COMPENSA

VIENNA INSURANCE GROUP

Separate financial statements for the year 2019

CONTENTS

COMPANY DETAILS

ADB Compensa Vienna Insurance group

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Company code:	304080146
Registered address:	Ukmergės g. 280, Vilnius, Lithuania

Supervisory Board

Chairman of the Supervisory Board **Peter Franz Höfinger**
Supervisory Board member **Franz Fuchs**
Supervisory Board member **Elisabeth Stadler**
Supervisory Board member **Artur Borowinski**
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 **until 30.08.2019 Jaanus Seppa**
Member of the Management Board **from 09.10.2019 Andri Püvi**

Management

Deividas Raipa – General Manager
Žydrūnė Kramarauskaitė – 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 Separate Financial Statements

Opinion

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

- the separate statement of financial position as at 31 December 2019,
- the separate statement of comprehensive income for the year then ended,
- the separate statement of changes in equity for the year then ended,
- the separate statement of cash flows for the year then ended, and
- notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, 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 Separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

Company code: 111494971
VAT code: LT114949716

Goodwill impairment

The carrying amount of goodwill in the separate financial statements as at 31 December 2019 and 31 December 2018: EUR 11 million.

Reference to the separate financial statements: "Goodwill" on page 32 (Significant accounting policies) and Note 1"Intangible assets" on page 55 (Notes to the separate financial statements).

Key audit matter	How the matter was addressed in our audit
The goodwill reported in the separate 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. 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. As discussed in Note 1, the recoverable amount of the cash generating unit as at 31 December 2019 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. 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. 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. Due to the above factors, we considered this area to be a key audit matter.	Our audit procedures, included, among other things: • 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: — 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 separate 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 2019 amounted to EUR 24.9 million (31 December 2018: EUR 20.8 million). The change in gross provisions for claims in 2019 amounted to EUR 4.1 million (increase) (2018: EUR 8.5 million).

Reference to the separate financial statements: "Insurance technical provisions" on page 35 (Significant accounting policies) and Note 9 "Technical provisions" on page 64 (Notes to the separate financial statements).

Key audit matter	How the matter was addressed in our audit
Gross technical provisions for outstanding claims ("technical provisions") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented in its separate statement of financial position. The most significant technical provisions are associated with the obligatory motor third party liability, motor own damage and property portfolios. The Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not yet reported (i.e. IBNR). The estimation of the amounts of technical provisions generally involves a significant degree of management'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 technical provisions. The assumptions most subject to estimation uncertainty are those in respect of loss ratios, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, regress and the expected payment period. The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus, the completeness and accuracy of the data underlying the actuarial projections was also an area of our audit focus.	Our audit procedures, performed, where applicable, with the assistance of our own actuarial specialist, included, among others: • Testing of the design and implementation of selected key controls over the actuarial process, including those over management's determination and approval of economic and actuarial assumptions; • Evaluating the methodology and models used by the Company for the measurement of technical provisions against actuarial practices in the market and the requirements of the financial reporting standards; • Reconciling the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation; • Assessing the assumptions applied by the Company in measuring the technical provisions, including in particular: the loss ratios, claim frequency, average claim amounts, expected trends in court settlements and regress, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period - by reference, as applicable, to the Company's experience studies, its methodologies and assumptions in the past, the prevailing industry practice, and also considering the applicable legal and regulatory requirements; • For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross technical provisions recognized at the end of prior year, comparing this analysis to the Company's current year experience, and seeking management's explanations for any significant differences;

Due to the above factors, we considered measurement of the non-life insurance technical provisions to be our key audit matter.	• For all significant insurance contract portfolios, such as, among others, obligatory motor third party liability, motor own damage and property, developing an independent estimate of the gross outstanding claims liability, 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 separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements are prepared is consistent with the separate 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 separate 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 separate financial statements are prepared is consistent with the separate 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 Separate Financial Statements

Management is responsible for the preparation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 2015 for the first time to audit the Company's separate financial statements. Our appointment to audit the Company's separate financial statements is renewed every two years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 5 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 separate financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
26 March 2020

ANNUAL REPORT FOR THE YEAR 2019

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 the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

EXPERTISE AND STABILITY

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, VIG 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. VIG'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 VIG, 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

VIG 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). The Company has 2 subsidiaries: AB Compensa Services (Lithuania), which provides non-life insurance sales and claims handling services and AS Compensa Services (Latvia), which provides non-life insurance sales services.
The management bodies of the Company comprise the Shareholders' meeting, the Supervisory Board and the Management Board. In 2019, the Company was managed by the Supervisory Board headed by Chairman Peter Höfinger and Management Board headed by Chief Executive Officer Deividas Raipa.

Supervisory Board consists of five Supervisory Board members:

- **Peter Höfinger, Chairman of the Supervisory Board of the Company.**

List of executive and non-executive directorships and other professional activities:
- Chairman of the Supervisory Board of affiliate company AB Compensa Services (Ukmergės st. 280, Vilnius, LT–09300, the Republic of Lithuania, registration number 302701871);
- Chairman of the Supervisory Board of affiliate company AS Compensa Services (Vienibas st. 87H, Riga, LV-1004, the Republic of Latvia, registration number 40103534334);
- Member of the Management Board of 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-Bllok, Tirana, Albania);
- Chairman of the Supervisory Board of Sigma Interalbania 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 Pension Assurance Company Doverie AD (13B Tintyava St. Sofia Bulgaria);
- Chairman of the Supervisory Board of Wiener Osigurandje Vienna Insurance Group d.d.o. (Slovenska ul. 22, 10000, Zagreb, Croatia);
- 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 SEESAM Insurance AS (Maakri 19/1, 10145 Tallinn, Estonia);
- Chairman of the Supervisory Board of Wiener Stadtische osiguranje a.d.o. (Trešnjinog cveta 1, Beograd 11070, Serbia);
- Chairman of the Supervisory Board of Erste osiguranje Vienna Insurance Group d.d.o. (Miramarska 23, Zagreb, Croatia);
- Deputy Chairman of the Supervisory Board of Kupala Versicherungsaktengesellschaft (Belarus);
- Member of the Management Board of Wiener Städtische životno osiguranje Podgorica a.d. (47 Rimski Trg, Podgorica 81000, Montenegro);
- Member of the Supervisory Board of UNION Vienna Insurance Group Biztosito Zrt. (Budapest, Hungary);
- Member of the Supervisory Board of VIG RE zajištovna, a.s. (Templová 747/5, 110 01 Staré Město, Czech Republic);
- Member of the Administrative Board of 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:

- Deputy Chairman of the Supervisory Board of affiliate company AB Compensa Services (Ukmergės St. 280, Vilnius, LT–09300, the Republic of Lithuania, registration number 302701871);
- Deputy Chairman of the Supervisory Board of affiliate company AS Compensa Services (Vienibas st. 87H, Riga, LV-1004, the Republic of Latvia, registration number 40103534334);
- Chairman of the Supervisory Board of Polisa-Życie Ubezpieczenia Sp. z o. o. (Al. Jerozolimskie 162, 02-342 Warsaw, Poland);
- Member of the Management Board of Vienna Insurance Group AG Wiener Versicherung Gruppe (Schottenring 30, Vienna, Austria);
- Chairman of the Management Board of Vienna Insurance Group Polska Sp. z o.o. (Al. Jerozolimskie 162A, 02-342 Warszawa, Poland);
- Vice-Chairman of the Supervisory Board of C-Quadrat investment AG (Vienna, Austria);
- Chairman of the Supervisory Board of Wiener TU S.A. VIG (Wołoska 22A, 02-675 Warszawa, Poland);
- Chairman of the Supervisory Board of Spėldzielnia Menna Insurance Group IT Polska (Warszawa, Poland);
- Chairman of the Supervisory Board of Benefia Ubezpieczenia Sp. z o.o. (al. Jerozolimskie 162 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 Zycie S.A. VIG (al. Jerozolimskie 162, 02-342 Warszawa, Poland);
- Chairman of the Supervisory Board of Vienna Life TU na Žycie s.A. VIG (Cybernetyki 7, 02-677 Warszawa, Poland);
- Chairman of the Supervisory Board of Spėldzielnia Uslugowa VIG Ekspert w Warszawie (al. Jerozolimskie 162, 02-236 Warszawa, Poland);
- Member of the Supervisory Board of Risk Consult Polska Sp. z o.o. (plac Europejski 2, 00-844 Warszawa, Poland);
- Chairman of the Supervisory Board of InterRisk TU S.A. VIG (ul. Noakowskiego 22, 00-668 Warszawa, Poland);
- Deputy-Chairman of the Supervisory Board of SEESAM Insurance AS (Maakri 19/1, 10145 Tallinn, Estonia);
- 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);
- Chairman of the Supervisory Board of Private Joint-Stock Company Insurance Company KNIAZHA LIFE VIG (Kiev, Ukraine);
- 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, Chișinău, Moldova);
- Chairman of the Supervisory Board of ASIGUMREA ROMANEASCAASI ROM VIG (Bulevardul Carol I 31-33, Bucharest, Romania);
- Chairman of the Shareholders Committee of VIG Management Service SRL (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 (Grigore Mora, 23, 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);
- Member of the Supervisory Board of SEESAM Insurance AS (Maakri 19/1, 10145 Tallinn, Estonia);
- 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 InterRisk Towarzystwo Ubezpieczen S.A.Vienna Insurance Group Noakowskiego 22, Warszawa, Poland);
- Vice-Chairwoman of the Supervisory Board Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group (ul. Cybernetyki 7, 02-677 Warszawa, Poland);
- Vice-Chairwoman of the Supervisory Board of Ceská podnikatelská pojist'ovna, a.s., Vienna Insurance Group (Pobřežní 665/23, Prague);
- Vice-Chairwoman of the Supervisory Board of VIG RE zajist'ovna, a.s. (Klimentská 46, CZ-110 02 Prague 1);
- 1st Vice-Chairwoman of the Supervisory Board of WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group (Schottenring 30, Vienna, Austria);
- 1st Vice-Chairwoman of the Supervisory Board of Sparkassen Versicherung AG Vienna Insurance Group (Wipplingerstraße 36-38, Vienna, Austria);
- Chairwoman of the Supervisory Board of Vienna Insurance Group Polska Sp.z.o.o. (Holding, Management Services) (Al. Jerozolimskie 162 02-342 Warsaw);
- Chairwoman of the Supervisory Board of Kooperativa, pojist'ovna, a.s. Vienna Insurance Group (Pobřežní 665/23, Prague);
- Member of the Supervisory Board of Pojist’ovna Ceske sporitelny, a.s. (nám. Republiky 115, CZ-530 02 Pardubice);
- Chairwoman of the Supervisory Board of InterRisk Lebensversicherungs-AG Vienna Insurance Group (Carl-Bosch-Straße 5, 65203 Wiesbaden);
- Member of the Supervisory Board of DONAU Versicherung AG Vienna Insurance Group (Schottenring 15, Vienna, Austria);
- Member of the Management Board of Trustees of Institute of Science and Technology-Austria;
- President of the Management Board of Österreichische Gesellschaft für Versicherungs-fachwissen (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. Nationalbiblio-thek (support to the Austrian National Library);
- Member of the Board of Gesellschaft der Freunde der bildenden Künste (support to the Austrian visual arts).

