowance for expected credit losses on debt investments measured at amortised cost.

The Company should measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or at an amount equal to 12 months ECL, if the credit risk on a financial instrument has not increased significantly since initial recognition. The Company estimates that expected credit losses of its financial assets measured at amortised cost would be not material therefore ECL is not recognised in the financial statements.

5.1.8. Property, plant and equipment

Property, plant and equipment are measured at their historical cost less accumulated depreciation and any necessary write-downs due to impairment. Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits attributable to the assets will flow to the Company and the cost of the assets can be measured reliably. Costs for repairs and maintenance are recognised as expenses for the period in which they were incurred.

The Company has elected to present right-of-use assets as property, plant and equipment. The right-of use assets comprise leased properties. The accounting policy of right-to-use assets is disclosed (note 5.1.15).

The cost of these assets is depreciated principally on a straight-line basis over the following estimated useful economic lives:

- Leased properties (right-of-use assets): during the non-cancellable lease term which is 3-4 years;
- IT equipment, servers and network acquisitions: 3 years;
- Other equipment, furniture: 3 years.

The depreciation is recognised as expenditure for the accounting period in the income statement under the Other operating expenses.

The Management decides on each balance sheet day whether there are any signs to indicate a decrease in value. In case there are any doubts that the value of an asset may drop below its book value, a test of the recoverable amount is performed. The recoverable amount of an asset is the higher selling price for that asset and its value in use as calculated on the basis of discounted cash flow. If the test reveals that the recoverable amount of an asset is lower than its book value, the value of the asset is written down to its recoverable amount. This is recognised as an expense for the accounting period.

If there is any indication that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased, the recoverable amount of the asset will be estimated. If the recoverable amount of the asset exceeds the carrying amount, the impairment loss is reversed, but no more than to the carrying amount which it would have been without recognition of the impairment loss.

An item of property, plant and equipment is effectively 'derecognised' as soon as it has been disposed of or when no further future economic benefits are expected to be gained from its use or disposal. Any gains or losses arising from the 'derecognition' of the asset are recognised as other income or as expenses in profit or loss as they are derecognised.

5.1.9. Intangible assets

IT software and other intangible assets are recognised in the balance sheet as intangible assets with finite useful life, if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Company and the cost of the assets can be measured reliably. Costs arising from the development of new IT software or from significant improvements in existing software are recognised only to the extent that they meet the aforementioned requirements for being recognised as assets in the balance sheet.

Intangible assets with finite useful life are measured at their historical cost less accumulated depreciation and impairment losses.

Intangible assets include acquired licenses and software. Intangible assets are depreciated on the basis of the straight-line method over a timescale of between two to ten years decided by the management individually.

In the Company, there are no intangible assets with an indefinite useful life.

Where there is any doubt that the value of an intangible asset may have decreased, a test of the recoverable amount is performed according to the same criteria as for cases involving property, plant and equipment.

Acquired insurance contracts

The Company elected to apply the permission of IFRS 4.31 to use the expanded presentation under which the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and book value of acquired liabilities is recognized as intangible asset (see 5.1.3). This intangible asset is amortised during the average term of 11 years over which it is expected that future benefits from acquired insurance contracts will flow to the entity.

5.1.10. Recognition of insurance and investment contracts

Contract classification

Pursuant to IFRS 4, each contract with a policyholder should be classified either as an insurance contract or investment contract; the existence of the discretionary participation feature (DPF) should be estimated and accounted either as liability or as equity element. Also, the deposit component of insurance contracts may be unbundled.

The classification of a contract (and the unbundling of components) determines the measurement principle which is applied to it or to its components.

Contracts in which an insurance risk has been transferred are classified as insurance contracts. If the risk that is transferred on the basis of the contract is only a financial risk, the contract is classified as an investment contract. In other words, investment contracts are contracts for which no insurance risk has been transferred. Once a contract has been classified as an insurance contract, it shall remain as such until its expiry. Other contracts shall be tested on a regular basis. The discretionary participation feature (DPF) is the policyholder’s contractual right to receive additional benefits as a supplement to guaranteed benefits. Additional benefits are those bonuses (additional interest) which are paid into the policyholder’s reserve or which are paid out together with the insurance indemnity upon the death of an insured person. DPF is presented as liability.

COMPANY’S CLASSIFICATION OF CONTRACTS

Classification (including unbundling combinations)	Separately measured components	Contract groups
Insurance contract without unbundling deposit/savings component and without DPF	Insurance component	Term life; Loan insurance; Riders; Some contracts during annuity period; Term life cover in Wealth Management Contracts
Insurance contract with unbundling DPF, but without unbundling other deposit/savings component	Insurance component DPF = Bonuses (measured as financial liability)	With profit traditional products: Endowment; Children endowment; Scholarship insurance; some annuities; some contracts during the annuity pay-out time
Insurance contract with unbundling deposit/savings component(s) and with unbundling DPF	Insurance component Unit Linked savings Guaranteed savings DPF = Bonuses (last three measured as financial liability)	Unit-linked and Universal life products (might include savings with guaranteed interest, additional interest or bonuses; risk covers; unit-linked savings) Guaranteed savings, unit-linked savings and bonuses will be unbundled from the component which covers risk
Investment contract	Unit-linked savings Guaranteed savings DPF = Bonuses (all measured as financial liability)	Wealth management contracts, Unit-Linked savings.

Unbundling is applied for all insurance contracts that include deposit/savings component. In order to ensure the uniform accounting of similar contracts, insurance and deposit components are always unbundled and separately accounted for as stated in the previous table (i.e., the deposit component is recognised as a financial instrument), without determining the materiality threshold of the insurance and investment components for each specific contract. The deposit component means the part of the contract that acts like an investment. These are bonuses, UL savings and guaranteed savings mentioned in the previous table.

The Company does not separate the deposit component (other than for determined bonuses) from traditional profit-sharing contracts (such as endowment insurance, or an endowment for children).

Investment contracts have just deposit component and no insurance component at all.

In Notes 5.3.1, 5.3.5 and 5.3.6 the amounts are divided to the following product groups:

- Risk products – term life policies;
- Products with guaranteed interest rates - with profit traditional products, like Endowment, Children endowment, Scholarship insurance, some annuities, some contracts during the annuity pay-out time, universal life product;
- Unit linked insurance contracts – polices where investment risk is borne by policyholder;
- Supplementary insurance – additional covers from riders included to the main policies.

Received premiums

Received insurance premiums for products that include both insurance and savings components are accounted in the following way:

- Part of the received premiums that are related to compensation for assumed insurance risk are recognised as insurance premiums income in profit/loss;
- Part of the premiums that relates to investment component are recognised as received deposit in financial liabilities part of the Statement of Financial Position.

It means that depending on the classification, insurance premiums income may be equal to received premium amount paid by customers (if there are no components other than the insurance component) but it may also be only a part of the amount paid by customers (which means the savings component of the premium is unbundled); also insurance premium income may be deducted from customers’ savings (risk premiums that are meant to cover death, accident or sickness benefits) rather than paid by a customer.

Depending on the type of insurance and product, insurance premiums income is recognised when the premium is due, or is charged, calculated or paid. In case of traditional products or products with a fixed payment schedule, premium income is normally recognised according to the date on which it is due. The due date shall mean the agreed latest date under the insurance contract. Risk premiums of flexible payment schedule products are normally recognised when they are calculated or charged.

Liabilities arising from insurance and investment contracts are considered long-term liabilities. Therefore, the insurance premiums and related claims may not be recognised in the same accounting period. This gap is matched by an increase in insurance provisions presented under the expense section of the income statement. Premium income is accounted for in profit or loss at the same time when the respective life insurance provision (incl. Unearned Premium Reserve) is accounted as liability.

Fee income

Fee income includes fees related to deposit components for insurance and investment contracts in accordance with price lists. These are acquisition fees, administrative fees, fees related to pay-outs or different single or transaction fees. Fee income is recognised on the date of the transaction and also, in many cases, on accrued basis. The fees for management of unit-linked investments, and the fees received from asset managers for intermediation of fund units are included to the fee income.

Financial liabilities for insurance or investment contracts

Insurance *financial liabilities* include the following*:*

- *All bonuses determined for contracts* at the amounts that have been determined to the customers through all past years up to 2022 and corrected (increased and/or decreased) according to policy status and terms and conditions up to the balance date;
- *Financial liabilities for unit-linked life insurance contracts and investment contracts* where the amount is directly related to the market value of underlying assets. For the customer, this is usually called the investment reserve or savings. The value of underlying assets for each contract is received by respective assets managers or is calculated separately for each contract which is based on units and the value of underlying assets. The unit values of an underlying asset portfolio are also received by respective asset managers. It is measured at fair value with changes through profit or loss to keep the same accounting method for respective assets;
- *Financial liabilities for other insurance contracts* contain premiums paid into contracts, to which guaranteed interest is added, and from which fees and risk premiums are deducted. For the customer it is often called a savings reserve. If the guaranteed interest rate is higher than that allowed by regulations, then additional liability is calculated to cover this cap;
- *Financial liabilities covering pending pay-outs.* These are determined bonuses or investment or savings reserves to the amounts that are requested for pay-outs but for which payment has not yet been made;
- Financial liabilities for reasons other than those already mentioned when they are required.

The change in fair value of financial liabilities is presented under Change in value of financial liabilities from insurance contract with guaranteed interest and Change in fair value of unit-linked financial liabilities in Statement of comprehensive income and in Note 5.4.10.

All insurance financial liabilities other than those related to unit-linked contracts represent liabilities related to contracts with DPF and they are accounted at amortised cost. Financial liabilities at initial recognition are measured at fair value.

Insurance technical provisions

Insurance technical provisions cover liabilities for the insurance component. They consist of Life insurance provision, Provision for future bonuses and Outstanding claims provision.

Life insurance provision

Life insurance provision includes those liabilities in the balance sheet for policyholders which are classified as insurance components. A life insurance provision may contain an actuarial provision, a deficiency provision, and an unearned premium provision.

An *actuarial provision* is the probability-weighted present value of future pay-outs (claims, expenses) from which future premiums calculated separately for each contract have been deducted. Several assumptions are used when assessing the liabilities, such as assumptions for mortality, discount rate and future administrative expenses. Assumptions are generally the same as those used in pricing (fixed in policy documents and do not change over time).

A *deficiency provision* is used for the Liability Adequacy Test (LAT) result (for further details see below and in point 0)

The provision for *unearned premiums* is calculated under the *pro rata temporis* method. *Unearned premiums provision* is a share of insurance premiums for transferred insurance risk related to the future periods.

The change in the life insurance provision is presented under Change in life insurance provision in Statement of comprehensive income and in Note 5.3.6 .

Provision for future bonuses

The provision for future bonuses includes the amount that may be determined in the future for the benefit of policyholders or contractual beneficiaries in addition to the guaranteed profit. The provision of future bonuses based on the current economic year will be formed as soon as the management may expect to have positive bonuses for this year. The provision will be corrected as soon as the management is able to form any differing expectations regarding bonuses for the current economic year.

Legislation does not determine the specific share of profit that is to be distributed. The calculation of a profit sharing rate for a specific contract group is based on the previous year's financial results as a whole, plus the investment result, the profitability of the contract group over the duration of related contracts, including the profitability of previous and future periods, the amount of guaranteed interest, the overall investment environment, and finally the profitability of life insurance companies and other similar financial products, their solvency and other relevant data. Profit sharing for a specific contract is calculated as an amount on the basis of the profit-sharing rate and an average reserve.

At the end of each year, final amount and bonus rates are decided upon by the Management Board. A decision regarding bonuses means that as of the end of the year the provision for future bonuses will be decreased and financial liabilities related to (determined) bonuses will be increased respectively.

Outstanding claims provision

The outstanding claims provision is formed in order to cover known or unknown claims which have already occurred, but which have not yet been paid, along with initiated pay-outs (such as policy maturity, or lapses), and estimated related claim handling expenses that arise from the insurance component of contracts. The outstanding claims provision for known cases is estimated on a case-by-case basis. The provision for claims which have been incurred but have not yet been reported (IBNR) is assessed either on the basis of earlier statistics or by using recommendations by relevant local authorities. The unbundled deposit component is not included in the outstanding claims provision but is recognised as a financial liability. The change in the outstanding claim provision is presented under Claims incurred in Statement of comprehensive income and in Note 5.3.5.

Liability adequacy test

Liabilities related to insurance contracts (incl. insurance technical provisions) are generally calculated on fixed assumptions about future deaths, investment yield, expenses and cancellations. A liability adequacy test is performed once a year in order to test whether the liabilities are also adequate in light of current assumptions. The liabilities calculated in the test are the discounted value of payments to be made under the contract in the future (insurance indemnities and expenses), less the discounted value of insurance premiums to be collected from policyholders in the future using a risk-free yield curve for calculating discounts and current best assumptions.

