



Financial statements
for the year 2020

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COMPANY DETAILS

ADB COMPENSA VIENNA INSURANCE GROUP

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SUPERVISORY BOARD

Chairman of the Supervisory Board **Peter Franz Höfner**
Supervisory Board member **Franz Fuchs**
Supervisory Board member **Elisabeth Stadler**
Supervisory Board member **Artur Borowski**
Supervisory Board member **Sabine Berg**

BOARD

Chairman of the Management Board **Deividas Raipa**
Member of the Management Board **Nicolas Mucherl**
Member of the Management Board **Andri Püvi**

MANAGEMENT

Deividas Raipa – General Manager
Žydrūnė Kramaruskaitė – Chief Accountant
Laurita Petrošienė – Chief Actuary

AUDITOR

KPMG Baltics, UAB

BANKS

AB SEB Bankas
Swedbank, AB
AS SEB Pank
Luminor Bank AS
Swedbank, AS
Citadele, AS
LHV Bank
Erste Group Bank AG
Jyske Bank
AS SEB Banka



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Independent Auditor's Report

To the Shareholders of ADB Compensa Vienna Insurance Group

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ADB Compensa Vienna Insurance Group ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2020, and of its unconsolidated financial performance and its unconsolidated 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 (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. Each audit matter and our respective response are described below.

Goodwill impairment

The carrying amount of goodwill in the financial statements as at 31 December 2020 and 31 December 2019: EUR 11 million.

Reference to the financial statements: "Goodwill" on page 34 (Significant accounting policies) and Note 1 "Intangible assets" on page 60 (Notes to the financial statements).

Key audit matter	How the matter was addressed in our audit
<p>The goodwill reported in the financial statements was recognised for ADB Compensa Vienna Insurance Group cash-generating unit ("CGU") upon the acquisition of the insurance business in Lithuania and Latvia from Compensa TU S.A. Vienna Insurance Group in 2015.</p> <p>Pursuant to the relevant provisions of the financial reporting standards, annual impairment testing is required for CGUs to which goodwill has been allocated. As disclosed in Note 1, based on its current year's test, the Company did not recognize any impairment in respect of the CGU.</p> <p>As discussed in Note 1, the recoverable amount of the cash generating unit as at 31 December 2020 was determined using the discounted cash flows projection (value-in-use), based on the five-year financial forecasts prepared by the Management Board and its estimate of terminal value.</p> <p>The determination of recoverable amount of the CGU is a process that requires the Management Board to make significant judgements and assumptions, including those in respect of future operating cash flows (including the assumptions on gross premiums written, development of volume of policies sold and loss ratios), growth rates and discount rates.</p> <p>Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>Due to the above factors, we considered this area to be a key audit matter.</p>	<p>Our audit procedures, included, among other things:</p> <ul style="list-style-type: none"> Evaluating the quality of the Company's budgeting process by comparing the actual results for the year with original prior period forecasts, and taking these observations into consideration in the sensitivity analysis performed; Testing the design and implementation of the Company's selected key impairment-related internal controls including those over the review of approval of the model assumptions and outcome; Assisted by our own valuation specialists: <ul style="list-style-type: none"> assessing the compliance of the methodology applied in the Company's impairment model against the requirements of the relevant financial reporting standards, and checking the mathematical accuracy and internal consistency of the impairment model; challenging the key assumptions in the model by reference to the approved budgets, as discussed above, and also by comparing the gross premiums written, development of volume of policies sold and loss ratios to historical results and to industry data, comparing the forecasted growth rates, and the discount rate to the ones used in the insurance industry; considering the sensitivity of the outcome of the impairment model to changes in key assumptions and assessing the effects of such changes on the recoverable amount and the resulting impairment loss, if any; Assessing impairment-related disclosures in the financial statements against the requirements of the financial reporting standards.

Measurement of technical provisions for outstanding claims

The Company's gross technical provisions for outstanding claims as at 31 December 2020 amounted to EUR 75.8 million (31 December 2019: EUR 24.9 million).

Reference to the financial statements: "Insurance technical provisions" on page 37 (Significant accounting policies) and Note 10 "Technical provisions" on page 69 (Notes to the financial statements).

Key audit matter	How the matter was addressed in our audit
<p>Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities in its statement of financial position. The most significant claim reserves are associated with the obligatory motor third party liability, motor own damage and property portfolios.</p> <p>The Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not yet reported (i.e. IBNR).</p> <p>The estimation of the amounts of claim reserves generally involves a significant degree of Management Board's judgment mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a material effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss ratios, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, regress and the expected payment period.</p> <p>The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models.</p> <p>Thus the completeness and accuracy of the data underlying the actuarial projections was also an area of our audit focus.</p> <p>Due to the above factors, we considered measurement of the non-life insurance claim reserves to be our key audit matter.</p>	<p>Our audit procedures, performed, where applicable, with the assistance of our own actuarial specialists, included, among others:</p> <ul style="list-style-type: none"> • Testing of the design and implementation of the selected key controls related to the process of establishing and adjusting outstanding claim reserves. • Assessing the appropriateness of the actuarial methodologies applied by the Company for consistency as well as against the requirements of the financial reporting standards and market/industry practice. • Challenging key inputs and assumptions applied in estimating claim reserves, including those in respect of the loss ratios, claim frequency and average size of claims, regress, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period - by reference to industry trends, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards. • For significant portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claim reserves recognized at the end of prior year, comparing this analysis to the Company's current year's actual experience, and seeking the Management Board's explanations for any significant differences. • For most significant insurance contract portfolios, including obligatory motor third party liability, motor own damage and property, developing an independent estimate of the gross outstanding claims liability for those not yet reported, comparing our independent estimates to the Company's estimates and seeking Management Board's explanations for any significant differences.



- Assessing the Company's provision for outstanding claims-related disclosures against the requirements of the relevant financial reporting standards.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

It is also our responsibility check whether the Corporate Social Responsibility Report has been provided by the Management. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 15 September 2019 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed every two years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 6 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and its Audit Committee together with this independent auditor's report.

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

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

On behalf of KPMG Baltics, UAB

Rokas Kasperavicius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
13 April 2021

ANNUAL MANAGEMENT REPORT FOR THE YEAR 2020

PART OF VIENNA INSURANCE GROUP

COMPANY PROFILE

We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times.

Over 25,000 employees work for Vienna Insurance Group, at around 50 companies in 30 countries. We develop insurance solutions in line with personal and local needs, which has made us the leader in the insurance industry in Austria and Central and Eastern Europe (CEE).

EXPERTISE AND STABILITY

Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, the Group expanded rapidly from a purely Austrian business into an international group. Vienna Insurance Group is synonymous with stability and expertise in providing financial protection against risks. Experience coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 22 million-plus customers.

FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, Vienna Insurance Group places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. The Group's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

LOCAL MARKET PRESENCE

For Vienna Insurance Group, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local brands as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

STRONG FINANCES AND CREDIT RATING

Vienna Insurance Group has an A+ rating with stable outlook from the well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

ORGANIZATION

Compensa Vienna Insurance Group UADB was founded in August 2015 by the decision of the Austrian company Vienna Insurance Group AG Wiener Versicherung Gruppe, which controls 100% of shares of the company. In January 2017 the legal status of insurance company was changed from private limited liability insurance company (Compensa Vienna Insurance Group UADB) to a public limited liability insurance company (ABD Compensa Vienna Insurance Group; hereinafter – the Company). In 2019, the authorized capital of the Company was EUR 15.8 million (158 000 shares), after a merger with Seesam Insurance AS in 2020, a capital of EUR 3 million (30 000 shares with a nominal value of EUR 100) was added. So, at the end of 2020 the share capital of Company was 188 000 with a nominal value of EUR 100.

The management bodies of the Company comprise the Shareholders' meeting, the Supervisory Board and the Management Board. In 2020, the Company was managed by the Supervisory Board headed by Chairman Peter Höfner and Management Board headed by Chief Executive Officer Deividas Raipa.

Supervisory Board consists of five Supervisory Board members:

➤ **Peter Höfner, Chairman of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:

- Member of the Management Board of the Vienna Insurance Group AG Wiener Versicherung Gruppe (Schottenring 30, Vienna, Austria);
- Chairman of the Supervisory Board of Intersig Vienna Insurance p Sh.A. (Intersig, Ismail Qemali, Samos Tower, Kati i 2-te, ish-Blok, Tirana, Albania);
- Chairman of the Supervisory Board of Sigma Inter Albania Vienna Insurance Group Sh.A. (Rr. Komuna e Parisit, Pallati Lura, Tirana, Albania);
- Chairman of the Supervisory Board of Bulstrad Vienna Insurance Group PLC (Sofia, Bulgaria);
- Chairman of the Supervisory Board of Bulstrad Life Vienna Insurance Group Joint Stock Company (Sofia, Bulgaria);
- Chairman of the Supervisory Board of the Pension Assurance Company Doverie AD (13B Tintyava St. Sofia Bulgaria);
- Chairman of the Supervisory Board of BTA Baltic Insurance Company AAS (Sporta st. 11, Riga, LV-1013);
- Chairman of the Supervisory Board of Compensa Life VIG SE (Narva maantee 63/2, 10152 Tallinn, Estonia);
- Chairman of the Supervisory Board of the Wiener Stadtische osiguranje a.d.o. (Trešnjinog cveta 1, Beograd 11070, Serbia);
- Deputy Chairman of the Supervisory Board of Kupala Versicherungsaktengesellschaft (Belarus);
- Deputy Chairman of the Supervisory Board of Global Assistance A.S. (Czech Republic, Praha);
- Member of the Supervisory Board of VIG RE zajištovna, a.s. (Templová 747/5, 110 01 Staré Město, Czech Republic);
- Member of the Board of Directors of the Wiener Stadtische životno osiguranje Podgorica ad, Vienna Insurance Group, (47 Rimski Trg, Podgorica, Montenegro);
- Member of the Audit Committee of Insurance JSC Bulstrad Vienna Insurance Group.

➤ **Franz Fuchs, Deputy Chairman of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:

- Vice-Chairman of the Supervisory Board of C-Quadrat investment AG (Vienna, Austria);
- Chairman of the Management Board of Vienna Insurance Group Polska Sp. z o.o. (Al. Jerozolimskie 162A, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of Wiener TU S.A. VIG (Wołoska 22A, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of Compensa TU S.A. VIG (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of Compensa TU na Życie S.A. VIG (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of Vienna Life TU na Życie s.A. VIG (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of InterRisk TU S.A. VIG (ul. Noakowskiego 22, 00-668 Warszawa, Poland);
- Member of the Supervisory Board of VIG Polska Real Estate Sp. z o.o. (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Member of the Supervisory Board of Beesafe Spolka z o.o. (al. Jerozolimskie 162, 02-342 Warszawa, Poland);

- Chairman of the Supervisory Board of Spółdzielnia Usługowa VIG Ekspert w Warszawie (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Member of the Supervisory Board of Benefia Ubezpieczenia Sp. z o.o. (al. Jerozolimskie 162 02-342 Warszawa, Poland);
- Deputy-Chairman of the Supervisory Board of Compensa Life VIG SE (Narva maantee 63/ 2, 10152 Tallinn, Estonia);
- Deputy-Chairman of the Supervisory Board of AAS BTA Baltic Insurance Company (Sporta 11, Riga, LV-1013, Latvia);
- Deputy-Chairman of the Supervisory Board of UAB "COMPENSA LIFE DISTRIBUTION";
- Chairman of the Supervisory Board of Private Joint-Stock Company Insurance Company KNAZHA LIFE VIG (Kiev, Ukraine);
- Chairman of the Supervisory Board of Private Joint-Stock Company "UKRAINIAN INSURANCE COMPANY "KNAZHA VIG" (04050, Ukraine, Kyiv, 44 Hlybochyt'ska str.);
- Chairman of the Supervisory Board of PJSC'IC Ukrainian Insurance Group (Ukraine);
- Chairman of the Supervisory Board of Insurance Company Donaris VIG SA (Bulevardul Moscova 15/7, Chişinău, Moldova);
- Chairman of the Supervisory Board of ASIGUMREA ROMANEASCAASI ROM VIG (Bulevardul Carol I 31-33, Bucharest, Romania);
- Chairman of the Supervisory Board of BCR ASIGURARI DE VIATA VIG (Strada Rabat, Bucharest, Romania);
- Chairman of the Supervisory Board of OMNIASIG VIG (Bucharest, Sector 1, Alexandru Alley, no. 51);
- Deputy-Chairman of the Shareholders Committee of VIG Management Service SRL (Bucharest, Romania);
- Deputy-Chairman of the Shareholders Committee of GLOBAL ASSISTANCE SERVICES SRL (Bucharest, Romania);
- Deputy-Chairman of the Shareholders Committee of CLAIM EXPERT S.R.L. (Bucharest, Romania).

➤ **Elizabeth Stadler, Member of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:

- CEO of Vienna Insurance Group AG Wiener Versicherung Gruppe (Schottenring 30, Vienna, Austria);
- Deputy Chairwoman of the Supervisory Board of AAS BTA Baltic Insurance Company (Sporta st. 11, Riga, LV-1013);
- Vice-Chairwoman of the Supervisory Board of Česká podnikatelská pojist'ovna, a.s., Vienna Insurance Group (Pobřežní 665/23, Prague, Czech Republic);
- Member of the Supervisory Board of Compensa Life Vienna Insurance Group (Insurance) (Narva mnt 63/2, 10152 Tallinn, Estonia);
- Vice-Chairwoman of the Supervisory Board of Compensa Towarzystwo Ubezpieczen Na Zycie S.A. Vienna Insurance Group (Insurance) (Al. Jerozolimskie 162, Warszawa, Poland);
- Vice-Chairwoman of the Supervisory Board of Compensa Towarzystwo Ubezpieczen S.A. Vienna Insurance Group (Insurance) (Al. Jerozolimskie 162, Warszawa, Poland);
- Chairwoman of the Supervisory Board of DONAU Versicherung AG Vienna Insurance Group (Schottenring 15, Vienna, Austria);
- Chairwoman of the Supervisory Board of InterRisk Lebensversicherungs-AG Vienna Insurance Group (Carl-Bosch-Straße 5, Wiesbaden, Germany);
- Vice-Chairwoman of the Supervisory Board of InterRisk Towarzystwo Ubezpieczen S.A. Vienna Insurance Group (Noakowskiego 22, Warszawa, Poland);
- Chairwoman of the Supervisory Board of InterRisk Versicherungs-AG Vienna Insurance Group (Carl-Bosch-Straße 5, Wiesbaden, Germany);
- Chairwoman of the Supervisory Board of Kooperativa, pojist'ovna, a.s. Vienna Insurance Group (Pobřežní 665/23, Prague, Czech Republic);

- Chairwoman of the Supervisory Board of Vienna Insurance Group Polska Sp.z.o.o. (Holding, Management Services) (Al. Jerozolimskie 162, Warszawa, Poland);
- Vice-Chairwoman of the Supervisory Board Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group (Al. Jerozolimskie 162, Warszawa, Poland);
- Vice-Chairwoman of the Supervisory Board of VIG RE zajišťovna, a.s. (Templova 747/5, Prague, Czech Republic);
- 1st Vice-Chairwoman of the Supervisory Board of WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group (Schottenring 30, Vienna, Austria);
- Vice-Chairwoman of the Supervisory Board Wiener Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group (ul. Woloska 22A, Warszawa, Poland);
- Member of the Supervisory Board of OMV AG (Trabrennstraße 6-8, Vienna, Austria);
- Member of the Supervisory Board of voestalpine AG (voestalpine-Straße 1, Linz, Austria);
- Member of the Management Board of Trustees of Institute of Science and Technology-Austria;
- President of the Association Board of Österreichische Gesellschaft für Versicherungsfachwissen (Forum for the National Insurance Business);
- Vice-President of Österreichisches Rotes Kreuz (Charitable Organisation);
- Vice-President of FH Campus Wien (University of Applied Science);
- Member of the Board of Gesellschaft der Freunde der öst. Nationalbibliothek (support to the Austrian National Library).

➤ **Artur Borowski, Member of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:

- Member of the Supervisory Board of Compensa Life Vienna Insurance Group SE (Narva mnt 63/2, 10152 Tallinn, Estonia);
- Member of the Audit Committee of Compensa Life Vienna Insurance Group SE (Narva mnt 63/2, 10152 Tallinn, Estonia);
- Member of the Supervisory Board of BTA Vienna Insurance Group (Sporta st. 11, Riga, LV-1013);
- President of the Management Board (CEO) of Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group (Al. Jerozolimskie 162, 02-342 Warsaw, Poland);
- President of the Management Board (CEO) of Compensa TU S.A. Vienna Insurance Group (Al. Jerozolimskie 162, 02-342 Warsaw, Poland);
- Member of the Board of Vienna Insurance Group Polska Sp. z o.o. (Al. Jerozolimskie 162, 02-342 Warsaw, Poland);
- Member of the Audit Committee of ADB Compensa Vienna Insurance Group (Ukmerges st. 280, Vilnius, Lithuania);
- Member of the Board of Compensa Life Distribution.

➤ **Sabine Berg, Member of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:

- Managing Director of Carplus Versicherungs Vermittlungs GmbH (Schottenring 30, Vienna, Austria);
- Head of motor insurance in Wiener Städtische Versicherung AG (Schottenring 30, Vienna, Austria).

Management Board consists of three Management Board members:

➤ **Deividas Raipa, CEO and Chairman of the Management Board of the Company.**

➤ **Nicolas Mucherl, CFO and Management Board member of the Company.**

List of executive and non-executive directorships and other professional activities:

- Member of the Supervisory Board of Investment Funds for Real Estate in CEE (Staré Město, Templová 747/5, Postal code 110 01, Prague, Czech Republic);
- Member of the Supervisory Board of Service Company of VIG Fund (Staré Město, Templová 747/5, Postal code 110 01, Prague, Czech Republic).

➤ **Andri Püvi, member of the Management Board and Head of Estonian branch of the Company.**

The core activity of the Company is non-life insurance business. The license for non-life insurance activities was issued in July 2015 by the Bank of Lithuania. The following insurance activities are included: accident insurance; sickness insurance; land vehicles (other than railway rolling stock) insurance; railway rolling stock insurance; ships (sea and internal waters) insurance; goods in transit insurance; property (other than in points 3, 4, 5, 6 and 7 of the article 7 of the law on Insurance) insurance against fire and natural forces; property insurance against other risks (other than in subparagraph 8); liability arising out of the use of motor vehicles operating on the land; liability arising out of the use of ships (sea and internal waters); general liability insurance; financial loss insurance; legal expenses insurance; assistance insurance; compulsory motor third party liability insurance; insurance intermediary compulsory third party liability insurance; compulsory civil liability insurance of contractors. In July 2016, by the decision of the Bank of Lithuania, the license was expanded with the right to carry out Compulsory civil liability insurance of railroad companies (carriers) and companies using public railway infrastructure. In January 2017, with regard to changes in legal regulation, the license for compulsory civil liability insurance of contractors was changed to the license of administrative construction works and civil liability insurance of building construction, reconstruction, repair, renovation (modernization), demolition or cultural heritage buildings. In March 2017, by the decision of the Bank of Lithuania, the license was expanded with the right to carry out aircraft insurance, insurance against civil liability arising out of the use of aircraft, credit insurance, suretyship insurance, as well as compulsory insurances: compulsory professional civil liability insurance of attorneys, compulsory professional civil liability insurance of bailiffs, compulsory civil liability insurance of audit companies, compulsory insurance of suppliers of tour organizing services, compulsory professional civil liability insurance of notaries, compulsory civil liability insurance of main researchers and contractors of biomedical research, compulsory civil liability insurance of construction planners, compulsory civil liability insurance of technical supervisors of construction, compulsory civil liability insurance of construction project (part thereof) examination contractor, compulsory civil liability insurance of health care institutions against damage, compulsory civil liability insurance of consular officials performing notarial acts, compulsory professional civil liability insurance of restructuring administrators, compulsory professional civil liability insurance of bankruptcy administrators carrying out company bankruptcy procedures, compulsory professional civil liability insurance of bankruptcy administrators carrying out bankruptcy procedures for natural persons, civil liability insurance of licensed person for damage caused to others by determination of the cadastral data of immovable property, and compulsory civil liability insurance of property or business valuation firms and independent property or business assessors. After expansion of the license in March 2017, the Company has the right to carry out all the non-life insurance activities.