- **Artur Borowinski, Member of the Supervisory Board of the Company.**

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

- Supervisory Board member of affiliate company AB Compensa Services (Ukmergės st. 280, Vilnius, LT–09300, the Republic of Lithuania, registration number 302701871);
- Supervisory Board member of affiliate company AS Compensa Services (Vienibas st. 87H, Riga, LV-1004, the Republic of Latvia, registration number 40103534334);
- Member of the Supervisory Board 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);
- Member of the Supervisory Board of SEESAM Insurance AS (Maakri 19/1, 10145 Tallinn, Estonia);
- CFO of Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group (Al. Jerozolimskie 162, Warsaw, Poland);

- President of the Management Board (CEO) of Compensa TU S.A. Vienna Insurance Group (Al. Jerozolimskie 162, 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).

- **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);
- Manager of Wiener Städtische Versicherung AG (Schottenring 30, Vienna, Austria);
- Member of the Supervisory Board of SEESAM Insurance AS (Maakri 19/1, 10145 Tallinn, Estonia).

Management Board consists of three Management Board members:

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

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

- CEO and Chairman of the Management Board of affiliate company AB Compensa Services (Ukmergės st. 280, Vilnius, LT–09300, the Republic of Lithuania, registration number 302701871);
- Chairman of the Management Board of affiliate company AS Compensa Services (Vienibas st. 87H, Riga, LV-1004, the Republic of Latvia, registration number 40103534334).

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

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

- Management Board member of affiliate company AB Compensa Services (Ukmergės st. 280, Vilnius, LT–09300, the Republic of Lithuania, registration number 302701871);
- Management Board member of affiliate company AS Compensa Services (Vienibas st. 87H, Riga, LV-1004, the Republic of Latvia, registration number 40103534334);
- 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.**

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

- CEO and Chairman of the Management Board of Seesam Insurance AS (Maakri 19/1, building B, 10145, Tallinn).

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. The Company provides sales via regional sales offices of affiliate companies AB Compensa Services (Lithuania) and AS Compensa Services (Latvia).

Results from operations

In 2019 the Company's gross written premium amounted to EUR 84.7 million. The largest share of insurance portfolio is comprised of motor third party liability insurance 38% (2018: 42%); motor own damage insurance (Casco) – 24% (2018: 25%) and Property insurance lines – 35% (2018: 29%). During the year, the biggest part – 54% of total gross written premiums were written in Lithuania; 31% – in Latvia; 15% – in Estonia.

The results significantly improved in year 2019 – the Company achieved a profit before taxes in the amount of EUR 0.5 million (2018: loss of EUR 1.8 million). The Company generated net earned premiums of EUR 50.2 million. Claims incurred amounted to EUR 29.5 million. Net operating expenses of EUR 20.6 million (2018: EUR 13.6 million).

The Company had a net combined ratio of 99.9% - improvement of 6.7 percentage points compared to a ratio of 106.6% in year 2018. 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 0.4 million consists of interest income (0.91 million), the realization (EUR 0.26 million) and amortization (EUR -0.29 million) and management and interest cost (-0.39 million) of investments. At the end of the year, investment assets amounted to EUR 72.3 million (end of 2018: EUR 54.7 million). Assets are split between fixed income securities 85% (2018: 86%); loans 6% (2018: 6%); shares 9% (2018: 8%).
At the end of 2019, the shareholder's equity amounted to EUR 34.9 million (2018: EUR 28.0 million); insurance technical provisions to EUR 63.1 million (2018: EUR 54.7 million); liabilities to EUR 44.5 million (2018: EUR 39.9 million).
At the end of 2019, ADB Compensa VIG had total assets of EUR 153.2 million (2018: EUR 133.0 million).

Strategy and development for 2019

In 2019 the Company continued steady growth in Baltic market with the ambition to increase profitable result. Compensa ambition is to continue steady growth and materialize on the economies of scale, continuing with profitable result in 2020. In order to accomplish growth and market penetration targets Compensa merger with other VIG group company Seesam is planned in 2020. Finalization and registering certificates on Cross Border Merger is expected in July – August, 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 3 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 line of business was further increased in the portfolio and huge efforts were put on developing the property line of business and diversifying the 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 in the 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 the Baltic entity with Pan-Baltic departments established; however, local market specifics are addressed by experienced local management in place which allows to apply certain decisions to improve pricing for mass products and large corporate customers in specific markets.

- **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, which will enhance the operations and business efficiency in several areas and departments 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

At the end of 2019, the Company had 219 employees (2018: 196), 116 of whom work in Lithuania, 72 in Latvia and 31 in Estonia. The growing Company strives to attract 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 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 threated 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 subcategories 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.

- 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 conservative and 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.

- Credit 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 or enter into the repurchase agreement.

- 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 seventh 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 organized joint social activities. Main project was “Dream day – safe day”. Project theme - there is no time left for drawing us attention in our families.
Detailed information about the Company’s social activities is presented in social responsibility report, which is available on the Company’s internet website: https://www.compensa.lt/finansine-informacija/ .

D. Raipa
General Manager
26 March 2020

Separate statement of comprehensive income (EUR)

Items	Note	Financial year	Previous financial year
INSURANCE INCOME			
NET PREMIUMS EARNED	**24**	**50 170 185**	**31 107 034**
Net written premiums		**57 916 047**	**36 855 767**
Gross written premiums	23	84 691 234	73 470 630
Reinsurer's share in premiums	23	(26 775 187)	(36 614 862)
Change in provision for unearned premiums		**(7 745 861)**	**(5 748 733)**
Change in gross provision for unearned premiums		(4 274 912)	(9 988 112)
Change in provision for unearned premiums, reinsurer's share		(3 470 949)	4 239 379
Other technical income		-	-
INSURANCE EXPENSES			
Net claims paid		**(26 193 088)**	**(15 894 675)**
Gross claims paid	25	(41 877 514)	(30 564 823)
Claims settlement expense	24	(4 600 031)	(3 406 328)
Recovered losses	24	3 030 292	1 998 715
Reinsurer's share	24	17 254 165	16 077 760
Change in outstanding claim technical reserve		**(3 356 745)**	**(3 674 300)**
Change in gross provision for claims	24	(4 053 186)	(8 519 099)
Change in provision for claims, reinsurer's share	24	696 441	4 844 799
NET INCURRED CLAIMS		**(29 549 833)**	**(19 568 976)**
Operating expenses		**(18 994 136)**	**(12 414 901)**
Acquisition costs	26	(22 727 460)	(17 368 865)
Administrative expenses	27	(5 097 729)	(5 634 317)
Reinsurance commission income and profit share		8 831 053	10 588 280
Other technical expenses		**(1 145 978)**	**(908 159)**
Interest income	28	619 082	677 740
Net profit / loss of financial assets	28	262 485	(167 273)
Investment valuation and management expenses	28	(503 992)	(318 283)
Other finance income	29	27 100	16 110
Other finance expenses	29	(73 183)	(38 577)
Other income	30	101 577	87 930
Other expenses	30	(1 579 047)	(1 165 805)
PROFIT / (LOSS) BEFORE TAXES		**480 238**	**(1 785 001)**
INCOME TAX EXPENSES	31	**(102 838)**	**(26 204)**
PROFIT / (LOSS) OF THE YEAR		**377 400**	**(1 811 205)**
Other comprehensive income		**2 064 115**	**(289 836)**
Total comprehensive profit / (loss) for the reporting year		**2 441 515**	**(2 101 041)**

D. Raipa	Ž. Kramarauskaitė	L. Petrošienė
General Manager	Chief Accountant	Chief Actuary
26 March 2020	26 March 2020	26 March 2020

Separate statement of financial position (EUR)