If based on liability adequacy test the value of liabilities is sufficient, they will not be amended.

However, if the test shows that the total amount of liabilities is inadequate, then the insurance liabilities are increased and the entire deficiency is recognised in profit or loss.

Paid insurance claims and expenses related to pay-outs

Paid insurance claims include:

- Indemnities related to the insurance component, which are paid for insured events related to death, accident and sickness during the reporting period;
- Maturity compensation, or surrender amounts related to the insurance component;
- Paid insurance claims do not include pay-outs from deposit component as this only serves to decrease the respective financial liability.

Claims incurred include claims paid and the change of in provision for claims outstanding.

Expenses related to pay-outs include direct and estimated expenses that are related to the processing and settlement of paid claims and the administration of pay-outs, such as, for example, the salaries of persons dealing with claims handling, or for fees related to the use of experts.

5.1.11. Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which the Company (the cedant) may receive compensation from another insurer (the reinsurer) if it becomes liable for paying compensation based on any other insurance contract it may have issued.

The Company cedes part of its insurance risk in the normal course of business related to its core services in INVL Life. Reinsurance is risk-based. This means that reinsurance arrangements concern only the insurance component of contracts issued by the Company and does not concern unbundled deposit components and financial liabilities.

Reinsurance items which are included in accounts are as follows:

- *Reinsurance premiums* are paid by the Company to the reinsurer; in the statement of comprehensive income reinsurers' share decreases the overall level of gross premiums;

- The reinsurer will pay *reinsurance commissions* to the Company in cases when agreed conditions are met and in agreed sums. Both the reinsurance premiums and commissions are recognised in profit or loss as they are incurred;

- *The reinsurers' share of insurance liabilities* (which consists of reinsured amounts that are related to the outstanding claim provision) is accounted for in the balance sheet on the asset side. In the statement of comprehensive income the *reinsurers' share in paid claims and in the change of technical provisions* decreases the overall amount of paid claims and the change in technical provisions. The reinsurers' share in paid claims and in the outstanding claim provision mainly is estimated on a case-by-case basis.

Ceded reinsurance arrangements do not relieve the Company of its obligations towards policyholders.

Receivables and liabilities related to reinsurance are measured in balance sheet under Other assets, Reinsurers' share of insurance liabilities and Other liabilities.

5.1.12. Financial liabilities other than liabilities for insurance contracts

Financial liabilities include accounts payable to suppliers, accrued expenses and other short- and long-term liabilities. These items are recognised when they become due and are measured during their initial recognition at the fair value. Financial liabilities are further recognised at their amortised cost, using the effective interest rate method.

Short-term financial liabilities are recognised in the balance sheet at nominal value because an amount to be paid as the amortised cost of short-term financial liabilities is usually equal to their nominal value.

Recognition of a financial liability is ended if that liability has been settled or has been cancelled or lapsed.

5.1.13. Other income

Other income includes the gains from the disposal of tangible assets and gain from negative goodwill (see note 5.1.3).

5.1.14. Operating expenses

All operating expenses are recorded on accrual basis. Acquisition costs of insurance contracts are not deferred but recognised as expenses once they are incurred. Operating expenses are broken down into acquisition expenses, administrative expenses, investments expenses and expenses related to pay-outs. The general principle of distributing expenses among different types, as described above is as follows: those costs that can be precisely identified (commission fees to intermediaries, etc.) are directly shown under the respective item. Where expenses cannot be precisely identified (office expenses, expenses related to premises, etc.), the *pro rata* distribution method is used.

Acquisition expenses are related to the sale of insurance contracts. Acquisition expenses include direct costs, e.g., commission fees to intermediaries, costs arising from the paperwork in respect of insurance documents or from the inclusion of contracts in the portfolio, as well as expenses incurred by employees who are directly involved in the conclusion of contracts, and indirect costs such as advertising costs and administrative expenses for issuing policies.

Administrative expenses are related to premium collection, portfolio administration, and the handling of bonuses and benefits. Administrative expenses include expenses related to insurance activities that are not included in acquisition costs, claims handling costs or investment expenses. Other expenses are incurred in the interests of the Company as a whole, e.g., auditor fees and tax consultant fees, supervision costs and payments to professional associations are all added to administrative expenses.

Expenses related to pay-outs include direct and estimated expenses that are related to the processing and settlement of paid claims and the administration of pay-outs, such as, for example, the salaries of persons dealing with claims handling, or for fees related to the use of experts.

Investment expenses include direct expenses related to the administration and management of an investment portfolio, transaction costs arising from the acquisition of financial assets, and other indirect expenses which are divided between investment expenses by means of the *pro rata* distribution method.

5.1.15. Leases

Leases where the Company is a lessee are recognised by accounting for right-of-use assets and a respective lease liability when the underlying assets become available for use according to the requirements of IFRS 16.

The only optional exemptions include certain short-term or low-value contracts for which the lease payments can be recognized as an expense on a straight -line basis over the lease term as rental expenses in profit or loss.

The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability, lease payments made at or before the commencement date (less any lease incentives received), initial direct costs incurred by the Company. The lease liability is measured at the net present value of the lease payments.

Lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. It is the interest rate that the lessee would be required to pay for its debt obligations necessary to acquire right-of-use assets in a similar economic environment and on similar terms and guarantees, as specified in the lease agreement.

If the Company incurs a possible future increase in variable lease payments related to an index specified in the lease agreement which is not included into the value of lease liability until it becomes effective, lease payments are adjusted due to a change in an index, the lease liability is remeasured and adjusted also adjusting the value of the right-of-use assets.

Lease payments are apportioned between the settlement of lease liability and interest expenses. Interest expenses are recognised in profit or loss over the lease term retaining the constant interest rate for the remaining amount of lease liability in each period.

Right-of-use assets are depreciated over the lease term of an underlying asset.

The review of the agreements, which might be in scope of lease accounting, is done once a year to ensure that there are no new agreements, which should be handled under the lease accounting principles described above.

5.1.16. Legal reserve

Each year the Company allocates at least 5% of its net profit to the legal reserve until the reserve reaches at least 10% of the share capital balance. The legal reserve is not paid out as dividends; however, it can be used to cover losses and increase the share capital.

5.1.17. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

The standard income tax rate in Lithuania is 15%.

70% of the taxable profit can be covered with losses carried forward. Tax losses carried forward as of 31 December 2021 are 98,728 euros. Tax losses can be carried forward indefinitely.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.
Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted on the balance sheet date. Deferred tax assets calculated from tax losses carried forward have been recognized in the balance sheet to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. Deferred tax liabilities have been recognized in the balance sheet, calculated from gain of acquisition of insurance contracts acquired from Mandatum Life Insurance Company Limited.

In Latvia and Estonia, the retained profit is not subject to income tax. Pursuant to valid Estonian legislation, the branch of the Company pays income tax on profit and assets both in monetary or non-monetary form taken out of the permanent establishment. The tax rate in 2022 was 20/80 of the amount.

According to the Law on Corporate Income Tax of the Republic of Latvia the tax rate is 20% of the distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends). The Law on Corporate Income Tax also provides for the application of 20% tax rate to the taxable base, which consists of conditionally or theoretically distributed profit (such as non-operating expenses and other cases specified in the law). In accordance with IAS 12 Income taxes, income taxes include only such taxes that are based on the taxable profit, thus corporate income tax calculated on the taxable base consisting of conditionally or theoretically distributed profit is shown under other expenses.

5.1.18. Accounting policies requiring management judgement and key sources of estimation uncertainties

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets, liabilities and contingent liabilities presented in the financial statements. Judgement is also needed in the application of accounting policies. The estimates reached are based on the best information available at the balance sheet date and also considering subsequent events. The estimation is based on historical experience and assumptions concerning the most likely future events at the balance sheet date.

The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised both in the financial year during which the estimate is reviewed and in all subsequent periods.

The Company's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related to assumptions used in actuarial calculations and the determination of fair values for non-quoted financial assets and liabilities. From the Company's perspective, accounting policies concerning these areas are the most complicated and require the most significant use of estimates and assumptions.

Assessment of the appropriateness of going concern assumption application to the Financial Statements

As disclosed in note 5.4.19, according to the signed Business Purchase Agreement between Invalda INVL AB and AB Siauliu bankas, the Company will transfer its life insurance business to Siauliai bank group. The transaction is planned to be concluded by the end of year 2023. After the completion of this transaction the Company is planning to apply for revocation of its life insurance licence and will continue to manage its own book financial assets portfolio which will not be transferred to Siauliai bank group.

According to management knowledge and estimates, the Company will continue its operations for at least the 1st half of year 2024. There are no decisions made in relation to discontinuing investment management activities, hence the Company's financial statements are prepared on a going concern basis

Actuarial assumptions

Evaluation of insurance liabilities always involves uncertainty, as technical provisions are based on estimates and assumptions concerning future claims. Estimates are based on statistics that are derived from historical claims which are available to the Company on the balance sheet date.

The uncertainty related to estimates is generally greater when estimating new insurance portfolios or portfolios where the clarification of a loss takes a long time because complete claims statistics are not yet available. In addition to the historical data, estimates of insurance liabilities take into consideration other issues, such as claims development, the amount of unpaid claims, legislative changes, court rulings and the general economic situation.

In the calculation of technical provisions and financial liabilities the Company uses discount rates between 2%-4%, depending on the contract. The table below shows insurance technical provisions and financial liabilities (except unit-linked*) proportions by discounting rate.

Discount rate	31.12.2022
0%	27%
2.0%	1%
2.5%	9%
3.0%	2%
3.5%	44%
4.0%	17%

* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in note 5.2.3 liquidity risk part.

Actuarial assumptions applied to insurance liabilities are also discussed under Risk management, specifically in the section related to insurance risk in Note 5.2.5; under the Liability Adequacy test in note 0 and under the Insurance technical provisions and financial liabilities and main changes in assumptions in note 5.4.13 of the financial statements.

5.1.19. Estimated impact of transition to IFRS17

Transition and implementation dates and estimate of impact to the Company's equity

IFRS17 Insurance contracts, which replaces IFRS4 standard, establishes principles for the recognition, measurement, presentation, and disclosures for insurance contracts issued. It also requires similar principles to be applied to investment contracts with discretionary participation features and reinsurance contracts held.

IFRS17 is effective for annual periods beginning on 1st January 2023 and the date of transition is 01.01.2022. However, since the Company did not have any insurance contracts as of the 1st of January 2022, there is no effect to the opening balance due to the transition. The Company acquired insurance portfolio on 01.07.2022 and has thereafter also issued new contracts. The sections below focus on the changes in the accounting policies applied under IFRS 4 for the period 1st July to 31st December 2022 and how transactions during this period will be presented as comparative figures in the 2023 financial statements. Company does not have any insurance contract groups that were previously accounted under IFRS 9 that will be accounted under IFRS 17.

The impact of adoption of IFRS 17 as of 31 December 2022 is an increase in total Company's equity by 0.7 million EUR.

The estimates above are preliminary and are subject to possible changes because the Company is still in process of reviewing and improving the accounting policies, processes and controls related to the application of IFRS 17.

Key principles of IFRS 17 and change from IFRS 4

According to the standard, a contract is defined as an insurance contract under IFRS 17 only if it has significant insurance risk. Insurance risk is significant when there is a possibility that insured event occurs and will cause an insurer to pay significant additional amounts. The significance of additional amount shall be assessed on present value basis for each contract separately.

Under IFRS 4, profit/loss from insurance contracts is recognized based on premiums received and claims and expenses incurred in a current period, whereas IFRS 17 introduces a new system of how profit/loss is to be calculated. Group of insurance contracts is measured as a risk-adjusted present value of the future cash flows (fulfilment cash flows) and a contractual service margin (CSM) which represent the unearned profit in the group of contracts. In order to determine how much profit should be recognized in each period, the company is required to identify the amount of coverage provided by each contract in the group (known as "coverage units"). The Company then allocates the CSM equally to each coverage unit provided in the current period and expected to be provided in future periods. The Company recognises the profit from a group of insurance contracts over the period during which the Company provides insurance coverage. Losses are recognized immediately as a loss component (LossC). So IFRS17 introduced new accounting principles that will make an impact on how profit from insurance activities is recognised in P&L.

IFRS 17 also requires for a Company to identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and are managed together. A portfolio is divided to two groups:

- onerous contracts at initial recognition;
- non-onerous contracts at initial recognition.

The purpose of this combination of portfolio is to ensure that profits are recognized over time in proportion to the insurance service provided, and losses are recognized immediately after the entity assesses that the concluded contract is unprofitable. IFRS 17 introduces a much more detailed aggregation of insurance contracts than it was under IFRS 4.

