Lietuvos draudimas AB

Independent Auditor’s Report,
Annual Report and
Financial Statements for the Year
Ended 31 December 2016

PAGE

Independent Auditor's Report

To the Shareholders of Lietuvos draudimas AB

Opinion

We have audited the accompanying financial statements of Lietuvos draudimas AB ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditor's report is Domantas Dabulis.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
29 March 2017

Members of the Supervisory Board, the Board of Directors and independent auditors

Council

Name, Surname	Position
Jacek Adrian Matusiak	Chairman of the Supervisory Board (from 20.12.2016)
Andrzej Jaworski	Member of the Supervisory Board (from 13.07.2016)
Maciej Bogdan Rapkiewicz	Member of the Supervisory Board (from 28.04.2016)
Slawomir Wlodzimierz Niemierka	Member of the Supervisory Board (from 31.10.2014)
Agnieszka Ewa Karbowiak	Member of the Supervisory Board (from 12.12.2016)
Jacek Adrian Matusiak	Member of the Supervisory Board (from 12.12.2016)
Przemislaw Edward Dabrowski	Member of the Supervisory Board (from 28.04.2016)
Wojciech Franciszek Wroblewski	Member of the Supervisory Board (from 28.04.2016)
Tomasz Tarkowski	Member of the Supervisory Board (from 28.04.2016)
Dariusz Stanislaw Krzewina	Member of the Supervisory Board (from 28.04.2016 until 31.07.2016)
Robert Pawel Pietryszyn	Member of the Supervisory Board (from 28.04.2016 until 27.05.2016)
Sebastian Klimek	Member of the Supervisory Board (from 28.04.2016 until 23.09.2016)

Board

Name, Surname	Position
Kęstutis Šerpytis	Chairman of the Board
Artūras Juodeikis	Board Member
Aurelija Kazlauskienė	Board Member
Julius Kondratas	Board Member
Raimondas Geleževičius	Board Member
Tadas Dovbyšas	Board Member
Rafal Piotr Rybkowski	Board Member
Bogdan Benczak	Board Member

Name and address of the independent auditor:

KPMG Baltics, UAB
Konstitucijos Ave 29
LT-08105, Vilnius
Lithuania

The year 2016 in the economy of Lithuania was the year of a consistent growth: the economy of Lithuania grew faster than in 2015. However, the growth lagged behind the expectations – the Bank of Lithuania, financial experts and analysts of commercial banks forecasted that GDP would increase by 2.8 to 3.3% in 2016, while the actual growth was 2.5%.
According to the Bank of Lithuania, Lithuanian insurance market, including foreign insurance company branches operating in the country, upon insurance premiums written last year, amounted to EUR 709.8 million, i.e. by 10% more than in 2015. Non-life insurance market increased by 13.2% up to EUR 463.1 million, while the market of life insurance went up by 4.6% up to EUR 246.7 million. The Bank of Lithuania forecasts that the country insurance market may increase by 6-7% in 2017. A more significant increase is expected in a non-life insurance market.
In 2016, 5.7 million contracts were concluded in the Lithuanian non-life insurance market, which is by 14.1% more than in 2015 when the number of contracts reached 5.0 million. The largest part of the contracts accounted for the compulsory motor third party liability insurance policies (MTPL), motor own damage insurance (Casco) and property insurance – in total these three insurance types amounted to 69.3% of concluded contracts and 79.1% of written premiums.
The largest part of non-life insurance market according to premiums accounts for MTPL insurance – the amount of this insurance type written premiums in 2016 increased by 14.6% up to EUR 156.0 million and amounted to 33.7% of all non-life insurance written premiums.
Written premiums for Casco insurance made EUR 112.6 million, i.e. by 18.0% more than in 2015 and constituted 24.3% of all non-life insurance premiums.
The amount of the property insurance premium last year increased by 9.7% up to EUR 97.6 million and made 21.1% of all non-life insurance premiums.
According to the Estonian Department of Statistics, in 2016, Estonian non-life insurance market increased by 8.4% while the amount of written premiums reached EUR 302.3 million. This is a significant growth compared to 2015 when the market went up by 6.7%. And the sum of non-life insurance written premiums reached EUR 278.8 million. At the end of the year, 13 non-life insurance companies were operating in Estonia, including 4 branches of foreign companies. The major part of the market is taken by 5 companies or branches. The amount of their written premiums reaches 79.5% of all Estonian non-life insurance market. According to the market share, LD Estonian Branch is in the 4th position and controls 14.5% of the market. In 2016, Estonian Branch strengthened its position in the market and its market share increased from 13.9% to 14.5%.