Items	Note	Financial year	Previous financial year
ASSETS			
Intangible assets	1	12 391 228	11 708 166
Right-of-use assets	2	508 641	-
Property and equipment	3	321 970	409 903
Investments in subsidiaries	7	2 976 724	2 976 724
Financial assets available for sale	4	65 052 483	48 261 216
Loans and deposits	6	4 274 482	3 480 975
Total investment		**72 303 689**	**54 718 915**
Amounts receivable from policy holders		6 054 508	5 100 390
Amounts receivable from intermediaries		4 002 894	3 652 079
Total receivables from direct insurance activities		**10 057 402**	**8 752 469**
Receivable from reinsurance activities		3 286 556	1 523 864
Other receivables		321 180	249 257
Total amounts receivable	8	**13 665 138**	**10 525 590**
Deferred tax assets	31	**402 074**	**807 737**
Provision for unearned premiums, reinsurer's share		12 704 579	16 175 528
Outstanding claims technical provision, reinsurer's share		12 218 376	11 521 936
Total reinsurance assets	9	**24 922 955**	**27 697 463**
Accrued interest and rental income		332 519	259 685
Deferred acquisition costs		10 170 484	8 921 203
Other accrued income and deferred costs		13 434 282	9 799 659
Total accrued income and deferred costs		**23 937 285**	**18 980 547**
Cash at bank and cash in hand	11	**5 169 120**	**8 142 967**
Total assets		**153 622 100**	**132 991 288**

Continued on the next page

Separate statement of financial position (EUR) (continued)

Items	Note	Financial year	Previous financial year
EQUITY AND LIABILITIES			
Equity			
Share capital	12	15 800 000	11 300 000
Share premium		17 045 774	30 400 000
Revaluation reserve	13	1 668 425	(395 690)
Legal reserve	14	-	263 258
Retained earnings to be carried forward from the previous year		-	(11 806 279)
Profit (loss) of the reporting year		377 400	(1 811 205)
Total equity		**34 891 599**	**27 950 084**
Liabilities			
Subordinated loan	6	**7 596 814**	**7 596 814**
Technical reserves			
Technical provision for unearned premiums	9	38 172 128	33 888 150
Technical provision for outstanding claims	9	24 883 168	20 829 982
Unexpired risk technical provisions		-	-
Insurance rebates technical provision		8 037	17 102
Total insurance liabilities		**63 063 333**	**54 735 235**
Provisions	14	**906 046**	**817 175**
Creditors			
Direct Insurance creditors			
Liabilities to insured	16	1 769 037	1 360 856
Liabilities to intermediaries	16	16 597 887	12 071 329
Total direct Insurance creditors		**18 366 924**	**13 432 185**
Liabilities to reinsurers	17	4 902 491	1 925 850
Deposits of reinsurer	15	18 306 226	22 406 147
Debts to credit institutions	18	56 920	69 416
Lease liabilities	2	509 916	-
Taxes and social insurance contributions	19	94 129	98 308
Other liabilities	20	2 221 238	1 543 434
Total creditors		**44 457 844**	**39 475 339**
Accrued liabilities	22	**2 706 465**	**2 416 642**
Total equity and liabilities		**153 622 100**	**132 991 288**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

D. Raipa	Ž. Kramarauskaitė	L. Petrošienė
General Manager	Chief Accountant	Chief Actuary
26 March 2020	26 March 2020	26 March 2020

Separate statement of changes in equity (EUR)

	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance as at 31 December 2017	**9 700 000**	**24 000 000**	**(105 854)**	**263 258**	**(11 806 279)**	**22 051 125**
Profit / (loss) of the year	-	-	-	-	(1 811 205)	**(1 811 205)**
Other comprehensive income	-	-	(289 836)	-	-	**(289 836)**
Increase / decrease in authorized capital	1 600 000	6 400 000	-	-	-	**8 000 000**
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**
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**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

D. Raipa	Ž. Kramarauskaitė	L. Petrošienė
General Manager	Chief Accountant	Chief Actuary
26 March 2020	26 March 2020	26 March 2020

Separate statement of cash flows (EUR)

Items	Note	Financial year	Previous financial year
Cash flows from operating activities			
Premiums received from direct insurance		77 270 155	69 953 321
Claims paid for direct insurance		(41 352 115)	(29 929 274)
Payments received from ceded reinsurance		-	2 318
Payments made for ceded reinsurance		(2 560 911)	(3 709 150)
Operating expenses paid		(25 069 323)	(22 071 322)
Taxes paid on ordinary activities		(1 363 740)	(858 616)
Amounts paid on other operating activities of insurance		443 266	103 158
Net cash from / (used in) operating activities		**7 367 332**	**13 490 435**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	7	-	(800 000)
Disposal of the investments		6 407 887	8 085 808
Acquisition of the investments		(20 157 205)	(26 673 174)
Loans	6	(844 048)	(3 000 000)
Interest received from shares, debt and other non-current assets	6	188 799	12 137
Amounts from other investing activities		(31 117)	(27 428)
Net cash flows from / (used in) investing activities		**(14 435 684)**	**(22 402 657)**
Cash flows from financing activities			
Amounts received on issue of ordinary shares		4 500 000	8 000 000
Subordinated loan	6	-	4 000 000
Interest from loans	6	(405 495)	(157 521)
Received cash from business transfer		-	-
Amounts paid for other financing activity		-	-
Net cash flows from / (used in) financing activities		**4 094 505**	**11 842 479**
Net increase / (decrease) in cash and cash equivalents		**(2 973 847)**	**2 930 257**
Cash and cash equivalents at the beginning of reporting year		**8 142 967**	**5 212 710**
Cash and cash equivalents at the end of reporting year		**5 169 120**	**8 142 967**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

D. Raipa	Ž. Kramarauskaitė	L. Petrošienė
General Manager	Chief Accountant	Chief Actuary
26 March 2020	26 March 2020	26 March 2020

Separate 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 2019 the authorized capital of the Company consists of 158 000 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 2019 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 2019, the Company had 219 full-time employees (at 31 December 2018: 196), 116 of them work in Lithuania, 72 in Latvia and 31 in Estonia.

Country	**31/12/2019**	**31/12/2018**
Lithuania	116	109
Latvia	72	62
Estonia	31	25
Total	**219**	**196**

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 2019 and as at 31 December 2018, 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 in March 2020.

2. BASIS OF PREPARATION

Statement of compliance

The significant accounting policies applied in the preparation of these separate financial statements are set out below. Consistent accounting principles have been applied to the financial years presented in these financial statements.

These financial statements are separate financial statements of the Company. Consolidated financial statements are not prepared based on Article 6(2) of the Law on Consolidated Accounts of Groups of Undertakings. Consolidated financial statements will be prepared on Vienna Insurance Group AG level, translated into Lithuanian language financial statements will be placed on Compensa WEB site (www.compensa.lt).

Basis of preparation

The separate 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 2019. The separate financial statements were presented for authorization to management on 26 March 2020. The shareholders of the Company have a statutory right to either approve these separate financial statements or not approve them and require the management to prepare a new set of separate 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 separate 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 separate financial statements is presented in the following notes:

- Note 1 Goodwill
- Note 6 Shares of subsidiaries
- Note 13 Insurance contract provisions
- Note 14 Reinsurance assets
- Note 2 Leases

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 separate 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

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

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 separate 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 2019 and 2018 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
    - Lithuania: 0.217%,
    - Latvia: 0.283%, MTPL 0.20%,
    - 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 0.41 per insurance contract, fixed monthly fee EUR 2 775,
    - Estonia 3.5% 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 separate 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 separate 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 separate 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 separate 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 separate 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.

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 revaluating 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.

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 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.

Separate cash flow statement

The separate 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 payed 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 separate IFRS standard demands exactly this netting.

Changes in accounting policy

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

i. Leases in which the Company is a lessee

The Company recognised new assets and liabilities for its operating leases of premises (see Note 2). Due to the nature of expenses related to those leases the Company recognised a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

ii. Leases in which the Company is a lessor

No significant impact is expected for other leases in which the Company is a lessor.

*iii. Impact on transition**

On transition to IFRS 16, the Company recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

Right-of-use assets – property, plant and equipment	494 023
Right-of-use assets – cars	14 618
Lease liabilities	509 916
Profit (loss)	(1 274)

*Retained earnings in the table in the amount of EUR 1 274 show the impact of IFRS 16 on profit or loss for the period. For details of accounting policies under IFRS 16 and IAS 17, see Note 2.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted future lease payments using its incremental borrowing rate at 1 January 2019.

Lease term	**Incremental borrowing rate**
Up to 1 year	-
1 to 5 years	0.92%

Comparison of lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements for the year ended 31 December 2018 and discounted lease liability that was accounted for on 1 January 2019:

	01/01/2019 EUR'000
Operating lease commitments at 31/12/2018 as disclosed under IAS 17 in the Company's financial statements	**812 550**
Recognition exemption for leases with less than 12 months of lease term at transition	(57 844)
Adjustment for different assessment of lease term	(1 049)
VAT part of operating lease commitments at 31/12/2018 as disclosed under IAS 17 in the Company's financial statements	155 740
Lease liability as of 01/01/2019 (undiscounted)	**909 397**
First time discounting effect	(5 158)
Previously undisclosed operating lease commitments at 31/12/2018 (discounted)	
Lease liability as of 01.01.2019 (discounted)	**904 239**

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

Changes in accounting policies

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. Those which may be relevant to the Company as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Company does not plan to adopt these amendments, standards and interpretations early.

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

(iii) Other Standards

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

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Amendments to References to Conceptual Framework in IFRS Standards.