The Company applies the EU carved out version of IFRS 17 and does not split the portfolio acquired from Mandatum Life into yearly cohorts.

IFRS 17 introduces three measurement models that shall be used for calculations. The Company will apply two of them for direct business contract groups:

- GMM (General Measurement Model) – is the default approach that any insurance company can use. It is appropriate for longer-term contracts like life insurance or Mortgage policies, which cover a specified risk over an extended period;

- VFA (Variable Fee Approach) - is always required for "Direct Participating Contracts". This measurement approach is mandated for contracts involving segregated funds, unit-linked contracts, etc., and can be used for any insurance contract that involves investment components.

GMM is a standard approach. The Company calculates the expected discounted cash flows, risk adjustment and the remaining CSM and accounts for these elements under liabilities. Expected loss from onerous contracts are recognised directly through profit/loss at inception of an insurance contract. Every year assumptions and amounts for expected cash flows, risk adjustment, CSM and loss component are updated. Positive or negative changes can go through CSM or recognised in profit/loss. Once the insurance service is delivered, part of the CSM is recognised through profit/loss. No profit is recognised at inception of an insurance contract.

VFA introduces the concept of a "Variable Fee", which is defined as the Company's share of the underlying items as a fee for the services it provides. The main benefit of applying VFA is to better manage the volatility of the Company's balance sheet.

The key difference between the VFA and the GMM is only evident at subsequent measurement, the transitional and at inception CSM is the same under both models. This difference is the ability to bring economic movements into the CSM each period as compared to the P&L under the GMM. This reflects the fact that future profitability is significantly impacted by the changes in underlying items values due to financial market movements. Without this mechanism, the insurance service result for these products would not reflect the reality, and the net investment result would be incredibly volatile.

In total, the Company has the following portfolios and uses the following measurement models:

- Term life contracts portfolio. Calculated according to GMM;

- Unit linked contracts portfolio. Calculated according to VFA;

- Endowment and Universal life contracts portfolio. Calculated according to GMM;

- Annuity in outpayment phase contracts portfolio. Calculated according to GMM.

The Company also takes into account issue country of contract in grouping of contracts.

Company shall present separately in profit and loss:

- Insurance revenue – as insurance service expenses incurred in the period, CSM recognised, risk adjustment released and allocation of premium to insurance acquisition cash flows;

- Insurance service expenses – as incurred claims, insurance acquisition and other expenses, as well as losses on onerous contracts and reversal of those losses;

- Insurance finance income and expenses.

IFRS 17 requires separating an investment component from a host insurance contract if, and only if, that investment component is distinct. Company's unit-linked contracts contain investment component; however, investment component and an insurance component are highly interrelated and investment component is non-distinct therefore the Company will not apply unbundling to insurance contracts with deposit components.

The contract boundary for an insurance contract under IFRS 17 determines which cash flows should be included within the fulfilment cash flows, and hence the value of the CSM. In IFRS 17 Contract boundary is equal to the contract maturity due to long term covers and limited practical ability to reassess risk of portfolio. Contract boundaries in IFRS 17 should not have a significant impact when compared to IFRS 4.

IFRS 17 introduces a requirement for insurers to use fair value and market-consistent approaches to liability valuations as the basis for reporting their accounts. It is very different from how it was before under IFRS 4, where discounting could be done with fixed rates. To calculate present value future cash flows, the Company uses discount rates derived by bottom-up approach (described as risk-free rate plus illiquidity premium formula) based on EIOPA risk free rate curve. By applying of new requirements, profit and loss will become much more volatile than before because future cashflows will be discounted using up to date discount rates (for GMM model up to date discount rates are applied at initial recognition of an insurance contract group, whereas for VFA model discount rates are updated for all insurance contracts within insurance contract group in each accounting period). As these rates fluctuate each period, this will make an impact on the present value of future cash flows.

Under IFRS 17 the insurance acquisition cashflows are added to fulfilment cash flows and hence makes part of CSM, accounted under insurance liabilities and recognised through profit/loss over time. Under IFRS 4, insurance acquisition cashflows were accounted as expenses through profit/loss when incurred.

IFRS 17 introduces the necessity to calculate risk adjustment (RA) for non-financial risk, a compensation amount by which the Company shall adjust the estimate of the present value of future cash flows related to the uncertainty of i) amount of the cash flows, ii) timing. IFRS 17 risk adjustment explicitly excludes financial risks and operational risks. Process of risk adjustment calculations is described as an estimation of two risks: parameter risk (i.e. estimation error, that is, the source of uncertainty in the parameters of the model used to estimate the cash flows) and process risks (i.e. volatility risk that relates to the random nature of the underlying processes which are independent one from another). Final amount of risk adjustment is calculated by summing up RA from parameter risk and RA from process risk. Risk adjustment is to be released according to the patterns of coverage units as Company’s investment revenue.

Company decided not to use accounting policy choice to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income (OCI).

Under IFRS 17, the accounting treatment of reinsurance contracts depends on the terms of the contract and the nature of the risk transferred. If a reinsurance contract meets the definition of an insurance contract under IFRS 17, it must be accounted for in accordance with the standard's requirements. Company still has not checked IFRS 17 effect of reinsurance on equity, however due to the volumes of reinsurance being very low, this impact is immaterial and will be evaluated during later reporting periods.

5.2. Risk Management

5.2.1. Overview of main risks and risk management

Risk is an essential and inherent element of the Company’s business activities and operating environment. For financial sector companies in general, the core competences of business are skilful pricing of risks and proper management of arising risk-exposures. A high-quality risk management process is a necessary prerequisite of successful business.

The Company belongs to INVL Investment management and life insurance group (INVL Group). The risk management and internal control principles are defined for INVL Life separately. Still there is a strong integration between group companies in certain areas, particularly in investment management area due to the fact that the same employees, including senior managers work for group companies and coordinate own area over the whole INVL Group.

The key target for risk management within the Company is to create value and preserve already created value, which includes the following objectives by areas:

1) Balance between risks, capital and earnings:
   a) To ensure that risks affecting profitability as well as other material risks are identified, assessed and analysed;
   b) To ensure that capitalisation is adequate in terms of current risks inherent in business activities and strategic risks taking into account the expected profitability of the business;
   c) To ensure that underwriting risks are priced adequately reflecting their inherent risk levels

   d) To ensure that expected returns on investment activities are in balance with the incurred risks, and that those risks (including market, credit, liquidity and operational) are appropriately mitigated.

2) Cost efficient and high quality process:
   a) To ensure that customer service processes and internal operative processes are cost efficient and of high quality;
   b) To ensure that decision making is based on accurate, adequate and timely information;
   c) To ensure the continuity of operations and fast and comprehensive recovery in case of disruptive events.

3) Strategic and operational flexibility:
   a) To ensure that external risk drivers and potential strategic risks are identified and the Company is in a good position, in terms of capital structure and management skills, to react to changes in business environment;
   b) To ensure that corporate structure, knowledge and processes facilitate effective implementation of changes.

To meet these objectives, the Company's risk management process includes the following tasks:

a) Identification of risks;
b) Sound pricing of insurance policies and careful risk/return consideration of investments, which are prerequisites for achieving the targeted financial performance and profitability over time;
c) Management of risk exposures and constant adjustment of liability, investment and operative processes' risks in order to maintain a sound risk-to-return ratio. Management responsibilities and authorisations are defined in separate documents;
d) Measurement, analysis and reporting of risks, results and profitability.

The Company's risk profile

Main categories of the Company's risks include: insurance risks (5.2.5), market risks (5.2.3), credit risks (5.2.4) and operational risks (5.2.6). Risks within the insurance risk category are associated with life insurance risks (mortality, survival, morbidity and other) assumed through the contracts underwritten with customers. Market risk arises from the volatility of financial markets and include interest rate, equity prices, foreign exchange, liquidity risks. Credit risk is the risk of default and change in the credit quality of issuers of securities, counter-parties and intermediaries, to whom the Company bears a level of exposure. Operational risks arise from the type and nature of the Company's activities. These include direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events.

The above described risks are directly impacting the financial result of the Company which may be split into the following parts:

- The investment result is the margin between investment return from Own book and traditional portfolio investments and the cost of guaranteed and other interest and bonuses. In case of unit-linked policies, the customer carries the risk of the investment; however, the Company still bears some investment risk due to the specifics of unit-linked assets management process and possible low-level mismatching of unit-linked assets and liabilities;
- The insurance risk result is the margin between actual claims incurred and the amount of claims assumed in pricing;
- The expense result is derived from expense charges from policies less the actual expenses incurred.

The Company performs profitability analyses of the insurance contracts portfolio, which are based on different future scenarios taking into account the development of the Company's costs, investment market returns, claims development, new business volumes, and other parameters. These analyses provide an improved understanding of the Company's risk profile and also help to deliver insights about possible future developments and are used in business decisions.

Development of the Company's risk exposures and solvency position in 2022 will be described in relevant sections further in these financial statements.

However, the main highlights related to results in those areas after taking over insurance portfolio 01.07.2022 during the 2nd half of 2022 would include the following:

- Unit-linked liabilities slightly decreased as incoming premiums were smaller than effect of maturities, surrenders and investment return in unit-linked funds which were influenced by unstable environment, increasing inflation and volatility in financial markets;

- Insurance sum at risk increased but there were no major changes in the overall insurance risk position;
- Investment returns of the Company's investments covering technical provisions related to with profit insurance policies were positive but below the average level of guaranteed interest of traditional savings products;
- Investments returns of the Company's own book investment portfolio were substantial and contributed the most to the net profit of the Company for the year ended 31 December 2022;
- The Company meets Solvency II solvency capital requirements with substantial surplus.

In 2022 the Company performed Q3 and Q4 regulatory solvency reporting. Own risk and Solvency Assessment (ORSA) was finalized by 07.03.2023. These calculations show what would the Company's Solvency II consistent capital position be during business plan projection period and how the stresses chosen by the Company would impact the capital position or related decisions. Main conclusion from ORSA is that the Company's current strong solvency position makes it resilient to the risks that were chosen to be stressed during 2023 ORSA process.

Risk governance

In 2022, the Company focused on implementing own risk management system. Risk management system is composition of systematic methods including strategies, processes, and reporting procedures necessary to, on a continuous basis, identify, evaluate, manage, monitor and report risks. For effective implementation of the risk management system, the Three Lines Model is used.

According to defined Three Lines Model, 1st line includes business units who are responsible for risk ownership or risk taking in their responsibility areas according to the limits defined by the Board – it includes risk identification, evaluation, measuring, managing, monitoring, and reporting those risks as agreed as well as implementing adequate internal controls.

2nd line functions (risk management, compliance, actuarial) are supporting the business units and control risk ownership. Due to small organization some persons still have responsibilities in 1st line and in 2nd line but the Company has taken care of the aspect of possible conflicts of interest which could arise in relation to such sharing of responsibilities. As well the Company dedicated the separate person for compliance function.

Internal audit belongs to 3rd line. Internal auditor is shared with other INVL Group companies. Target of internal audit is to evaluate the adequacy and effectiveness of the internal control system and other elements of the governance system. Internal audit activity plan is based on risk analysis.

The overall responsibility for the risk management and adequacy of the internal control system at the Company lies within the CEO and Management Board (where CEO is one of its 3 members), being responsible for ensuring the effectiveness of the risk management system, setting risk appetite and overall risk tolerance limits and management of risks by following instructions issued by the Company's Shareholders meeting according to rules stated in the Articles of Associations.

The Head of Risk Management coordinates overall risk management activities and monitors implementation of risk management related decisions.

The Risk Management Committee (RMC) monitors risk management, internal control and system of governance matters and suggests appropriate measures to address any deficiencies. Appointed persons report in RMC operational risk, asset and liability management, insurance risk, legal risk, compliance risks with details about anti money laundering matters; business and reputation risks. Management Board members participate in RMC meetings. The RMC meetings are held on a quarterly basis. Among other tasks the RMC also organises annual risk self-assessment and analyses action plans of risk mitigation.

The Operational Risk Management Committee (ORMC) organises the management of operational risk including business continuity planning. Tasks of the ORMC include analysing realised operational risk incidents and near misses and arranging recovery planning. The ORMC meetings are held on a quarterly basis.

Insurance risks are mainly monitored by the Company's actuarial unit and risk underwriters. The actuarial unit monitors the adequacy of tariffs and prices, the adequacy of technical provisions and reports to the Management Board if changes in the calculation basis are needed. The actuarial unit issues various reports to the management on a regular basis.