STRUCTURE

The Company is headquartered in Vilnius, Lithuania and has branch offices in Riga, Latvia and in Tallinn, Estonia. All departments are proceeded via a matrix approach on a Pan-Baltic level. The Company follows a multi-channel distribution approach in all markets.

RESULTS FROM OPERATIONS

In 2020 the Company's gross written premium amounted to EUR 122.3 million. The largest share of insurance portfolio is comprised of motor third party liability insurance 30% (2019: 38%); motor own damage insurance (Casco) – 24% (2019: 24%) and Property insurance lines – 39% (2019: 35%). During the year, the biggest part – 46% of total gross written premiums were written in Lithuania; 30% – in Latvia; 24% – in Estonia.

The results significantly improved in year 2020 – the Company achieved a profit before taxes in the amount of EUR 2.2 million (2019: profit of EUR 0.5 million). The Company generated net earned premiums of EUR 90.6 million. Claims incurred amounted to EUR 55.3 million. Net operating expenses of EUR 35.1 million (2019: EUR 20.6 million).

The Company had a net combined ratio of 99.8% - retaining the almost the same level compared to a ratio in year 2019 (99.9%). This ratio is calculated as underwriting expenses and income and net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums.

Net investment income amounting to EUR 1.9 million consists of interest income (1.34 million), the realization (EUR 1.08 million) and amortization (EUR 0.01 million) and management and interest cost (- 0.54 million) of investments. At the end of the year, investment assets amounted to EUR 179.6 million (end of 2019: EUR 72.3 million). Assets are split between fixed income securities 97% (2019: 85%); loans 1% (2019: 6%); shares 2% (2019: 9%).

At the end of 2020, the shareholder's equity amounted to EUR 88.2 million (2019: EUR 34.9 million); insurance technical provisions to EUR 151.2 million (2019: EUR 63.1 million); liabilities to EUR 63.3 million (2019: EUR 44.5 million).

At the end of 2020, ADB Compensa VIG had total assets of EUR 317.8 million (2019: EUR 153.2 million).

STRATEGY AND DEVELOPMENT FOR 2020

In 2020 the Company continued steady growth in the Baltic market with the ambition to further increase profitable result and materialize in the economies of scale. In order to accomplish growth and market penetration targets Compensa merger with other VIG group company Seesam Insurance" AS was completed on 1 July 2020.

The Company defines the four criteria – growth, stability, quality and profitability – as core dimensions for its management. When following its strategy, the Company relies on management principles that have proven successful in the last years of the Company life to reach GWP and claims ratio targets:

- Customers' oriented multi sales channel and multi product' strategy
- Focusing on profitability
- Competence
- Stability

The Company had followed its strategy in the Baltics by focusing on key strategic pillars:

Balancing the portfolio and optimizing UW result

Share of non-motor lines of business was further increased in the portfolio. Huge efforts were put on developing the Property line of business and diversifying portfolio with the profitable growth in long term perspective.

Capitalizing on comparably low insurance penetration in the Baltic market

The Company is offering a broad range of products for both, private and corporate customers. The Company has a clear aim to continue to increase the share of non-life insurance market by capitalizing on comparably low insurance penetration in the Baltic market. This plan is being achieved by continuous development of both, the retail and broker distribution channels. Also increasing effectiveness of sales forces in other sales channels and marketing the services by raising risk awareness for currently uninsured clients.

Utilizing Pan-Baltic synergies

The Company is continuously improving the profitability by utilizing efficient Pan-Baltic operations and centralized headquarters functions. The Company operates as a Baltic entity with Pan-Baltic departments established. However, local market specifics are addressed by experienced local management which allows to apply certain decisions to improve pricing for mass products and large corporate customers.

Continuously developing IT systems to enhance operational efficiency

The Company is continuously investing into its IT systems by conducting specific country related and Pan-Baltic IT projects. Continuously developing of IT systems will enhance the operations and business efficiency in several areas and therefore will enable the positive experience of customers and business partners. The Company's strategic focus on automatization and digitalisation projects will help to increase competitiveness and growth in the long term.

HUMAN RESOURCES

After the merger with Seesam Insurance AS, affiliate companies AB Compensa Services (Lithuania) and AS Compensa Services (Latvia), number of employees significantly increased at the end of 2020, the Company had overall 872 employees (2019: 219 employees), 386 of whom worked in Lithuania, 310 in Latvia and 176 in Estonia.

In pursuit of strategic targets, the Company improved HR processes and developed capabilities of the leadership team, to be able to attract and retain highly talented employees.

People are essential to the Company's success. In an insurance business where products are intangible, personnel trust plays a decisive role. The confidence that the Company's customers place in us day by day is essential to the Company's success. This success is gained and maintained by the Company's service-oriented and competent employees.

The main elements of the Company's Human Resources strategy are based on the Group's values and its key strategic and management principles:

- Establishing service quality and customer focus as the most important core competences of employees;
- Strengthening the Company's position as an attractive local employer with an international background for ambitious individuals;
- Developing Group-wide management and expert competences;

- Enhancing diversity through various measures.

The Company has implemented a range of initiatives designed to achieve these targets and will continue to do so in the years ahead.

RISK AND RISK MANAGEMENT

Risk management in the Company is organized according to the standards of the parent company Vienna Insurance Group and in compliance with Solvency II requirements with well-defined organizational and operational structures, responsibilities and risk management processes. The main objective of risk management is ensuring sustainability and solvency of the Company even under less favourable market conditions thus guaranteeing the fulfilment of obligations to the customers under any circumstances.

Effective system of governance forms the basis for effective risk management. The ultimate responsibility for the risk management lays on the Management Board of the Company which is responsible for the organizational oversight and ensuring that appropriate structures and processes are in place for effective governance. Risk management is organized according to the three lines model. The first line roles are line managers who perform daily risk management and control activities in their area of responsibility. The second line role – risk management function holder (risk manager), who is responsible for establishing risk management and internal control systems and coordination of the risk management activities across the company, providing additional oversight and supporting Management Board and line managers with risk related issues and reports directly to the Management Board. Risk management activities are also coordinated by Vienna Insurance Group thus ensuring additional controls and sharing of the best practices and know-how between the group companies. The second line role also performs a compliance function that ensures compliance with laws, regulations and administrative provisions, assesses the potential impact of the changes in the legal environment, and manages compliance risks. The third line role is formed by internal audit function that provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management (including internal control). All key function holders comply with fit and proper requirements. The Company fosters risk culture where every employee feels responsible for day-to-day risk management, informs promptly about emerging risks and incidents, understands the need for applicable control procedures and follows them meticulously.

The main risk management documents are risk strategy and risk policy. The goal of the risk strategy is integration of risk awareness into the planning, business and decision-making processes, ensuring sustainability of the Company by maintaining sufficient solvency buffer and ensuring effective risk management within Compensa. The risk strategy is evaluated within yearly own risk and solvency assessment process (“ORSA”) and if necessary updated based on ORSA findings and business strategy. The risk strategy describes risks the Company is taking, principles of risk management and defines limit for minimum solvency ratio at 125%, that serves as additional solvency buffer to ensure the solvency position is not threatened even under less favourable conditions and is the main indicator of financial strength of the Company. The risk management policy describes the Company’s risk management system and main risk management processes, defines responsibilities and risk categories the Company is accepting. The Company has established remuneration policy to set up a general framework for establishing, implementing and maintaining remuneration practices in line with the Company’s business and risk management strategy, its risk profile, objectives, risk management practices as well as long-term interest and performance.

The core competence of the Company is dealing professionally with risks. The insurance business consists of deliberate assumption of various risks and profitable management of them. Those risks include standard underwriting risks resulting from underwriting non-life and health insurance business as well as risks stemming from the investments (market risks) and also general risks such as the counterparty default risk, concentration risk, operational risk or reputational risk.

The Company defines ten risk categories. It is assumed that these risk categories are complete and do cover all possible sources of risk. The risk categories are further split into sub categories during further risk management processes. The main risk categories are as follows:

- Non-life insurance risk arises from liabilities of non-life insurance contracts due to inappropriate pricing and provisioning assumptions. Risk is managed by periodic revision of the assumptions used in actuarial models, following underwriting guidelines and applying reinsurance.
- Health insurance risk arises from liabilities under health insurance contracts due to inappropriate pricing and provisioning assumptions. This risk is managed according to the same principles as the non-life insurance risk.
- Life insurance risk arises from the annuity obligations in the case of motor third party liability insurance, due to inappropriate provisioning assumptions. This risk is managed according to the same principles as the non-life insurance risk.
- Intangible asset risk is the risk of loss or adverse movements in value of intangible assets and is not material to the Company.
- Market risk reflects the risk resulting from the degree of fluctuations of financial instruments' prices (such as bonds and loans, deposits, cash, participation, etc.). The measure of risk exposure is the impact of changes in financial variables i.e. stock prices, interest rates, property prices, currency exchange rates etc. This risk could be further subdivided into interest rate risk, foreign exchange risk, equity risk, spread risk and concentration risks. Market risk is managed by choosing an appropriate investment strategy and defining investment limits with respect to asset classes, ratings, currencies, concentration, durations etc., taking into account characteristics of insurance liabilities (i.e. performing asset-liability management), risk appetite and return targets. The Company's investment strategy is subject to regular reviews. Keeping substantial share of fixed income investments (bonds and loans) in the portfolio will lead to stable expected returns and generally lower volatility. The Company invests only in those assets, for which it can identify, measure, monitor, manage and control the related risks accordingly and which are approved by the Management Board, thus complying with prudent person principle.
- Counterparty default risk reflects the losses arising when counterparties or debtors breach the obligations or their creditworthiness decreases. The risk is managed by defining limits with respect to counterparties' rating and to the exposure for single counterparty for financial assets, and in case of reinsurance, defining and following reinsurer's selection criteria, efficient debt collection and policy cancellation process in case of receivables.
- Liquidity risk is the risk that insurance company will not be able to provide, in timely manner and without bearing additional costs, financial resources to meet short- and long-term liabilities. The risk is managed following liquidity management policy by analysing liquidity needs and setting investment limits accordingly, so that the sufficient amount of liquid assets and cash is available any time. In the event of a crisis of liquidity, the Company may ask the shareholders to provide short-medium, or long-term financial support.
- Operational risk is the risk resulting from not adequate or incorrect internal processes, personnel or systems, or external events. Operational risk covers legal risk, but does not include strategic risk and reputation risk. The risk is managed by implementing effective internal control system, that includes proper segregation of duties, application of four-eye principle, access right control, business contingency planning, incident management, following established procedures, guidelines and policies etc., that is evaluated each year during internal control assessment process.
- Strategic risk defined as adverse development of business as the results of incorrect business decisions or investment, inappropriate communication and implementation of goals, or inadequate adjustments of resources due to changes in economic and business environment. Risk is managed by well-defined decision-making and follow-up process.

- Reputational risk is defined as possibility of adverse development of business as a result of damaged reputation. Reputational risk covers sustainability risks. The risk is managed the same way as operational risk and by periodic media monitoring, brand development activities.

The Company defines the following overall approach to risks it might be exposed to:

Accepted risks:

- The Company generally accepts those risks, that are directly associated with the exercise of its insurance business (underwriting risk, partially market risks).

Conditionally Accepted Risks:

- Operational risks need to be avoided as far as possible, but have to be accepted to a certain degree, as on the one side operational risks cannot be eliminated fully and on the other side expenses for protection against certain risks may exceed the expected loss, which would be economically unreasonable.
- Investment management shall follow the prudent person principle, unreasonable risks need to be avoided, high-risk investment products shall only be held in case of hedging of other market risks.
- Risk stemming from financial insurance shall be held to a limited extent.

Risk Mitigating Measures:

- Fostering and Promotion of strong risk awareness together with a well-defined risk governance in all business areas.
- The calculation of the technical provisions has to be performed in a prudent way, especially to compensate undesirable, but possible fluctuations.
- Reinsurance is a central instrument to hedge against major loss events (tail risks), in the area of non-life business.
- Strict limits for market risks and investments well-matched to the liabilities of the Company.

Avoid Risks:

- Risks are not accepted, if either the Company has not the necessary know-how or not the necessary resources for the management of the risk, or capital resources of the Company are insufficient for the coverage of the risk.
- The Company does not accept underwriting risks, if they cannot be evaluated and priced correctly.
- Asset Management does not accept risks, if the know-how for the valuation of these risks is not available in an adequate kind. Such risks include, but are not limited to weather derivatives, commodity futures or investments with unlimited loss potential.

REINSURANCE

Outgoing reinsurance is managed according to VIG Group guidelines. Established reinsurance program allows controlling company net retention on risk and event level. By placing the reinsurance program synergy effects within the Group are assessed to ensure optimum reinsurance protection. To increase counterparty risk diversification, the Company co-operates with more than 30 reinsurance companies. The main reinsurance partners are Vienna Insurance Group (Austria), VIG Re (the Czech Republic) and Swiss Re Europe (Luxembourg).

PROJECTS

Sponsoring

The Company is the main sponsor of the National organization “Lithuanian basketball league”. Compensa continues the sports sponsorship tradition with a brief break for the eight time; therefore, the Company wants to be active in the social sphere and take into account the needs of the sports community.

Successful co-operation, coupled with a unified approach between the two partners, is a great way to increase the brand’s visibility in a positive context.

Sponsoring of art and cultural projects is one of the areas where Compensa is active – by giving the name to one of concert halls in Vilnius the Company contributes to art in public space.

Social active day

In terms of Social Responsibility, the Company encourages employees to be active in the field of volunteering activities. In the year 2020 Social active day was organized. It was help for organization “Maisto bankas” which is collecting food for people in need. 34 Compensa employees participated in the social active day and during this day they collected 4,41 t of food for people in need.



D. Raipa
General Manager
13 April 2021

STATEMENT OF COMPREHENSIVE INCOME (EUR)

Items	Note	Financial year	Previous financial year
INSURANCE INCOME			
NET PREMIUMS EARNED	25	90 613 291	50 170 185
Net written premiums		95 418 897	57 916 047
Gross written premiums	24	122 347 086	84 691 234
Reinsurer's share in premiums	24	(26 928 189)	(26 775 187)
Change in provision for unearned premiums		(4 805 606)	(7 745 861)
Change in gross provision for unearned premiums		1 392 853	(4 274 912)
Change in provision for unearned premiums, reinsurer's share		(6 198 459)	(3 470 949)
Other technical income		-	-
INSURANCE EXPENSES			
Net claims paid		(52 789 046)	(26 193 088)
Gross claims paid	26	(70 319 324)	(41 877 514)
Claims settlement expense	26	(5 557 562)	(4 600 031)
Recovered losses	26	3 230 934	3 030 292
Reinsurer's share	24	19 856 906	17 254 165
Change in outstanding claim technical reserve		(2 516 509)	(3 356 745)
Change in gross provision for claims	26	(135 931)	(4 053 186)
Change in provision for claims, reinsurer's share	26	(2 380 578)	696 441
NET INCURRED CLAIMS		(55 305 554)	(29 549 833)
Operating expenses		(32 939 222)	(18 994 136)
Acquisition costs	27	(31 298 189)	(22 727 460)
Administrative expenses	28	(10 109 681)	(5 097 729)
Reinsurance commission income and profit share		8 468 648	8 831 053
Other technical expenses		(172 145)	(1 145 978)
Interest income	29	1 344 874	619 082
Net profit / loss of financial assets	29	1 083 824	262 485
Investment valuation and management expenses	28	(539 705)	(503 992)
Other finance income	30	69 405	27 100
Other finance expenses	30	(97 789)	(73 183)
Other income	31	163 522	101 577
Other expenses	31	(2 196 276)	(1 579 047)
PROFIT / (LOSS) BEFORE TAXES		2 196 370	480 238
INCOME TAX EXPENSES	32	(119 841)	(102 838)
PROFIT / (LOSS) OF THE YEAR		2 076 529	377 400
Other comprehensive income	14	4 229 235	2 064 115
Revaluation of available for sale instruments that are or may be reclassified to profit or loss		4 229 235	2 064 115
Items that will not be reclassified to profit or loss			
Total comprehensive profit / (loss) for the reporting year		6 305 764	2 441 515



D. Raipa
General Manager
13 April 2021



Ž. Kramarauskaitė
Chief Accountant
13 April 2021



L. Petrošienė
Chief Actuary
13 April 2021

STATEMENT OF FINANCIAL POSITION (EUR)

Items	Note	Financial year	Previous financial year
ASSETS			
Intangible assets	1	14 514 968	12 391 228
Right-of-use assets	2	3 295 047	508 641
Property and equipment	3	1 426 582	321 970
Investments in subsidiaries	7	-	2 976 724
Other investments	8	135 000	
Financial assets available for sale	4	176 967 043	65 052 483
Loans and deposits	6	2 526 595	4 274 482
Total investment		179 628 637	72 303 689
Amounts receivable from policy holders		19 151 127	6 054 508
Amounts receivable from intermediaries		6 177 812	4 002 894
Total receivables from direct insurance activities		25 328 939	10 057 402
Receivable from reinsurance activities		6 770 486	3 286 556
Other receivables		1 210 705	321 180
Total amounts receivable	9	33 310 131	13 665 138
Deferred tax assets	32	151 952	402 074
Provision for unearned premiums, reinsurer's share		11 892 354	12 704 579
Outstanding claims technical provision, reinsurer's share		25 979 606	12 218 376
Total reinsurance assets	10	37 871 960	24 922 955
Accrued interest and rental income		930 048	332 519
Deferred acquisition costs		11 548 778	10 170 484
Other accrued income and deferred costs		16 583 585	13 434 282
Total accrued income and deferred costs		29 062 411	23 937 285
Cash at bank and cash in hand	12	18 575 196	5 169 120
Total assets		317 836 884	153 622 100

Continued on the next page

STATEMENT OF FINANCIAL POSITION (EUR) (CONTINUED)

Items	Note	Financial year	Previous financial year
EQUITY AND LIABILITIES			
Equity			
Share capital	13	18 800 000	15 800 000
Share premium		17 045 774	17 045 774
Revaluation reserve	14	8 744 607	1 668 425
Legal reserve	14	1 387 286	-
Result of reorganisation	34	40 166 074	-
Profit (loss) of the reporting year		2 076 529	377 400
Total equity		88 220 270	34 891 599
Liabilities			
Subordinated loan	6	7 596 814	7 596 814
Technical reserves			
Technical provision for unearned premiums	10	75 229 829	38 172 128
Technical provision for outstanding claims	10	75 803 429	24 883 168
Unexpired risk technical provisions		142 334	-
Insurance rebates technical provision		4 412	8 037
Total insurance liabilities		151 180 005	63 063 333
Provisions	15	2 303 528	906 046
Creditors			
Direct Insurance creditors			
Liabilities to insured	17	5 037 373	1 769 037
Liabilities to intermediaries	17	19 990 252	16 597 887
Total direct Insurance creditors		25 027 627	18 366 924
Liabilities to reinsurers	18	10 249 622	4 902 491
Deposits of reinsurer	16	19 085 903	18 306 226
Debts to credit institutions	19	44 236	56 920
Lease liabilities	2	3 318 812	509 916
Taxes and social insurance contributions	20	208 533	94 129
Other liabilities	21	5 409 666	2 221 238
Total creditors		63 344 399	44 457 844
Accrued liabilities	23	4 732 446	2 706 465
Deferred income		459 423	-
Total equity and liabilities		317 836 884	153 622 100



D. Raipa
General Manager
13 April 2021



Ž. Kramarauskaitė
Chief Accountant
13 April 2021



L. Petrošienė
Chief Actuary
13 April 2021

STATEMENT OF CHANGES IN EQUITY (EUR)

	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance as at 31 December 2018	11 300 000	30 400 000	(395 690)	263 258	(13 617 484)	27 950 084
Profit / (loss) of the year	-	-	-	-	377 400	377 400
Other comprehensive income	-	-	2 064 115	-	-	2 064 115
Transactions with owners of the Company						
Covering of accumulated losses	-	(13 354 226)	-	(263 258)	13 617 484	-
Increase / decrease in authorized capital	4 500 000	-	-	-	-	4 500 000
Balance as at 31 December 2019	15 800 000	17 045 774	1 668 425	-	377 400	34 891 599
Profit / (loss) of the year	-	-	-	-	2 076 529	2 076 529
Other comprehensive income (Note 14)	-	-	4 229 235	-	-	4 229 235
Transactions with owners of the Company						
Reorganisation effect (Note 34)	3 000 000	-	2 846 947	1 009 886	40 166 074	47 022 907
Creation of mandatory reserves	-	-	-	377 400	(377 400)	-
Balance as at 31 December 2020	18 800 000	17 045 774	8 744 607	1 387 287	42 242 604	88 220 270



D. Raipa
General Manager
13 April 2021



Ž. Kramarauskaitė
Chief Accountant
13 April 2021



L. Petrošienė
Chief Actuary
13 April 2021

STATEMENT OF CASH FLOWS (EUR)

Items	Note	Financial year	Previous financial year
Cash flows from operating activities			
Premiums received from direct insurance		116 681 956	77 270 155
Claims paid for direct insurance		(67 139 745)	(41 352 115)
Payments received from ceded reinsurance		-	-
Payments made for ceded reinsurance		(1 051 106)	(2 560 911)
Operating expenses paid		(33 198 663)	(25 069 323)
Taxes paid on ordinary activities		(6 196 035)	(1 363 740)
Amounts paid on other operating activities of insurance		(251 977)	443 266
Net cash from / (used in) operating activities		8 844 430	7 367 332
Cash flows from investing activities			
Acquisition of subsidiaries and associates	8	(100 000)	-
Disposal of the investments		30 865 877	6 407 887
Acquisition of the investments		(31 827 966)	(20 157 205)
Loans	6	(12 684)	(844 048)
Interest received from shares, debt and other non-current assets	6	309 291	188 799
Amounts from other investing activities		61 380	(31 117)
Net cash flows from / (used in) investing activities		(704 103)	(14 435 684)
Cash flows from financing activities			
Amounts received on issue of ordinary shares		-	4 500 000
Interest from loans	6	(391 986)	(405 495)
Reorganisation effect (Note 34)	34	5 657 736	-
Amounts paid for other financing activity		-	-
Net cash flows from / (used in) financing activities		5 265 749	4 094 505
Net increase / (decrease) in cash and cash equivalents		13 406 076	(2 973 847)
Cash and cash equivalents at the beginning of reporting year		5 169 121	8 142 967
Cash and cash equivalents at the end of reporting year		18 575 197	5 169 120



D. Raipa
General Manager
13 April 2021



Ž. Kramarauskaitė
Chief Accountant
13 April 2021



L. Petrošienė
Chief Actuary
13 April 2021

EXPLANATORY NOTES

1. BACKGROUND INFORMATION

ADB "Compensa Vienna Insurance Group" (hereinafter "the Company") was registered on 11 August 2015 in the Republic of Lithuania.