Company Performance Results

In 2016, AB Lietuvos draudimas successfully continued its profitable performance by remaining an undeniable and sole market leader in the non-life insurance market in Lithuania and rapidly growing in Estonia.
In 2016, AB Lietuvos Draudimas together with Estonian Branch wrote non-life insurance premiums for EUR 182.9 million and, compared to EUR 152.6 million of written premiums in 2015, it reached a 20% growth. The Company was successfully growing in both Lithuanian and Estonian markets.
In 2016, net profit of AB Lietuvos draudimas, including the result of the Estonian Branch, amounted to EUR 8.2 million and, compared to 2015, it increased by 30% (in 2015, it amounted to EUR 6.3 million).
In 2016, the Company indemnified non-life insurance loss for EUR 102.1 million to its clients (in 2015, indemnities amounted to EUR 82.5 million). This increase may be justified by the following two facts: increased frequency of compulsory third party motor liability insurance of vehicle owners' claims and average indemnities in Lithuania, as well as increased loss caused by natural perils and a number of major claims both in Lithuania and Estonia.
In 2016, the Company's activity was profitable when performing both non-life insurance activity and managing the investment portfolio. Despite increasing insurance claims, the Company earned EUR 7.5 million profit from direct non-life insurance activity in 2016, compared to EUR 5.8 million in 2015. An increased profit from non-life insurance activity was mostly conditioned by decreasing Company's ratio expenses due to operating cost optimization initiatives successfully performed by the Company. In 2016, the Company continued investing into debt securities of European strong companies and this strategy gave positive results. Profits earned from the investment activity increased and in 2016 it amounted to EUR 3.0 million (in 2015, it was EUR 2.7 million). AB Lietuvos draudimas has retained its conservative investment policy by diverting a major portfolio part to secure debt securities.

Leader of Lithuanian Non-Life Insurance Market

AB Lietuvos Draudimas is the largest non-life insurance portfolio manager in Lithuania which took 29.5% of non-life insurance market in 2016. The Company's written premiums increased by 6.5% in 2016. In 2016, as earlier, AB Lietuvos draudimas focused on a profitable growth which was achieved by the Company despite a competitive environment.

The Company's market share in a private product market amounts to 38.2% of the market. AB Lietuvos draudimas has remained a sole leader of the segment. In 2016, the Company grew in all private products, in particular resident property and accident insurance types.

In 2016, in the private client property insurance market, AB Lietuvos draudimas wrote 10.9% more premiums than last year. Property insurance segment, as in 2015, was the fastest growing segment in the private client market and its increase reached 14.3%.

In the accident insurance market, AB Lietuvos draudimas was growing together with the market and wrote 10% more premiums of this kind. In 2016, AB Lietuvos draudimas had 38.8% of the accident insurance market and, in accordance with its market share, it is ahead of its closest competitors by more than 20%.

In 2015, AB Lietuvos draudimas showed extremely good results in the compulsory motor third party liability insurance (MTPL) market and in 2016 it increased its premium portfolio in this segment by 5.6%. In the private client Casco insurance market, the Company wrote by 2.6% more premiums than in 2015. Despite a smaller growth than that of the market, AB Lietuvos draudimas has remained an undeniable leader in both insurance types.