Insurance Risk Committee is established with target to support communication in that area and among other tasks oversee that the Underwriting and Reinsurance Policy is followed; monitor the functioning of the risk selection and claims processes; monitor profitability of each risk component, premium discounts given and other exceptions regarding pricing; follow changes in customer behaviour trends.

The Investment Committee is a collegial investment decision body responsible for the decisions regarding the management of Unit Linked assets– both daily management and also from risk management perspective. Investment Committee focuses on short-term and long-term UL investments; monitoring investment performance, investment portfolio and changes, asset allocation and limits, market risks, market update and short-term changes, liquidity, and currency positions; monitoring different investment-related reports and assumptions; monitoring outsourced investment activities. Own book and traditional portfolio investment management is carried out by the Investment Management Committee with approval for investment decisions by the Management Board.

5.2.2. Capital management

Capital content and capital management

The target of capital management is to ensure the adequacy of the available capital in relation to the risks arising from the Company's activities and business environment and to ensure the Company's own funds are adequate with respect to capital requirements.

Insurance is a highly regulated area of business with requirements for minimum capital and capital structure. The term *capital* refers to equity capital, which consists of share capital, share premium, legal reserve, any other reserves, and retained earnings (see Statement of Changes in Equity). The Company evaluates its capital requirements on the basis of legislative capital requirements and taking into account the Company's strategic development.

Legislative capital requirements

Capital requirement principles for a life insurance company is provided in the Law on Insurance of Lithuania.

An insurance undertaking shall calculate the Minimum Capital Requirement at least once a quarter and submit the calculation to the Financial Supervision Authority.

The Minimum Capital Requirement shall correspond to the amount of the eligible basic own funds where the availability of the eligible basic own funds in a lesser sum would result, upon continuation of the activities of an insurance undertaking, in extremely high risk that the obligations assumed with respect to the policyholders, insured persons and beneficiaries remain unperformed. The Minimum Capital Requirement of a life insurance undertaking is 3.7 million euros.

An insurance undertaking shall calculate the Solvency Capital Requirement at least once a year based on the standard formula, internal model or partial internal model on a going-concern and submit the calculation results to the Financial Supervision Authority.

The definition of the Solvency Capital Requirement: The Solvency Capital Requirement shall correspond to the amount of the own funds of an insurance undertaking, which provides an insurance undertaking with an opportunity to perform with 99.5% probability the obligations assumed under an insurance contract within the next 12 month.

The Company is preparing and disclosing the solvency report pursuant to the Law on Insurance and Commission Delegated Regulation (EU) No. 2015/35. The solvency report is submitted to the supervisory authorities and also published in the Company's webpage within deadlines set in law.

During year 2022 and up to the date of the issuance of these financial statements the Company complied with the regulatory solvency capital requirements with substantial buffer. The Company's Solvency Ratio as of 31 December 2022 amounted to 177% (the minimum regulatory requirement for the Solvency Ratio is 100%).

5.2.3. Market risk

Market risk refers to the fluctuations in financial results and solvency of the Company caused by changes in the variables determined by financial markets, including equity prices, interest rates, instruments liquidity, foreign exchange rates.

Market risk management and control

Market risks arise from management of different investment portfolios by the Company. The Company manages these portfolios:

- Investment portfolio related to unit-linked insurance policies where investment risk is borne by insurance policyholders and all proceeds from these investments are directed to the clients. Assets invested into this portfolio are accounted in financial statements line Financial assets covering unit-linked insurance and investment contracts;

- Own book and traditional portfolio (OB&T portfolio) covering Company's shareholders equity and all liabilities except for unit-linked financial liabilities. Assets belonging to this portfolio are accounted in financial statements line Financial assets, other.

The key market risks that the Company faces include the following:

- Equity prices risk;
- Interest rate risk;
- Liquidity risk;
- Foreign exchange risk.

Market risks arising from management of Investment portfolio related to unit-linked insurance policies are managed in accordance with Investment Baskets Management Policy. The risk management process involves identifying, monitoring, assessing and controlling risks. The key risk management principles include:

- clear and structured procedure for investment management decisions is followed for each transaction to be performed, separating two levels for investment decision making: Investment Committee (strategic investment decisions, selecting financial instruments); Portfolio Manager (determining quantity, acceptable price and other terms of buying/selling financial instruments);
- risks are managed pro-actively, controls are in place both before and after transactions are placed;
- three lines of defence is applied (as described under Risk Governance section above):
  - The first line of defence includes portfolio managers and the Head of Investment Management Unit. It is their responsibility to ensure that investments comply with the Strategy and investment restrictions;
  - The second line of defence is the risk management operations carried out by the Portfolio Operations Accounting Unit, whose main tasks include:
    - To ensure that each portfolio is managed in accordance with established rules and limits;
    - To control market prices and valuations used to calculate the net asset value of the portfolio;
    - To reconciliate transactions, positions and cash balances between the Company and external data;
    - To report to the Investment Management Unit any breaches of investment restrictions relating to the management of investment baskets and clients' accumulated capital;
  - The third line of defence is the Company's internal audit function, which monitors and ensures that risk management operations comply with laws and regulations and are carried out as described in the Company's internal policies and other documents.

The unit-linked portfolio contains assets that cover as precisely as possible and necessary the respective financial liabilities where the risk is borne by policyholders. The remaining excess of unit-linked portfolio assets over unit-linked liabilities (the buffer) is controlled and kept at minimal level.

Market risks arising from management of Own book and traditional portfolio are managed in accordance with Own Book investment management policy. The management of market risks related to this portfolio also include three lines of defence:

- 1st line of defence is carried out by Finance Unit, which perform on-going monitoring of OB&T portfolio risks and considers events effecting portfolio risk level (e.g., changes in liquidity needs of the Company; changes in prices of portfolio investments; changes in liquidity parameters of OB&T portfolio investments, etc.);
- 2nd line: Control ownership stays at Risk Management Committee (RMC) and the Head of Risk Management. RMC monitors key risk indicators for OB&T portfolio and agrees on actions needed to address changes in OB&T portfolio risk management parameters;
- 3rd line: Assurance of ownership is performed by Internal Audit Function. Internal Audit function performs audits to ensure that the Company has sufficient and well-functioning controls to address risks arising from management of OB&T portfolio assets.

Although financial assets covering insurance liabilities from traditional products are accounted in the same line of Statement of Financial Position as Own book and traditional portfolio assets, and investment management principles are the same, the allocation of these financial assets is made separately from other Own book and traditional portfolio assets, considering specific risks (including liquidity, interest rate risks) as well as cash flow pattern most relevant to traditional and with-profit insurance policies.

Interest rate risks

The Company's fixed income investments related risks include interest rate risk related to changes in market interest rates as well as spread risk arising from changes in the credit spreads of fixed income investments, both resulting in changes in the fair values of respective investments. It is the fair value interest rate risk. Also, the Company face a risk of market interest rates falling and remaining at a low level for long period and cashflows from portfolio investments not covering guaranteed rates provided to the policyholders.

Interest rate risk is managed by selecting the financial instruments which yields and durations are suitable to cover the Company's technical provisions for guaranteed interest rate products.

Company's investments covering guaranteed interest products include bond funds and separate government bond positions (see table 2-1) with durations between 2-3 years.

Table 2-1: Assets covering insurance liabilities from traditional products by asset classes

	2022
Bond funds	6,032
Bonds	2,866
Cash	875
Total	**9,773**

Insurance technical provisions and financial liabilities (except for unit-linked financial liabilities where risk is borne by policyholders) by guaranteed interest rate are compared to running yields of investment portfolio assets (including assets allocated to Own book and traditional portfolio covering insurance liabilities other than unit-linked liabilities) in the table 2.2. The table shows that as of 31.12.2022 the Company's financial assets covering insurance liabilities with guaranteed rates have higher average yields to maturity than guaranteed rates to be paid to policyholders.

Table 2-2: Insurance technical provisions and financial liabilities (except for unit-linked financial liabilities where risk is borne by policyholders) by guaranteed interest rate compared to running yields of assets covering these liabilities as at 31.12.2022.

Guaranteed interest rate	0.00%	2.0%	2.50%	3.00%	3.50%	4.00%	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	2,790	146	934	192	4,609	1,762	10,433
Reinsured amount	2	-	-	-	-	-	2
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	2,788	146	934	192	4,609	1,762	10,431
Running yields	0%-0.99%	1.0%-1.99%		2.0%-2.99%	3.0%-3.99%	4%, and more	Total
Fixed Income assets accounted to investment portfolio	2,497	-	-	935	1,931	6,032**	11,395

* Which still contains unit-linked financial liabilities that cover pending pay-outs of 1,622 thousand euros as described in 5.2.3 liquidity risk part and covered by cash
** Yield to maturity of investment into bond fund falls into this category (YTM is 6.8% as of 31.12.2022)

Also, interest rate fair value risk of portfolio of assets covering insurance liabilities with guaranteed interest rate is measured by testing the sensitivity of fair value of debt securities to parallel shift of interest rate curves (table 2-3 below).

Table 2-3: The Company's Own book and traditional investment portfolio's sensitivity to interest rate changes as of 31.12.2022

	Fair value of interest rate sensitive investments	1% Parallel Shift Down	1% Parallel Shift Up
2022	8,898	+216	-214

Equity prices risk

The equity price risk is the risk of losses due to changes in share prices.

Equity price risk is mostly related to the Company's Own book and traditional portfolio which is concentrated on equity investments. Equity price risk is managed applying the following principles:

- Concentration limits are set and followed – not more than 40% of total Own Book and traditional portfolio assets can be allocated to one position;
- Market Risk Tolerance limits are applied according to Own Book Investment Management policy – if return on equity portfolio is negative or do not meet required return criteria, the corrective actions should be applied;
- All equity investments are very closely monitored by INVL Group as majority of investments are managed within the INVL Group;
- Equity market shocks are applied when performing Own Risk and Solvency Assessment (ORSA) exercise and its effect on the solvency position of the Company is tested.

The values of financial assets are subject to change in the underlying market variables. The sensitivity analysis of Own Book and traditional investment portfolio in case of different market risk scenarios are illustrated in the table below. The effects represent the instantaneous effects of a one-off change in the underlying market variable on fair values as of 31 December 2022.

Table 2-4: The Company's Own book and traditional investment portfolio's sensitivity to equity price changes as of 31.12.2022

	Fair value of equity investments	20% (Fall)/increase in equity prices
2022	55,057	(11,011)/11,011
2021	9,802	(1,960)/1,960

Equity prices risk also has indirect effect on the Company from unit-linked portfolio:

- Certain contract and asset management fees are dependent on net asset value of investment baskets – if investment basket value falls, the Company earn less fee income;
- If investments value of unit-linked baskets falls, the surrenders from unit-linked investments increase thus further decreasing the value of unit-linked assets and revenue of the Company.

The Company assesses that equity risk has significantly higher impact on Company's Own book and traditional portfolio as compared to unit-linked portfolio.

Currency risk

In 2022, almost all insurance contracts were based on euros, except for minor amounts that were based on US dollars. All Own book and traditional portfolio investments were denominated in euros.

Table 2-5: The currency positions of insurance technical provisions and financial liabilities (except for investments for unit-linked life insurance contracts) **and assets covering these liabilities** as of 31.12.2022.

Currency	EUR	USD	Total
Insurance technical provisions and financial liabilities (except for unit-linked*)	10,428	5	10,433
Reinsured amount	2	-	2
Insurance technical provisions and financial liabilities (except for unit-linked*) net of reinsurance	10,426	5	10,431
Assets covering insurance liabilities (except for unit-linked)	11,395	-	11,395

* Which contains unit-linked financial liabilities that cover pending pay-outs of 1,622 thousand euros as described in 5.2.3 liquidity risk part and covered by cash.

Unit-linked liabilities where the risk is borne by policyholders do not create the currency risk even if liabilities are agreed in different currencies. In case of unit-linked policies the aim is to match assets and liabilities.

Liquidity risk

The Company has defined the liquidity risk as the possibility that the Company may not have enough available resources for both the performance of its obligations in due time as well as for extraordinary circumstances that can take place as a result of the coincidence of a number of events. Main sources of a potential liquidity risk are claims related to disasters, a higher degree of contract cancellations or partial payments than forecasted, and deterioration of public reputation, general economic decline, as well as claims from suppliers.

Basis for liquidity management is the maintenance of sufficient level of liquid financial assets in the Company's Own book and traditional investments portfolio. According to the Own book investment management policy, the Company should maintain liquid assets (i.e., cash and cash equivalents and financial assets that are convertible into cash within one month period without significant costs) amounting to the higher of:

- 10% of total Own book and traditional investments portfolio value;
- The total of liabilities under with profit insurance contracts with maturity of up to 1 year and three months cash needs to cover ordinary operating expenses of the Company.