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 threated 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 process 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 (235 798) and in PLN (525 573) EUR (resulting from liabilities) and DDK 3 618 267 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 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**

Split of assets and liabilities by currencies at the end of the year 2018 is the following:

	EUR	GBP	CHF	DKK	PLN	Total
Assets						
Financial assets available for sale	44 734 114	-	-	3 527 102	-	**48 261 216**
Total amounts receivable (Note 8)	10 525 590	-	-	-	-	**10 525 590**
Outstanding claims technical provision, reinsurer's share	11 091 831	346 021	-	-	84 084	**11 521 936**
Loans and deposits	3 480 975	**-**	**-**	**-**	**-**	**3 480 975**
Cash and Cash equivalents	8 139 208	-	-	3 759	-	**8 142 967**
Total assets	**77 971 718**	**346 021**	**-**	**3 530 861**	**84 084**	**81 932 684**
Equity and liabilities						
Outstanding claim technical reserve	20 096 477	619 460	-	-	114 045	**20 829 982**
Provisions (Note 14)	817 175	-	-	-	-	**817 175**
Creditors	16 769 946	-	31 873	-	364 188	**17 166 006**
Total equity and liabilities	**37 683 598**	**619 460**	**31 873**	**-**	**478 233**	**38 813 163**
Open currency position	**40 288 120**	**(273 439)**	**(31 873)**	**3 530 861**	**(394 149)**	**43 119 521**

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	**2019**	**2018**
+ 100 bp	(4 011 027)	(3 655 833)
- 100 bp	4 387 137	4 058 625

The average yield for investment portfolio is presented below:

Type of investment	**2019**	**2018**
Corporate bonds	1.56%	1.55%
Government bonds	0.74%	0.84%

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:

	2019	**2018**
5 % increase security price	3 252 624	2 354 216
5 % decrease security price	(3 252 624)	(2 354 216)

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),VIG Funds, Shares investment to subsidiaries (strategic participation), and cash and deposits held in banks.

Investment split according to ratings as at 31 December

	Currency					
Rating	**EUR**	**DKK**	**31/12/2019**	**EUR**	**DKK**	**31/12/2018**
AAA	1 551 266	3 618 049	5 169 315	1 463 452	3 527 102	4 990 554
AA+	1 598 749	-	1 598 749	1 501 292	-	1 501 292
AA	1 062 071	-	1 062 071	1 024 543	-	1 024 543
AA-	1 562 341	-	1 562 341	1 475 556	-	1 475 556
A	9 814	-	9 814	4 638 507	-	4 638 507
A-	48 782 070	-	48 782 070	35 916 360	-	35 916 360
BBB+	835 830	-	835 830	771 458	-	771 458
BBB	2 348 542	-	2 348 542	397 366	-	397 366
BBB-	-	-	-	1 007 207	-	1 007 207
BB-	509 661	-	509 661	-	-	-
Not rated	15 594 415	-	15 594 415	11 139 039	-	11 139 039
Total	**73 854 759**	**3 618 049**	**77 472 808**	**59 334 780**	**3 527 102**	**62 861 882**

More than 79% 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	2019	2018
Nordea Kredit (AAA)	388 044	550 072
Realkredit Danmark A/S (AAA)	656 491	1 169 655
BRF kredit (AAA)	658 122	822 574
Nykredit Real (AAA)	1 231 151	-
Nykredit (AAA)	684 241	984 801
BNG Bank (AAA)	781 671	743 125
Republic of Italy (BBB)	962 438	-
BNP Paribas (A-)	314 211	-
Goldman Sachs Group Inc. (BBB)	473 816	-
Air Baltic Corporation (BB-)	509 661	-
Johnson & Johnson (AAA)	769 595	720 327
Republic of Austria (AA+)	530 299	497 001
State of North Rhine-Westphalia Germany (AA+)	1 068 450	1 004 291
SNFC Reseau EPIC (AA)	1 062 071	1 024 543
Cooperatieve Rabobank (AA-)	511 581	493 694
Shell International Finance BV (AA-)	526 148	491 081
Westpac Banking (AA-)	524 612	490 782
Erste bank Cash (A)	9 814	4 638 507
Republic of Latvia (A-)	4 442 654	3 962 574
Kingdom of Spain (A-)	1 659 366	1 499 333
Republic of Poland (A-)	-	1 478 738
Bank Gospodarstwa Krajowego (A-)	547 358	489 492
Republic of Lithuania (A-)	41 818 481	28 486 224
Lietuvos Energija UAB (BBB+)	835 830	771 458
Luminor bank AS Estonia (BBB)	912 288	397 366
Portugal Republic (BBB-)	-	1 007 207
Strategic participation (Unrated)	2 976 724	2 976 724
Loans (Unrated)	4 274 482	3 480 975
Cash and deposits	5 159 306	3 504 460
VIG Fund shares	3 183 904	1 176 880
Credit risk	**77 472 808**	**62 861 882**

	2019	2018
Reinsurers' share in unearned premium reserves	12 704 579	16 175 528
Outstanding claims reserve, reinsurers' share	12 218 376	11 521 936
Reinsurance debtors	3 286 556	1 523 864
Receivables due from policyholders	6 054 508	5 100 390
Receivables due from intermediaries	4 002 894	3 652 079
Other receivables	321 180	249 257
Maximum credit exposure, total	**38 588 093**	**38 223 054**

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 7.

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 2019	Reinsurance receivables 2018
Vienna Insurance Group	A+	32 746	38 886
VIG RE zajist'ovna, A.S.	A+	978 141	421 268
Hannover rueckversicherung ag	AA-	94 389	74 965
Ace European Group limited	AA-	44 267	43 797
Mapfre re compania de reaseguros, S.A.	A	75 568	57 486
Scor Global P&C SE	AA-	188 243	179 057
Polskie towarzystwo reasekuracji SA	A-	185 082	91 497
R+v Versicherung AG	AA-	173 425	146 579
Swiss Re Europe S.A.	AA-	1 184 562	301 712
Not rated		330 133	168 618
Total		**3 286 556**	**1 523 864**

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 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.

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 2019 61.8 million bonds and 3.1 million VIG Funds shares EUR and 2018Y 47 million bonds and 1.1 million VIG Funds shares EUR. This group of assets is considered as highly liquid financial asset because management has the ability to sell them earlier than the bonds maturity dates.

Liquidity risk assessment as at 31 December 2019

Items	Contractual undiscounted cash flows Non-fixed term up to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
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.

Liquidity risk assessment as at 31 December 2018

Items	Contractual undiscounted cash flows Non-fixed term up to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial assets available for sale	2 089 673	8 999 993	42 973 087	**54 062 752**	**48 261 216**
Accrued interest	259 685	-	-	**259 685**	**259 685**
Loans and deposits (Note 6)	153 945	2 069 056	1 981 491	**4 204 492**	**3 480 975**
Cash at bank	8 142 967	-	-	**8 142 967**	**8 142 967**
Total amounts receivable (Note 8)	10 525 590	-	-	**10 525 590**	**10 525 590**
Total asset	**21 171 860**	**11 069 049**	**44 954 578**	**77 195 486**	**70 670 433**

Items	Non-fixed term up to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Technical provision (net)	24 649 035	1 924 806	463 929	**27 037 770**	**27 037 770**
Insurance creditors (Note 16)	4 532 381	-	-	**4 532 381**	**4 532 381**
Liabilities to reinsurers (Note 17)	1 925 850	-	-	**1 925 850**	**1 925 850**
Subordinated loan	491 814	1 580 000	9 212 500	**11 187 500**	**7 596 814**
Other creditors	1 655 193	55 965	-	**1 807 972**	**1 711 158**
Total liabilities	**33 354 273**	**3 560 771**	**9 676 429**	**46 491 473**	**42 803 973**

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	**2019**	**2018**
Personal accident	Not ceded	Not ceded
Travel medical expense	Not ceded	Not ceded
Motor own damage	Not ceded	150 000 €
Cargo insurance	250 000 €	250 000 €
Property insurance	250 000 €	250 000 €
Motor third party liability insurance	125 000 €	125 000 €
General TPL insurance	200 000 €	200 000 €
Bonds (from 05/2017)	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 using of different methods for performed projections allows to evaluate the range of possible outcomes. The most suitable computing technique is choosing, 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 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)

Sensitivity analysis for claims provision as at 31 December 2018

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	2 130 684	(1 355 282)	20 079	(20 071)
Property	316 974	(175 243)	1 530	(1 526)
Liability	121 178	(121 178)	10	(10)
MOD	15 786	(15 786)	4 229	11 411

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. According to the Company’s evaluation, its provisions as at 31 December 2019 are adequate.

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**
2010		(509)	206	(314)	(266)
2011		60 838	21 185	16 709	89
2012		443 472	54 859	21 266	102 837
2013		344 157	354 433	46 199	3 625
2014		873 943	1 220 422	139 275	(125 664)
2015		5 786 504	2 117 086	202 291	106 529
2016		17 114 672	8 473 554	675 273	564 564
2017			23 448 814	5 277 596	490 821
2018				25 594 140	10 089 250
2019					32 215 469
Total	**0**	**24 623 076**	**35 690 558**	**31 972 436**	**43 447 254**

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

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 publics 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 and is described in the Asset-Liability Management Policy. 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 2018				
Acquired assets	-	500 443	-	**500 443**
Written off	-	-	-	**-**
Amortization for intangible assets written-off	-	-	-	**-**
Amortization charge	-	(272 362)	(841)	**(273 203)**
Closing net book amount	**-**	**1 160 735**	**1 895**	**11 708 166**
As at 31 of December 2018				
Acquisition cost	10 545 536	1 737 788	4 209	**12 287 533**
Accumulated amortization	-	(577 053)	(2 314)	**(579 367)**
Net book amount	**10 545 536**	**1 160 735**	**1 895**	**11 708 166**
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 of 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**

The amortization expenses of intangible assets for the year 2019 was booked as administrative expenses in the amount of EUR 206 412 (in 2018: EUR 273 203).