The Company is engaged in insurance activities and provides non-life insurance services.

As at 31 December 2020 the authorized capital of the Company consists of 188 000 ordinary registered shares with a nominal value of EUR 100 per share, and share premium of EUR 17 045 774. All shares are fully paid.

As at 31 December 2020 the Company's sole shareholder was Vienna Insurance Group AG Wiener Versicherung Gruppe, company code 75687 f, address Schottenring 30, 1010 Vienna, Austria.

The Company is headquartered in Vilnius, Lithuania.

At 31 December of 2020, the Company had 860 full-time employees (at 31 December 2019: 219), 386 of them work in Lithuania, 298 in Latvia and 176 in Estonia.

Country	31/12/2020	31/12/2019
Lithuania	386	116
Latvia	298	72
Estonia	176	31
Total	860	219

The license for insurance activities was issued on 30 July 2015 and expanded on 28 July 2016. In January 2017, with regard to changes in legal regulation, the license for compulsory civil liability insurance of contractors was changed to the license of administrative construction works and civil liability insurance of building construction, reconstruction, repair, renovation (modernization), demolition or cultural heritage buildings, and new insurance lines were added on 15 March 2017. The license is valid in the Republic of Lithuania and in any other state of the European Economic Area. The license provides the Company with the right to carry out sales of voluntary insurance of the following insurance groups or related risks:

- Accident insurance;
- Sickness insurance;
- Land vehicles (other than railway rolling stock) insurance;
- Railway rolling stock insurance;
- Ships (sea and internal waters) insurance;
- Goods in transit insurance;
- Property insurance against fire and natural forces;
- Property insurance against other risks;
- Liability arising out of the use of motor vehicles operating on the land;
- Liability arising out of the ships (sea and internal waters);
- General liability insurance;
- Financial loss insurance;
- Legal expenses insurance;
- Assistance insurance;
- Aircraft insurance;
- Insurance against civil liability arising out of the use of aircraft;
- Credit insurance;
- Suretyship insurance.

Sales of the following compulsory insurance risk products are carried out:

- Compulsory civil liability insurance of technical supervisors of construction;
- Compulsory insurance of suppliers of tour organizing services;
- Compulsory civil liability insurance of construction planners;
- Compulsory civil liability insurance of main researchers and contractors of biomedical research;
- Administrative construction works and civil liability insurance of building construction, reconstruction, repair, renovation (modernization), demolition or cultural heritage buildings;
- Compulsory civil liability insurance of insurance intermediaries;
- Compulsory civil liability insurance of users of motor vehicles;
- Compulsory civil liability insurance of railroad companies (carriers) and companies using public railway infrastructure;
- Compulsory civil liability insurance of audit companies;
- Compulsory professional civil liability insurance of bailiffs;
- Compulsory civil liability insurance of notaries;
- Compulsory civil liability insurance of construction project (part thereof) examination contractor;
- Compulsory civil liability insurance of health care institutions against damage;
- Compulsory civil liability insurance of property or business valuation firms and independent property or business assessors;
- Civil liability insurance of licensed person for damage caused to others by determination of the cadastral data of immovable property;
- Compulsory professional civil liability insurance of bankruptcy administrators carrying out bankruptcy procedures for natural persons;
- Compulsory professional civil liability insurance of bankruptcy administrators carrying out company bankruptcy procedures;
- Compulsory professional civil liability insurance of restructuring administrators;
- Compulsory civil liability insurance of consular officials performing notarial acts;
- Compulsory professional civil liability insurance of attorneys.

The Company has branch offices in Riga, office address: Vienības gatve 87h, Latvia, and in Tallinn, office address: Maakri19/1, Tallinn 10145.

As at 31 December 2020 the Company did not have subsidiaries. During cross-border merger which took effect as at 1 July 2020, companies UAB Compensa Services (Lithuania) and SIA Compensa Services (Latvia) were merged to the Company ADB Compensa Vienna Insurance group. For disclosure of reorganisation please see note 34.

As at 31 December 2019, the Company had 2 subsidiaries. In September 2016, the Company acquired 100% shares of UAB Compensa Services (Lithuania), which provides non-life insurance sales and claim handling services, and SIA Compensa Services (Latvia), which provides non-life insurance sales services.

The financial year of the Company starts on 1 January and ends on 31 December.

The audit in the Company has been performed by KPMG Baltics, UAB.

The Shareholders' Meeting will be held on 13 April 2021.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

Consistent accounting principles have been applied to the financial years presented in these financial statements.

BASIS OF PREPARATION

The financial statements of ADB Compensa Vienna Insurance Group have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2020. The financial statements were presented for authorization to management on 13 April 2021. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in euro (unless otherwise stated) which is the Company's functional currency.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except for the available-for-sale financial assets which are measured at their fair values.

USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Although the estimates are based on management's best judgement and facts, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both the year of revision and future years.

The most significant estimates in the financial statements are related to estimation of recoverable amount of goodwill and estimation of insurance provisions.

Information about the main estimation criteria that affect the amounts recognized in the financial statements is presented in the following notes:

- Note 1 Goodwill
- Note 10 Insurance contract provisions

MEASUREMENT OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements including Level 3 fair values and reports directly to the chief financial officer. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information such as broker quotes or pricing services is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS EU including the level in the fair value hierarchy in which the valuations should be classified.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

FOREIGN CURRENCY

All the operations in foreign currency are booked as functional currency to the relevant country on the day the operation is performed, by the euro-foreign exchange rate published by the European Central Bank. All the monetary assets and liabilities, evaluated in foreign currency, are converted to the functional currency by the euro-foreign exchange rate published by the European Central Bank at the end of reporting period.

All the income and expenses of converting assets or liabilities due to the change in the currency exchange rate are included in the statement of comprehensive income, in the period the exchange rate changed.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

CLASSIFICATION OF INSURANCE CONTRACTS

A contract under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. All contracts concluded are classified as non-life insurance contracts and the Company has not concluded any investment contracts. The basis for classification of insurance contracts is the essence of the transfer of insurance risk, for example:

- Personal accident insurance,
- Property insurance,
- Vehicle insurance,
- Liability insurance.

RECOGNITION OF REVENUE AND EXPENSES

Premiums written and earned

Premiums written comprise premiums on contracts concluded during the reporting period with cover period not longer than one year, one-year portion of premiums on contracts concluded during the reporting period with cover period longer than one year and current year portion of premiums on contracts concluded during the previous financial year with cover period longer than one year.

Premiums written are decreased by cancelled insurance premiums following the terminated contracts.

Premiums earned comprise premiums attributable to the reporting period, i.e. premiums written during the reporting period adjusted for change in the provision for premiums unearned over the reporting period.

Reinsurance premiums

Reinsurance premiums are recognized following the same principles as gross written premiums of the respective contracts.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums and claims in profit or loss have been presented as negative items within premiums and net benefits and claims respectively, which is consistent with how the business is managed.

Fees

Insurance contract policyholders are charged for policy surrenders. These fees are recognized as revenue over the period in which the related services are performed.

Incurred claims

Claim costs comprise amounts actually paid for insurance events including claim settlement costs less changes in technical provision for outstanding claims and recovered amounts by subrogation or regress. Claim costs are decreased by the reinsurers' share. Reinsurers' share includes amounts to be compensated by reinsurers in accordance with existing reinsurance contracts. Reinsurers' claim costs include reinsurers' share of claim costs during the reporting period, claim settlement costs, amounts recovered by subrogation and regress, and reinsurers' share of the change in technical provision for outstanding claims.

Reinsurers' share of claims and benefits incurred

Reinsurance claims and benefits are recognized when the related gross insurance claim or benefit is recognized according to the terms of the relevant reinsurance contract.

Investment income and costs

All income and costs related to investments are recognized in profit or loss as investment income and costs on an accrual basis.

All interest income from cash generating financial instruments is included in the statement of comprehensive income using the effective interest rate method. Interest income includes coupon payments for fixed income bonds and interest income earned from investment into bank deposits and bank loans. Also, interest income includes cash on bank accounts and the amortization of discounts and bonuses, or other financial instrument difference between the carrying value from which interest is calculated and its value on redemption day calculated using the method of effective interest rate.

Acquisition and administrative expenses

Acquisition costs include costs related to underwriting of insurance contracts, their updating and servicing. Acquisition costs include direct and indirect acquisition costs. Direct acquisition costs include commissions to intermediaries, which are attributed to lines of insurance depending on which line of the insurance contracts the commissions are paid for directly for each line. Other acquisition costs related to concluding and servicing insurance contracts (e.g. preparation of insurance documents, salaries to employees concluding insurance contracts, advertising) are allocated in proportion to gross premiums earned during the reporting period provided that type of insurance was not specified when entering costs into the accounting system. Acquisition costs related to the future periods are shown in the statement of financial position as deferred acquisition costs.

Administrative expenses are the expenses that contribute to generating income for the reporting period, e.g. salaries paid to the Company's management and social insurance contributions, costs of rent. Repairs, maintenance, and depreciation of non-current assets of common use, expenses of communication, business trips and other. These expenses are identified according to the cost centre of expenses they are incurred in (administrative expenses are incurred in the functional group of administration). Administrative expenses are allocated in proportion to gross premiums earned during the reporting period provided that type of insurance was not specified when entering costs into the accounting system.

In allocation of expenses, a part of administrative expenses of the functional group is attributed to acquisition costs. Attribution is regulated by the Company's methodology for accounting and allocating expenses.

Other technical income and expenses

Other technical expenses comprise obligatory deductions to supervisory authorities and other expenses. Other technical income comprises commission fee for claim settlement of other insurance companies.

Other income and expenses

Other income and expenses consist of income and expenses related to other than insurance, inward or outward reinsurance or investing activities.

Other income includes income earned for the provided services, not related with insurance activity, such as earned interest income which is not related with investment from cash in bank account; earned income which is not related with investment from currency converting and change in currency exchange rate; profit from the revaluation of positions in the financial statements not related with investment; any other similar income not included in other positions.

Expenses are recognized based on the accrual and matching principles in the reporting period during which related income is earned, irrespective of the time the money was spent. Only the part of expenses of the reporting and previous periods, which is attributable to the income generated during the reporting period, is recognized as expenses.

Other expenses comprise expenses related to sales of other assets, non-allowable tax deduction, assets written off, credit interest, currency exchange loss, etc.

Other income includes income from sales of the Company's other assets, services rendered as to other contracts.

Taxation

Corporate income tax consists of the current and deferred taxes.

Current tax is the expected tax payable on the taxable income using applicable tax rates effective as at the reporting date. The taxable profit is different than the profit in profit or loss as it does not include some items of income and expenses, which can be taxed and legible in the other year, and it also does not include some items which will never be taxed or legible. For the year 2020 and 2019 the corporate tax rate was 15% in Lithuania.

The corporate tax in Latvia it is calculated in accordance with Latvia laws. In the Estonia it is calculated in accordance with Estonian laws.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted.

A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The Company calculates and books profit tax using profit tax rate effective as at the reporting date and effective tax accounting principles.

Rates of other taxes paid by the Company are the following:

- Support fee for the supervisory authorities based on gross written premiums in Estonia and Lithuania and based on collected premiums in Latvia:
 - Lithuania: 0.234%,
 - Latvia: 0.283%, MTPL 0.2%
 - Estonia: 0.097%.
- Motor bureau membership fee based on gross written premiums of civil liability in respect of the use of motor vehicles:
 - Lithuania: 1.75%,
 - Latvia: 0.02% and EUR 0.39 per insurance contract, fixed monthly fee EUR 3 214,
 - Estonia 3.2% and fixed monthly fee EUR 3 000.
- Social insurance contributions on employment related income calculated for employees
 - Lithuania: 1.31%.
 - Latvia: 24.09%,
 - Estonia: 33.8%.

Intangible assets

Intangible assets include identified non-monetary assets, which have no material form, held by the Company and used with a view to gain direct or indirect economic benefit.

Maintenance and other costs of intangible assets are treated as costs of the reporting period when incurred. Decrease in the value of intangible assets loss of assets write-off are treated as operating expenses.

Intangible assets are stated at acquisition cost less accumulated amortization and impairment, if any. Straight-line amortization of intangible assets is provided over the estimated useful lives of the assets.

The amortization period from 5 to 10 years is applied depending on the group of intangible assets. The Company uses these amortization periods for intangible assets:

Intangible assets	Amortization period (in years)
Software	5-10
Other assets	5

Goodwill

Goodwill arising in a business acquisition process is accounted for at cost determined at business acquisition date less accumulated impairment losses, if any. Goodwill is recognized after acquisition of subsidiaries/branches at the amount by which the price paid exceeds the fair value of the net assets attributable to the Company.

Goodwill acquired in a business combination is not amortized, but is tested for impairment annually or more frequently, when indications of impairment losses exist.

Financial assets

Financial assets consist of cash and cash equivalents, receivables, deposits in credit institutions and financial assets available for sale as well as the financial assets held to maturity.

Financial assets available for sale are non-derivative financial assets that have been recognized initially in this category, or are not recognized initially in any other category. Subsequent to initial recognition financial assets in this category are measured at fair value, and gain or loss is recognized in other comprehensive income except for impairment losses, which are recognized in profit or loss. The Company has no financial assets in this category.

Amounts receivable include payments receivable from the insured, brokers and other intermediaries, amounts receivable from the reinsured and the reinsurers. Amounts receivable are stated at nominal value less impairment. Doubtful amounts are identified according to the term overdue. Cash include cash in hand and at bank. Cash equivalents are short-term highly liquid investments readily convertible into known amounts of cash.

Deposits in credit institutions are financial assets, including cash held at bank for a certain period. At initial recognition, deposits in credit institutions are accounted for at the acquisition cost. Whereas, at each date of the financial statements they are accounted for at amortized cost. The amounts which may be withdrawn only upon certain maturity are treated as deposits in credit institutions. The amounts not subject to this limitation are treated as cash in hand and at bank, even if interest is charged on them.

Investment into equity securities

Investment into equity securities are treated as financial assets available for sale. At the initial recognition these investments are recognized at acquisition cost and they are stated at the end of each period at the fair value which is established on the market price basis. Investments in non-listed securities are stated at estimated fair value. In the event the fair value of the investments may not be reliably assessed, they are evaluated at the acquisition cost less impairment loss. Changes in the fair value of investment into equity securities are reflected in other comprehensive income and reserves.

Dividend income is recorded when declared.

Investments into debt securities

Valuation of investments into debt securities depends on the objective of the acquisition of assets. For the purpose of measurement, these financial assets are divided into two groups: financial assets available for sale and financial assets held to maturity. Only newly acquired debt securities may be attributed to the group of financial assets held to maturity.

Investments into debt securities, which are classified as financial assets available for sale at the initial recognition are registered in the accounting at acquisition cost. Subsequently these investments are stated at the fair value at the end of each reporting period which is established on the market value basis, and reflected in the statement of financial position at the fair value. Profit and loss arising from the change in the fair value of the investments into debt securities are reflected in other comprehensive income and reserves. Interest is calculated at amortized cost and is recognized in profit or loss as income and costs of investment activities as incurred.

Investments into debt securities, which are classified as financial assets held to maturity, at the initial recognition are registered in the accounting at acquisition cost. These assets have a fixed maturity term and are measured at the amortized cost using the effective interest rate method.

Interest income on debt securities is accounted for in profit or loss for the reporting period. Accrued interest is included in the total value of investments in the statement of financial position.

All acquisitions and sales of investments are recognized as at their settlement date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as Loans, Term deposits with banks, Insurance and Reinsurance debtors and Other debtors in the statement of financial position. Loans and receivables are measured at amortized cost using the effective interest rate method.

Tangible non-current assets

Tangible non-current assets of the Company include assets held and controlled by the Company expecting to get benefit in the future periods, which are to be used for over one year, and the acquisition cost of which can be reliably estimated and the value of which is higher than the minimum established for that group of the assets.

Tangible non-current assets are recognized at acquisition cost when acquired. In the statement of financial position, the tangible non-current assets are reflected at the acquisition cost less accumulated depreciation and impairment.

Depreciation of the tangible non-current assets is calculated on a straight-line basis over the useful lifetime of the assets. The main groups of tangible assets are depreciated over the following period:

- Office equipment 3–7 years;
- Cars 4–10 years.

Useful lifetime is regularly reviewed to ensure that the depreciation term approximates useful life time of tangible non-current assets.

When the assets are written-off or disposed, their acquisition cost and accumulated depreciation are eliminated and gain or loss on disposal is recognized in profit or loss.

If the renovation of tangible assets improves their useful features or extends their useful lifetimes, the acquisition cost of the tangible non-current assets is increased by the value of the improvement.

Otherwise, the improvement is expensed. Value added tax is not included in the acquisition cost of the non-current tangible assets. The minimum value of the group of the tangible non-current assets is EUR 1 000.

Impairment of financial assets

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Company evaluates the evidence of impairment for both specific assets and for all group of assets. All individually significant financial assets are assessed for impairment. All individually significant assets that are not assessed as impaired are assessed as a whole for any impairment incurred but not yet identified.

If payments from policyholders are not timely made, policies are cancelled, and respective amounts are deducted from Premium income. Other receivables are stated at the amount that can be expected to receive. Impairment allowance was made for doubtful debts.

Impairment of non-financial assets

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

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

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

Related party transactions

The parties are related if one of the parties can control the other or can make a significant influence on the other party's financial and operational decisions. Related parties are shareholders, employees, members of the Management and Supervisory Board, their relatives, and the companies which directly or indirectly control, through one or several intermediaries, or are controlled by the reporting Company, or are controlled jointly with the Company. Inter-group transactions are defined as supplies and services or receivables and payables between companies, which are defined in the VIG's scope of companies for intra-group transactions.