The liquid assets amounts are calculated on quarterly basis and reported to the Risk Management Committee. If actual liquid assets fall below the required limit, actions to increase amount of Company's liquid assets are performed.

Maturities in years for insurance technical provisions and financial liabilities (except for unit-linked financial liabilities where the risk is borne by policyholders) are compared to the assets covering these liabilities in the table 2.6. Insurance technical provisions and financial liabilities are grouped here by remaining maturity according to the maturity date fixed in each insurance contract. It does not reflect the best estimate of expected cash-flows, as cash-flows would also be influenced by future premiums, surrenders, partial surrenders, claims, fees, interest, changes in policies, etc. However, it could still be used for a rough estimation of cash-flows.

Table 2-6: Maturities in years for insurance technical provisions and financial liabilities (except unit-linked financial liabilities where the risk is borne by policyholders) **and assets covering these liabilities at 31.12.2022.**

Remaining maturity in years	Not fixed	0-1.9	2-5.9	6-10.9	11-15.9	16-19.9	20-upwards	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	2,868	2,148	2,558	1,844	676	189	150	10,433
Reinsured amount	2	-	-	-	-	-	-	2
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	2,866	2,148	2,558	1,844	676	189	150	10,431
Assets covering insurance liabilities (except for unit-linked)	8,529	970	1,896	-	-	-	-	11,395

* Which contains unit-linked financial liabilities that cover pending pay-outs of 1,622 thousand euros as described in 5.2.3 liquidity risk part and covered by cash.

The table 2.7 indicates amounts as of 31 December 2022, showing them divided between groups according to the remaining maturity date indicated in each insurance contract. It does not reflect the best estimate of expected cash-flows, as cash-flows would also be influenced by future premiums, surrenders, partial surrenders, claims, fees, changes in unit prices, changes in policies, etc. However, it could still be used for a rough estimation of cash-flows.

Table 2-7: The remaining maturities of unit-linked financial liabilities, where the risk is borne by the policyholder as of 31.12.2022.

Remaining Maturity in years	0-1.9	2-5.9	6-10.9	11-15.9	16-19.9	20-upwards	Total
Unit linked financial liabilities	13,071	17,798	21,654	25,076	10,382	52,038	140,019

The difference in the total between this table and the figures given in note 5.4.11 is due to unit-linked financial liabilities that cover pending pay-outs of 1,622 thousand euros. The maturity of this amount was included in the market risk tables 2.2, 2.3 and 2.5 shown in 5.2.3.

Insurance contracts stipulate that the repayment of insurance contracts amounts in case of surrenders or insured events should be done in 30 days. The Company manages liquidity risk for repaying amounts to its customers by constantly monitoring the amount of liquid assets (cash or instruments convertible into cash within 30 days) as described above.

With respect to assets backing unit-linked liabilities, the Company’s asset management team constantly monitors critical liquidity and general liquidity ratios. Critical liquidity ratio is ratio of assets in unit-linked basket that can be realised within 5 business days, and General liquidity ratio is the ratio of assets in unit-linked basket that can be realised within 12 business days. These ratios are presented to Risk Management Committee on quarterly basis. The General liquidity ratio of unit-linked baskets amounted to more than 75% at the year-end 2022.

Risk Concentrations for Own book and traditional investment portfolio

Own book investment management policy states that single position should not make more than 40% of total value of Own book and traditional investment portfolio. As of 31 December 2022, the largest single position in the portfolio made 34.8% of total value of Own book and traditional investment portfolio. This ratio is monitored on quarterly basis and reported to Risk Management Committee.

5.2.4. Credit risk

Credit risk is the risk of a loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of the issuers of securities, of counterparties and of any other debtors. Credit risk arises from investments as well as insurance and re-insurance contracts.

Credit risk in investment management includes the risk of a government or a corporate issuer not fulfilling its obligations or otherwise obstructing the remittance of funds by debtors, particularly in the context of fixed income securities. The credit risk in investment management can be divided into issuer risk, counterparty risk and spread risk. Also, credit risk arises from the banks where cash is kept by the Company.

Issuer risk is often associated with a direct holding in a security, while counterparty risk is related to derivatives. Spread risk relates mainly to changes in the credit spreads of fixed income investments issued by banks and corporations.

The credit risk is managed by holding the Company's cash in banks with high credit rating and investing Own book and traditional investment portfolio assets to high credit rating fixed income positions (usually Government bonds) or investing into bond funds that allow for high diversification of credit risk. The table below shows credit ratings of the Company's Own book and traditional portfolio investments into bond positions.

The ratings of bonds according to Fitch rating	**31.12.2022**
	Investments
A	1,931
A-	935

Table 2-9: The total exposure to credit risk by financial assets as of 31.12.2022 and 31.12.2021

	31.12.2022			31.12.2021		
	Other	**Unit-linked**	**Total**	Other	Unit-linked	Total
Bonds (Note 5.4.4)	2,866	-	2,866	-	-	-
Receivables related to insurance activities and other (Note 5.4.8)	186	-	186	-	-	-
Reinsurers' share in of insurance liabilities	2	-	2	-	-	-
Cash covering UL liabilities (Note 5.4.9)	-	7,722	7,722	-	-	-
Cash and cash equivalents (Note 5.4.9)	3,308	-	3,308	317	-	317
Total	**6,362**	**7,722**	**14,084**	**317**	**-**	**317**

5.2.5. Insurance risk

Insurance companies assume insurance risks through the contracts they underwrite with their customers.

The risk involved in each single insurance contract is the possibility that an insured event will eventually occur or that an insured event will occur unexpectedly, i.e., the time of occurrence or the severity of the claim is unknown. An insurance contract is essentially characterised by randomness and unpredictability.

The Company offers products covering the following insured events: death; the survival of a predetermined date; general events related to accidents or illness or specific accidents or illnesses (broken bones, traumas, injuries, critical illnesses, etc.).

The pricing of the portfolio for insurance contracts and the determination of obligations related thereto is based on the probability theory. The main risk arising from insurance contracts lies in the fact that actual pay-outs exceed recognised insurance obligations. This might happen due to the fact that losses are more frequent and occur in larger amounts than initially forecasted. Insured events are random and their number varies from year to year when compared with assessments made on the basis of statistical methods.

The larger the portfolio of similar contracts, the smaller the relative difference from expected outcome. Some risks balance each other naturally. The risk undertaken by the Company is smaller if it has both mortality and survival risk in comparison with having these separately.

Uncertainty in estimating future benefits and premiums that are due arises from a failure to predict future trends, such as long-term mortality levels and the variety in policyholders' behaviour (e.g., the right of policyholders to cancel the contract, to waive the payment of future premiums, to change the selected dynamics of premium payments, etc.). Provided that policyholders act rationally, the general insurance risk can increase. For example, it is likely that insured persons whose health has significantly deteriorated in the meantime would be less inclined to cancel contracts that carry a death benefit or decrease their benefit as opposed to those who are still in good health. This leads to an increase in expected mortality as the number of insured persons in the portfolio decreases due to voluntary cancellations. The Company has taken these assumptions on the behaviour of policyholders into account when assessing the obligations. The Company regularly compares estimations used in pricing and in determining obligations against its own experience. Experience is followed not only on a summary level but also on such a detailed level that the concentration of risk, for example by geographical area, risk cover (type of insured event), risk group total amounts before or after reinsurance, etc., could also be estimated.

The frequency of losses related to mortality, survival, accidents, and illnesses is highly dependent on social conditions (education, healthcare, etc.), as well as on epidemics or widespread changes in lifestyle such as eating, smoking and (sports-related) hobbies. As an indication of risk sensitivity, the effect of doubling the recorded mortality, disability, sickness and accident rates for 2022 half year would mean approximately 0.40 million euros of additional claims costs for the Company (the table 2-10 below). Claims development is not disclosed, as uncertainty about the amount and timing of claims payments is typically resolved within a year.

It is impractical (impossible due to practical reasons) to disclose the sensitivity for insurance technical provisions in respect of discount rate, mortality rate and expenses. The value of insurance technical provisions is not affected by market interest rates changes. Assumptions used (incl. guaranteed interest rate and discount rate) when assessing the liabilities are generally the same as those used in pricing (fixed in policy documents and do not change over time). The Company has shown the impact to changes in assumptions (sensitivities) through liability adequacy test (note 0).

The Company has additional uncertainty for policies issued since 21 December 2012. For these policies the Company uses gender neutral pricing (based on a judgment by the Court of Justice of the European Union). This is a crucial change since gender has always been one of the key pricing factors for our products. Portfolio gender mix is monitored regularly. If real gender mix differs significantly from assumed, the Company will review pricing or reserving principles.

However, the exposure to risks is lower for many products in which the Company may change risk premiums and expense loadings if required (for example, in the area of flexible products on sale in Estonia and Lithuania, and in riders). Risk is related to the delay time needed for the implementation of changes and restrictions of the market itself (in the form of competition) or supervision in respect of changes. In case of traditional products, the payment is always fixed and cannot be changed in the light of new assessments.

The Company follows underwriting rules to manage insurance risk. The level of a policyholder's (risk) premium usually depends on the state of health of the insured person. For most cases underwriting is carried out using signed documents (such as health declarations or questionnaires). In some cases, where relevant amounts are small, the medical status of an applicant is not requested, but in case of bigger amounts a medical investigation is also required. The Company limits the acceptance of very high or exceptional risks.

The table below shows claim ratios compared to actual claims with experience used in pricing.

Table 2-10: The actual risk claims with risk charges in case of death, accident and sickness risk cover being taken out in all policies in 2022

	2022	Content
Risk claim	404	Includes part of paid claims and the increase of outstanding claims provision that covers the sum at risk (in case of death, accident and sickness). It does not cover other technical provisions or financial liabilities, including savings paid out in case of death.
Risk charges	2,793	The Company takes risk charges to cover risk claims and expenses related to settle these claims. This includes risk premiums or a part of premiums, and (a part of) the increase in respective provisions. It does not include premiums that the policyholder is contributing to savings and it does not include other expenses the Company charges.
Claim ratio	14%	Risk claim divided by risk charges (that is, assumed claims) in percentages. Actual claims and pay-outs did not exceed the amounts that the Company projected for 2022 2nd half year.

Claims and respective ratios are influenced by the underwriting process – claim ratios are expected to be better in earlier insurance years. The underwriting effect is expected to disappear after the fifth insurance year.

The Company has limited its own risk by reinsurance. Reinsurance is bought to limit the Company's exposure related to death, and some accident and critical illness related risks, but not for survival risk.

Risk concentration indicates situation where more than one person insured by the Company may die or suffer an injury as a result of insured event. Although there are cases where several persons were insured by the Company, the risk concentration is not considered to be high because retention of the Company according to reinsurance contracts in each single risk is considered not to be high. Therefore, even if several insured will suffer the same accident, then it would not cause claims payments which could exceed the financial ability of the Company.

In addition to biometric risks (related to mortality, longevity and similar risks) that have been described above, the Company is exposed to other risks such as the discount rate risk, and risks related to policyholders' behaviour.

The discount rate risk of technical provisions is the main risk affecting the adequacy of liabilities (technical provisions and financial liabilities). The guaranteed interest rate is in many cases fixed in policies for the whole policy period. Therefore, if market interest rates and expected investment returns fall, technical provisions may have to be supplemented. The interest rate risk of assets and liabilities was also discussed under Market risk in note 5.2.3 and discount rate assumptions were covered under Liabilities adequacy test description in note 5.4.14.

Another significant risk comes from the behaviour of policyholders. Policyholders may cease paying premiums or surrender their policies or use the partial surrender option. All of this has an influence on the expense risk by possibly creating a situation where expense loadings do not cover real expenses. Expense loadings are influenced by the size of policyholders' reserves. To increase policyholders' reserve there is a possibility of increasing premiums, decreasing partial surrenders, decreasing surrender rates, increasing the duration of policies, etc. Tariffs and prices are reviewed either annually or according to needs, and the Management Board approves all required changes.

Several reports are produced regularly by the actuarial unit and analysed by the managers of the Company in order to monitor insurance risk and underwriting results, including:

- the adequacy of tariffs is estimated by regular analysis of expected claims compared to actual claims;
- the comparison of expense loadings against actual expenses and the comparison of investment income against cost of interest and bonuses performed on a monthly basis.

Maturities of the Company's liabilities are shown in table 2.6. Changes in technical provisions can be found in note 5.3.6 and in financial liabilities in note 5.4.10. Claims data can be found in note 5.3.5.

5.2.6. Operational risk

Overview of operational risks

Operational risk is the risk of loss resulting from inadequate or failed processes, from personnel and systems, or from external events.