In 2016, the Company also managed the largest business insurance market share which made 21.8% and the growth in business client segments amounted to 7.9%. The competitors of the Company increased business insurance market in 2016 even more – written premiums went up by 15.2%. It was mainly caused by transport (compulsory third party liability insurance (MTPL) and vehicle (Casco) segments. In business client MTPL market, the Company grew by 8.6%, and Casco wrote 12.1% more premiums than in the previous year. A record growth of the market in these insurance types exceeded 20%.

In Lithuania, compared to 2015, AB Lietuvos draudimas wrote 1.4% less business property insurance premiums while in the business accident insurance market it grew more than the market and went up to the 1st place in this insurance type.

Major Events

In 2016, the major Company's shareholder Polish and CEE insurance group Powszechny Zakład Ubezpieczen Spółka Akcyjna (hereinafter referred to as PZU SA) declared a squeeze out of small shareholders. Following a successful procedure in November 2016, it became the sole shareholder of the Company with 100% of AB Lietuvos draudimas shares. The changes above were made in order to speed up a decision-making process on strategical Company's activity issues.

At the beginning of 2016, the Company's Management Board approved AB Lietuvos draudimas strategy for the year 2016-2020. The Company will seek to remain the leader of Lithuanian non-life insurance market with 30% of the market and successfully operate demonstrating a consistent profitability in financial results, an ambitious combined insurance ratio and decreased costs.

A new Company's strategy "Success Code" distinguishes three areas where AB Lietuvos draudimas is and will seek to remain an undeniable market leader. These are a strong brand, professional employees and experts who can satisfy the most fastidious customers and ensure high-quality service, as well as the widest distribution network.

In 2016, AB Lietuvos draudimas continued integration of the Estonian Branch established in 2015 into a unified system: currently, the Branch is subject to the same Risk Management Strategy, Risk Appetite and the same risks indicators are observed; unified Reinsurance and Investment strategies are applied. Policies of various areas applied in the Company were unified and aligned with the Estonian law. A unified system regulating general processes in financial and actuarial areas was aligned and approved.

Trust is of the Utmost Importance

AB Lietuvos draudimas mission states that we are trusted experts and leaders who highlight new non-life insurance market directions and constantly create and provide with relevant and innovative insurance solutions to all Lithuanian residents and businesses.

By performing its activity, the Company is seeking to remain the most trustworthy company in the market since the insurance activity is based on the promise to help in the event of a misfortune. In accordance with the surveys, AB Lietuvos draudimas is considered to be the most trustworthy insurer in the whole market and this is the exclusiveness of the Company. Public opinion surveys conducted in 2016 show that 40% of non-life insurance service users trust AB Lietuvos draudimas, while the indicator of the clients' trust in AB Lietuvos draudimas is 88%. (SIC, 2016, 18-74-year-old Lithuanian residents).

In order to listen to the clients and take their opinions into account when improving the services and contact points with the client, since 2010 Lietuvos draudimas has been using the Customer Voice System to listen to the client satisfaction and evaluate it by NPS score that indicates a favourable customer rate. The Customer Voice System interviews nearly 18 000 Company's clients a year. This system, which is currently widely-used in many sectors, was implemented and first started to be used by AB Lietuvos draudimas, compared to other sector companies in Lithuania.