All companies in which a significant participation is held directly or indirectly by VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG) are included in the scope of companies for intra-group transactions.

Deferred acquisition costs

The acquisition costs incurred by the Company are deferred while recognizing the acquisition costs under the heading of assets in the statement of financial position. These acquisition costs are deferred because they will be incurred in the subsequent period when related income is earned. Deferred acquisition costs consist of deferred commission paid to intermediaries' insurance policies written. Deferred commission is calculated on a pro-rata basis in respect of each insurance policy, and is recognised as expenses over the life of each insurance policy.

Capital and reserves

The authorized capital is accounted for in compliance with the Company's Statute. The amount received by which the sales price of the shares issued exceeds their nominal value is accounted for as share premium. Share premiums may be used to increase the Company's authorized capital and cover loss.

Reserves are formed when allocating profit of the reporting and previous years, according to the decision of the Shareholders' Meeting, in compliance with legal acts of the Republic of Lithuania, bylaws and the Company's Statute. Legal reserve is the compulsory reserve which is formed from the profit for distribution. The companies shall transfer 5% of the net profit into compulsory reserve until the total amount of this reserve reaches 10% of the authorized capital of the Company. The compulsory reserve may only be used to cover losses of the Company. The part of the compulsory reserve exceeding 10% of the authorized capital may be reallocated when distributing the profit of the following financial year. Revaluation reserve reflects the increase in value of non-current (real estate) assets, as a result of revaluing of the assets. The revaluation reserve is decreased when revaluated assets are depreciated, written-off, depreciated or transferred to the ownership of other persons. The authorized capital can be increased by the part of revaluation reserve after the revaluation of non-current assets. The losses cannot be decreased by using the revaluation reserve.

Insurance technical provisions

The Company makes technical provision for unearned premiums, unexpired risk, outstanding claims and rebates. Insurance technical provisions are calculated according to Bank of Lithuania Resolution No 03-158 of 29 October 2015 Regarding Methodology for Calculation of Insurance Technical Provisions.

The technical provision for unearned premiums is to cover insurance costs according to all effective insurance risks. This provision is calculated as a part of written premiums that will be attributed to the Company's income in future periods. The provision for unearned premiums is calculated according to the 'pro rata' method. Unearned premiums provisions acquired during the merger with SIA SEESAM are estimated further without recalculation of written premiums in respect of long-term policies.

The provision for outstanding claims is formed in respect of all claims arising from the events which have occurred before the end of the reporting period. The provision for Incurred but Not Reported Claims is calculated by the “Bornhuetter-Ferguson” method or Chain Ladder method for those types of insurance where statistical information is sufficient. For types of insurance, where statistical information is limited, provision is calculated by using loss ratio method. Reserve for Incurred, Reported but Not Settled Claims is calculated during the course of loss adjusting including expected claim amount and loss adjusting expenses for each event.

The unexpired risk technical provision is intended for covering of the premium insufficiency under all valid insurance risks. Premiums are insufficient, where it is established that the future accounting period revenue under all valid insurance risks will not be sufficient for pay-outs in the future accounting periods, including running cost of that business. The unexpired risk technical provision equals to the amount, by which the premium amount is insufficient.

Technical provision for rebate of insurance premiums is made for amounts to be returned to the policyholder in case his claims statistics follows conditions pre-agreed in the contract. The provision is calculated for each contract which is subject to rebate of premiums, separately in accordance with terms laid down by the contract.

The reinsurers’ share in technical provisions is estimated according to the terms and conditions of reinsurance contracts.

Non-technical provisions

Non-technical provisions are recognized as liabilities when the Company has legal liability or an irrevocable commitment due to events in the past; it is also possible that the assets will be used for the fulfilment of the legal liability or irrevocable commitment and the amount of liabilities may be reliably estimated.

Other liabilities

Other liabilities are accounted for when liabilities concerning insurance and other related activities arise. Other liabilities do not include technical provisions.

Financial liabilities

Financial liabilities are accounted for when the Company undertakes to pay in cash or make a settlement by other assets. These are the financial liabilities not related to market prices. First the Company recognizes the financial liability at the acquisition cost, i.e. at the value of assets or services received. Subsequently, they are measured at amortized cost using the effective interest method.

Foreign currency transactions

All the monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate prevailing at the year end. Gains and loss arising from this translation are included in profit or loss for the year.

All transactions in foreign currencies are stated at the rate prevailing at the date of transaction.

Cash flow statement

The cash flow statement has been prepared using the direct method. Cash and cash equivalents include cash in hand and cash in bank. The received dividends are shown as investment activity in the cash flows statement, and paid dividends as financing activity. The received interest is shown in investing activity.

Mutual netting

The income and expenses are not netted mutual, except in those cases, where IFRS standard demands exactly this netting.

Changes in accounting policy

No changes in accounting policy applied for 2020Y as compared to 2019Y.

4. THE APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Changes in accounting policies

Standards adopted by the EU for annual periods beginning on or after 1 January 2020:

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

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

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

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

(iii) Amendments to IFRS 3: Definition of business

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

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

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

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

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

New Standards and Interpretations not yet adopted

Some new standards, amendments to standards and clarifications for annual periods beginning after 1 January 2020 have not yet been effective and have not been applied in preparing these financial statements in advance.

- (i) *IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

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

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

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

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognized. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Company meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2023, applying the temporary exemption from applying IFRS 9 as introduced by the amendments IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*.

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

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

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

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

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

- General Measurement Model (further – GMM) – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of discounted value of the best estimate of future cash flows, risk adjustment (further- RA) and contractual service margin (further - CSM);

- Premium allocation approach (further – PAA) – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM).

- Variable fee approach (further – VFA) – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions.

The Company currently evaluates the possible impact from adoption of IFRS 17 on its financial statements.

(iii) Annual Improvements to IFRS 2018-2020 Cycle (issued on 14 May 2020. Effective for annual periods beginning on or after 1 January 2022. These annual improvements are not yet endorsed by the EU.)

The amendments pertain to:

- IFRS 1 - the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS;

- IFRS 9 – the amendment clarifies that for the purposes of the “10 percent” test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability;

- IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties);

- IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method.

The Company does not expect any material impact of these changes on the financial statements.

(iv) Other Standards

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

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

RISKS AND RISK MANAGEMENT

Risk management in the Company is organized according to the standards of the parent company Vienna Insurance Group and in compliance with Solvency II requirements with well-defined organizational and operational structures, responsibilities and risk management procedures. The main objective of risk management is ensuring sustainability and solvency of the Company even under less favourable market conditions thus guaranteeing the fulfilment of obligations to the customers under any circumstances.

Effective system of governance forms the basis for effective risk management. The ultimate responsibility for the risk management lays on the Management Board of the Company. The management of risk is organized according to the principle of three lines of defence. The first line of defence is ensured by the line managers in their area of responsibility by performing daily risk management and control activities. The second line of defence – risk management function holder (risk manager), who is responsible for establishing risk management and internal control systems and coordination of the risk management activities, including own risk and solvency assessment process, internal control evaluation, business contingency and operational risk incident management, supporting Management Board and line managers with risk related issues and reports directly to the Management Board. Risk management activities are also coordinated by Vienna Insurance Group thus ensuring additional controls and sharing of best practices and know-how between the group companies. The second line also includes a compliance function that ensures compliance with laws, regulations and administrative provisions, assesses the potential impact of any changes in the legal environment, and manages compliance risks. The third line of defence is formed by internal audit that carries out an independent review of the effectiveness of risk management system, significant business processes and compliance. All key function employees comply with fit and proper requirements. The Company fosters risk culture where every employee feels responsible for day-to-day risk management, informs promptly about emerging risks and incidents, understands the need for applicable control procedures and follows them meticulously.

The main risk management documents are risk strategy and risk policy. The goal of the risk strategy is integration of risk awareness into the planning, business and decision-making processes, ensuring sustainability of the Company by maintaining sufficient solvency buffer and ensuring effective risk management within Compensa. The risk strategy is evaluated within yearly own risk and solvency assessment process ("ORSA") and if necessary updated based on ORSA findings and business strategy. The risk strategy describes risks the Company is taking, principles of risk management and defines limit for minimum solvency ratio, at 125% that serves as additional solvency buffer to ensure the solvency position is not threatened even under less favourable conditions and is the main indicator of financial strength of the Company. The risk management policy describes the Company's risk management system and main risk management processes, defines responsibilities and risk categories the Company is accepting. The main risk management processes, such as own risk and solvency assessment, risk inventory, internal control system assessment, capital management, liquidity management, data quality governance, risk tolerance limit monitoring, business contingency planning and analysis of operational risk incidents are addressed in separate policies.

The Company has established remuneration policy to set up a general framework for establishing, implementing and maintaining remuneration practices in line with the Company's business and risk management strategy, its risk profile, objectives, risk management practices as well as long-term interest and performance.

The core competence of Compensa is dealing professionally with risks. The insurance business consists of deliberate assumption of various risks and profitable management of them. Those risks include standard underwriting risks resulting from underwriting non-life and health insurance business as well as risks stemming from the investments (market risks) and also general risks such as the counterparty default risk, operational risk or reputational risk. Compensa defines ten risk categories. It is assumed that these risk categories are complete and do cover all possible sources of risk. The risk categories are further split into sub categories during further risk management processes. The main risk categories are as follows:

- Non-life insurance risk arises from liabilities of non-life insurance contracts due to inappropriate pricing and provisioning assumptions.
- Health insurance risk arises from liabilities under health insurance contracts due to inappropriate pricing and provisioning assumptions.
- Life insurance risk arises from the annuity obligations in the case of motor third party liability insurance, due to inappropriate provisioning assumptions.
- Market risk reflects the risk resulting from the degree of fluctuations of financial instruments' prices (such as bonds and loans, deposits, cash, participation, etc.). The measure of risk exposure is the impact of changes in financial variables i.e. stock prices, interest rates, property prices, currency exchange rates etc. This risk could be further subdivided into interest rate risk, foreign exchange risk, equity risk, spread risk and concentration risks.
- Credit risk reflects the losses arising when counterparties or debtors breach the obligations or their creditworthiness decreases.
- Liquidity risk is the risk is the risk that insurance company will not be able to provide, in timely manner and without bearing additional costs, financial resources to meet short- and long-term liabilities.
- Operational risk is the risk resulting from not adequate or incorrect internal processes, personnel or systems, or external events. Operational risk covers legal risk, cyber risk, but does not include strategic risk and reputation risk.
- Strategic risk defined as adverse development of business as the results of incorrect business decisions or investment, inappropriate communication and implementation of goals, or inadequate adjustments of resources due to changes in economic and business environment. Risk is managed by well-defined decision-making and follow-up process.
- Reputation risk is defined as possibility of adverse development of business as a result of damaged reputation. Reputational risk covers sustainability risks. The risk is managed the same way as operational risk and by periodic media monitoring, brand development activities.

For the main risk categories the Company has defined key risk indicators that are monitored on a regular basis.

Risk management principles for those risk categories are described below.

Additionally, the Company's risk is managed by setting aside solvency capital, as required by Solvency 2 directive, sufficient to withstand 1 in 200 years catastrophic loss. Solvency capital requirement is calculated using standard formula that is assessed to be suitable for the risk profile of the Company.

An internal control system is one of the key components for Compensa risk management system. Internal control system is a continually operating process that provides an appropriate control environment with effective controls, and is not only relevant for compliance purposes, but also serves as important tool for sustainable business management. The internal control system must provide reasonable assurances of effectiveness and efficiency of operations, reliability of financial and non-financial information, adequate control of risks, a prudent approach to business, compliance with laws and regulatory requirements, compliance with the Company's strategies, policies, processes and reporting procedures. The internal control responsibilities cover all levels of the organizational structure and every processes starting from day-to-day activities to the assessment of the internal control system. The internal control system includes administration, accounting, control and reporting procedures at each organizational level.

In order to ensure the maintenance of the existing control system and the environment, Compensa defines the following standards for the internal control system:

- The Company establishes and fosters a control culture and policies that support the maintenance of effective control at all organizational levels of the Company;
- The Company establishes organizational structure that is adequate in the scale and complexity to the area of business in which the Company operates;
- Roles and responsibilities of employees at each level of organization are well defined and prevent a conflict of interest. Proper segregation of duties ensures that the employee responsible for building up risk position is not at the same time directly or indirectly responsible for the monitoring or controlling the risk of that position. In case complete separation of duties is not possible or feasible, proper procedures are established in order to ensure that any intentional or unintentional mistakes have a reasonable chance to be detected before the loss or other damage occurs and the conflict of interests is avoided.
- The Company identifies and assesses risks associated with operating activities and business processes that could affect the Company's goals negatively. The Company establishes and maintains effective controls aligned to these risks to ensure the achievement of these goals;
- Controls are conducted at different levels of the organizational and operational structures, at different time periods and with different level of detail, as needed. The control activities are adequate to underlying risks;
- Effective channels of communication and information systems have to be established to ensure that the full staff clearly understands and adheres to policies and procedures affecting their duties and responsibilities, and that relevant information reaches the appropriate personnel.

The Company operates in constantly changing environment. For this reason, the efficiency and effectiveness of internal control system can only be provided by regular review and adjustments of processes and control activities. Compensa has established harmonized internal control system assessment process. It allows evaluating the effectiveness of existing internal control system on regular basis, with the respect to any material risks regularly. Moreover, the process of assessment allows for identification of possible weaknesses and control deficiencies within the internal control system, in order to take appropriate measures and action for remediation in timely manner. The assessment of internal control system is conducted at least annually.

FINANCIAL RISK AND RISK MANAGEMENT

The following risk categories are classified as financial risks:

1. Market risk;
2. Credit risk;
3. Liquidity risk.

MARKET RISK

Market risk, among others, includes following risk sub-categories :

1. Currency exchange risk;
2. Interest rate risk;
3. Price risk.

Market risk is managed by choosing an appropriate investment strategy and defining investment limits with respect to asset classes, ratings, currencies, concentration, durations etc., taking into account characteristics of insurance liabilities (i.e. performing asset-liability management), risk appetite and return targets. The Company's investment strategy is subject to regular reviews. Keeping substantial share of fixed income investments (bonds and loans) in the portfolio will lead to stable expected returns and generally lower volatility. The Company invests only in those assets, for which it can identify, measure, monitor, manage and control the related risks accordingly and which are approved by the Management Board, thus complying with prudent person principle.

CURRENCY EXCHANGE RISK

Currency exchange risk arises from changes in the level or volatility of currency exchange rates.

The Company has exposure to currency risk arising from liabilities for the foreign claims and investments in non-EUR currencies.

The Company held an open currency position in GBP in position amount of EUR (491 525) and in PLN (455 362) EUR (resulting from liabilities) and DDK 2 852 612 from investments in Danish mortgage bonds. Such exposure is assessed to be acceptable (otherwise, additional assets in GBP and PLN could be bought to mitigate the exposure). Currency risk related to DDK is low, since DDK is pegged to EUR through European Exchange Rate Mechanism.

The Company does not perform any speculative transactions which could increase currency exchange risk.

Split of assets and liabilities of currencies at the end of the year 2020 is following:

	EUR	GBP	USD	SEK	NOK	RUB	DKK	PLN	Total
Assets									
Financial assets available for sale	174 056 661						2 910 382		176 967 043
Total amounts receivable (Note 9)	33 310 131								33 310 131
Outstanding claims technical provision, reinsurer's share	25 356 980	338 515		101 177	104 730	5 188	4 644	68 371	25 979 605
Loans and deposits	2 526 595								2 526 595
Cash and Cash equivalents	18 575 196								18 575 196
Total assets	253 825 562	338 515	-	101 177	104 730	5 188	2 545 650	68 371	257 358 569
Equity and liabilities									
Outstanding claim technical reserve	73 681 794	830 040	177 175	445 143	356 990	24 116	62 414	225 757	75 803 429
Provisions (Note 15)	2 303 528								2 303 528
Creditors	43 960 520							297 977	44 258 497
Total equity and liabilities	119 945 842	830 040	177 175	445 143	356 990	24 116	62 414	523 734	122 365 454
Open currency position	133 879 720	(491 525)	(177 175)	(343 965)	(252 261)	(18 928)	2 852 612	(455 362)	134 993 115

Split of assets and liabilities of currencies at the end of the year 2019 is following:

	EUR	GBP	CHF	DKK	PLN	Total
Assets						
Financial assets available for sale	61 434 433	-	-	3 618 049	-	65 052 482
Total amounts receivable (Note 8)	13 665 138	-	-	-	-	13 665 138
Outstanding claims technical provision, reinsurer's share	11 778 972	351 307	-	-	88 097	12 218 376
Loans and deposits	4 274 482	-	-	-	-	4 274 482
Cash and Cash equivalents	5 168 902	-	-	218	-	5 169 120
Total assets	96 321 927	351 307	-	3 618 267	88 097	100 379 598
Equity and liabilities						
Outstanding claim technical reserve	24 170 011	587 105	-	-	126 053	24 883 169
Provisions (Note 14)	906 046	-	-	-	-	906 046
Creditors	25 664 000	-	-	-	487 617	26 151 617
Total equity and liabilities	50 740 057	587 105	-	-	613 670	51 940 832
Open currency position	45 581 870	(235 798)	-	3 618 267	(525 573)	48 438 766

INTEREST RATE RISK

Interest rate risk arises from all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility.

Interest rate risk is managed by setting limits for the asset duration and following them. The Company has low exposure to the long-term bonds (more than 10 years) to limit interest rate risk. The largest part of interest-rate sensitive assets is made of medium-term bonds (2–10 years) that offer a good balance between return and interest rate risk.

Financial assets without defined durations are cash at bank, participation equity, tangible assets – i.e. assets not affected by interest rate movements.

There is also variable interest calculated for the reinsurers deposits. The interest for deposits is calculated according to EURO LIBOR interest rate at the beginning of the accounting period.

Parallel shift in interest rates +/-100 bp would have the following effect on investment result (by affecting the value of bonds and loans).

Change	2020	2019
+ 100 bp	(11 846 400)	(4 011 027)
- 100 bp	13 202 693	4 387 137

The same amount would have an impact on equity (OCI) and no impact on the statement of profit or loss until the realisation of investment.

The average yield for investment portfolio is presented below:

Type of investment	2020	2019
Corporate bonds	1.52%	1.56%
Government bonds	0.78%	0.74%

PRICE RISK

Price risk – the risk that changes in market prices will influence the variation of value of financial instruments; these changes may affect the factors of the individual financial instruments or the factors of all the financial instruments traded in the market. Price risk arises when the Company chooses short-term and long-term position of the financial instruments.

The Company's main part of financial asset is accounted for as available for sale. The Company reported changes in securities' price through comprehensive income. Changes of 5% in securities' price would have affected comprehensive income:

	2020	2019
5 % increase security price	8 848 352	3 252 624
5 % decrease security price	(8 848 352)	(3 252 624)

COUNTERPARTY DEFAULT RISK

The scope of the counterparty default risk includes risk-mitigating contracts, such as reinsurance arrangements, and receivables from intermediaries, as well as any other credit exposures which are not covered by spread risk. Spread risk means the risk of widening of the credit spreads (additional premium over risk-free rates that investors demand to accept counterparty default risk of an issuer of financial instrument, that is especially relevant for the corporate bonds and loans), that consequently decrease value of security. Spread risk is part of the market risk.

The risk is managed by careful selecting of counterparties, defining limits with respect to counterparties' rating and to the exposure for single counterparty for financial assets, and in case of reinsurance, defining and following reinsurer's selection criteria, efficient debt collection and policy cancellation process in case of receivables.

COUNTERPARTY DEFAULT RISK OF FINANCIAL INVESTMENT

In order to manage counterparty default risk, the Company mainly invests into financial instruments with high credit rating.

All the financial investment consists of investment to the Government (bonds), to Funds, to not listed bonds, shares, loans and cash held in banks.