In 2019 the Company changed amortization policy rules and extended amortization period from 5 until 10 years for software used for insurance business. The Company's intangible assets such as software and other assets are acquired from suppliers. 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. 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 2019. 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 2019 was determined based on the discounted dividends model (for 2018 was determined on the discounted cash flow projections) based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the equity value in use in 2019 and 2018 are described further.

Gross written premiums are forecasted to grow at compound average growth rate (CAGR) 7.5% over the next five years. Net earned premiums are forecasted to grow at compound average growth rate (CAGR) 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 58–62% and net loss ratio is forecast at 64% 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 7.74% in 2019 and 7.63% in 2018.

The assessment of the recoverable amount of the cash generating unit as at 31 December 2019 resulted in no impairment of goodwill at the end of 2019.

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 2019:

Items	**Net Premiums Earned**	**Loss ratio**	**Discount rate**
	-2%	**+1%**	**+1%**
Impairment needed, tEur	**2 263**	**4 115**	**0.118**

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 a discount rate.

Right-of-use asset

in thousands of euro	Land and buildings	Cars
2019		
Balance at 1 January	878 860	25 379
Depreciation charge for the year	(325 260)	(7 728)
Additions to right-of-use assets	27 666	-
Derecognition of right-of-use assets*	(87 243)	(3 034)
Balance at 31 December	**494 023**	**14 618**

Lease liabilities

2019 – Operating leases under IFRS 16	
Less than one year	280 605
One to two years	219 464
Two to three years	9 847
Four to five	-
Total	**509 916**

Leases as lessee (IFRS 16)

Over 3 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 3 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, vehicle and other miscellaneous items.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Operating lease liabilities at the end of 2019 were EUR 944 684 and at the end of 2018 EUR 862 058.

	Property and equipment **EUR'000**
Balance at 01/01/2019	**904 239**
Recognition of lease liabilities on initial application of IFRS 16	-
Adjusted balance at 01/01/2019	**904 239**
Additions	(62 611)
Depreciation charge for the year	(332 988)
Balance at 31/12/2019	**508 641**

Amounts recognised in profit or loss

	2019 **EUR'000**
2019 – Leases under IFRS 16	
Interest on lease liabilities	
Expenses relating to short-term leases	6 298
	59 194

	2018 EUR'000
2018 – Operating leases under IAS 17	
Lease expense	**256 571**

Amounts recognised in the statement of cash flows

	2019 EUR'000
Total cash outflow for leases	**422 560**

Note 3. Property and equipment (EUR)

	Office and other equipment	Vehicles	Prepayments for non-current assets	Total
In 2018				
Acquired assets	153 475	87 200	-	**240 675**
Written-off	-	-	-	**-**
Depreciation for tangible assets written-off	-	-	-	**-**
Depreciation charge	(140 159)	(9 406)	-	**(149 565)**
Closing net book amount	**292 658**	**117 245**	**-**	**409 903**
As at end of 2018				
Acquisition cost	648 989	143 635	-	**792 624**
Accumulated depreciation	(356 331)	(26 390)	-	**(382 721)**
Net book amount	**292 658**	**117 245**	**-**	**409 903**
In 2019				
Balance at 01/01/2019				
Adjusted balance at 01/01/2019				
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 December 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**

The depreciation expenses of property and equipment of the year 2019 were booked as administrative expenses (Note 27) in the amount of EUR 168 894 (in the year 2018 – respectively EUR 149 565).

As at 31 December 2019, the Company had fully depreciated property and equipment which were still used in activity.

Office and other equipment:

Items	**2019**	**2018**
Acquisition price	146 583	88 111

Note 4. Financial assets available for sale and fair value of the financial assets (EUR)

Financial assets available for sale

	2019	2018
At the beginning of the reporting year	**48 261 216**	**29 609 929**
Purchases	20 063 717	26 575 529
Maturities	(1 391 271)	(2 741 301)
Disposals	(4 230 260)	(4 690 977)
Fair value Gain/(Loss) recorded in OCI	2 637 132	(196 745)
Amortization adjustment	(287 094)	(289 537)
Foreign currency exchange adjustments	(957)	(5 682)
At the end of the reporting year	**65 052 484**	**48 261 216**

Fair value of the financial assets

	2019		2018	
Items	**Amortized cost**	**Fair value**	**Amortized cost**	**Fair value**
Republic of Lithuania	40 573 704	41 818 481	28 811 158	28 486 224
Republic of Latvia	4 310 412	4 442 654	3 994 235	3 962 574
State of North Rhine-Westphalia Germany	1 015 827	1 068 450	1 017 700	1 004 291
Republic of Poland	502 071	547 358	1 462 804	1 478 738
Republic of Austria	501 984	530 299	502 183	497 001
Republic of Portugal	-	-	996 396	1 007 207
Republic of Italy	947 224	962 438	-	-
Kingdom of Spain	1 513 551	1 659 366	1 527 842	1 499 333
Corporate bonds	10 584 369	10 839 534	9 226 271	9 148 969
VIG Fund shares	3 183 904	3 183 904	1 176 879	1 176 879
Total	**63 133 046**	**65 052 484**	**48 715 468**	**48 261 216**

The fair value was measured based on the quoted prices or the current market value of similar securities (Level l fair value hierarchy for quoted and Level 3 for VIG Fund shares).

Revaluation effect for financial investments available for sale that in 2019 was recognized in other comprehensive income was EUR 2 064 115 (in 2018: EUR (289 836)).

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 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**

Hierarchy as at 2018

	Level 1	Level 2	Level 3	Total
Loans to subsidiaries	-	-	1 500 000	1 500 000
Mortgage loans	-	-	1 980 975	1 980 975
Bonds	47 084 336	-	-	47 084 336
VIG Fund shares	-	-	1 176 880	1 176 880
Total	**47 084 336**	**-**	**4 657 855**	**51 742 191**

	Level 1	Level 2	Level 3	Total
Subordinate liabilities	-	-	7 596 814	7 591 389
Liabilities from lease	-	-	69 416	69 416
Total	**-**	**-**	**7 666 230**	**7 666 230**

On 6 December 2019, the Company additionally invested into shares of VIG FUND in the amount of EUR 2 million which is VIG Group company which invests in real estate. Value of VIG Fund shares is determinate by reference to the Net Asset Value of the Investee on the date of financial reporting, where the value of assets is measured using valuation reports prepared by appraisers. The amount increase of prices after evaluation of prices at the end of 2019 was not recognised in the financial statements.

Note 6. Loans and deposits

a) Loans granted

On 3 October 2019 the Company granted additional loan for the Group company VIG FUND uzavreny investični fond, a.s. in the amount of EUR 844 048 with interest rate 1.8%. The total amount granted to VIG FUND uzavreny investični fond, a.s. at the end of 2019 is EUR 2 774 481. The loan is secured by real estate. Maturity of the loan is 06/12/2026.

On 2 May 2018 the Company granted a loan of EUR 500 000 to Compensa Services UAB, the interest rate of which is 4.5% + Eurolibor for 12 months. The loan will be repaid within 5 years.

On 27 June 2018 the companies issued loans to subsidiary Compensa Services SIA for EUR 1 000 000 at an interest rate of 4.5% + Eurolibor for 12 months. The loan will be repaid within 5 years.

On 3 October 2018 was issued a loan to Artrium Tower Sp. Z.o.o. of EUR 540 000 at an interest rate of 2.5%. The loan will be repaid within 12 years.

On 3 October 2018, an additional loan was granted by the Company to the Group General VIG FUND Investigations Fund, a.s. amounting to EUR 960 000 at a rate of 2.5%. Total amount given to VIG FUND uzavreny tyrèni fond, a.s. 2018 at end of the year is EUR 1 432 631. The loan is secured by real estate. The loan is repaid within 10 years.

For the year ended 31 December 2019, the Group has not recorded any impairment of loans relating to amounts owed by related parties.

Loan and interest amounts receivable

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

Items	2019		2018	
	Loans	Future interest	Loans	Future interest
Within 1 year	69 311	125 474	35 283	118 662
Within 2-5 years	1 787 873	379 889	1 672 979	396 077
Within 5-10 years	1 264 964	170 622	575 805	164 862
After 10 years	1 152 334	25 720	1 188 564	52 260
Total	**4 274 482**	**701 705**	**3 472 631**	**731 861**

Loan amount as at 31 December 2019

Items	2019	2018
Loans at the beginning of reporting year	**3 480 975**	**484 768**
Loans granted	844 048	3 000 000
Accrued interest	-	8 344
Loans repayment	(50 541)	(12 137)
Loans at the end of reporting year	**4 274 482**	**3 480 975**

b) Loans received

At the end of 2019 and 2018 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	2019		2018	
	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)	1 405 000	(7 500 000)	(1 712 500)
After 10 years	-	-	-	-
Total	**(7 500 000)**	**3 380 000**	**(7 500 000)**	**(3 687 500)**

Loan amount as at 31 December 2019

Items	2019	2018
Loans at the beginning of reporting year	**(7 596 814)**	**(3 500 000)**
Loans received	-	(4 000 000)
Accrued interest	393 192	(96 814)
Loans repayment	(393 192)	-
Loans at the end of reporting year	**(7 596 814)**	**(7 596 814)**

Note 7. Shares of subsidiaries

On 16 September 2016, the Company concluded an agreement regarding purchases of UAB Compensa Services shares and on 6 September 2016, the Company concluded an agreement regarding purchases of SIA Compensa Services shares. Under these agreements, the Company has acquired the right to 100% of the shares.