Value Strategy: It Makes a Difference where to Obtain Insurance

Continued value strategy for the compulsory insurance clients
AB Lietuvos draudimas continued the value strategy in the private client products by further improvement and development of the products that give more value to the client. A new generation compulsory motor third party liability insurance (MTPL) with a roadside assistance, offered a year ago, became a usual service which is actively used by the Company’s clients. In accordance with the customer survey conducted by the Company, 70% of the drivers in all Lithuania say that roadside assistance service is particularly necessary to them. By further offering this service as an integral part of the compulsory insurance, the Company is changing the residents' prejudices by making them realise the benefit of this compulsory insurance and understand that it makes a difference where to obtain insurance. The Company expects from this step to move market competition from the price to the quality level. Roadside assistance insurance, when getting insured under compulsory insurance, is valid in cases of failure to start a vehicle, running out of fuel, if a vehicle should be taken to a parking lot or a car repair workshop following an accident, or accidentally locking the door or keys inside the car or in need of a consultation by telephone. The service is provided 24/7 in all Lithuania, and client's call for emergency from the call to its arrival in the city takes no longer than an hour.

Home and Personal Insurance quality improvement program and attraction of new clients
One of the clients’ needs is that the insurance company would understand what a customer needs. By listening to the clients’ needs and in order to provide them with the highest possible quality and more comprehensive coverage, AB Lietuvos draudimas consistently fulfils the programme of existing Company clients’ insurance quality improvement. The sum insured for the residential place rent was increased to the home insurance clients, the sum insured for the robbery and temporary insurance outside the place of insurance was increased as well, and the insurance policy includes a personal third-party liability insurance. The inclusion of the Personal Third-Party Liability Insurance raises the clients’ awareness of this service when in case of the damage inadvertently caused to other persons or their property the insurance helps to prevent financial loss. Personal coverage was expanded by including wider relevant coverages to the client, such as claim indemnification for scars.
In order to raise the awareness of the clients, especially of those who have never used home insurance services, regarding the value and insurance price, AB Lietuvos draudimas was further consistently offering its clients insurance packages with a fixed coverage for a fixed price. These insurance packages were completed in a way that would be convenient to a client considering their needs and setting a fixed monthly price. Such fixed coverage and price offers help to attract new customers who have never been insured.

Client service divisions Cosy Like Home in shopping centres
At the beginning of 2016, AB Lietuvos draudimas renewed client service divisions in shopping centres. 36 divisions were installed in a convenient and modern way. Here the clients can get extensive consultations on relevant insurance products.

Sales Network

In 2016, two new client service points opened in Joniškėlis and Venta. In order to optimise the division network, divisions in Vilnius, Kaunas, Kaišiadorys and Elektrėnai were joined. This optimization had no impact on the availability of the services, the number of client service points has remained unchanged, and changes were made in order to more effectively manage client service. AB Lietuvos draudimas has remained the company with its own largest sales network in non-life insurance market in Lithuania.

Development of Estonian Branch

In 2016, the Estonian Branch of AB Lietuvos draudimas continued the development of electronic sales channels by giving the possibility to the clients to purchase major insurance products on self-service platforms.
The Estonian Branch is particularly successfully cooperating with SEB Bank and SEB leasing by providing their clients with the insurance services. In accordance with written premiums.

Business Client Products: Step toward the Health Insurance Market

In 2016, AB Lietuvos draudimas developed and launched a new product - health insurance for business clients. Health insurance for the business clients is the employees’ insurance on the company funds. It gives the opportunity to insured employees to obtain health-related services faster and in a more convenient way, i.e. receive treatment in selected health care institutions, visit desired specialists, make various tests, purchase medicine and use other wellness services.

A distinctive feature of this service, which is available only to AB Lietuvos draudimas clients, is a possibility to receive unlimited outpatient treatment services. A wide network of nearly 500 partner health care institutions is offered to the Company's clients. The Company has estimated that having selected paid health specialists' services, which are compensated by the health insurance, time for waiting for doctor decreases by approximately 10 times compared to public health care institutions.
Residents of the country also appreciate the attractiveness of health insurance. In accordance with the public opinion survey, ordered by AB Lietuvos draudimas, health insurance is an additional benefit mainly preferred by the country workforce. Even 56% of the respondents said that an additional benefit - health insurance was the most important to them (SIC, June 2016, 500 respondents of 18-74 years old).