Investment split according to ratings as at 31 December

Currency						
Rating	EUR	DKK	31/12/2020	EUR	DKK	31/12/2019
AAA	11 661 717	2 910 382	14 572 099	1 551 266	3 618 049	5 169 315
AA+	1 649 465	-	1 649 465	1 598 749	-	1 598 749
AA	8 900 646	-	8 900 646	1 062 071	-	1 062 071
AA-	4 848 840	-	4 848 840	1 562 341	-	1 562 341
A	62 210 933	-	62 210 933	9 814	-	9 814
A+	15 140 433	-	15 140 433	-	-	-
A-	17 318 301	-	17 318 301	48 782 070	-	48 782 070
BBB+	17 903 842	-	17 903 482	835 830	-	835 830
BBB	25 053 980	-	25 053 980	2 348 542	-	2 348 542
BBB-	6 947 331	-	6 947 331	-	-	-
BB-	3 603 656	-	3 603 656	509 661	-	509 661
Not rated	20 054 306	-	20 054 306	15 594 415	-	15 594 415
Total	195 293 451	2 910 382	198 203 833	73 854 759	3 618 049	77 472 808

More than 82% of asset portfolio is investment grade (mainly government/corporate bonds) with unrated exposure coming from the cash held in banks, belonging to Nordic bank groups (SEB, Swedbank) that are not rated separately and investment to subsidiaries.

Split of financial assets by counterparties is presented in the table below (the largest exposure of the Company is towards Lithuanian government bonds):

Counterparty	2020	2019
Nordea Kredit (AAA)	176 988	388 044
Realkredit Danmark A/S (AAA)	313 793	656 491
BRF kredit (AAA)	263 839	658 122
Nykredit Real (AAA)	2 155 763	1 231 151
Nykredit (AAA)	-	684 241
BNG Bank (AAA)	-	781 671
Republic of Italy (BBB)	-	962 438
BNP Paribas (A+)	2 146 280	314 211
BNP Paribas (A-)	326 379	-
BNP Paribas (BBB+)	1 524 555	-
Goldman Sachs Group Inc. (A-)	823 548	473 816
Air Baltic Corporation (BB-)	-	509 661
Johnson & Johnson (AAA)	801 836	769 595
Republic of Austria (AA+)	548 235	530 299
State of North Rhine-Westphalia Germany (AA+)	1 101 230	1 068 450
SNFC Réseau EPIC (AA)	1 093 350	1 062 071
Coöperatieve Rabobank (AA-)	518 500	511 581
Shell International Finance BV (AA-)	538 430	526 148
Westpac Banking (AA-)	545 241	524 612
Erste bank Cash (A)	5 304 996	9 814
Republic of Latvia (A-)	9 533 324	4 442 654
Altum Attistibas Finansu (BBB+)	1 434 650	-

Counterparty	2020	2019
Kingdom of Spain (A-)	-	1 659 366
Republic of Poland (A-)	2 176 120	-
Bank Gospodarstwa Krajowego (A-)	2 753 200	547 358
Republic of Lithuania (A)	46 272 517	41 818 481
Republic of Greece (BB-)	1 080 460	-
Hungary (BBB)	2 982 270	-
State of Israel (A+)	1 662 810	-
United Mexican States (BBB)	2 107 860	-
People's Republic of China (A+)	2 017 840	-
Republic of Estonia (AA-)	1 032 210	-
Russian Federation (BBB-)	2 020 560	-
Republic of Slovenia (A)	2 237 900	-
Societe du Grand paris (AA)	2 521 376	-
Pozavarovalnica SAVA D.D. (BBB+)	504 000	-
Munich Re (A)	725 914	-
S Immobilien AG (BBB)	2 228 340	-
LHV Group AS (unrated)	183 431	-
Erste Group Bank AG (BBB+)	2 053 690	-
Oberbank AG (A)	1 517 730	-
Daimler AG (BBB+)	3 726 215	-
Deutsche Bank AG (BBB)	2 621 225	-
CEZ AS (A-)	1 177 540	-
Berkshire Hathaway INC (AA)	1 604 910	-
Telekom Finanzmanagement (BBB+)	873 032	-
Banco Santander SA (BBB)	2 554 532	-
Morgan Stanley (A)	1 113 320	-
Gazprom (GAZ Capital SA) (BBB)	1 043 210	-
BK Nederlandse Gemeenten (AAA)	805 934	-
Mbank Hipotecny (AA)	2 102 740	-
Bayer Capital Corp BV (BBB+)	2 290 800	-
National Australia Bank (AA-)	2 214 460	-
Cloverie PLC Zurich INS (A+)	2 238 280	-
ABN AMRO NL (A+)	2 066 440	-
Sydbank A/S (A+)	2 031 140	-
Sparebanken Sor Boligkre (AAA)	1 462 538	-
Commonwealth Bank Austt (AAA)	3 259 170	-
Achmea Hypotheekbank NV (AAA)	3 130 800	-
Siemens Financieringsmat (A+)	2 260 840	-
Banco BilbaoVizcaya ARG (BBB+)	1 033 480	-
Wells Fargo Company (A)	1 827 216	-
Temasek Financial I LTD (AAA)	2 201 440	-
Koninklijke Philips NV (BBB+)	516 317	-
Unilever NV (A+)	716 803	-
Bank of America Corp (A)	3 211 340	-
Raiffeisen Bank INTL (BB-)	2 523 196	-
CESKE DRAHY (BBB)	1 806 613	-
BAWAG GROUP AG (BBB)	2 018 040	-
OMV AG (A-)	528 190	-
BANCA INTESA SANPAOLO (BBB)	1 093 380	-
CK HUTCHISON GROUP TELECOM FINANCE S.A. (BBB+)	1 076 270	-
ING GROEP NV (BBB)	1 013 290	-
UNICREDITO ITALIANO (BBB-)	2 832 111	-
EXXON MOBIL CORP (AA)	1 578 270	-
IMMOFINANZ AG (BBB-)	2 094 660	-
SOCIETE GENERALE SA (BBB)	1 557 660	-
LA BANQUE POSTALE SA (BBB)	1 205 721	-
UNIBAIL-RODAMCO-WESTFIELD (BBB+)	2 015 380	-

Counterparty	2020	2019
Lietuvos Energija UAB (BBB+)	855 453	835 830
Luminor bank AS Estonia (BBB)	2 821 840	912 288
Portugal republic (BBB-)	-	-
Investment funds (unrated)	557 193	-
Strategic participation (Unrated)	135 000	2 976 724
Loans (Unrated)	2 526 595	4 274 482
Cash and deposits	13 270 200	5 159 306
VIG Fun Units	3 381 887	3 183 904
Credit risk	198 203 833	77 472 808

	2020	2019
Reinsurers' share in unearned premium reserves	11 892 354	12 704 579
Outstanding claims reserve, reinsurers' share	25 979 606	12 218 376
Reinsurance debtors	6 770 486	3 286 556
Receivables due from policyholders	19 151 127	6 054 508
Receivables due from intermediaries	6 177 812	4 002 894
Other receivables	1 210 705	321 180
Maximum credit exposure, total	71 182 091	38 588 093

COUNTERPARTY DEFAULT RISK OF INSURANCE RECEIVABLES

Another source of counterparty default risk is insurance receivables. Examples include, but are not limited to, receivables from intermediaries and policyholder debtors. Those exposures are usually diversified, and the counterparty is likely to be unrated. The Company regularly monitors direct insurance receivables. In case premium due is not paid by the policyholder, policy becomes subject to cancellation process. The delinquency of receivables is regularly monitored. For details please see Note 9.

COUNTERPARTY DEFAULT RISK OF REINSURANCE

In order to manage risk, the Company has approved reinsurance program, which identifies principles of reinsurance and criteria of reinsurers selection. The management of the Company checks reinsurance program at least once a year and does corrections if needed.

Split of reinsurers by reinsurer and rating

Reinsurer	Rating	Reinsurance receivables 2020	Reinsurance receivables 2019
Vienna Insurance Group	A+	-	32 746
VIG RE zajist'ovna, A.S.	A+	1 072 826	978 141
Hannover rueckversicherung ag	AA-	187 569	94 389
Ace European Group limited	AA-	100 549	44 267
Mapfre re compania de reaseguros, S.A.	A	211 423	75 568
Scor Global P&C SE	AA-	317 076	188 243
Polskie towarzystwo reasekuracji SA	A-	391 966	185 082
R+v Versicherung AG	AA-	605 314	173 425
Swiss Re Europe S.A.	AA-	2 759 759	1 184 562
Not rated		1 124 006	330 133
Total		6 770 486	3 286 556

Concentration risk could arise due to excessive exposure to a single counterparty. Concentration can arise out of several areas such as investments, underwriting or reinsurance. Therefore, every unit involved in the risk management system has to monitor and control and manage the concentration risk within its area of responsibility.

LIQUIDITY RISK

The risk is managed following liquidity management policy by analysing liquidity needs and setting investment limits

The table below shows the allocation of Company's liquid asset to liabilities to maturity groups based on the maturity date or settlement dates. The main part of the Company's liquid asset consists of financial assets available for sale at the end of 2020 163.9 million bonds and 3.9 million Funds shares EUR and 2019Y 61.8 million bonds and 3.1 million VIG Funds shares EUR. This group of asset is considered as highly liquid financial asset because management has the ability to sell it earlier than accordingly, so that the sufficient amount of liquid assets and cash is available any time. In the event of a crisis of liquidity, Compensa may ask the shareholders to provide short-, medium, or long-term financial support or enter into the repurchase agreement. Liquidity risk management involves determination of the level of mismatch between cash inflows and outflows, taking into account the cash flows associated with both assets and liabilities. The investment limits are set taking into consideration the liquidity structure of liabilities and cash demand for other needs.

Liquidity risk assessment as at 31 December 2020

Items	Contractual undiscounted cash flows			Total	Carrying amount
	Non-fixed term up to 12 months	1 to 5 years	Over 5 years		
Financial assets					
available for sale	2 600 247	50 052 274	140 743 027	193 069 119	176 967 043
Accrued interest	930 048			930 048	930 048
Loans and deposits (Note 6)	123 589	495 469	2 309 876	2 928 934	2 526 595
Cash at bank	18 575 196			18 575 196	18 575 196
Total amounts receivable (Note 8)	33 310 131			33 310 131	33 310 131
Total assets	55 593 210	50 547 743	143 052 903	249 139 856	232 309 012
Items	Non-fixed term up to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Technical provision (net)	89 093 642	17 497 971	6 716 432	113 308 045	113 308 045
Insurance creditors (Note 16)	5 676 363			5 676 363	5 676 363
Liabilities to reinsurers (Note 17)	10 249 622			10 249 622	10 249 622
Subordinated loan	395 000	1 580 000	8 510 000	10 485 000	7 596 814
Other creditors	6 459 662	(1 843 363)	(745 073)	(9 048 098)	8 981 248
Total liabilities	(111 874 289)	(20 921 334)	(15 971 505)	(148 767 127)	145 812 091

Liquidity risk assessment as at 31 December 2019

Items	Contractual undiscounted cash flows			Total	Carrying amount
	Non-fixed term up to 12 months	1 to 5 years	Over 5 years		
Financial assets available for sale	775 877	21 352 008	46 481 806	68 609 691	65 052 483
Accrued interest	332 519	-	-	332 519	332 519
Loans and deposits (Note 6)	194 785	2 167 762	2 613 640	4 976 187	4 274 482
Cash at bank	5 169 120	-	-	5 169 120	5 169 120
Total amounts receivable (Note 8)	13 665 138	-	-	13 665 138	13 665 138
Total assets	20 137 439	23 519 770	49 095 446	92 752 655	88 493 741

Items	Non-fixed term up to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Technical provision (net)	37 000 925	588 419	551 034	38 140 378	38 140 378
Insurance creditors (Note 16)	2 547 601	-	-	2 547 601	2 547 601
Liabilities to reinsurers (Note 17)	4 902 491	-	-	4 902 491	4 902 491
Subordinated loan	395 000	1 580 000	8 905 000	10 880 000	7 596 814
Other creditors	2 315 367	566 836	-	2 882 203	2 882 203
Total liabilities	47 161 384	2 735 255	9 456 034	59 352 673	56 069 486

The Company has sufficient liquid assets to meet obligations when they fall due.

INSURANCE RISK

GENERAL PRINCIPLES OF INSURANCE MANAGEMENT

The Company performs management of insurance risks in accordance with the Underwriting Policy where the methodologies and rules regulating the risk and Portfolio strategy for each line of business are defined.

Portfolio Strategy for each line of business defines portfolio targets, target portfolio mixes and risk appetite represented using four colour codes: Green, Yellow, Red and Black. Green represents the lowest risk category and most attractive segments. Black code represents the highest risks. Strategy documents are updated annually.

Financial results of each portfolio are reviewed on a regular basis and, depending on performance, actions are taken. The calculation of the tariffs and prices of insurance products reflects the current market conditions and assesses the most probable assumptions which are necessary to correct future outcomes in order to significantly reduce financial risks.

FREQUENCY AND SEVERITY OF CLAIMS

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The frequency and severity of claims can be affected by several factors. Different factors depend on relevant products and types of activity. The most significant are the increasing level of claim amount for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation. The increase of claims can depend on change of customer price index, increase of the payroll, social inflation, also on the price of the change for prices of materials and services bought for regulation of claims. The inflation in property insurance consists of customer price index and of the increase of construction costs, which might develop differently than customer price index.

The different factors will depend on the products or lines of business considered. An increase in the frequency of claims can be due to seasonal and more sustainable effects. Changes in consumer behaviour, new types of claims can affect more stable changes in the frequency of claims. The effect of the long-term change in claims frequency can be significant on profitability.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The management of the changes in each activity is closely monitored through recommendations for the conclusion of insurance contracts and active regulation of claims.

BASIC PRODUCT FEATURES

The main products of the Company are described below.

Motor compulsory third party liability (MTPL)

It is a compulsory insurance type and the objective of this line of insurance is to protect the interests of third parties who have suffered in road accidents and this line of insurance is regulated by the laws on motor third party liability compulsory insurance.

Insurance premiums for motor third party liability are determined individually for each customer based on both customer as well as vehicle-based risk criteria.

Most of motor third party liability insurance indemnities are made up of indemnities for property damage and lump sum personal injuries, mostly medical treatment costs and temporary incapacity for work benefits.

The risk of inflation for this type of insurance payments is increased; therefore, the Company regularly assesses the impact of this influence on financial ratios.

Motor third party liability insurance is classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

Motor own damage insurance (CASCO)

The insurance indemnifies for losses which arise from damage to the vehicle destruction, theft or robbery. Several additional insurance covers may also be purchased which are related to insured vehicle. Product package can contain several additional insurance covers – road assistance and replacement car, for instance.

The largest losses are incurred in the event of complete destruction and theft of the vehicle, but such cases are infrequent.

Insurance premiums are set in line with applicable insurance methodology. The Company tries to avoid the risk of wrong information from the clients; therefore, detailed examination of the application for payment is always performed. And further investigation of competent authorities is performed if necessary.

The claim will usually be notified promptly and can be settled in the short term. CASCO is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

Property insurance

Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary) or collision.

Many commercial property proposals comprise a unique combination of location, type of business and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. The property insurance risk is managed by accurately assessing the insurers assets in order to determine which assets should be insured, which should be insured under special conditions and which in general should not be insured by the mandate of the insurer of the respective insurance type. The calculation of the contribution of the respective insurance contracts corresponding to this risk is subjective and therefore risky.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company monitors and reacts to the changes in its economic and commercial environment.

The claim will usually be notified promptly and can be settled in the short term. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

The key risks associated with this product are underwriting risk and claims experience risk.

REINSURANCE CONTRACT ASSETS

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

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

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

CONCENTRATION OF INSURANCE RISK

The concentration of insurance risk arises from too large exposure to a single counterparty, line of business or geographic region.

The Company controls risk concentration in the following manner:

- Applying risk concentration limits for specific clients or insurance objects. Application of limits of risk concentration by evaluating the risk of specific clients/insurance subjects. Each type of insurance has a set maximum gross and net limits for specific risks. These limits are applied to each insurance contract.

- The residual risk is managed through the use of reinsurance. The Company buys reinsurance programs covering risks for various types of insurance. Management reviews the reinsurance programs annually and makes decisions about the required changes to these programs. The biggest Net retained parts of the risk of the Company per one event at the end of relevant year:

Net retained parts of risk	2020	2019
Personal accident	200 000 €	Not ceded
Travel medical expense	200 000 €	Not ceded
Motor own damage	Not ceded	Not ceded
Cargo insurance	100 000 €	250 000 €
Property insurance	500 000 €	250 000 €
Motor third party liability insurance	250 000 €	125 000 €
General TPL insurance	200 000 €	200 000 €
Bonds	300 000 €	300 000 €

- Potential impact of catastrophic events. Natural and man-made catastrophe events could potentially result in significant losses and are taken into account in the insurance methodology. The most common natural catastrophes are storms and flood.

SENSITIVITIES

The Company is responsible for insurance events, which happened in a contract period, even if the information about the claims coming after the end of the insurance contract, and the claims are settled and paid under the contract details which was valid at the contract period.

Claim costs include costs that will be incurred for claim settlement, minus expected recovery and other recoverable amounts. The Company takes all reasonable steps to have an appropriate information about its insurance risks. Therefore, because of uncertainty in claims provision calculation, it is probable that the final result can be different from the previously expected amount of liabilities. The liabilities related to these contracts in the financial statements include claims provisions for the IBNR, provisions for reported but not yet settled claims (RBNS), and provisions for non-ended exposures as at the reporting date.

The IBNR calculations are generally more uncertain than calculations for necessary expenses for already reported claims (RBNS), when the information about the suffered claim is already known. If it is possible, the Company uses different methods for calculation of necessary amount of provisions. It helps to understand more clearly the tendencies of a projected scenario. The usage of different methods for performed projections allows to evaluate the range of possible outcomes. The most suitable computing technique is chosen, taking into account the characteristics of business class and the size of changes in each year of the insured events.

The Company performs sensitivity testing of IBNR claim's provisions by detailed analysis of the results calculated by using several statistical methods to ensure that the selected method gives the best estimate of provisions for IBNR recognized.

Sensitivity analysis for claims provision as at 31 December 2020

Line of insurance	Impact if loss ratio 5 percent higher than used in IBNR estimates for attritional and large losses	Impact if loss ratio 5 percent lower than used in IBNR estimates for attritional and large losses	Impact if claims handling expenses 5% higher than used in reserve estimates	Impact if claims handling expenses 5% lower than used in reserve estimates
MTPL	1 824 525	(1 665 963)	-	-
Property	2 351 007	(2 269 041)	-	-
Liability	486 863	(481 723)	-	-
MOD	28 141	(28 141)	-	-

Sensitivity of claims handling expenses is not analysed due to immaterial impact on the total liabilities.

The provision for the capitalized value of the Annuity claims coming from MTPL contracts is determined using actuarial method by calculating present value of future disbursements, for each annuity separately, by taking into account the nature of the particular claim, possible development, legislation requirements and other relevant factors. Indexation of payable annuity amount is set according to the local legislative acts related to annuity payments. The Company performs sensitivity analysis for reported annuities by changing indexation assumptions.

Policy country	+1%	-1%
Estonia	558 135	(449 648)
Lithuania	262 695	(213 123)
Latvia	291 094	(238 578)
Total	1 111 924	(901 348)

Sensitivity analysis for claims provision as at 31 December 2019

Line of insurance	Impact if loss ratio 5 percent higher than used in IBNR estimates for attritional and large losses	Impact if loss ratio 5 percent lower than used in IBNR estimates for attritional and large losses	Impact if claims handling expenses 5% higher than used in reserve estimates	Impact if claims handling expenses 5% lower than used in reserve estimates
MTPL	2 593 973	(1 052 006)	6 883	(6 884)
Property	980 756	(671 074)	3 929	(3 929)
Liability	219 862	(208 542)	(206)	206
MOD	24 458	(24 458)	486	(486)

LIABILITY ADEQUACY TEST

In the calculation of technical provisions of the insurance portfolio, an estimation of future cash flows related to insurance payments is always performed, and these calculations always have uncertainty elements. The risk of provisions is related with that uncertainty. The uncertainty depends on the format of risk. Short-term risk changes have a little less influence, but they will have bigger influence on future payments. The risk of inflation is inherent for most insurance products. The influence is different, and it depends on characteristics of each product as well as on the conditions which are used for claims regulation.