Acquisition price of shares

Company name	Shares, %	Number of shares 2019	Acquisition price 2019	Acquisition price 2018
UAB Compensa Services	100%	4 000 000	1 994 800	1 994 800
SIA Compensa Services	100%	953 324	981 924	981 924
Total			**2 976 724**	**2 976 724**

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)	921 919	61 083	3 836 128
SIA Compensa Services (unaudited)	(266 221)	121 011	1 699 480

The equity and total assets as at 31 December 2018 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)	860 836	(97 448)	2 866 375
SIA Compensa Services (unaudited)	(387 232)	172 074	1 323 806

Impairment testing of shares of the subsidiaries

The subsidiaries in Lithuania and Latvia in 2019 generate profit and subsidiary in Latvia has improved negative equity from EUR -387 232 to EUR -266 220. The management assessed shares of subsidiaries for impairment by estimating recoverable amounts. Each subsidiary was considered as separate cash generating unit by the management. The recoverable amount of cash generating units as at 31 December 2019 and 2018 was determined based on the discounted cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value of shares in 2019 and 2018 are described further.

Sales revenue are forecasted to grow at compound average growth rate (CAGR) 7–9% over next five years. Management has forecasted revenue growth in line with Compensa VIG ADB financial plans. Gross profit margin is estimated at 50–37% and net profit margin is forecasted at 46–37% 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 units and is equal to 7.74% in 2019 and 7.63% in 2018.

The Company's assessment of the recoverable amounts of the shares in each subsidiary as at 31 December 2019 and 2018 resulted in no impairment loss.

The management assessed an impact of an individual change of certain key assumptions on the recoverable amount. The following table shows possible impairment loss respectively changing parameters used in the model at the end of 2019:

Items	**Sales revenue**	**Discount rate**	**Sales revenue and discount rate**
	-5%	**+1%**	**-5%; 1%**
UAB Compensa Service, tEur	**0**	**0**	**0**
SIA Compensa Service, tEur	**0**	**0**	**0**

Note 8. Amounts receivable (EUR)

Items	2019	2018
Receivable from direct insurance activities	**10 057 402**	**8 752 469**
Receivable from insured	6 288 828	5 370 922
Receivable from intermediaries	4 062 370	3 652 079
Doubtful debt allowances for receivables from direct insurance operations	(163 123)	(139 313)
Other amounts receivable from insurance activities	(130 672)	(131 219)
Receivable from reinsurance activities	**3 286 556**	**1 523 864**
Receivable from reinsurance activities	3 286 556	1 523 864
Other amounts receivable	**321 180**	**249 257**
Other amounts receivable	321 180	249 257
Total	**13 665 138**	**10 525 590**

Aging of receivables from direct insurance operations

Term	2019			2018		
	Gross	Impairment	Total amounts receivable	Gross	Impairment	Total amounts receivable
Not past due	7 472 497	6 393	**7 466 103**	6 778 913	13 062	**6 765 851**
Overdue 0-30 days	1 956 437	9 723	**1 946 714**	1 560 028	6 017	**1 554 011**
Overdue 31-90 days	446 448	24 358	**422 090**	348 448	20 371	**328 077**
Overdue 91-180 days	141 157	12 372	**128 785**	44 342	12 928	**31 414**
Overdue 181-365 days	125 391	31 681	**93 710**	96 043	22 927	**73 116**
Overdue more than 365 days	78 596	78 596	**-**	64 008	64 008	**-**
Total	**10 220 526**	**163 123**	**10 057 402**	**8 891 782**	**139 313**	**8 752 469**

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.

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 separate 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 that receivables and set off are performed on the monthly basis.

In 2019, no advances were paid to the administrative, management and supervisory bodies.

Note 9. 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		Change of provision GROSS of reinsurance	Change of provision reinsurance part
	2019	2018	2019	2018		
Accident insurance	640 627	603 717	2 358	306	36 910	2 052
Health insurance	327 983	303 043	165 800	97 971	24 940	67 829
Land and vehicle Casco insurance	10 192 904	8 891 348	-	4 445 672	1 301 556	(4 445 672)
Transport insurance	266 237	167 025	-	535	99 212	(535)
Fire and natural hazard insurance	2 985 709	2 870 198	201 261	238 059	115 511	(36 798)
Other property insurance	7 849 023	6 014 157	1 776 645	1 334 010	1 834 866	442 635
Land and vehicle MTPL insurance	12 732 564	12 761 902	9 549 423	9 571 428	(29 338)	(22 005)
Carrier liability (CRM)insurance	93 209	99 431	-	-	(6 222)	-
General liability insurance	1 904 296	1 355 471	474 529	114 184	548 825	360 345
Suretyship insurance	468 334	270 911	439 936	303 546	197 423	136 390
Severe financial losses	165002	96 849	94 627	69 817	68 153	24 810
Assistance insurance	546 240	454 098	-	-	92 142	-
Total	**38 172 128**	**33 888 150**	**12 704 579**	**16 175 528**	**4 283 978**	**(3 470 948)**

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.

On end of 2019Y unexpired risk technical provision was not recognised.

Technical provision for outstanding claims

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		Change of provision GROSS of reinsurance	Change of provision reinsurance part
	2019	2018	2019	2018		
Accident insurance	155 512	122 390	-	-	33 122	-
Health insurance	252 585	215 575	72 344	9 251	37 010	63 093
Land and vehicle Casco insurance	2 655 980	2 533 555	79 223	1 247 749	122 425	(1 168 526)
Transport insurance	158 029	155 812	-	-	2 217	-
Fire and natural hazard insurance	1 631 230	911 848	260 503	28 483	719 382	232 020
Other property insurance	3 556 825	3 685 850	1 395 090	2 041 588	(129 025)	(646 498)
Land and vehicle MTPL insurance	13 816 076	11 813 686	9 590 424	7 975 069	2 002 390	1 615 355
Carrier liability (CRM)	288 808	171 240	-	-	117 568	-
General liability insurance	1 776 501	999 527	361 074	38 465	776 974	322 609
Suretyship insurance	399 223	202 514	345 715	181 331	196 709	164 384
Severe financial losses	192 399	16 164	114 003	-	176 235	114 003
Assistance insurance	-	1 821	-	-	(1 821)	-
Total	**24 883 168**	**20 829 982**	**12 218 376**	**11 521936**	**4 053 186**	**696 440**

Structure of gross technical provision for outstanding claims

	2019	2018
Amount of claims reported but not settled (RBNS)	14 849 866	12 297 880
Reserve for the recoveries	(554 220)	(559 440)
Amounts of claims incurred but not reported (IBNR)	9 580 052	8 354 805
Amount of claims settlement costs	1 007 470	736 738
Total	**24 883 168**	**20 829 982**

Structure of reinsurance share in technical provision for outstanding claims

	2019	2018
Amount of claims reported but not settled (RBNS)	7 398 753	7 367 247
Reserve of the recourse	(229 133)	(340 853)
Amounts of claims incurred but not reported (IBNR)	4 835 496	4 301 082
Amount of claims settlement costs	213 260	181 426
Premium refund reserve	-	13 033
Total	**12 218 376**	**11 521 936**

Note 10. Accrued income and deferred costs

Items	2019	2018
Deferred acquisition costs	**10 170 484**	**8 921 203**
Deferred acquisition costs	10 170 484	8 921 203
Other accrued income and deferred costs	**13 434 282**	**9 799 659**
Accruals for estimated recourses	2 672 631	2 289 862
Prepaid expenses/ deferred costs	10 761 651	7 509 797
Accrued interest and rent income	**332 519**	**268 029**
Accrued interest from bonds available for sale	332 519	268 029
Total	**23 937 285**	**18 980 546**

As at 31 December 2019, deferred acquisition costs amounted to EUR 10.1 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 2.7 million are estimated for potential recovery cases by taking into account uncertainty level related to particular claims. For cases above EUR 10 thousand, individual case by case approach is used for recoveries and subrogation estimation, where amount is estimated by expert from Prevention department. For cases below EUR 10 thousand the provisions for recoveries and subrogation are estimated based on historical experience by multiplying amount for recovery and subrogation coefficient. In setting coefficients only history cases under EUR 10 thousand are taken into estimation

Hypothetical recourse is calculated for cases where potential recovery is estimated by claims department on case by case basis. For other cases with potential recoveries, the expected recovery amount is multiplied by hypothetical recourse coefficient, which is derived from historical experience.

Prepaid expenses/deferred costs in the amount of EUR 10.7 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	2019	2018
Deferred acquisition costs at the beginning of the year	**8 921 203**	**6 040 683**
Additions	22 267 433	18 797 206
Used and reversed	(21 018 152)	(15 916 686)
Deferred acquisition costs at the end of the year	**10 170 484**	**8 921 203**

Note 11. Cash in hand and at bank

Items	2019	2018
Cash in bank	5 169 120	8 142 967
Cash in hand	-	-
Total	**5 169 120**	**8 142 967**

Note 12. Shareholders' equity (EUR)

On 23 May, the sole shareholder of the Company made a decision to increase capital bay EUR 4 500 000. As at the end of 2019, the authorized share capital of the Company was EUR 15 800 000 (as at 31 December 2018: EUR 11 300 000). The authorized share capital consists of 158 000 ordinary registered shares with the nominal value of EUR 100 each, and share premium of EUR 17 045 774. All shares are fully paid.