A Large-Scale IT System Migration

In 2016, AB Lietuvos draudimas and other group companies successfully implemented a large-scale IT system migration. During the migration, data centres of all three companies (Lietuvos draudimas, Balta, PZU gyvybės draudimas) operating in the Baltic countries and PZU Estonian Branch were centralised. During the migration, more than 250 servers of five data centres located in Latvia, Estonia and Sweden were moved to two Teo (currently, Telia) data centres. A total amount of migrated data makes more than 100TB. The migration was performed in an extremely short time - the migration of one company servers lasted for 3 months during which business systems were not stopped for more than one day. The works were carried out 24/7.
Following this large-scale migration, in Lithuania IT infrastructure of AB Lietuvos draudimas and other Baltic countries PZU group companies – Latvian Balta, Estonian Branch of AB Lietuvos draudimas and PZU gyvybės draudimas is concentrated and clients will also feel the benefit of this change since the companies will respond to their queries much faster and the decision-making time will get shorter.

Awards and Achievements

In March 2016, AB Lietuvos draudimas was acknowledged as the author of the most effective marketing campaign "It makes a difference where to obtain insurance" of a year and was awarded with the title of the most efficient sales promotion campaign in the marketing festival Password 2016.
Aurelija Kazlauskienė, the Director of the Strategy, Client and Marketing Department of AB Lietuvos draudimas, was nominated as one of the best marketing leaders of a year in the Advertising Festival Adrenalinas.
In the national communication with the society and integrated communication awards PaRa Impact Awards 2016, two projects implemented by AB Lietuvos draudimas were selected among the winners in their categories, i.e. a brand changing campaign "Changing the Leader Brand" received a silver award in the category "Internal Communications", and the compulsory third party liability insurance campaign "National Spring Driving Peculiarities" got a bronze award in the category "Integrated Communication Projects".
An internal communication campaign "Changing the Leader Brand" was acknowledged as one of the best in the Baltic countries and took the 3rd place in the "Internal Communication" project category in Baltic PR Awards 2016.

Staff Area

AB Lietuvos draudimas is proud of its extremely involved staff. It allows the Company to retain staff in a dynamic labour market and ensure them good working conditions. Voluntary staff turnover in 2016 was 11% and it was by nearly one-third less than voluntary turnover in the whole labour market (16%) and by one-fifth less than a voluntary turnover in the financial sector companies (14%).
In 2016, AB Lietuvos draudimas maintained a stable number of employees in the Company: at the end of the year, there were 1 109 employees. The number of employees in the Estonian Branch has remained unchanged as in 2015 - at the end of the year, there were 139 employees.
AB Lietuvos draudimas pays much attention to the internal staff career and staff development inside the Company: 30% of job vacancies are filled with its own staff.
In 2016, 56 employees (excluding sales area) made a career leap in the Company - 6 people were appointed as heads. The necessary staff of AB Lietuvos draudimas have been educated since the very beginning of their career: the Company continues active involvement in the career days organized by the largest universities and other higher education institutions not only in the country but also in the neighbouring countries and successfully ensures the internship, work and career possibilities to the students during and after the study period. In 2016, 13 interns had an internship in the Company and 5 of them were employed as assistants after the internship. In total during 2016, 40 people were employed as assistants and 16 assistants were moved to the position of specialists.