At each reporting date, the Company prepares a liability adequacy test by assessing whether the insurance liabilities for valid policies are adequate by comparing the insurance provisions established to the present value of the estimated future cash flows arising on existing insurance policies. If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognized as a loss for the financial year by setting additional unexpired risk reserve. The test is applied to the gross amounts of provisions, i.e., the effect of reinsurance is not taken into account. 141 682 EUR unexpired risk reserve was formed as at 31 December 2020 to cover liabilities arising from Health business. No unexpired risk reserve was recognized as at 31 December 2019.

CLAIMS DEVELOPMENT

The following tables show the estimates of incremental incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Claims payment non-cumulated (gross)	2015	2016	2017	2018	2019	2020
2010		(509)	206	(314)	(266)	1 081 873
2011		60 838	21 185	16 709	89	(11 682)
2012		443 472	54 859	21 266	102 837	(71)
2013		344 157	354 433	46 199	3 625	9 936
2014		873 943	1 220 422	139 275	(125 664)	12 733
2015		5 786 504	2 117 086	202 291	106 529	58 208
2016		17 114 672	8 473 554	675 273	564 564	920 062
2017			23 448 814	5 277 596	490 821	819 774
2018				25 594 140	10 089 250	1 298 996
2019					32 215 469	10 809 518
2020						57 648 217*
Total	0	24 623 076	35 690 558	31 972 436	43 447 254	72 648 565

Claims reserve as at 31 December (gross)	2015	2016	2017	2018	2019	2020
2010	1 105	1 586	1 464	1 490	-	5 583 779
2011	211 979	208 900	62 161	36 236	37 800	288 991
2012	753 668	437 578	185 613	308 384	102 917	458 281
2013	1 479 524	1 070 475	644 668	578 893	511 335	760 018
2014	4 744 198	3 128 021	436 717	320 036	184 932	638 409
2015	10 718 149	4 490 000	687 135	612 085	594 052	1 248 413
2016		14 161 259	1 847 184	1 796 405	1 463 690	3 854 722
2017			8 458 209	1 874 898	1 206 453	3 488 960
2018				15 301 555	4 017 836	13 178 834
2019					16 764 153	12 992 592
2020						33 310 430*
Total	17 908 624	23 497 820	12 323 150	20 829 982	24 883 168	75 803 429

* reporting period 2020 comprises claim costs arising from liabilities taken over from Seesam Insurance AS as well as Company's liabilities.

CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to ensure the continued existence of the Company (going concern) in order to continue providing shareholders with earnings and other stakeholders, in particular policyholders, with the payments to which they are entitled ensuring solvency of the Company. Furthermore, the Company focuses on an optimal capital structure with regard to the Solvency II requirements and capital costs. Company has adopted capital management policy with the aim to define capital management standards and requirements.

When developing corporate management plans, the Management analyses how much capital the Company needs to pursue defined strategic objectives and taking into consideration the desirable level of capital and determining the necessary amount of capital to be raised (if any) and suitable capital-raising methods. Within the planning process it is considered how changes either in business volumes and business mix or changes in existing risk factors may affect profitability, risks and capital needs. Capital management planning is integrated into the business planning and is part of the own risk and solvency assessment process. Management Board's views and plans regarding the future development of the business and investment activities are used when analysing the future capital requirement. The plan is presented to the Management Board and Supervisory Board for review and approval.

OPERATIONAL RISK

The risk is managed by implementing effective internal control system, that includes proper segregation of duties, application of four-eye principle, access right control, business contingency planning, incident management, following established procedures, guidelines and policies etc., that is evaluated each year during internal control assessment process.

Operational Risk Management is part of the day-to-day activities of every organizational unit of Compensa.

Based on the fact, that operational risks can arise in every area and operating activity, Compensa follows the approach that operational risk management is not the task of one single department, but in the responsibility of each department within their own operational area.

In order to support the operational risk management and the monitoring of operational risks, Compensa uses the following two risk management processes:

- Assessment of the effectiveness of the internal control system
- Risk Inventory

Goal of these two processes is the identification and evaluation of operational risks, the evaluation of the adequacy of the control environment as well as the identification and evaluation of risk mitigating measures. During that process, each operational risk category is additionally assessed according to the heat map based on frequency-severity assessment.

The risk is managed by implementing effective internal control system described above. Business contingency plans, that describe action on how to continue critical business processes if one of the several defined critical scenarios materializes, are in place. In case of crisis, a Crisis Committee is formed by the Management Board that has the task to restore the business operations.

REINSURANCE AND OTHER TECHNIQUES FOR RISK MINIMIZATION

The approach to reinsurance within Compensa as a central tool to mitigate underwriting risk is defined in the reinsurance guidelines established by VIG Group (i.e. Security Guidelines) and described in the Underwriting policy of Compensa. Reinsurance and other Risk Mitigation techniques are regularly evaluated for their effectiveness. The responsibility and decision on other risk mitigating actions is defined by internal documents developed by the department responsible for the risk itself.

When selecting reinsurers, the Management Board chooses a reinsurer from a list prepared by the VIG Reinsurance Security Committee. Each quarter the VIG Reinsurance Security Committee prepares and publishes a list of reinsurers that are automatically accepted (within the allowed range of quota limits) in case of obligatory and facultative agreements. Other reinsurers and their shares in agreements are decided individually if accepted by the VIG Reinsurance Security Committee.

A generally applicable VIG rule states, that reinsurers with a minimum rate of A, given by the rating agency Standard & Poor's, can take part in agreements covering risks with a long-term liability like third party. On the other hand, reinsurers with a minimum rate of BBB, given by the rating agency Standard & Poor's, can take part in agreements covering risks with short-term liability.

ASSET AND LIABILITY MANAGEMENT

The purpose of the asset-liability management process is to minimize risk arising from the mismatch between the investment portfolio and liability structure. This risk includes liquidity risk and market risk (currency and interest rate risk in particular).

Asset-liability management includes setting and monitoring strategic asset allocation limits, monitoring investment performance, conducting stress-tests, maintaining liquidity of investments, key risk indicators and their limits.

The currency and duration mismatch between assets and liabilities is monitored quarterly in order to control for the currency and interest rate risk.

In case the mismatch between assets and liabilities is evaluated to be material and inappropriate, the strategic asset allocation and limits set in the Investment and Risk policy must be changed.

NOTE 1. INTANGIBLE ASSETS (EUR)

	Goodwill	Software	Other assets	Total
In 2019				
Acquired assets	-	889 475	-	889 475
Written off	-	-	-	-
Amortization for intangible assets written-off	-	-	-	-
Amortization charge	-	(205 571)	(842)	(206 412)
Closing net book amount	-	1 844 639	1 053	12 391 228
As at 31 December 2019				
Acquisition cost	10 545 536	2 627 263	4 209	13 177 008
Accumulated amortization	-	(782 623)	(3 156)	(785 779)
Net book amount	10 545 536	1 844 639	1 053	12 391 228
In 2020				
Acquired assets	-	1 404 228	-	1 404 228
Reorganisation effect (Note 34)	180 272	2 987 103	-	3 167 375
Written off	-	(48 533)	-	(48 533)
Amortization for intangible assets written-off	-	3 510	-	3 510
Amortization charge	-	(2 401 997)	(842)	(2 401 997)
Closing net book amount	180 272	3 788 949	2 11	11 392 617
As at 31 December 2020				
Acquisition cost	10 725 808	6 970 060	4 209	17 700 077
Accumulated amortization	-	(3 181 111)	(3 998)	(3 185 109)
Net book amount	10 725 808	3 788 949	211	14 514 968

The amortization expenses of intangible assets for the year 2020 was booked as administrative expenses in the amount of EUR 2 401 997 (in 2019: EUR 206 412). The increase in amortisation expenses was due to the replacement of useful life programs that were decided to be discontinued after reorganization. Goodwill is part of other intangible assets which are all acquired through business combinations or mergers.

GOODWILL

Goodwill was recognized as a result of the business transfer agreements concluded on 2 October 2015 with Compensa TU S.A. Vienna Insurance Group. The value of goodwill was booked as a difference of consideration paid and net value of assets and liabilities obtained. According to business transfer agreements, Compensa TU S.A. Vienna Insurance Group transferred to the insurance undertaking ADB Compensa Vienna Insurance Group the business (as the set of assets, rights and obligations) carried out through the Lithuanian and Latvian branches of Compensa TU S.A. Vienna Insurance Group. The business purchase price (consideration payable) was determined by the Group management. The value was determined based on both the forecasted discounted cash inflows for 2015–2024 and comparable market transactions method as at 30 June 2015 and financial result of the year 2014 Business rights and obligations were taken over on 31 December 2015.

IMPAIRMENT TESTING OF GOODWILL

At the end of each reporting year, the management assesses goodwill for impairment. The annual assessment of impairment losses was carried out at the end of 2020. Recoverable amount of the goodwill is determined based on an assessment of value in use. For the purpose of impairment testing of goodwill, the entire Company is assumed to be one cash generating unit due to following facts:

- central management of main functions (underwriting, sales, claims) and centralized back-office functions;
- cross border agreement's and servicing of Pan Baltic client is carried out centrally;
- Baltics operations are managed and supervised by the shareholders on a whole Company level, not separating operating locations;
- Need for capital injections (and Investments) are managed on a whole Company level.

Taking above into consideration, the management concluded that operations of the Company are considered as one cash generating unit.

The recoverable amount of cash generating unit as at 31 December 2020 was determined based on the discounted dividends model based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the equity value in use in 2020 and 2019 are described further.

In current year impairment model, gross written premiums are forecasted to grow at compound average growth rate (CAGR) 13% for 2019 (7.5%) over the next five years. Net earned premiums are forecasted to grow at compound average growth rate (CAGR) 13% for 2019 (11.7%) over the forecast period. Management expects growth above general GDP growth level due to growth of general insurance market, increasing insurance penetration, and increase of the Company's brand awareness. Gross loss ratio is estimated at 61.4%-60.8% and net loss ratio is forecast at 64%-63.4% over the forecast period.

Cash flows beyond the five-year period were extrapolated using 1% growth rate. The discount rate used by the management was estimated as a weighted average cost of capital for the cash generating unit and is equal to 8.81% in 2020 and 7.74% in 2019.

The assessment of the recoverable amount of the cash generating unit as at 31 December 2020 resulted in no impairment of goodwill at the end of 2020.

The management assessed an impact of an individual change of certain key assumptions on the recoverable amount.

The following table shows potential impairment loss respectively changing parameters used in the model for 2020:

Items	Net Premiums Earned	Loss ratio	Discount rate
	-1%	+1%	+1%
Impairment needed, kEur	-	-	-

If used parameter was used more than presented in the table the potential impairment would be recognised.

NOTE 2. LEASES

The Company recognises right-of-use assets in the amount of EUR 508 641. For the calculation of lease liabilities the Company used discount rates that depend on life time of contract which varies from 0.123% to 2.96%.

RIGHT-OF-USE ASSET

in thousands of euro	Land and buildings	Cars	Total
2020			
Balance at 1 January	494 024	14 618	508 462
Reorganisation effect (Note 34)	3 358 580	65 863	3 424 443
Depreciation charge for the year	(620 628)	(24 610)	(645 238)
Additions to right-of-use assets	7 200	-	7 200
Balance at 31 December	3 239 176	55 871	3 295 047

in thousands of euro	Land and buildings	Cars	Total
2019			
Balance at 1 January	878 860	25 379	904 239
Depreciation charge for the year	(325 260)	(7 728)	(332 988)
Additions to right-of-use assets	27 666	-	27 666
Derecognition of right-of-use assets*	(87 243)	(3 033)	(90 276)
Balance at 31 December	494 023	14 618	508 641

LEASE LIABILITIES

Operating leases under IFRS 16	2020	2019
Less than one year	821 449	280 605
One to two years	1 758 822	219 464
Two to three years	738 541	9 847
Four to five	-	-
Total	3 318 812	509 916

Leases as lessee (IFRS 16)

Over 88 customer service centres are located in leased premises, as well as the premises for the Company's headquarters and head offices of branches are leased. The contracts for these leases typically run for a period of 2 to 5 years after which a new contract might be renegotiated or the existing one prolonged, or the lease ends all together; over one third of the lease contracts do not have a set term, for such contracts the Company has elected to set a period of 2 years with the review done at the end of each calendar year.

In addition to premises, the Company also leases IT equipment, vehicles and other miscellaneous items. Information about leases for which the Company is a lessee is presented above.

NOTE 3. PROPERTY AND EQUIPMENT (EUR)

	Office and other equipment	Vehicles	Prepayments for non- current assets	Total
In 2019				
Acquired assets	90 660	-	-	90 660
Written-off	(45 721)	-	-	(45 721)
Depreciation for tangible assets written-off	36 022	-	-	36 022
Depreciation charge	(144 891)	(24 002)	-	(168 894)
Closing net book amount	228 727	93 243	-	321 970
As at end of 2019				
Acquisition cost	693 927	143 635	-	837 562
Accumulated depreciation	(465 200)	(50 392)	-	(515 592)
Net book amount	228 727	93 243	-	321 970
In 2020				
Balance at 01/01/2020				
Adjusted balance at 01/01/2020				
Acquired assets	113 876	-	-	113 876
Reorganisation effect (Note 34)	1 346 965	117 359	-	1 464 324
Written-off	(4 747)	(11 516)	-	(16 263)
Depreciation for tangible assets written-off	2119	8 649	-	10 768
Depreciation charge	(426 691)	(41 402)	-	(468 093)
Closing net book amount	1 260 250	166 333	-	1 426 582
As at end of December 2020				
Acquisition cost	2 150 021	249 478	-	2 399 499
Accumulated depreciation	(889 772)	(83 145)	-	(972 917)
Net book amount	1 260 250	166 333	-	1 426 582

The depreciation expenses of property and equipment of the year 2020 were booked as administrative expenses (Note 28) in the amount of EUR 468 093 (in the year 2019 – respectively EUR 168 894).

As at 31 December 2020, the Company had fully depreciated property and equipment which were still used in activity.

Office and other equipment:

Items	2020	2019
Acquisition price	97 613	146 583

NOTE 4. FINANCIAL ASSETS AVAILABLE FOR SALE (EUR)

FINANCIAL ASSETS AVAILABLE FOR SALE

	2020	2019
At the beginning of the reporting year	65 052 484	48 261 216
Purchases	31 766 829	20 063 717
Reorganisation effect (Note 34)	104 283 304	-
Maturities	(1 370 155)	(1 391 271)
Disposals	(26 929 975)	(4 230 260)
Fair value Gain/(Loss) recorded in OCI	4 486 497	2 637 132
Amortization adjustment	(331 688)	(287 094)
Foreign currency exchange adjustments	9 747	(957)
At the end of the reporting year	176 967 043	65 052 484

FAIR VALUE OF THE FINANCIAL ASSETS

Items	2020		2019	
	Amortized cost	Fair value	Amortized cost	Fair value
Republic of Lithuania	44 013 082	46 272 518	40 573 704	41 818 481
Republic of Latvia	10 395 180	10 967 974	4 310 412	4 442 654
Russian Federation	2 018 896	2 020 560	-	-
Republic of Estonia	989 774	1 032 210	-	-
Republic of France	2 177 827	2 521 376	-	-
Republic of Slovenia	2 038 874	2 237 900	-	-
Republic of Mexico	2 084 127	2 107 860	-	-
People's Republic of China	1 979 227	2 017 840	-	-
Republic of Germany	1 013 943	1 101 230	1 015 827	1 068 450
Republic of Greece	994 032	1 080 460	-	-
Republic of Hungary	2 959 613	2 982 270	-	-
Israel	1 530 810	1 662 810	-	-
Republic of Poland	2 017 952	2 176 120	-	-
Republic of Austria	501 746	548 235	501 984	530 299
Republic of Italy	-	-	947 224	962 438
Kingdom of Spain	-	-	1 513 551	1 659 366
Corporate bonds	89 752 712	94 855 793	11 086 440	11 386 892
VIG Fund shares	3 381 887	3 381 887	3 183 904	3 183 904
Total	167 849 681	176 967 043	63 133 046	65 052 484

The fair value was measured based on the quoted prices or the current market value of similar securities (Level 1 fair value hierarchy for quoted, Level 2 input other than quoted prices and Level 3 for VIG Fund shares).

Revaluation effect for financial investments available for sale that in 2020 was recognized in other comprehensive income was EUR 4 229 235 (in 2019: EUR (2 064 115)).

NOTE 5. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT HIERARCHY

The measurement process aims to determine fair value using price quotations that are publicly available in active markets or valuations based on recognised economic models using observable inputs.

Hierarchy as at 2020

	Level 1	Level 2	Level 3	Total
Loans to subsidiaries	-	-	-	-
Mortgage loans	-	-	2 526 595	2 526 595
Bonds	121 721 777	51 306 185	-	173 027 962
Investment fund	-	-	557 193	557 193
VIG FUND shares	-	-	3 381 887	3 381 887
Total	121 721 777	51 306 185	6 465 675	179 493 637

	Level 1	Level 2	Level 3	Total
Subordinate liabilities	-	-	7 596 814	7 596 814
Lease liabilities	-	-	3 318 812	3 318 812
Total	-	-	10 915 626	10 915 626

Hierarchy as at 2019

	Level 1	Level 2	Level 3	Total
Loans to subsidiaries	-	-	1 500 000	1 500 000
Mortgage loans	-	-	2 774 482	2 774 482
Bonds	61 868 580	-	-	61 868 580
VIG Fund shares	-	-	3 183 904	3 183 904
Total	61 868 580	-	7 458 385	69 326 965

	Level 1	Level 2	Level 3	Total
Subordinate liabilities	-	-	7 596 814	7 596 814
Lease liabilities	-	-	566 836	566 836
Total	-	-	8 163 649	8 163 649

In the reporting period, there was no reclassification between levels.

On 10 November 2020, the Company invested into shares of USALDUSFOND ETTEM Residential real estate Fund in the amount of EUR 557 thousand. The value of USALDUSFOND ETTEM Fund shares is determined by reference to the Net Asset Value of the Investee as at the reporting date, where the value of assets is measured using valuation reports prepared by appraisers.

On 2 December 2020, the Company invested into shares of SIA Global Assistance Baltic in the amount of EUR 100 000.

VIG fund shares are originally valued at their acquisitions cost and subsequently revaluated at fair value. The preparation of the appraisals is based on other observable inputs such as applied (level 3 of fair value hierarchy). For the determination of the fair value of the investment the adjusted net asset method was applied.

VIG fund share value is related to invested property and a change in the underlying inputs can therefore lead to fluctuations in the value of property. An increase of rental income by 2.5% and 5%, respectively, with yield remaining constant, will lead to increase in the value of shares by EUR 84 547 and EUR 169 094, respectively.

NOTE 6. LOANS AND DEPOSITS

A. LOANS GRANTED

During 2020, the Company did not grant additional loans.

For the year ended 31 December 2020, the Company has not recorded any impairment of loans relating to amounts owed by related parties. No amounts were overdue as at 31 December 2020.

LOAN AND INTEREST AMOUNTS RECEIVABLE

The split of the receivable interest and receivable loan payments for the future periods:

Items	2020		2019	
	Loans	Future interest	Loans	Future interest
Within 1 year	70 368	53 221	69 311	125 474
Within 2-5 years	292 245	203 224	1 787 873	379 889
Within 5-10 years	2 163 981	145 895	1 264 964	170 622
After 10 years	-	-	1 152 334	25 720
Total	2 526 594	402 340	4 274 482	701 705

Loan amount as at 31 December 2020 and 2019

Items	2020	2019
Loans at the beginning of reporting year	4 274 482	3 480 975
Loans granted	-	844 048
Reorganisation effect (Note 34)	(1 500 000)	-
Loans repayment	(247 887)	(50 541)
Loans at the end of reporting year	2 526 595	4 274 482

B. LOANS RECEIVED

At the end of 2020 and 2019 the Company had subordinated loans in the amount of EUR 7 500 000 from the Company's shareholder Vienna Insurance Group AG Wiener Versicherung Gruppe. Interest rates are 5.5% and 5%. Maturity of the loan is set to 10 years.