The sole shareholder made a decision and covered accumulated losses from previous years with share premium in the amount of EUR 13 354 226.

	2019		2018	
Items	**Number of shares**	**Value**	**Number of shares**	**Value**
Share capital	158 000	15 800 000	113 000	11 300 000
Share premium		17 045 774		30 400 000

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

2019		2018	
Number of shares	**% of share capital**	**Number of shares**	**% of share capital**
158 000	100	113 000	100

Note 13. Reserves

As at 31 December 2019, the Company does not have a legal reserve. Reserve in the amount of EUR 263 258 was used for covering accumulated losses from previous years.

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 2019, the Company recognized revaluation reserve for financial assets in the amount of EUR 1 668 425 (Deferred taxes consist of (EUR 251 013)). At the end of 2018 revaluation reserve for financial asset was (EUR 395 690) and deferred taxes consist of EUR 58 561. Deferred taxes from revaluation reserve are presented in other comprehensive income.

Profit distribution

Profit will be distributed to mandatory reserves as it is required according to 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.

Note 14. Provisions

Items	2019	2018
Provisions at the beginning of reporting year	**817 175**	**335 424**
Reserve created	906 046	791 175
Reserve used	(817 175)	(309 424)
Provisions at the end of reporting year	**906 046**	**817 175**

For the year 2019 provisions in the amount EUR 906 046 were created for estimated staff-related liabilities.

Note 15. 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	2019	2018
Unearned premium technical provisions	9 549 423	14 017 099
Outstanding claims technical provisions	8 756 803	8 389 048
Total	**18 306 226**	**22 406 147**

Note 16. Liabilities to insured and intermediaries

Items	2019	2018
Liabilities to policyholders	670 315	912 106
Payable commission to intermediaries	531 454	343 581
Payable commission to related parties	1 345 832	1 153 888
Money received before insurance policies became effective	15 819 323	11 022 610
Total	**18 366 924**	**13 432 185**

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 separate financial statements as liabilities to the policyholders.

Note 17. Liabilities to reinsurers

Items	2019	2018
Reinsurance liabilities to related companies	1 941 915	854 807
Liabilities to other reinsurers	2 960 576	1 071 043
Total	**4 902 491**	**1 925 850**

Note 18. Debts to credit institutions

Debts to credit institutions

Items	2019	2018
Loans at the beginning of reporting year	**69 416**	**12 179**
Loans received	-	60 901
Loans repayment	12 496	3 664
Loans at the end of reporting year	**56 920**	**69 416**

Repayments period

Items	2019		2018	
	Loans	Interest	Loans	Interest
Within 1 year	13 451	767	13 451	956
Within 2-5 years	43 469	1 400	55 965	2 167
Total	**56 920**	**2 167**	**69 416**	**3123**

Note 19. Taxes and social insurance contributions

Items	2019	2018
Lithuanian social taxes	48 333	65 884
Polish social taxes	(4 146)	(4 146)
Austrian social taxes	49 941	36 570
Total	**94 128**	**98 308**

Note 20. Other liabilities

Items	2019	2018
Wages and salaries	364 022	315 503
Payments to employees	2 481	2 143
Taxes liabilities	114 268	86 517
VAT liabilities	59 145	78 107
Payment to Supervisory institution	83 449	85 467
Other liabilities	1 176 358	835 169
Liabilities to other entities for claims handling services	421 511	140 528
Total	**2 221 238**	**1 543 434**

Note 21. 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	2019	2018
Remuneration to Management Board members	215 544	222 208
Bonuses to Management Board members	116 015	58 250

At the end of 2019 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	2019	2018
Receivables from related companies for inward and outward reinsurance activities	1 010 887	460 154
Other receivables from related companies	72 643	96 160
Granted loan	4 274 482	3 472 631
Interest from granted loans	-	8 344
Total	**5 358 012**	**4 037 289**

Liabilities to related parties

Items	2019	2018
Liabilities to related companies for inward and outward reinsurance activities	1 928 072	854 807
Liabilities to related companies for commission	1 345 832	1 153 888
Liabilities to related companies for claims handling	94 104	104 214
Other liabilities to related companies	529 924	373 640
Reinsurance deposit	18 306 226	22 406 147
Interest from subordinated liabilities (Shareholder)	96 814	96 814
Subordinated liabilities (Shareholder)	7 500 000	7 500 000
Total	**29 800 973**	**32 489 510**
Transactions with related parties		
From reinsurance activity	2 392 141	(8 254 259)
Claim handling expenses	(1 205 985)	(1 036 180)
Commission payments	(6 536 105)	(5 819 751)
Other transaction with related companies	1 082 683	(585 748)
Received interest	125 575	55 593
Granted loans	847 761	3 000 000
Received subordinated loan	-	(4 000 000)
Subordinated loan interest	(391 986)	(180 425)
Total	**(3 663 939)**	**(16 820 769)**

Note 22. Accrued costs and deferred income

Items	2019	2018
Accrued costs for payable commission	887 476	631 262
Reinsurers` share in estimated recourse	1 365 766	1 281 037
Other accrued costs for administrative expenses	453 223	504 344
Total	**2 706 465**	**2 416 643**

Position other accrued cost for administration expenses included cost accruals for consulting services, IT services and for other services for the year 2019.

Note 23. Gross written premium

Gross written premium

	Gross written premiums	
Line of insurance	**2019**	**2018**
Accident insurance	1 474 854	1 297 703
Health insurance	1 746 193	1 255 834
Land and vehicle Casco insurance	20 127 119	18 408 165
Transport insurance	738 800	417 034
Fire and natural hazard insurance	5 369 912	4 619 919
Other property insurance	16 274 870	11 671 205
Land and vehicle MTPL insurance	31 586 497	30 642 782
Carrier's liability insurance	334 934	359 899
General liability insurance	4 339 070	3 034 938
Suretyship insurance	1 054 576	625 637
Severe financial losses	547 061	277 120
Assistance insurance	1 097 347	860 394
Total	**84 691 234**	**73 470 630**

Gross written premium per policy issue country

	Gross written premiums	
Line of insurance	**2019**	**2018**
Lithuania	46 106 487	40 132 434
Latvia	26 250 594	23 012 053
Estonia	12 334 153	10 326 143
Total	**84 691 234**	**73 470 630**

Reinsurer's share in premium

	Reinsurer's share in premiums	
Line of insurance	**2019**	**2018**
Accident insurance	6 731	4 800
Health insurance	550 782	118 528
Land and vehicle Casco insurance	(4 445 672)	9 200 398
Transport insurance	-	4 579
Fire and natural hazard insurance	331 119	469 435
Other property insurance	4 733 418	3 075 221
Land and vehicle MTPL insurance	23 195 029	22 420 838
General liability insurance	1276773	549 438
Suretyship insurance	897546	621 418
Severe financial losses	229 461	150 207
Assistance insurance	-	-
Total	**26 775 187**	**36 614 862**

Note 24. Net earned premiums

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**

Net earned premiums as at 31 December 2018

Line of insurance	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
Accident insurance	1 138 259	4 494	1 133 766
Health insurance	1 061 139	20 557	1 040 582
Land and vehicle Casco insurance	16 345 322	8 174 315	8 171 006
Transport insurance	416 662	10 883	405 779
Fire and natural hazard insurance	3 824 005	387 781	3 436 224
Other property insurance	9 210 163	2 874 618	6 335 546
Land and vehicle MTPL insurance	27 172 083	19 817 813	7 354 269
Carrier liability (CRM) insurance	311 249	-	311 249
General liability insurance	2 611 303	597 492	2 013 811
Suretyship insurance	418 016	374 833	43 183
Severe financial losses	231 951	112 698	119 253
Assistance insurance	742 367	-	742 367
Total	**63 482 518**	**32 375 484**	**31 107 034**

Note 25. Claims incurred

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 (CRM) 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 incurred as at 31 December 2018

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	(480 137)	(99 553)	-	-	20 313	(119)	(559 495)
Health insurance	(297 761)	(76 649)	3 701	-	(152 539)	9 251	(513 998)
Land and vehicle Casco insurance	(10 414 981)	(852 159)	1 230 317	4 755 333	(465 339)	341 487	(5 405 341)
Transport insurance	(18 047)	(1 012)	2 515	-	(59 532)	-	(76 076)
Fire and natural hazard insurance	(1 936 369)	(213 700)	187 294	7200	(579 185)	6 657	(2 528 103)
Other property insurance	(3 501 489)	(332 512)	(67 614)	1 426 861	(2 952 785)	1 858 167	(3 569 373)
Land and vehicle MTPL insurance	(13 222 617)	(1 205 398)	632 835	9 722 894	(3 523 791)	2 514 341	(5 081 737)
Carrier liability (CRM) insurance	(82 418)	-	606	-	(119 234)	-	(201 046)
General liability insurance	(468 375)	(37 435)	8 916	42 264	(487 835)	(49 817)	(992 283)
Suretyship insurance	(136 788)	(5 302)	-	123 208	(183 721)	164 833	(37 770)
Severe financial losses	(5 330)	(3 012)	-	-	(14 353)	-	(22 694)
Assistance insurance	(511)	(579 595)	144	-	(1 097)	-	(581 059)
Total	**(30 564 823)**	**(3 406 328)**	**1 998 715**	**16 077 760**	**(8 519 099)**	**4 844 799**	**(19 568 976)**

Claims settlement expenses

Items	2019	2018
Claims settlement expenses	2 599 200	2 100 104
Reclassified from general and administrative expenses	2 000 831	1 306 223
Total	**4 600 031**	**3 406 328**