AB Lietuvos draudimas continues educating the necessary sales specialists by executing the program of junior insurance consultant (JIC) education: in 2016, 39 junior insurance consultants were employed and 18 were moved from other positions. 20 JICs made a career leap in the Company - 18 were moved to the insurance consultant position; 1 became a head of a division; 1 started working as a business insurance expert. At the end of 2016, the Company had 28 junior insurance consultants.
In total during 2016, AB Lietuvos draudimas employees participated in 753 days of trainings: 590 days of internal trainings and 163 days of external trainings. Employees study not only during external or internal events with the help of the lecturers but also take over the experience from each other. The Company performed the initiative Geeks' Day for the 5th time. During this initiative, employees of different areas give training on various issues to the colleagues. 20 training sessions were held in 2016 which were attended by more than 540 employees.
AB Lietuvos draudimas creates opportunities for the employees to improve and expand their outlook by participating in various conferences held in Lithuania and abroad: In 2016, 64 employees of the Company participated in 31 conferences.
In December 2016, the 4th Lietuvos draudimas Talent Group accomplished a study and development program. During it (the program lasts for a year and a half), potential employees of various areas participated in training sessions where they improved their managerial and leadership skills.
One employee was called to do a voluntary military service in 2016. Two employees are delegated members of the Labour Disputes Commission under the State Labour Inspectorate where they represent the interest of both employers and trade unions.
By keeping the Company's traditions, AB Lietuvos draudimas organized "Family Get-Togethers" where employees' children are introduced to the Company and their parents' work, as well as participate in the events organized on this day.

Social Responsibility: Creation of a Safer World

AB Lietuvos draudimas operates as a socially responsible member of the society and an employer. The Company aims to provide its clients with the best insurance services and impeccable customer service, as well as focus on the ways how society could benefit from the services provided and customer service. Therefore, it actively initiates and develops social responsibility projects.
Acting as a socially responsible company, AB Lietuvos draudimas completely focuses on the following major activity areas: "Let's Build a Safe World" (initiatives intended to increase road safety); "Creative Community" (initiatives intended to strengthen the sense of community, especially in the region, by promoting a joint activity and involving the Company's employees in volunteering. These are the activities that include employee involvement and participation in various events and the initiatives of the Company's employees, as well as donations collected to various social exclusion groups); "Connecting History" (AB Lietuvos draudimas supports projects of national pride (promotion of modern heritage) and youth financial education and/or projects involving the financial integration of the society). When operating in these areas (supporting projects or organising various campaigns in these areas), the Company seeks to join as many people as possible for the common aim and solve problems together, as well as protect the surrounding world and stimulate changes that would help to create a safer and more sustainable future.

<u>Protect Me</u>
In autumn of 2016, for the 17th time in a row, AB Lietuvos draudimas initiated a road safety campaign for children "Protect Me" during which, in September, the Company insured each Lithuanian pedestrian student for the sum of EUR 5 000. In case a pedestrian student gets into an accident, his parents or foster parents must inform AB Lietuvos draudimas about it by telephone 1828 and receive the indemnity. This initiative throughout its lifetime helped to achieve public concern regarding children's safety when they return back to schools after summer holidays and encourage responsible care for them.
During the campaign "Protect Me", held in 2016 and afterwards, the Company was reported about 14 children pedestrian victims whose parents or guardians were indemnified with the sum of EUR 11 050.

<u>Traffic Zipper</u>
In 2016, while continuing long-term traditional initiatives of the safety on the road, the Company was further developing the project "Zero Anger" which was acknowledged in Europe and awarded as the best "Corporate Social Responsibility" campaign. This project aims at developing a friendlier drivers' culture in the country, reducing aggressive driving and thus creating a safer environment on the road. In 2016, the Company implemented a social experiment "Traffic Zipper" where it was observed whether the drivers in the traffic jam used to give priority to the drivers going from a side road. The experiment showed that 65% of the drivers observed a non-binding traffic rule and let the drivers from a side road go in. This experiment was positively evaluated in the social network Facebook and image platform YouTube where it was seen for nearly 200 000 times.

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

Annual report for the year ended 31 December 2016

Statehood Day
In July 2016, AB Lietuvos draudimas became a major sponsor of an outstanding Lithuanian birthday – Statehood Day. For the 1st time, the history of Lithuania was presented on 3D projection "We Are Strong, Lithuania!" with special effects and Ąžuoliukas Choir. The performance to the city and the country was donated by AB Lietuvos draudimas.