LOAN AND INTEREST AMOUNTS PAYABLE

The split of the payable interest and loan repayment for the future periods:

Items	2020		2019	
	Loans	Future interest	Loans	Future interest
Within 1 year	-	395 000	-	395 000
Within 2-5 years	-	1 580 000	-	1 580 000
Within 5-10 years	(7 500 000)	1 010 000	(7 500 000)	1 405 000
After 10 years	-	-	-	-
Total	(7 500 000)	2 985 000	(7 500 000)	3 380 000

LOAN AMOUNT AS AT 31 DECEMBER 2020

Items	2020	2019
Loans at the beginning of reporting year	(7 596 814)	(7 596 814)
Loans received	-	-
Accrued interest	391 987	393 192
Loans repayment	(391 987)	(393 192)
Loans at the end of reporting year	(7 596 814)	(7 596 814)

NOTE 7. SHARES OF SUBSIDIARIES

On 10 October 2019, the Company concluded a cross-border merger agreement with Seesam, Compensa Services Lithuania and Compensa Services Latvia, where parties agreed to transfer all assets, rights and liabilities to the Receiving Company (ADB Compensa Vienna Insurance Group) as a going concern. The merger took effect as at 1 July 2020

For more details on the merger please see Note 34.

The equity and total assets as at 31 December 2019 and result for the financial year then ended of the subsidiaries could be presented as follows:

Company name	Equity	Result for the year	Assets
UAB Compensa Services (unaudited)	921 930	61 095	3 835 974
SIA Compensa Services (audited)	(266 220)	121 012	1 699 481

NOTE 8. INVESTMENT TO EQUITY INSTRUMENTS

On 2 December 2020 the Company concluded an agreement regarding purchase of SIA Global Assistance Baltic. The Company has acquired 33% of the shares of the entity.

During the merger, shares of AS EGCC were transferred to the Company. The Company has D and C class shares in this entity.

Since the business volume of Global Assistance Baltic SIA is insignificant compared to the total assets and revenue of Compensa Vienna Insurance Group, in the financial statements as at 31 December 2020 the investment is accounted using the cost method.

ACQUISITION PRICE OF SHARES

Company name	Shares, %	Number of shares 2020	Acquisition price	
			2020	2019
SIA Global Assistance Baltic	33%	100 000	100 000	-
AS EGCC	D&C class shares		35 000	-
Total			135 000	-

The equity and total assets as at 31 December 2020 and result for the financial year then ended of the subsidiaries could be presented as follows:

Company name	Equity	Result for the year	Assets
SIA Global Assistance Baltic	300 000	-	300 000

NOTE 9. AMOUNTS RECEIVABLE (EUR)

Items	2020	2019
Receivable from direct insurance activities	25 328 939	10 057 402
Receivable from insured	19 639 907	6 288 828
Receivable from intermediaries	6 357 237	4 062 370
Impairment for receivables from direct insurance operations	(646 091)	(163 123)
Impairment for the amounts receivable from insurance activities	(22 114)	(130 672)
Receivable from reinsurance activities	6 770 486	3 286 556
Receivable from reinsurance activities	6 770 486	3 286 556
Other amounts receivable	1 210 705	321 180
Other amounts receivable	1 210 705	321 180
Total	33 310 131	13 665 138

Aging of receivables from direct insurance operations

Term	2020			2019		
	Gross	Impairment	Total amounts receivable	Gross	Impairment	Total amounts receivable
Not past due	21 147 301	157 438	20 989 864	7 472 497	6 393	7 466 103
Overdue 0-30 days	2 864 794	27 551	2 837 243	1 956 437	9 723	1 946 714
Overdue 31-90 days	964 700	48 879	915 821	446 448	24 358	422 090
Overdue 91-180 days	335 213	142 759	192 454	141 157	12 372	128 785
Overdue 181-365 days	418 480	104 358	314 122	125 391	31 681	93 710
Overdue more than 365 days	244 541	165 106	79 435	78 596	78 596	-
Total	25 975 029	646 091	25 328 939	10 220 526	163 123	10 057 402

Impairment for bad debts is calculated based on debt development rate. Debt development rate is calculated based on Company's experience, external factors (economic cycle, bankruptcy trends and other), change in the Company's debt management practices and other significant factors.

Bad debt impairment is calculated by multiplying the corresponding debts by debt development rate.

In order to take into account the possible impact of Covid-19, additional provisions for bad debts were formed.

Calculated impairment is recognized as expenses and is shown in other technical costs position.

Amounts receivable include amounts receivable from policyholders, intermediaries, reinsurers and other.

In case insurance premiums are received earlier than the insurance contract becomes effective, the premiums received are stated as prepayments and accounted for in the financial statements as liabilities to the insured.

Receivables from intermediaries are registered by decreasing debts of the policyholders and having sufficient evidence that an intermediary has received money from the policyholder as to insurance contracts.

Amounts receivable from reinsurers include amounts payable by the reinsurers for reinsurance claim and commission payment. Liabilities to reinsurers are higher than receivables and set off are performed on the monthly basis.

In 2020, no advances were paid to the administrative, management and supervisory bodies.

NOTE 10. TECHNICAL PROVISIONS

Provision for unearned premiums

The provision for unearned premiums is calculated on 'pro rata' basis.

Line of insurance	Technical provision GROSS of reinsurance		Technical provision reinsurance part		Result of reorganization		Change of provision GROSS of reinsurance	Change of provision reinsurance part
	2020	2019	2020	2019	Gros	Reinsurance		
Accident insurance	2 276 377	640 627	-	2 358	1 590 656	-	45 094	(2 358)
Health insurance	4 773 756	327 983	141 161	165 800	4 269 644	-	176 129	(24 639)
Land and vehicle Casco insurance	20 038 123	10 192 904	-	-	9 956 217	-	(110 999)	-
Marine insurance	18 176	-	-	-	24 651	-	(6 475)	-
Transport insurance	488 809	266 237	13 604	-	109 484	45413,03	113 088	(31 809)
Fire and natural hazard insurance	5 242 616	2 985 709	72 707	201 261	2 451 967	121 253	(195 061)	(249 807)
Other property insurance	18 503 167	7 849 023	1 464 776	1 776 645	8 192 481	229 013	2 461 662	(540 882)
Land and vehicle MTPL insurance	17 708 105	12 732 564	8 677 774	9 549 423	8 056 114	3 904 020	(3 080 573)	(4 775 669)
Carrier liability	108 412	93 209	-	-	-	-	15 203	-
General liability insurance	3 673 503	1 904 296	760 125	474 529	2 270 002	563 933	(500 795)	(278 338)
Suretyship insurance	833 286	468 334	719 919	439 936	532 144	456 193	(167 193)	(176 210)
Severe financial losses	749 212	165 002	42 288	94 627	506 852	66 408	77 357	(118 747)
Assistance insurance	816 291	546 240	-	-	293 454	-	(23 403)	-
Total	75 803 429	33 888 150	11 892 354	16 175 528	38 253 668	5 386 235	(1 195 966)	(6 198 459)

UNEXPIRED RISK TECHNICAL PROVISION

Unexpired risk technical provision is distributed into line of insurance level based on estimated gross of reinsurance future cash flows for the particular segment. Estimation is made for the existing portfolio unearned premium reserve net of deferred acquisition costs taking into account expected loss ratios as well as allocated administration expenses, based on the Company's cost allocation principles.

Line of insurance	Technical provision GROSS of reinsurance		Technical provision reinsurance part		Result of reorganization		Change of provision GROSS of reinsurance	Change of provision reinsurance part
	2020	2019	2020	2019	Gross	Reinsurance		
Health insurance	142 334	-	-	-	156 405	-	(14 071)	-
Other property insurance		-	-	-	127 750	-	(127 750)	-
Suretyship insurance		-	-	-	39 296	-	(39 296)	-
Severe financial losses		-	-	-	15 770	-	(15 770)	-
Total	142 334	-	-	-	339 221	-	(196 887)	-

TECHNICAL PROVISION FOR OUTSTANDING CLAIM

Technical provision for outstanding claims is formed in respect of all claims arising from events which have occurred up to the end of the accounting period. The provision for Incurred but Not Reported Claims is calculated using the 'Bornhuetter-Ferguson' method for types of insurance where statistical information is sufficient. For types of insurance where statistical information is limited, provision is calculated by expected loss ratio method. Reserve for Reported but Not Settled Claims is calculated during the course of loss adjusting including expected claim amount and loss adjusting expenses for each event. Reinsurers' share in technical provision for outstanding claims is measured under the terms and conditions of reinsurance contracts.

Line of insurance	Technical provision GROSS of reinsurance		Technical provision reinsurance part		Result of reorganization		Change of provision GROSS of reinsurance	Change of provision reinsurance part
	2020	2019	2020	2019	Gross	Reinsurance		
Accident insurance	808 856	155 512	-	-	628 283	-	25 061	-
Health insurance	932 305	252 585	9 036	72 344	746 963	-	(67 243)	(63 308)
Land and vehicle Casco insurance	5 937 033	2 655 980	34 821	79 223	3 500 110	(105)	(219 057)	(44 297)
Marine insurance	24 213	-	-	-	24 213	-	-	-
Transport insurance	674 116	158 029	301900	-	45 239	-	470 848	301900
Fire and natural hazard insurance	13 378 278	1 631 230	8 057 288	260 503	12 383 175	8 353 928	(636 127)	(557 143)
Other property insurance	10 341 346	3 556 825	678 579	1 395 090	6 320 590	77 898	463 931	(794 409)
Land and vehicle MTPL insurance	34 234 223	13 816 076	14 933 664	9 590 424	20 433 808	6 031 575	(15 661)	(688 335)
Carrier liability	407 478	288 808	-	-	-	-	118 670	-
General liability insurance	7 004 101	1 776 501	915 561	361 074	5 665 639	1 432 401	(438 040)	(877 914)
Suretyship insurance	1 133 987	399 223	932 359	345 715	232 647	196 644	502 117	390 000
Severe financial losses	926 155	192 399	116 398	114 003	799 849	52 108	(66 093)	(49 713)
Assistance insurance	1 338	-	-	-	189	-	1 150	-
Total	75 805 449	24 883 168	25 979 606	12 218 376	50 780 706	16 144 448	139 556	(2 383 219)

STRUCTURE OF GROSS TECHNICAL PROVISION FOR OUTSTANDING CLAIMS

	2020	2019
Amount of claims reported but not settled (RBNS)	50 864 974	14 849 866
Reserve for the recoveries	(838 523)	(554 220)
Amounts of claims incurred but not reported (IBNR)	23 203 772	9 580 052
Amount of claims settlement costs	2 573 206	1 007 470
Total	75 803 429	24 883 168

STRUCTURE OF REINSURANCE SHARE IN TECHNICAL PROVISION FOR OUTSTANDING CLAIMS

	2020	2019
Amount of claims reported but not settled (RBNS)	19 775 358	7 398 753
Reserve of the recourse	(153 221)	(229 133)
Amounts of claims incurred but not reported (IBNR)	6 257 146	4 835 496
Amount of claims settlement costs	100 323	213 260
Total	25 979 606	12 218 376

NOTE 11. ACCRUED INCOME AND DEFERRED COSTS

Items	2020	2019
Deferred acquisition costs	11 548 778	10 170 484
Deferred acquisition costs	11 548 778	10 170 484
Other accrued income and deferred costs	16 583 585	13 434 282
Accruals for estimated recourses	2 753 152	2 672 631
Prepaid expenses/ deferred costs	13 830 434	10 761 651
Accrued interest and rent income	930 048	332 519
Accrued interest from bonds available for sale	930 048	332 519
Total	29 062 411	23 937 285

As at 31 December 2020, deferred acquisition costs amounted to EUR 11.5 million. They were calculated in proportion to unearned premiums as to insurance lines and insurance contracts.

Accruals for estimated recourses in the amount of EUR 2.8 million are estimated for potential recovery cases by taking into account uncertainty level related to particular claims.

Prepaid expenses/deferred costs in the amount of EUR 13.8 million consist of prepayments for future commission expenses, which is paid for policies not yet entered into force. Note 16 shows the amount of received premiums for policies not yet entered into force.

CHANGE IN DEFERRED ACQUISITION COSTS

Items	2020	2019
Deferred acquisition costs at the beginning of the year	10 170 484	8 921 203
Additions	25 985 756	22 267 433
Reorganisation effect (Note 34)	780 696	-
Used and reversed	(25 388 158)	(21 018 152)
Deferred acquisition costs at the end of the year	11 548 778	10 170 484

NOTE 12. CASH IN HAND AND AT BANK

Items	2020	2019
Cash in bank	18 570 296	5 169 120
Cash in hand	4 900	-
Total	18 575 196	5 169 120

NOTE 13. SHAREHOLDERS' EQUITY (EUR)

On 10 October 2019 the Company concluded a cross-border merger agreement with Seesam, Compensa Services Lithuania and Compensa Services Latvia, where parties agree to transfer all assets, rights and liabilities to the Receiving Company (ADB Compensa Vienna Insurance Group) as a going concern.

As a result of the merger, capital from Seesam in the amount of EUR 3 000 000 was transferred to the Company. For more details on the merger please see Note 34.

As at the end of 2020, the authorized share capital of the Company was EUR 18 800 000 (as at 31 December 2019: EUR 15 800 000). The authorized share capital consists of 188 000 ordinary registered shares with the nominal value of EUR 100 each, and share premium of EUR 17 045 774. All shares are fully paid.

Items	2020		2019	
	Number of shares	Value	Number of shares	Value
Share capital	188 000	18 800 000	158 000	15 800 000
Share premium		17 045 774		17 045 774

The sole shareholder of the Company is Vienna Insurance Group AG Wiener Versicherung Gruppe.

2020		2019	
Number of shares	% of share capital	Number of shares	% of share capital
188 000	100	158 000	100

NOTE 14. RESERVES

The Company's shareholders made a decision to transfer profit for the year 2019 in the amount of EUR 377 400 to mandatory reserves.

On 10 of October 2019, the Company concluded a cross-border merger agreement with Seesam, Compensa Services Lithuania and Compensa Services Latvia, where parties agree to transfer all assets, rights and liabilities to the Receiving Company (ADB Compensa Vienna Insurance Group) as a going concern.

As a result of the merger, mandatory reserve in the amount of EUR 1 009 886 was transferred to the Company from Seesam. For more details on the merger please see Note 34.

Legal reserve is formed in compliance with the Company Law of the Republic of Lithuania. Annual allocation to the legal reserve shall amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. This reserve cannot be distributed.

In 2020, the Company recognized revaluation reserve for financial assets in the amount of EUR 8 744 607 which is net of deferred taxes of EUR (567 450). As a result of the merger, revaluation reserve in the amount of EUR 2 846 947 was transferred to the Company from Seesam. For more details on the merger please see in Note 34.

At the end of 2019 revaluation reserve for financial assets was (EUR 1 668 425) which was net of deferred taxes of EUR (251 013). Changes of revaluation reserve and deferred taxes from revaluation reserve are presented in other comprehensive income. After realisation of financial assets, result of transaction would be presented in the profit or loss position "Net profit/loss of financial asset".

Movement of revaluation reserve	2020	2019
Balance at the beginning of the year	1 668 425	(395 690)
Reorganisation effect (Note 34)	2 846 947	-
Balance at the end of the year	8 744 607	1 668 425
Fair value Gain/(Loss) recorded in OCI	4 262 645	2 064 115

Profit distribution

The draft profit distribution was not yet agreed at the issue date of these financial statements.

NOTE 15. PROVISIONS

Items	2020	2019
Provisions at the beginning of reporting year	906 046	817 175
Reserve created	1 424 656	906 046
Reorganisation effect (Note 34)	878 873	-
Reserve used	(906 046)	(817 175)
Provisions at the end of reporting year	2 303 528	906 046

For the year 2020 provisions in the amount EUR 2 303 528 were created for estimated staff-related liabilities.

NOTE 16. REINSURANCE DEPOSIT

Reinsurance deposit was created according to the reinsurance agreement. Bases of calculation of deposit consist of reinsurance part in technical provisions:

- + Reported part of Outstanding Losses (RBNS) at the end of the respective accounting period
 - + Unreported part of Outstanding losses (IBNR) at the end of the respective accounting period
 - + Unearned Premium Reserve at the end of the respective accounting period
- = Deposit

Expenses related to the interest for deposit are calculated according to 3-month EURIBOR + 0.5 pp interest rate at the beginning of the accounting period. Expenses of interest are recognized as financial activities expenses.

AMOUNT OF REINSURANCE DEPOSITS IS RELATED TO SHARE OF TECHNICAL PROVISIONS AS FOLLOWS:

Items	2020	2019
Unearned premium technical provisions	8 681 549	9 549 423
Outstanding claims technical provisions	10 404 354	8 756 803
Total	19 085 903	18 306 226

NOTE 17. LIABILITIES TO INSURED AND INTERMEDIARIES

Items	2020	2019
Liabilities to policyholders	4 612 232	670 315
Payable commission to intermediaries	1 064 130	531 454
Payable commission to related parties	-	1 345 832
Money received before insurance policies became effective	19 351 264	15 819 323
Total	25 027 627	18 366 924

In case insurance premiums are received earlier than the insurance contract becomes effective, the premiums received are stated as prepayments and accounted for in the financial statements as liabilities to the policyholders.

NOTE 18. LIABILITIES TO REINSURERS

Items	2020	2019
Reinsurance liabilities to related companies	3 155 792	1 941 915
Liabilities to other reinsurers	7 093 830	2 960 576
Total	10 249 622	4 902 491

NOTE 19. DEBTS TO CREDIT INSTITUTIONS

DEBTS TO CREDIT INSTITUTIONS

Items	2020	2019
Loans at the beginning of reporting year	56 920	69 416
Loans received	-	-
Loans repayment	(12 684)	(12 496)
Loans at the end of reporting year	44 236	56 920

REPAYMENTS PERIOD

Items	2020		2019	
	Loans	Interest	Loans	Interest
Within 1 year	13 451	599	13 451	767
Within 2-5 years	30 785	801	43 469	1 400
Total	44 236	1400	56 920	2 167

NOTE 20. TAXES AND SOCIAL INSURANCE CONTRIBUTIONS

Items	2020	2019
Social taxes	212 679	48 333
Polish social taxes	(4 146)	(4 146)
Austrian social taxes	-	49 941
Total	208 534	94 128

NOTE 21. OTHER LIABILITIES

Items	2020	2019
Wages and salaries	1 301 827	364 022
Payments to employees	8 757	2 481
Taxes liabilities	16 553	114 268
VAT liabilities	48 582	59 145
Payment to Supervisory institution	113 766	83 449
Other liabilities	3 754 699	1 176 358
Liabilities to other entities for claims handling services	165 482	421 511
Total	5 409 666	2 221 238

NOTE 22. FINANCIAL RELATIONS WITH THE MANAGEMENT AND TRANSACTIONS WITH RELATED PARTIES

Related parties include shareholders and associated companies which are related to shareholders, employees, their family members, and entities which directly or indirectly, through one or more intermediaries, control the Company or are controlled by the Company separately or jointly with intermediaries, if the mentioned relations enable one of the parties to control or significantly influence financial and operating decisions of the other entity.

FINANCIAL RELATIONS WITH THE MANAGEMENT

Items	2020	2019
Remuneration to Management Board members	353 252	215 544
Bonuses to Management Board members	213 569	116 015

At the end of 2020 Management consists of 3 Board Members.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties include transactions with entities which belong to VIG Group. Outstanding balances with related parties are specified as follows:

Items	2020	2019
Receivables from related companies for inward and outward reinsurance activities	870 145	1 010 887
Other receivables from related companies	71 265	72 643
Granted loan	2 526 595	4 274 482
Interest from granted loans	-	-
Total	3 468 004	5 358 012

LIABILITIES TO RELATED PARTIES

Items	2020	2019
Liabilities to related companies for inward and outward reinsurance activities	759 498	1 928 072
Liabilities to related companies for commission	-	1 345 832
Liabilities to related companies for claims handling	-	94 104
Other liabilities to related companies	104 153	529 924
Reinsurance deposit	19 085 903	18 306 226
Interest from subordinated liabilities (Shareholder)	96 814	96 814
Subordinated liabilities (Shareholder)	7 500 000	7 500 000
Total	27 546 367	29 800 973
Transactions with related parties		
From reinsurance activity	(2 544 112)	2 392 141
Claim handling expenses	(492 415)	(1 205 985)
Commission payments	(8 050 791)	(6 536 105)
Other transaction with related companies	(1 578 843)	(1 082 683)
Received interest	87 815	125 575
Granted loans	(293 787)	847 761
Received subordinated loan	-	-
Subordinated loan interest	(391 986)	(391 986)
Total	(13 264 120)	(5 851 282)

NOTE 23. ACCRUED COSTS AND DEFERRED INCOME

Items	2020	2019
Accrued costs for payable commission	3 500 416	887 476
Reinsurers' share in estimated recourse	878 652	1 365 766
Other accrued costs for administrative expenses	353 378	453 223
Total	4 732 446	2 706 465

Position other accrued cost for administration expenses included cost accruals for consulting services, IT services and for other services for the year 2020.