Note 26. Acquisition costs

Items	2019	2018
Direct acquisition costs	22 384 965	19 123 678
Carried over from general and administrative expenses	1 591 776	1 125 707
Change of deferred acquisition costs	(1 249 281)	(2 880 520)
Total	**22 727 460**	**17 368 865**

Note 27. Administrative expenses

Items	2019	2018
Salaries	5 671 912	4 195 804
Social insurance contributions	627 093	1 208 134
IT expenses (external)	552 859	577 009
Depreciation and amortization (Notes 1 and 3)	372 650	422 768
Specific consulting	40 607	349 598
Rent of premises	343 617	193 767
Misc. sales costs	3 189	163 526
Advertising expenses	112 600	95 032
Business travel costs	372 236	161 157
Auditing and consulting costs	113 285	243 934
Misc. costs	193 461	60 837
Office supplies	53 240	62 794
Bank and deposit fees	98 905	76 711
Misc. office operating costs	62 684	232 977
Telecommunication expenses	65 569	42 862
Taxes and duties	57 172	40 996
Employee benefits	22 103	20 798
Total	**8 763 182**	**8 148 704**

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
2019	5 097 729	1 591 776	2 000 832	72 846	8 763 182
2018	5 634 317	1 125 706	1 306 223	82 458	8 148 704

Payroll costs

Items	2019	2018
Remuneration	4 517 571	3 131 553
Social insurance contributions	627 093	1 208 134
Accrued bonuses	94 750	147 335
Bonuses	442 280	394 141
Vacation costs	383 359	231 645
Remuneration of Management Board	163 344	222 208
Vacation reserve costs	60 106	61 232
Sickness benefit costs	10 502	7 690
Total	**6 299 005**	**5 403 938**

Note 28. Investment income and expenses

Items	2019	2018
Interest income	**619 082**	**382 522**
Coupon interest income from bonds classified as available for sale	769 162	622 147
Loans interest income	114 031	55 593
Dividend income	23 940	-
Amortization expenses	(287 094)	(289 537)
Currency exchange rate	(957)	(5 682)
Net profit/(losses) on disposal of the investments	**262 485**	**127 946**
Gains on disposal of investments	262 485	127 946
Investment valuation and management costs	**(503 992)**	**(318 283)**
Investment valuation costs, including interest	(431 146)	(209 673)
Investment management costs	(72 846)	(82 458)
ABLV bank write-off	-	(26 152)

Note 29. Other finance income and costs

Items	2019	2018
Other finance income	**27 100**	**16 110**
Other income related to currency exchange rate	13 686	7 110
Other interest income	13 414	9 000
Other finance costs	**(73 183)**	**(38 577)**
Interest from reinsurance deposit	(15 017)	(15 565)
Interest from car leasing	(956)	(145)
Currency exchange loss	(4 337)	(4 884)
Asset write-off	9 549	-
Other finance costs	(37 026)	(17 983)
Interest from right-of-use assets	(6298)	-

Note 30. Other income and expenses

Items	2019	2018
Other income	**101 577**	**87 930**
Income from claims handling activities	100 421	85 041
Other income	1 156	2 889
Other expenses	**(1 579 047)**	**(1 165 805)**
Fee for Motor Bureau and Insurance Supervisors	(1 087 887)	(1 192 268)
Other technical costs related with policy administration	49 149	(49 187)
Impairment result of receivables from insurance business (Note 8)	83 327	75 650
Right-of-use asset amortization	(417 536)	-
Other expenses	(206 100)	-

Note 31. 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	2019	2018
Current income tax expenses	(6 740)	**(1 853)**
Change in deferred tax	(96 098)	(24 351)
Total income tax expenses	**(102 838)**	**(26 204)**

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:

	2019		2018	
	Temporary differences	**Deferred tax**	**Temporary differences**	**Deferred tax**
Accrued bonuses and other temporary differences	639 958	95 994	657 300	98 595
Tax losses carried forward	16 884 638	2 532 696	15 974 777	2 396 217
Revaluation of financial assets available for-sale	-	-	390 407	58 561
Total deferred tax assets		**2 628 690**		**2 553 373**
Not recognized deferred tax assets from accumulated losses	(10 182 119)	(1 527 318)	(9 219 265)	(1 382 890)
Recognized deferred tax assets from losses carry forward	**7 342 477**	**1 101 372**	**7 803 219**	**1 170 483**
Revaluation of financial assets available for-sale	(1 673 360)	(251 004)	-	**-**
Recognized deferred tax liabilities amortization of goodwill (Tax amortisation)	(2 032 947)	(304 942)	(1 524 710)	(228 707)
Accrued regress (net)	(955 673)	(143 351)	(893 594)	(134 039)
Deferred tax, net		**402 074**	**-**	**807 737**

For the calculation of Corporate income taxes in Lithuania, the Company used accumulated tax losses in the amount of EUR 52 994 and calculated corporate income tax expense in the amount of EUR 6 749. Deferred tax assets from the losses accumulated in Latvia and Estonia were not created.

At the end of 2019 the Company have deferred tax asset from accumulated losses in amount of EUR 1 005 378 and at the end of 2018 EUR 1 013 327. 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 2019, the Company recognized deferred tax asset assuming that sufficient taxable profits will be generated based on the budget for 2020-2024. 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	2019	Tax rate	2018
Loss before taxes		**480 238**		**(1 785 001)**
Income tax applying the Company's domestic tax rate	15.00%	72 036	15.00%	(267 750)
Change in unrecognized temporary difference	3.66%	(17 599)	-3.53%	62 934
Non-deductible expenses	-	-	-	-
Tax exempt income	16.35%	(78 499)	4.89%	(87 285)
Not recognized tax losses	26.03%	(131 769)	-13.28%	237 078
Utilised tax losses	11.03%	52 994	-1.61%	28 819
Total income tax	**20.01%**	**(102 838)**	**-1.47%**	**(26 204)**

Note 32. Non-life result from insurance activities

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**

Non-life result from insurance activities in 2018

Items	Premiums written	Premiums earned	Claims incurred	Operating expenses	Result of activities
Insurance	73 001 044	63 082 374	(40 482 297)	(23 849 567)	**(1 223 289)**
Inward reinsurance	469 585	400 144	(9 238)	(87 977)	**302 929**
Reinsurance	(36 614 862)	(32 375 484)	20 922 559	10 588 280	**(864 644)**
Total	**36 855 767**	**31 107 034**	**(19 568 976)**	**(13 349 263)**	**(1 785 002)**

Note 33. COVID-19 impact assessment

The Lithuanian government declared a state of emergency on 26 February 2020, on 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic. On 25 March 2020 the Lithuanian government extended the quarantine regime until 13 April 2020.

Responding to the potentially serious threat the COVID – 19 presents to public health, the Lithuanian government authorities have taken measures to contain the outbreak by announcing a 2-week quarantine from 16 March, including introducing restrictions on the cross-border movement of people, entry restrictions on foreign visitors and the ‘lock-down’ of certain industries, recommendations to work from home, pending further developments and possible extension of quarantine. All the situation around the current event is developing quite rapidly:

- Outbreak of pneumonia was reported by China to the World Health Organization on 31 December 2019;
- The outbreak was declared as Public Health Emergency of International Concern on 30 January 2020;

- On 11 March 2020 global pandemic was announced shortly followed by quarantines and lockouts of many countries.

Situation around COVID-19 outbreak has changed the risk profile of the Company and, unlike many other events, challenges appear in many areas:

1) Business contingency: mandatory quarantine, with government recommendations to work outside office and thus related infrastructure issues, travel and meeting restrictions and possible threat to personnel;
2) Asset impact: fears about further situation escalation and economic impact, direct impact on industries such as travel, airlines, public service companies as well as exposures to severely affected countries (Italy, Spain) may have a negative impact on asset portfolio. Additional impact could come from possible defaults;
3) Sales impact: due to slowing economy, changing behaviour and spending of customers;
4) Legal issues and disputes: due to force majeure clause application, employee safety related etc.

From 27 February, the Company took active steps to ensure business contingency. An addendum to the Business Continuity Plan has been created and was approved on 5 March at the Management board meeting. Actions included regular monitoring of the situation and setting of risk levels, issuing staff advice on infection prevention, encouraging clients to use remote communication channels, cancelling travel and live meetings, mandatory quarantine for employees coming from abroad, providing additional security measures and disinfection, and teleworking.

Following such rapid development and surrounding uncertainty it is very challenging to assess the impact on future business.

Currently, impact on sales in Compensa is not significant, with a significant drop only in travel insurance which is not major line of business.

Impact on the investment portfolio of Compensa is also quite limited. Currently, the impact on the value of the investment portfolio is insignificant (up to 1%), given that the majority of the investment portfolio consists of government bonds. Corporate bonds (especially airlines) and government bonds, where the COVID-19 situation is poor (Italy, Spain), have been mostly affected. Following such a rapid development and surrounding uncertainty it is very challenging to assess the impact on future business.

Note 34. Subsequent events

Following the merger agreement signed on 10 October 2019, it was decided to merge Compensa Services AB with the parent company Compensa Vienna Insurance Group ADB. The purpose of this merger is to:

- Optimize corporate governance in a group;

- Simplify the structure of a group of companies;

- Ensure efficiency of business activities of enterprises;

- Enable the EU-wide operation on the basis of a single set of rules and a unified management and reporting system.

Following this merger, which is scheduled to end in 2020, From July to August, AB Compensa Services will be merged with Compensa Vienna Insurance Group through ADB merger.

Besides, a merger with other VIG group company Seesam is planned in 2020. Finalization and registering certificates on Cross Border Merger is expected in July–August 2020.

Sidevahendid

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