The risks may realise as a consequence of:

- Internal misconduct;
- External misconduct;
- Insufficient human resources management;
- Insufficiencies in operating policies as far as customers, products or business activities are concerned;
- Damage to physical property;
- Interruption of activities and system failures;
- Defects in the operating process.

Operational risks may materialize as direct monetary losses, decreasing income and increasing expenditure.

Operational risks governance

Operational risks are primarily managed through clear and efficient operational processes, through maintaining of personnel skills and by regular reporting.

Goals of operational risk management are:

- To ensure simultaneously the efficiency and quality of operations;
- To ensure that operations would be compliant with laws and regulations;
- To ensure the continuity of business operations in exceptional circumstances.

The aim is to minimise operational risks and decrease their negative impact on the Company subject to cost-benefit considerations.

Management of the Company's operational risks is the direct responsibility of the Management Board assisted by the Head of Risk Management. The Company has also established the Operational Risks Management Committee (ORMC) for monitoring and coordination of risk management issues regarding operational risks within the Company, and for the development of their management processes. The ORMC also constantly analyses and monitors operational risks together with their indicators and trends identified in self-assessments, as well as the occurred incidents. Besides these tasks, the ORMC is involved in maintaining and updating contingency and recovery plans. The ORMC reports to the Company's Risk Management Committee (RMC).

Identification and management of operational risks

The Management Board, the RMC and the ORMC, together with the unit managers and business units, are liable for timely detection of operational risks, implementation of best possible action plans, and drawing sufficient conclusions to avoid or lower the probability of risks or to minimise their effect on the Company in the future.

Operational risks are identified via different sources and methods. The main processes used for identifying operational risks in the Company include environmental and macro analysis, self-assessment process of operational risk, and incident reporting.

Environmental and macro analysis is conducted on continuous basis, including on-going analysis of behaviour and results of competitors, changes in regulatory and tax legislation, changes in economic and political environment. As a result of this analysis the key trends in the Company's business environment are identified and their implications for the Company are assessed. Based on this, the main opportunities and threats are identified and prioritised. These assessments outline the most important external operational and business risks. External events are monitored, and the Company reacts to these as needed.

The self-assessment process is used to map and evaluate major operational risks and their probabilities and significance, including an evaluation of existing internal controls and the current risk mitigation. Identified risks are analysed and prioritised.

Another source of identification of operational risks is incident reporting and analysis. Operational risk events and near misses, which have occurred, are monitored by the Head of Risk Management and in the ORMC and RMC meetings. Each business unit is responsible for ensuring that those incidents and near misses that have occurred in their area would be registered in the incident register.

Example of areas that are important to in context of operational risk management are selection of personnel and their training; clarity in responsibilities and objectives and in related communication; risk identification integration into development process of services, IT systems etc; user rights administration related to IT systems and data; security of data and IT systems and physical property.

The Company has ensured the management of its work processes and the saving of the knowledge, skills, and experience of its employees by regularly updating guidelines of internal processes. This ensures the safeguarding of intellectual property in case an employee leaves the Company, as well as ensuring the smooth continuation of work processes and the limitation of operational risks. These include policies related to security, communication, compliance, and other areas; guidelines for insurance contract administration, risk underwriting and claims handling, prevention of money laundering and financing of terrorism and several technical or other guidelines related to different aspects of the business and ongoing operating activities.

The Company also considers the management and control of risks relating to the protection of customers' data to be vital, including the protection of sensitive information.

The Company has prepared and is regularly testing plans for action to be taken in possible crisis situation (including a contingency and recovery plan) in order to ensure the sustainability of its business activities.

Having an internal control system in processes prevents negative incidents. However, should there be an operational risk event or near miss; this must be recorded to incident registry and reported to the ORMC.

Internal audit

The internal audit activity targets to offer ways to enhance governance, risk management, and control processes and provides relevant assurance. The Company's internal audit function is carried out by INVL Group internal audit manager.

In 2022, no internal audits were performed, as the Company was concentrated on business transfer. Transfer meant unavoidable business processes revision, adoption with changed organization, personnel, and changed external requirements as insurance portfolio was transferred from the company which conducted insurance business through branches in Lithuania, Latvia and Estonia to the company registered in Lithuania. In 2023 annual internal audit plan was approved and internal audits are being performed.

5.3. Notes to the Statement of comprehensive income

5.3.1. Insurance premiums by products

	2022	2021
Risk products	495	-
Products with guaranteed interest	155	-
Risk premiums in unit-linked insurance contracts	510	-
Supplementary insurance	1,817	-
Total	**2,977**	**-**

5.3.2. Fee income

	2022	2021
Acquisition fees	1,260	-
Renewal fees	786	-
Lapse and cancellation fees	15	-
Asset management related fees	649	-
Total	**2.710**	**-**

5.3.3. Net income from investments

	2022	2021
Discontinued operations		
Net income from investments related to unit-linked insurance		
Dividends income	103	-
Interest income	349	-
Gains/losses from investments in equity securities and funds	(285)	-
Gains/losses from investments in debt securities	(304)	-
Total income from investments related to unit-linked insurance	**(137)**	-
Net income from investments related to other financial assets		
Interest income	3	-
Gains/losses from investments in debt securities and funds	3	-
Total income from investments related to other financial assets	**6**	**-**
Continued operations		
Net income from investments related to other financial assets		
Dividends income	638	-
Gains/losses from investments in equity securities and funds	6,604	1,500
Total income from investments related to other financial assets	**7,242**	**1,500**

All the income and expenses arising from investments are included in Net income from investments. Gains/losses include realised gains/losses on sales, unrealised and realised changes in fair values. Fee income comprises fees received from asset managers for intermediation of fund units.

5.3.4. Other income

	2022	2021
Gain from negative goodwill (note 5.4.18)	3,884	-
Other income	26	-
Total	**3,910**	**-**

5.3.5. Claims incurred

	Claims paid		**Change in provision for claims outstanding**		**Claims incurred**	
	2022	2021	**2022**	2021	**2022**	2021
Risk products	(88)	-	66	-	(23)	-
Products with guaranteed interest	(1,545)	-	(303)	-	(1,848)	-
Risk claims in unit-linked insurance contracts	(16)	-	22	-	6	-
Supplementary insurance	(436)	-	42	-	(394)	-
Total, gross	**(2,086)**	**-**	**(173)**	**-**	**(2,259)**	**-**
Reinsurers' share	-	-	2	-	2	-
Total, net of reinsurance	**(2,086)**	**-**	**(171)**	**-**	**(2,257)**	**-**

5.3.6. Change in life insurance provision

	2022	2021
Risk products	(55)	-
Products with guaranteed interest	1,612	-
Risk premiums in unit-linked insurance contracts	1	-
Supplementary insurance	1	-
Total	**1,559**	**-**

5.3.7. Change in fair value of unit-linked financial liabilities and assets

	2022	2021
Change in unit-linked financial liabilities due to changes in unit prices and due to other changes	145	-
Change in value of investments attributable to unit-linked policyholders	(137)	-
Total	**8**	**-**

5.3.8. Operating expenses

	2022	2021
Staff costs		
Wages and salaries	(1,780)	(25)
Social security costs	(259)	(1)
Total	**(2,039)**	**(26)**
Other operating expenses		
IT costs	(654)	-
Marketing expenses	(67)	-
Depreciation and amortisation	(293)	-
Rental expenses	(201)	-
Other cost	(640)	(72)
Direct insurance commissions	(1,815)	-
Total	**(3,670)**	**(72)**
Total	**(5,709)**	**(98)**

Operating expenses by activity

	2022	2 021
Acquisition expenses	(3,318)	-
Administrative expenses	(2,229)	(98)
Expenses related to pay-outs	(122)	-
Investment expenses	(40)	-
Total	**(5,709)**	**(98)**

5.4. Notes to the Statement of financial position

5.4.1. Property, plant and equipment

	Right-of-use assets (leased premises)	Other property, plant and equipment	Total
Assets held for sale			
Cost:			
As at 31.12.2021	-	-	-
Acquisition through business combination	188	23	211
Additions	-	9	9
Disposals and write -offs	-	(2)	(2)
As at 31.12.2022	188	30	218
Accumulated depreciation:			
As at 31.12.2021	-	-	-
Depreciation charges	(10)	(8)	(18)
Disposals and write -offs	-	-	-
As at 31.12.2022	(10)	(8)	(18)
Net book value as at 31.12.2021	**-**	**-**	**-**
Net book value as at 31.12.2022	**178**	**22**	**200**

5.4.2. Intangible assets

	Acquired rights of customer contracts	Software and licences	Total
Assets held for sale			
Cost:			
As at 31.12.2021	-	-	-
Acquisition through business combination (note 5.4.18)	5,570	167	5,737
As at 31.12.2022	5,570	167	5,737
Accumulated depreciation:			
As at 31.12.2021	-	-	-
Amortisation charges	(253)	(20)	(273)
As at 31.12.2022	(253)	(20)	(273)
Net book value as at 31.12.2021	**-**	**-**	**-**
Net book value as at 31.12.2022	**5,317**	**147**	**5,464**

5.4.3. Income tax

	2022	2021
Elements of income tax		
Current year income tax	-	-
Change in deferred tax	46	-
Total income tax	**46**	**-**

Deferred tax balance	**2022**	2021
Deferred tax assets		
Taxable losses	14	15
Deferred tax asset	**14**	
Unrecognised deferred tax asset	-	(15)
Net deferred tax asset (continuing operations)	14	**-**
Deferred tax liabilities		
Customer contracts acquired under business combination	(653)	-
Deferred tax liabilities total (discontinued operations)	**(653)**	-
Deferred tax, net	**(639)**	**-**

Deferred tax movement	**2022**	2021
Deferred tax opening balance	**-**	**-**
Recognised deferred tax assets from prior year taxable losses	14	-
Deferred tax liability recognised from acquired client contracts	(686)	-
Deferred tax change due to amortisation of acquired client contracts	33	-
Deferred tax closing balance	**(639)**	**-**

2022

Reconciliation of income tax	Latvia	Lithuania	Estonia	Total
Profit before taxes	(370)	11,173	(424)	**10,379**
Rate of taxation		15%		
Calculated income tax	-	(1,676)	-	**(1676)**
Increase (or reduction) in tax resulting from:				
non-deductible expenses		(1,423)		**(1,423)**
non-taxable income		3,131		**3,131**
Recognition of deferred tax asset unrecognised in prior year		14		**14**
Total	**-**	**46**	**-**	**46**

2021

Reconciliation of income tax	Latvia	Lithuania	Estonia	Total
Profit before taxes	-	1,402	-	**1,402**
Rate of taxation		15%		
Calculated income tax	-	(210)	-	**(210)**
Increase (or reduction) in tax resulting from:				
non-deductible expenses		-		**-**
non-taxable income		225		**225**
Not recognised deferred tax asset from taxable losses		(15)		**(15)**
Total	**-**	**-**	**-**	**-**

Tax losses carried forward as of 31 December 2021 were 98,728 euros.

5.4.4. Financial assets, other

	31.12.2022	31.12.2021
Shares and equity investment fund units	27,603	9,208
Bonds	2,866	-
Bond funds	6,032	-
Shares of subsidiaries	23,411	-
Shares of associates	4,043	-
Total	**63,955**	**9,208**

These investments cover all liabilities except financial liabilities of unit-linked business where the risk is borne by the policyholder.

Investments in subsidiaries and associates:

- subsidiary: UAB Cedus Invest (Gynėjų g. 14, Vilnius), 100% of shares.

- associate: UTIB INVL Baltic Real Estate (Gynėjų g. 14, Vilnius), 23,43% of shares.

5.4.5. Financial assets covering unit-linked insurance and investment contracts

	31.12.2022	31.12.2021
Investment funds	89,249	-
Equity securities	2,875	-
Debt securities	32,881	-
Financial assets under Capital Redemption Policy	8,465	-
Receivables and payables from investments covering unit-linked contracts	941	
Cash	7,722	-
Total	**142,133**	**-**

Unit-linked investments cover the unit-linked financial liabilities where the risk is borne by the policyholder. Financial assets and liabilities are designated at fair value through profit or loss.

The table above shows the values carried at fair value through profit or loss and designated as such upon initial recognition. The fair value of securities is based on published price quotations in an active market in accordance with a documented risk management and investment policy. Accrued interest income is included in financial assets.

The management assessed that the carrying values of other financial assets and liabilities as cash and cash equivalents, receivables related to insurance activities and other, accrued income and prepaid expenses, insurance payable and accrued expenses and deferred income approximate their fair values largely due to the short-term maturities of these amounts. The carrying amount is a reasonable approximation of fair value.