NOTE 24. GROSS WRITTEN PREMIUM

GROSS WRITTEN PREMIUM

Line of insurance	Gross written premiums	
	2020	2019
Accident insurance	3 026 653	1 474 854
Health insurance	5 764 944	1 746 193
Land and vehicle Casco insurance	29 467 277	20 127 119
Transport insurance	1 054 296	738 800
Fire and natural hazard insurance	7 179 593	5 369 912
Other property insurance	29 360 891	16 274 870
Land and vehicle MTPL insurance	35 777 299	31 586 497
Carrier's liability insurance	384 014	334 934,00
General liability insurance	6 625 966	4339070
Suretyship insurance	1 027 936	1054576
Severe financial losses	1 292 983	547 061
Assistance insurance	1 385 233	1 097 347
Total	122 347 086	84 691 234

Gross written premium per policy issue country

Line of insurance	Gross written premiums	
	2020	2019
Lithuania	56 918 926	46 106 487
Latvia	36 331 349	26 250 594
Estonia	29 096 811	12 334 153
Total	122 347 086	84 691 234

REINSURER'S SHARE IN PREMIUM

Line of insurance	Reinsurer's share in premiums	
	2020	2019
Accident insurance	29 739	6 731
Health insurance	372 650	550 782
Land and vehicle Casco insurance	15 421	(4 445 672)
Transport insurance	95 305	-
Fire and natural hazard insurance	546 748	331 119
Other property insurance	4 872 102	4 733 418
Land and vehicle MTPL insurance	18 108 803	23 195 029
General liability insurance	1 857 808	1276773
Suretyship insurance	837 494	897546
Severe financial losses	192 119	229 461
Total	26 928 189	26 775 187

NOTE 25. NET EARNED PREMIUMS

NET EARNED PREMIUMS AS AT 31 DECEMBER 2020

Line of insurance	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
Accident insurance	2 980 907	32 097	2 948 810
Health insurance	5 603 539	397 288	5 260 521
Land and vehicle Casco insurance	29 578 275	15 421	29 562 855
Transport insurance	941 208	127 114	814 094
Fire and natural hazard insurance	7 374 654	796 554	6 578 100
Other property insurance	27 033 454	5 412 985	21 620 468
Land and vehicle MTPL insurance	38 857 872	22 884 472	15 973 400
Carrier liability (CRM) insurance	368 811	-	368 811
General liability insurance	7 126 761	2 136 145	4 990 616
Suretyship insurance	1 234 425	1 013 705	220 720
Severe financial losses	1 231 397	310 866	920 530
Assistance insurance	1 408 636	-	1 408 636
Total	123 739 939	33 126 648	90 613 291

NET EARNED PREMIUMS AS AT 31 DECEMBER 2019

Line of insurance	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
Accident insurance	1 437 945	4 680	1 433 265
Health insurance	1 721 252	482 953	1 238 299
Land and vehicle Casco insurance	18 827 089	-	18 827 089
Transport insurance	639 175	535	638 639
Fire and natural hazard insurance	5 252 394	367 917	4 884 477
Other property insurance	14 449 962	4 290 782	10 159 180
Land and vehicle MTPL insurance	31 615 836	23 217 032	8 398 803
Carrier liability (CRM) insurance	341 156	-	341 156
General liability insurance	3 790 245	916 428	2 873 817
Suretyship insurance	857 155	761 157	95 998
Severe financial losses	478 908	204 651	274 257
Assistance insurance	1 005 206	-	1 005 205
Total	80 416 323	30 246 135	50 170 185

NOTE 26. CLAIMS INCURRED

CLAIMS INCURRED AS AT 31 DECEMBER 2020

Line of insurance	Gross paid claims	Claims settlement expenses	Amounts recovered	Reinsurer's share	Change in the technical provision for claims outstanding	Reinsurer's share	Total
Accident insurance	(1 357 596)	(108 555)	2 000	-	(25 061)	-	(1 489 212)
Health insurance	(3 552 282)	(246 525)	508	235 337	67 243	(63 308)	(3 559 027)
Land and vehicle Casco insurance	(21 042 683)	(1 468 829)	2 109 892	184 309	221 596	(44 297)	(20 040 012)
Transport insurance	(303 126)	(29 742)	33 833	-	(471 085)	301 900	(468 221)
Fire and natural hazard insurance	(7 094 000)	(558 728)	337 450	473 557	638 133	(557 143)	(6 760 731)
Other property insurance	(11 923 308)	(774 262)	(624 084)	4 853 659	(461 000)	(794 409)	(9 723 404)
Land and vehicle MTPL insurance	(23 608 365)	(1 659 572)	1 236 798	14 015 753	(106 541)	(685 694)	(10 807 622)
Carrier liability	(1 111)	-	1 111	-	-	-	-
General liability insurance	(1 029 740)	(101 802)	15 080	60 826	437 999	(877 914)	(1 495 550)
Suretyship insurance	(118 659)	(7 692)	118 074	527	(502 117)	390 000	(119 867)
Severe financial losses	(286 590)	(24 329)	272	32 939	66 093	(49 713)	(261 328)
Assistance insurance	(1 864)	(577 525)	-	-	(1 191)	-	(580 580)
Total	(70 319 324)	(5 557 562)	3 230 934	19 856 906	(135 931)	(2 380 578)	(55 305 554)

CLAIMS INCURRED AS AT 31 DECEMBER 2019

Line of insurance	Gross paid claims	Claims settlement expenses	Amounts recovered	Reinsurer's share	Change in the technical provision for claims outstanding	Reinsurer's share	Total
Accident insurance	(636 608)	(110 780)	-	-	(33 122)	-	(780 510)
Health insurance	(608 331)	(120 894)	-	189 923	(37 009)	63 093	(513 219)
Land and vehicle Casco insurance	(13 600 345)	(1 133 282)	1 344 327	1 087 633	(122 426)	(1 168 527)	(13 592 619)
Transport insurance	(344 307)	(25 172)	76 531	-	(2 217)	-	(295 166)
Fire and natural hazard insurance	(2 452 230)	(332 654)	230 450	43 183	(719 382)	232 020	(2 998 614)
Other property insurance	(5 931 181)	(550 011)	324 420	3 018 721	129 026	(646 498)	(3 655 523)
Land and vehicle MTPL insurance	(17 298 041)	(1 511 989)	1 004 918	12 649 183	(2 002 391)	1 615 356	(5 542 964)
Carrier liability insurance	(178 929)	(2 164)	1 780	-	(117 567)	-	(296 881)
General liability insurance	(506 500)	(45 961)	27 662	2 570	(776 974)	322 608	(976 595)
Suretyship insurance	(289 927)	(21 442)	20 000	252 824	(196 710)	164 385	(70 870)
Severe financial losses	(30 607)	(9 592)	-	10 127	(176 235)	114 003	(92 303)
Assistance insurance	(508)	(736 090)	204	-	1 821	-	(734 571)
Total	(41 877 514)	(4 600 031)	3 030 292	17 254 165	(4 053 186)	696 440	(29 549 833)

CLAIMS SETTLEMENT EXPENSES

Items	2020	2019
Claims settlement expenses	1 948 361	2 599 200
Reclassified from general and administrative expenses	3 609 200	2 000 831
Total	5 557 562	4 600 031

NOTE 27. ACQUISITION COSTS

Items	2020	2019
Direct acquisition costs	25 727 598	22 384 965
Carried over from general and administrative expenses	6 168 188	1 591 776
Change of deferred acquisition costs	(597 598)	(1 249 281)
Total	31 298 189	22 727 460

NOTE 28. ADMINISTRATIVE EXPENSES

Items	2020	2019
Salaries	4 065 046	5 671 912
Social insurance contributions	621 291	627 093
IT expenses (external)	1 571 612	552 859
Depreciation and amortization (Notes 1 and 3)	2 371 519	372 650
Specific consulting	290 476	40 607
Rent of premises	185 213	343 617
Misc. sales costs	74 911	3 189
Advertising expenses	356 931	112 600
Business travel costs	100 458	372 236
Auditing and consulting costs	109 754	113 285
Misc. costs	3 855	193 461
Office supplies	42 527	53 240
Bank and deposit fees	101 621	98 905
Misc. office operating costs	89 696	62 684
Telecommunication expenses	55 706	65 569
Taxes and duties	74 708	57 172
Employee benefits	(5 641)	22 103
Total	10 109 681	8 763 182

DISTRIBUTION OF ADMINISTRATIVE EXPENSES

	Administrative expenses	Administrative expenses transferred to acquisition costs	Administrative expenses transferred to claims handling expenses	Administrative expenses transferred to management expenses	Total
2020	10 109 681	6 168 188	3 609 200	113 118	20 675 519
2019	5 097 729	1 591 776	2 000 832	72 846	8 763 182

PAYROLL COSTS

Items	2020	2019
Remuneration	8 399 985	4 517 571
Social insurance contributions	1 810 543	627 093
Accrued bonuses	354 167	94 750
Bonuses	768 082	442 280
Vacation costs	825 440	383 359
Remuneration of Management Board	163 552	163 344
Vacation reserve costs	183 001	60 106
Sickness benefit costs	10 903	10 502
Total	12 515 674	6 299 005

NOTE 29. INVESTMENT INCOME AND EXPENSES

Items	2020	2019
Interest income	1 344 873	619 082
Coupon interest income from bonds classified as available for sale	1 509 598	769 162
Loans interest income	86 530	114 031
Dividend income	61 404	23 940
Amortization expenses	(322 406)	(287 094)
Currency exchange rate	(9 747)	(957)
Net profit/(losses) on disposal of the investments	1 083 824	262 485
Loss of disposal of investment	(117 590)	
Gains on disposal of investments	1 201 414	262 485
Investment valuation and management costs	(539 705)	(503 992)
Investment valuation costs, including interest	(173 871)	(431 146)
Investment management costs	(391 986)	(72 846)
ABLV bank write-off	26 152	-

NOTE 30. OTHER FINANCE INCOME AND COSTS

Items	2020	2019
Other finance income	69 405	27 100
Other income related to currency exchange rate	45 459	13 686
Other interest income	23 947	13 414
Other finance costs	(97 789)	(73 183)
Interest from reinsurance deposit	(6 760)	(15 017)
Interest from car leasing	(767)	(956)
Currency exchange loss	(74 867)	(4 337)
Asset write-off	-	9 549
Other finance costs	(2 422)	(37 026)
Interest from right-of-use assets	(12 974)	(6298)

NOTE 31. OTHER INCOME AND EXPENSES

Items	2020	2019
Other income	163 522	101 577
Income from claims handling activities	162 665	100 421
Other income	857	1 156
Other expenses	(2 196 276)	(1 579 047)
Fee for Motor Bureau and Insurance Supervisors	(1 268 072)	(1 087 887)
Other technical costs related with policy administration	17 919	49 149
Impairment result of receivables from insurance business (Note 9)	66 614	83 327
Right-of-use asset amortization	(645 238)	(417 536)
Other expenses	(367 500)	(206 100)

NOTE 32. INCOME TAX AND DEFERRED INCOME TAX

The Company has calculated the deferred tax asset which as at 31 December 2019 amounts to EUR 402 074 (EUR 807 737 as at 31 December 2018).

Items	2020	2019
Current income tax expenses	(64 619)	(6 740)
Change in deferred tax	(55 222)	(96 098)
Total income tax expenses	(119 841)	(102 838)

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

	2020		2019	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Accrued bonuses and other temporary differences	995 075	149 261	639 958	95 994
Tax losses carried forward	16 458 806	2 468 821	16 884 638	2 532 696
Revaluation of financial assets available for-sale	-	-	-	-
Result of reorganisation (Note 34)	810 305	138 320		
Total deferred tax assets		2 756 402		2 628 690
Not recognized deferred tax assets from accumulated losses	(10 115 697)	(1 517 355)	(10 182 119)	(1 527 318)
Recognized deferred tax assets from losses carry forward	7 043 744	1 056 562	7 342 477	1 101 372
Revaluation of financial assets available for-sale	(3 782 999)	(567 450)	(1 673 360)	(251 004)
Result of reorganisation (Note 34)	(111 829)	(16 744)		
Recognized deferred tax liabilities amortization of goodwill (Tax amortisation)	(2 545 849)	(381 877)	(2 032 947)	(304 942)
Accrued regress (net)	(806 622)	(120 993)	(955 673)	(143 351)
Deferred tax, net	-	151 952	-	402 074

For the calculation of Corporate income taxes in Lithuania, the Company used accumulated tax losses in the amount of EUR 359 410 and calculated corporate income tax expense in the amount of EUR 64 619.

At the end of 2020 the Company has deferred tax asset from accumulated losses in the amount of EUR 1 056 562 and at the end of 2019 EUR 1 005 378. As a result of the merger, the Company recognized deferred tax asset from accumulated losses in merged company's in the amount of EUR 700 635. The Company expects to have enough profit for using the deferred tax assets, according to the Company's business plan. Following the Lithuanian legislation, tax losses can be carried forward for an indefinite period. As at 31 December 2020, the Company recognized deferred tax asset assuming that sufficient taxable profits will be generated based on the budget for 2021-2025. Based on the budget and the forecast, the Company plans to earn profit for covering of losses during the next 5 years.

Deferred income tax assets are evaluated by using the current tax rate that will apply in the year in which they are intended to cover or to pay these temporary differences, in accordance with tax rates (and tax laws) that are or will be approved by the end of the reporting period. The deferred tax assets reflect the tax consequences that the Company expects at the end of the reporting period, trying to pay and to cover its assets or liabilities.

RECONCILIATION OF EFFECTIVE TAX RATE:

	Tax rate	2020	Tax rate	2019
Loss before taxes		2 196 370		480 238
Income tax applying the Company's domestic tax rate	15.00%	329 455	15.00%	72 036
Change in unrecognized temporary difference	3.16%	(69 300)	3.66%	(17 599)
Non-deductible expenses	-	-	-	-
Tax exempt income	0.64%	(14 078)	16.35%	(78 499)
Not recognized tax losses	34.31%	(753 484)	26.03%	(131 769)
Utilised tax losses	16.36%	359 410	11.03%	52 994
Total income tax	5.46%	(119 941)	20.01%	(102 838)

NOTE 33. NON-LIFE RESULT FROM INSURANCE ACTIVITIES

NON-LIFE RESULT FROM INSURANCE ACTIVITIES IN 2020

Items	Premiums written	Premiums earned	Claims incurred	Operating expenses	Result of activities
Insurance	121 454 363	122 934 109	(72 599 649)	(41 848 404)	8 486 056
Inward reinsurance	892 722	805 829	(182 234)	(109 609)	513 986
Reinsurance	(26 928 189)	(33 126 648)	17 476 328	8 726 805	(6 923 514)
Total	95 418 897	90 613 291	(55 305 554)	(33 231 208)	2 076 528

NON-LIFE RESULT FROM INSURANCE ACTIVITIES IN 2019

Items	Premiums written	Premiums earned	Claims incurred	Operating expenses	Result of activities
Insurance	84 221 649	79 966 507	(47 103 278)	(28 973 672)	3 889 557
Inward reinsurance	469 585	449 815	(397 162)	(100 333)	(47 680)
Reinsurance	(26 775 187)	(30 246 136)	17 950 606	8 831 053	(3 464 477)
Total	57 916 047	50 170 186	(29 549 834)	(20 242 952)	377 400

NOTE 34. MERGER DISCLOSURE

On 10 October 2019, a decision was taken regarding reorganisation of Compensa Vienna Insurance Group. The decision is performed as a cross-country merger, where ADB Compensa Vienna Insurance Group is the acquiring company and Seesam Insurance AS, registration code 10055752, Compensa Services SIA, registration code 40103534334, Compensa Services AB, registration code 302701871, are the acquired companies. The reorganisation was enacted effective on 1 July 2020. The merger was performed as a common control transaction adding balances (using cost method).

As a result of reorganisation, all assets, liabilities, rights and obligations of Seesam Insurance AS, Compensa Services SIA, Compensa Services AB were transferred to ADB Compensa Vienna Insurance Group. The share capital of ADB Compensa Vienna Insurance group was increased by EUR 3 000 000.

The table below sets out the categories of assets and liabilities as at 1 July 2020, taken over as a result of the reorganisation.

Items	Seesam	Compensa Services
ASSETS		
Intangible assets	1 520 039	1 647 336
Right-of-use assets	2 664 666	759 778
Property and equipment	1 301 965	162 359
Investments in equity instruments	35 000	
Financial assets available for sale	104 283 304	
Total investment	104 318 304	
Total amounts receivable	18 657 629	1 894 603
Deferred tax assets	(34 372)	90 329
Provision for unearned premiums, reinsurer's share	5 386 235	
Outstanding claims technical provision, reinsurer's share	16 144 448	
Total reinsurance assets	21 530 683	
Total accrued income and deferred costs	5 223 275	20 333
Cash at bank and cash in hand	5 157 504	500 232
Total assets	160 339 691	5 074 969
Liabilities		
Technical reserves		
Technical provision for unearned premiums	38 253 668	
Technical provision for outstanding claims	50 780 705	
Unexpired risk technical provisions	339 221	
Total insurance liabilities	89 373 594	
Provisions	669 595	209 278
Total creditors	15 852 732	4 316 463
Accrued liabilities & Deferred income	1 959 716	3 033 653
Total liabilities	107 855 636	7 559 393
Investments in subsidiaries		2 976 724
Impact of reorganisation on equity position of the Company	Seesam	Compensa services
Revaluation reserve	2 846 947	
Legal reserve	1 009 886	
Result of merger of subsidiaries		(863 400)
Retained earnings to be carried forward from the previous year	45 627 221	(4 597 748)
Net asset taken over as a result of reorganisation	52 484 054	(5 461 148)

NOTE 35. COVID-19 IMPACT ASSESSMENT

COVID-19 global pandemic outbreak in 2020 has introduced significant challenges and uncertainty to the normal operations of the businesses: two lockdowns in March and November with requirements for remote work, travel and meeting restrictions, concerns about health and safety of the personnel and necessity of additional measures to ensure it. Furthermore, slowing economy and changing customer behaviour could potentially have a negative impact on business volumes and financial result of the Company. In addition to that, fears about further situation escalation and with direct impact on industries such as travel, airlines, public service companies could potentially adversely impact asset portfolio, thus impairing solvency position.

To date, it could be said that Compensa has handled the situation very well. Business operations have been quickly organized remotely and customer service has never been interrupted. All safety recommendations for ensuring safety of clients and employees have been followed, infection outbreak at the Company has been avoided. What is more, even at such adverse circumstances, merger with Seesam Insurance AS which was planned and had started in 2019, had been performed according to the confirmed schedule.

Business volumes have been indeed negatively impacted by the pandemic: travel insurance business volumes have almost dropped to a zero due to obvious reasons, credit and suretyship business volumes have been reduced significantly due to high uncertainty, other business lines have been adversely impacted due to clients cancelling or not renewing policies when facing financial difficulties and optimizing expenses. Despite this and merger process, Compensa managed to achieve organic business growth. Profit targets have also been met, also because of the reduced claims frequency in motor business due to less driving, though claim frequency in some other lines, like household, has increased. High quality and liquid investment portfolio has experienced some decrease at the beginning of the pandemic, but later promptly recovered, thus solvency position of the Company has not been adversely affected.

The main impact, however, on the solvency position of the Company has come from the merger with well-capitalized Seesam Insurance AS.

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