5.4.6. Determination and hierarchy of fair values

Financial instruments measured at fair value are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

On level 1, the measurement of the instrument is based on quoted prices in active markets for identical assets or liabilities. On level 2, inputs for the measurement of the instrument also include elements other than quoted prices observable for the assets or liability, either directly or indirectly by using valuation techniques. On level 3, the measurement is based on inputs other than observable market data.

Financial assets and liabilities as of 31.12.2022

	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables related to insurance activities and other	-	186	-	186
Financial assets covering unit-linked insurance and investments contracts	122,056	9,404	2,951	134,411
Financial assets, other	25,054	-	38,901	63,955
Total	**147,110**	**9,690**	**41,852**	**198,552**
Financial liabilities				
Insurance and other payables	-	76	-	76
Financial liabilities from unit-linked insurance contracts	-	118,627	189	118,816
Financial liabilities from unit-linked investment contracts	-	12,833	2,762	15,595
Total	**-**	**131,536**	**2,951**	**134,487**

Financial assets and liabilities as of 31.12.2021

	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables related to insurance activities and other	-	-	-	-
Financial assets, other	9,208	-	-	9,208
Total	**9,208**	**-**	**-**	**9,208**
Financial liabilities				
Insurance and other payables	-	-	-	-
Financial liabilities from unit-linked insurance contracts	-	-	-	-
Financial liabilities from unit-linked investment contracts	-	-	-	-
Total	**-**	**-**	**-**	**-**

5.4.7. Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value:

	As of 01.01.2022	Trans-fer	Acquisition	Sale	Total gain/ losses in P&L	As of 31.12.2022
Financial assets						
Financial assets covering unit-linked insurance and investment contracts	-	3,194	189	(19)	(413)	2,951
Financial assets, other	-	-	29,903	-	8,998	38,901
Total	**-**	**3,194**	**30,092**	**(19)**	**8,585**	**41,852**
Financial liabilities						
Financial liabilities for insurance contracts	-	-	189	-	-	189
Financial liabilities for investment contracts	-	3,194	-	(19)	(413)	2,762
Total	**-**	**3,194**	**189**	**(19)**	**(413)**	**2,951**

In 2022, there have been no transfers of financial instruments measured at fair value between the stages.

Description of valuation methodology and significant unobservable inputs and their sensitivities of level 3 financial assets other than those covering unit-linked insurance and investment contracts

The fair value of the Company's investment into subsidiary company UAB Cedus invest was calculated applying equity method as Cedus invest had only investment to Litagra group and cash on its balance sheet. Fair value of Cedus invest investment to Litagra group was calculated using income valuation approach, discounted free cashflow method for each cash generating unit of Litagra group. This method includes calculation of forecasted cash flows of an entity for 5 years horizon and estimated terminal value that would be achieved at the end of the forecast period. The discount rate is calculated as weighted average cost of capital (WACC) of the company, which includes cost of equity and cost of debt, weighted based on the market values of equity and debt capital.

The fair value of the Company's investment into Baltic Sea Growth Fund (BSGF) was calculated applying equity method based on net assets value of BSGF. Fair values of BSGF investments were calculated using income valuation approach, discounted free cashflow method for each BSGF investment separately. This method includes calculation of forecasted cash flows of an entity for 5 years horizon and estimated terminal value that would be achieved at the end of the forecast period. The discount rate is calculated as weighted average cost of capital (WACC) of the company, which includes cost of equity and cost of debt, weighted based on the market values of equity and debt capital.

In the table below please find sensitivities for main unobservable models' inputs to the fair values of Company's investments to Cedus Invest and BSGF:

Rate	Value of investment, thousand euros	Assumption value applied	Possible shift	Effect on value of investments
Cedus invest	23,412			
Discount rate		11.17%	+1pp/-1pp	(2,160)/2,624
Terminal growth rate		1%	+1pp/-1pp	829/(751)
Baltic Sea Growth Fund	15,489			
Discount rate		10.29%-16.28%	+2pp/-2pp	(3,027)/4,403
Terminal growth rate		2%	+1pp/-1pp	1,414/(1,150)
EBITDA margin		2%-15%	+1pp/-1pp	3,079/(3,105)

5.4.8. Other assets

	31.12.2022	31.12.2021
Receivables related to insurance activities and other	**185**	-
Receivables from policyholders	26	-
Receivables arising from reinsurance operations	6	-
Other receivables	153	-
Prepaid expenses	**46**	-
Total	**231**	**-**

5.4.9. Cash and cash equivalents

	2022	2021
Cash at bank	11,030	317
Cash covering financial liabilities of unit-linked business	(7,722)	-
Total	**3,308**	**317**

5.4.10. Financial liabilities for with-profit insurance contracts

	2022	2021
As of 1 January	**-**	-
Acquisition through business combination	2,403	-
Premiums received	72	-
Pay-outs deducted	(236)	-
Fees deducted (note 5.3.2)	(16)	-
Reclassification of products or changes between insurance technical liabilities and financial liabilities (note 5.4.11)	(15)	-
Guaranteed interest, bonuses and other changes	27	-
As of 31 December	**2,235**	-

5.4.11. Financial liabilities for unit-linked insurance and investment contracts

	31.12.2022	31.12.2021
Financial liabilities for unit-linked insurance contracts	108,874	-
Financial liabilities for unit-linked investment contracts	32,767	-
Total	**141,641**	**-**

Financial liabilities for unit-linked insurance contracts

	2022	2021
As of 1 January	**-**	-
Acquisition through business combination	110,606	-
Premiums received	8,776	-
Pay-outs deducted	(6,389)	-
Fees deducted (note 5.3.2)	(1,960)	-
Reclassification of products or changes between insurance technical liabilities and financial liabilities (note 5.4.10)	15	-
Change due to changes in unit prices and other changes	(2,174)	-
As of 31 December	**108,874**	-

Financial liabilities for unit-linked investment contracts

	2022	2021
As of 1 January	**-**	-
Acquisition through business combination	35,061	-
Premiums received	316	-
Pay-outs deducted	(2,186)	-
Fees deducted (note 5.3.2)	(70)	-
Reclassification of products or changes between insurance technical liabilities and financial liabilities (note 5.4.12)	1	-
Change due to changes in unit prices and other changes	(356)	-
As of 31 December	**32,767**	-

5.4.12. Technical provision for insurance contracts, net of reinsurance

	31.12.2022	31.12.2021
Life insurance provision	5,576	-
Outstanding claims provision	1,000	-
Total technical provisions from insurance contracts	**6,576**	-
Reinsurers' share in the technical provision	(2)	-
Total	**6,574**	**-**

Life insurance provision

	2022	2021
As of 1 January	**-**	-
Acquisition through business combination	7,135	-
Gross premiums	2,977	-
Pay-outs	(2,086)	-
Reclassification of products or changes between insurance technical liabilities and financial liabilities (note 5.4.11)	(1)	-
Other changes in value (including fees, risk premiums and interest)	(2,449)	-
As of 31 December	**5,576**	-

Outstanding claims provision and reinsurers' share

	2022	2021
As of 1 January	**-**	-
Acquisition through business combination	827	-
Claims occurred during the year	2,239	
Claims paid during the year	(2,086)	-
Other change in outstanding claims provision	20	-
As of 31 December	**1,000**	-
Reinsurers' share in the outstanding claims provision	(2)	-

The Outstanding Claim provision contains two areas: incurred but unreported claims (IBNR) and estimated expected expenses that are estimated using assumptions (in thousands of euros).

Outstanding Claim provision	Risk products	Products with guaranteed interest	Unit-Linked insurance contracts	Supplementary insurance	TOTAL Amount	Proportion
Known occurred claims not yet paid and initiated pay-outs (such as maturity and lapses)	6	398	43	168	615	62%
IBNR	45	15	50	153	263	26%
Estimated expenses	0	7	112	3	122	12%
Total	**51**	**420**	**205**	**324**	**1,000**	**100%**

For most cases to estimate IBNR approximate methods are used, such as percentage from premiums. For determining assumptions for estimated expenses, the latest statistics are used in regard to actual past claims expenses which have been allocated to claims.

5.4.13. Changes in assumptions related to insurance technical provisions and financial liabilities

The Company did not have any significant or material changes in assumptions used to measure insurance technical provisions and financial liabilities.

5.4.14. Liability adequacy test

Liability adequacy tests show whether liabilities calculated on the basis of future cash flows are bigger than liabilities calculated on the basis of the present methodology. Liabilities calculated in the test are the discounted value of future out payments to be made under insurance contracts (insurance indemnities, expenses), less the discounted value of future insurance premiums to be received from insured persons. The test does not take into account future changes in the contract.

Principal assumptions of the liability adequacy test are as follows:

Mortality. Official population of mortality statistics for years 2019-2021 received from the Statistical Offices of the Baltic countries have been used, and the base of mortality is taken as average of these three years. Underwriting is expected to decrease the basic mortality by 67% in the first insured year and the effect will decrease linearly to 50% by the sixth insured year.

Premature cancellation of contracts. This is based on the Company's own statistics, adjusted by expected future trends and taking into account the activities and strategy enacted by the Company. Cancellation rates fall between 2% and 15% in Estonia, 2 % and 22% in Latvia and 1% and 34% in Lithuania, depending on the product, the country and the insured year. The cancellation rate shows how many contracts of those in force will be cancelled during a year. Also, assumptions for partial surrenders were set for groups of policies, where partial surrender is possible.

Discount rate. The Company uses risk-free interest rates published by EIOPA for the end of December 2022. The rate used without volatility adjustment and euro zero coupon currency rates used. The rates fall between 2.695%-3.295% depending on the maturity (the maximum of up to fifty years is used).

Expense level and inflation. This is based on the Company's own statistics, adjusted by expected future trends and taking into account the activities and strategy of the Company. Inflation assumptions are set by taking into account macroeconomic projections of average consumer prices and wages in all Baltic countries. For the inflation assumption the 6% frate was used for year 2023, 4% for 2024 and after that from 2025 revert to 3%.

The liability adequacy test takes into account all contracts in force, and therefore liability adequacy test is not performed for outstanding claims provision.

According to the liability adequacy test, the total amount of the Company's liabilities from insurance contracts is sufficient.

	Total of Insurance technical provisions and financial liabilities	Total liability included to detailed LAT calculations	Estimated LAT reserve (total of discounted future cash-flows)	Deficiency
31.12.2022	**150 452**	**147 728**	**108 130**	**0**

The Company has set several values of assumptions used for sensitivity calculations – results are calculated for each assumption separately by changing every main assumption three times.

The objective of sensitivity analysis is to recognize how sensitive the liabilities are to changes in assumptions and therefore the purpose is to estimate how the changes in the circumstances can affect the Company's liabilities. Liabilities change the most when we change assumptions of expected expenses, surrender rates and mortality, and also the expected inflation and the yield curve.

- If the expenses were 1.5 times higher, the liabilities would be almost 18.4% higher, whereas if the expenses were 1.2 times less than expected, then the required liabilities would be 6.1% lower.
- If the mortality rates were doubled then the liabilities would be 18.5% higher, whereas if the mortality rates were two times less than expected, then the liabilities would decrease by 5.6%.
- If the total surrender rates were doubled then the liabilities would increase by 10.4% in comparison with the initial assumptions, whereas if the surrender rates were 1.5 times less than expected, the liabilities would be 5.7% lower.
- If there is no selection effect applied, then the liabilities would increase by 7.6% in comparison with the initial assumptions.

No analysed scenarios show deficiency in liabilities from insurance contracts on the Company level.

All these sensitivities are calculated separately and are not applied together at the same time. The correlation of assumptions will have a significant effect on determining the liabilities, but in order to demonstrate the impact of changes in assumptions, the assumptions have to be changed on an individual basis.

5.4.15. Other liabilities

	31.12.2022	31.12.2021
Insurance and other payables	**76**	-
Liabilities arising out of direct insurance operations	42	-
Liabilities arising out of reinsurance operations	34	-
Settlements from purchase transactions of financial assets	**2,580**	**249**
Accrued expenses and deferred income	**1,419**	**74**
Employee-related liabilities	268	2
Supplier-related liabilities	207	70
Lease liabilities	179	-
Other accrued expenses and deferred income	677	-
Total tax liabilities	88	2
Total	**4,075**	**323**

5.4.16. Equity and reserves

Total number of shares issued is 48,000,000 as of 31 December 2022 (as of 31 December 2021 it was 7,500,000).

As of 31 December 2022, the Company's share capital was 48,000 thousand euros and the Company's total owner's equity was 60,127 thousand euros (as of 31.12.2021 the Company's share capital was 7,500 thousand euros and total equity 9,202 thousand euros).

The Company's share capital was increased by 40,500 thousand euros in January 2022.

Paid-in capital	**Amount**
Cash	3,856
AB Šiaulių bankas shares ISIN LT0000102253, 327160 units	249
INVL Technology shares LT0000128860, 1873678 units	5,209
INVL Baltic Real Estate shares ISIN LT0000127151, 1889123 units	4,364
INVL Baltic Sea Growth Fund, 87086.7618 units	9,362
UAB Cedus Invest shares, 900 units	17,460
Total	**40,500**

Legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with the statutory financial statements, are compulsory until the reserve reaches 10% of the share capital. The reserve can be used only to cover the accumulated losses.

5.4.17. Right-of-use assets and lease liabilities

The Company leases premises and parking spaces in Vilnius. The main information on the lease agreement:

Agreement duration	**Indexation**	**Discount rate applied to calculate lease liabilities**
31 March 2026	Yes, HICP*	4.39%

* harmonised index of consumer prices

To measure the value of lease liabilities in Vilnius, the Company used the average market interest rate equal to 4.39% in accordance with the average fixed lending rate for loans not shorter that 1 year, announced by the Bank of Lithuania in December for non-financial companies. By the agreement of parties, the lease term may be extended. When calculating the lease liability, the Company did not consider the potential extension of the lease agreement.

In addition, the Company leases cars. The lease agreements for cars may be terminated upon in advance notice of 30 days; therefore, these leases are treated as short-term lease and related lease liabilities are not capitalised.

The table below discloses the movement of right-of-use assets and lease liabilities during 2022 and 2021.

	2022	2021
Right-of-use assets at 1 January	-	-
Recognised assets due to the lease contract	188	-
Depreciation	(9)	-
Right-of-use assets at 31 December	**179**	**-**
Lease liabilities at 1 January	-	-
Recognised liabilities due to the lease contract	188	-
Calculated interest	1	-
Lease payments	(10)	-
Lease liabilities at 31 December	**179**	**-**

5.4.18. Business combination

According to business purchase agreement INVL Life completed the acquisition of Mandatum Life insurance business in Baltic countries as of 1 July 2022. The acquisition was performed as business acquisition – i.e. rights and obligations related to insurance policies, including related assets, liabilities, systems, processes and staff were acquired from Mandatum Life directly to INVL Life. Purchase price allocation was performed and acquisition price was split into the following components of the acquired business.

	2022
Consideration (all paid in cash)	(1,000)
Fair value of acquired net assets (that were recognised in acquiree’s balance sheet)	-
Acquired rights of customer contracts (note 5.4.2)	5,570
Recognised deferred tax liability related to acquired rights of customer contracts (note 5.4.3)	(686)
Recognised gain from negative goodwill (note 5.3.4)	3,884

Gain from negative goodwill was accounted in Other income line in Statement of comprehensive income. The acquisition resulted in gain because the fair value of the net assets acquired with the business (including recognised rights to customer contracts) is higher than the consideration paid.

Fair value of acquired net assets (recognised in acquiree balance sheet):

Cash	84,080
Financial assets	72,204
Receivables from direct insurance	31
Prepaid expenses	42
Property, plant and equipment	23
Payables related to insurance activities	(42)
Financial liabilities for unit-linked insurance and investment contract	(145,667)
Financial liabilities for insurance contracts	(2,403)
Technical provisions	(7,962)
Other liabilities	(306)
Total	**-**

If Mandatum Life insurance business would have been acquired since the beginning of 2022, the total revenue of the Company (including Premium income, Fee income, Reinsurance commissions income and Other income) for 2022 would have been 14,170 thousand euros and net profit for 2022 would have been 9,656 thousand euros. Revenue of acquiree included into the Company's total revenue in 2022 amounted to 5,685 thousand euros, net loss of acquiree included into the Company's net result in 2022 amounted to -494 thousand euros (both results calculated excluding gain from negative goodwill, amortization of acquired rights to customer contracts and related tax effect).

5.4.19. Discontinued operations

As of 22 November 2022, AB Invalda INVL and AB Šiaulių bankas have signed the Business Purchase Agreement (BPA) according to which the entities agreed that Invalda INVL will transfer its retail financial products business, including 2nd and 3rd pillar pension funds, investment funds management and life insurance, to Siauliai bank group. According to the BPA, the processes, staff, systems, assets and liabilities related to the above-mentioned business will be transferred. As life insurance business to be transferred to Šiaulių bankas satisfies the criteria of discontinued operations, the following disclosures are made in these financial statements:

- disposal group assets and liabilities is presented separately in the statement of financial position;
- the post-tax profit or loss of discontinued operations; and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation, are presented separately in the statement of comprehensive income together with analysis of the totals into separate components;
- the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

5.4.20. Related party disclosures

Transactions with the management of the Company

The Company's members of the Management Board are treated as the management of the Company. In 2022 the members of the Management Board received a total of 149 (2021: 9) thousand euros pursuant to employment contracts, payroll tax included.

	31.12.2022	31.12.2021
Payables on investing and financing activities		
Invalda INVL, AB (parent company)	2,580	249
Payables on other activities		
Invalda INVL, AB (parent company)	-	71
INVL Asset Management, UAB (subsidiary of Invalda INVL)	62	-
INVL Financial Advisors, UAB (subsidiary of Invalda INVL)	51	-

Operating expenses	2022	2021
Salaries and taxes		
INVL Asset Management, UAB (subsidiary of Invalda INVL)	(48)	-
INVL Financial Advisors, UAB (subsidiary of Invalda INVL)	(67)	-
Insurance commissions		
INVL Financial Advisors, UAB (subsidiary of Invalda INVL)	(131)	-
Other expenses		
INVL Asset Management, UAB (subsidiary of Invalda INVL)	(47)	-

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Independent Auditor's Report

To the Shareholder of UADB INVL Life

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UADB INVL Life ("the Company"), which comprise:

- the statement of financial position as at 31 December 2022,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the cash flow statement 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 2022, 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.

Other Matter

The financial statements of the Company as at and for the year ended as at 31 December 2021 were not audited.

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 life insurance provision

The amount of life insurance provision as at 31 December 2022: EUR 5,576 thousand; change in life insurance provision for the year ended 31 December 2022: income of EUR 1,559 thousand.

Refer to 5.1.10 for accounting policies and Note 5.4.12 for financial disclosures.

Key audit matter	How the matter was addressed in our audit
Measurement of Life insurance provision is associated with significant estimation uncertainty as it requires the management to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies. At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, "LAT test") with the aim to determine whether its recognized life insurance provision is sufficient. The test is based on the comparison of the Management Board's current estimates of the present value of future cash flows arising from the in-force insurance contracts with the recognized amounts of provision. In case the LAT test shows that the amount of life insurance provision is insufficient compared to the estimated future cash flows, the entire deficiency is recognized in profit or loss. Relatively insignificant changes in the key assumptions used in the valuation model can have a significant effect on the amounts of such liabilities. The assumptions that we consider to have the most significant impact are those that relate to discount rates used, mortality rates, lapse rates of the policies and administrative expenses necessary for servicing the existing insurance portfolio. Due to the above factors, we considered measurement of the life insurance provision to be our key audit matter.	Our procedures, performed, where applicable, with the support from our internal actuarial specialists, included, among others: • Evaluating the design and implementation of the selected key internal controls; • Evaluating the methodology and assumptions used by the Company in its LAT test against industry standards and relevant regulatory and financial reporting requirements; • Assessing the results of the Company's experience studies, and using those historical results to challenge the key non-market assumptions (such as, among other things, lapse rates) used in the LAT test as at 31 December 2022. Also, challenging the administrative expenses used in LAT test and calculation of life insurance provision to actual expenses incurred in year 2022; • Assessing the reasonableness of mortality rates used by the Company against statistical data available for the general population and discount rates used by the Company against observable market rates; • Examining the changes in the insurance liability during the year, starting from the opening balance and considering all inflows and outflows which affect the amounts of the liability; • Assessing the Company's disclosures regarding life insurance provision against the requirements of the relevant financial reporting standards.

Valuation of unquoted investments carried at fair value

See Note 5.1.7. “Financial assets”, 5.4.4. “Financial assets, other” and Note 5.4.7. “Level 3 financial instruments measured at fair value”

The key audit matter	How the matter was addressed in our audit
As at 31 December 2022 the Company’s Financial assets through profit or loss (excluding Financial assets covering unit-linked insurance and investment contracts) amounted to EUR 63,955 thousand (31 December 2021: EUR 9,802 thousand), of which EUR 38,901 thousand (no such investments as at 31 December 2021) relate to investments that are not quoted in an active market. The fair value of the investments is determined by the Company’s internal valuation team. A number of valuation techniques are used, including income and net assets approach. The application of the above-mentioned valuation techniques requires a significant degree of judgement and complex estimates, including, but not limited to, those in respect of discount rates and assumptions on investee future cash flows. Due to the above factors, we determined valuation of the investment portfolio to be associated with a significant estimation uncertainty and risk of a material misstatement in respect of the carrying amounts of the investments in the Company’s statement of financial position, and also in respect of the net change in fair value of financial instruments at fair value through profit or loss in its statement of comprehensive income. Accordingly, this area required our increased attention in the audit, and as such, we considered it to be our key audit matter.	Our audit procedures in the area, performed with the assistance of our own valuation specialists, included, among others: • evaluating the design and implementation of the selected key internal controls; • assessing the appropriateness of the valuation methods and models applied, against the requirements of the relevant financial reporting standards as well as against the methodologies commonly used in valuations of similar assets. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements; • for valuations using the income approach, evaluating the mathematical accuracy and integrity of the discounted cash flow model used, and challenging the key assumptions therein, by reference to our understanding of the investee’s current operations and industry, and external market data. The key assumptions included those in respect of: sales, expenses, capital expenditures, values of excess assets and changes in net working capital. For the above valuations, we also traced the forecast growth and discount rates used, to publicly available market data and, where available, performed a retrospective review of budgeting forecasting accuracy; • evaluating the accuracy and completeness of the financial statement disclosures relating to the fair value determination of the investments against the relevant requirements of the financial reporting standards.

Assets and liabilities held for sale

See Note 5.1.4 “Discontinued Operations” and Note 5.4.19 “Discontinued operations”

The key audit matter	How the matter was addressed in our audit
As disclosed in Note 5.4.19 to the financial statements, on 22 November 2022, the parent of the Company Invalda INVL AB signed Business Purchase Agreement (BPA) with AB Šiaulių bankas according to which the entities agreed that Invalda INVL AB will transfer its retail financial products business, including 2nd and 3rd pillar pension funds, investment funds management and life insurance, to AB Šiaulių bankas, the agreement is subject to certain conditions and approvals. Management concluded that the Company’s assets and liabilities related to the insurance business meet the criteria for assets held for sale and liabilities directly associated with the assets held for sale in the financial statements. This event is significant to our audit because the assessment of the classification as assets held for sale and discontinued operations is complex, the transaction and its accounting is non-routine and involves a significant degree of management judgement. These include, amongst others, determining the date of classification of the Company’s assets and liabilities related to the insurance business as held for sale, which assets and liabilities are related to the insurance business and therefore should be classified as held for sale. Furthermore, upon classification of the assets and liabilities related to the insurance business as held for sale, management had to measure these assets and liabilities at the lower of the carrying amount and its fair value less costs to sell. Due to the above factors as well as the magnitude of the amounts involved, we considered accounting for announced transfer of insurance business to be a key audit matter.	Our audit procedures included, among others: • We obtained understanding of the Company’s process for transactions outside the ordinary course of business; • We inspected the key terms and conditions of the contractual agreements and other relevant documents underlying the announced transfer of Invalda INVL AB retail asset management business including insurance business; • We assessed the appropriateness of classification of assets and liabilities related to the insurance business as assets held for sale and liabilities directly associated with the assets held for sale, and presentation of the results of the insurance business as discontinued operations; • We have evaluated management’s judgements over the identification of the disposal group, assessing the date as of which the assets and liabilities related to insurance business are classified as held for sale and assessing the valuation of the assets and liabilities related to insurance business at the lower of the carrying amount and fair value less costs to sell. • We assessed the adequacy of the Company’s disclosures in the financial statements related to discontinued operations 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, 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 the 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.

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 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 2 August 2022 for the first time to audit the Company's financial statements. The total uninterrupted period of engagement is 1 year.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report which we have submitted on 29 April 2023 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 the course of audit, in addition to the audit of the financial statements, we have provided translation and tax related services to the Company.

On behalf of KPMG Baltics, UAB

DOMANTAS DABULIS

Digitally signed by DOMANTAS DABULIS
Date: 2023.04.29 15:30:16 +03'00'

Domantas Dabulis

Partner pp

Certified Auditor

Vilnius, the Republic of Lithuania

29 April 2023

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 55 to 61 of this document.