Voluntary staff activities
In 2016, AB Lietuvos draudimas continued employees' social responsibility practice by voluntarily providing support to non-governmental organizations in Lithuania. The Company's employees participated in the campaign held by the Order of Malta for socially supported children. Employees voluntarily donated school supplies and the necessary personal hygiene products which were given to lonely people fostered by the Order of Malta. The employees, who love animals, donated products (pet food) to animal care organizations.
AB Lietuvos draudimas continued its long-time partnership with Lietuva Junior Achievement (LJA) organization that concerns about the economic education of pupils. Pupils were introduced with the Company's activity in the project "Junior Colleague".
The Company's employees traditionally joined a global initiative Earth Hour and switched off all vitally unnecessary lights for an hour. Employee teams together with the family members ran a marathon, participated in a road bicycle racing, and joined the campaign "Car Free Day". Last year, the Company provided insurance to the participants of an expedition to Siberia in a patriotic project "Mission: Siberia".
The staff joined the initiative "Pie Day". On this day, colleagues treated each other with their made pies and raised charity for the people patronized by "Dreams Come true" campaign.

50,000 trees will be planted
In December 2016, the Company started the campaign "By insuring home, you will plant a tree". The expected result of this campaign is that in spring the Company's staff and their helpers will plant 50 000 trees in Lithuanian forests. This campaign seeks to draw attention to the Lithuanian wealth - forests and give the possibility to each client to contribute to their preservation.

Socially responsible activity of PZU Estonia
In 2016, the Estonian Branch of AB Lietuvos draudimas participated in the preventive road safety campaign "Be Well-Seen" which was held together with the Estonian Car Road Administration. The aim of this campaign is to raise the residents' awareness and a habit to wear reflectors. During each week of this campaign, certain most vulnerable society groups were given modern reflector solutions and reflectors. Also, educational programs, campaign publications in social platforms and elsewhere were held.
In 2016, PZU Estonia supported a Football Club Kuressaare aiming at increasing trust in the brand on a regional level.

Be a Leader, Create Value to the Clients and Benefit to the Shareholders
By performing its activity, the Company is further consistent with its mission and values and will make strategical changes provided in the new strategy "Success Code 2016-2020". The Company will seek for the ensured leadership and growth, profitable activity, and provide its clients with exclusive services and aim to maintain a high employee involvement level. Additional information on the requirements, approved by the Securities Commission of the Republic of Lithuania by Order No. 03-48 on the rules of preparation and submission of periodic and additional information as of 28 February 2013, is presented in the Annex to AB Lietuvos draudimas Annual Report for the year ended 31 December 2016.

Kęstutis Šerpytis
CEO, Lietuvos Draudimas AB

29 March 2017

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

Statement of comprehensive income
for the year ended 31 December 2016
(all amounts in thousand euros, unless otherwise stated)

	Note	2016	2015
Insurance income			
Gross written premiums	4	182 926	152 563
Reinsurers' share in premiums	4	(5 023)	(3 341)
Net written premiums	4	177 903	149 222
Change in gross provision for unearned premiums	5	(6 458)	(6 436)
Change in provision for unearned premiums, reinsurers' share	5	273	(249)
Change in provision for unearned premiums	5	(6 185)	(6 685)
Net premiums earned		**171 718**	**142 537**
Other technical income	6	52	634
Total insurance income		**171 770**	**143 171**
Insurance expenses			
Gross claims paid to policyholders		(102 071)	(82 521)
Claims settlement expense		(8 993)	(7 982)
Recovered losses		7 367	6 596
Claims paid	7	(103 697)	(83 907)
Reinsurers share'	7	962	657
Net claims paid		(102 735)	(83 250)
Change in gross provision for claims	8	(5 747)	(1 859)
Change in provision for claims, reinsurers' share	8	1 053	(292)
Net incurred claims		**(107 429)**	**(85 401)**
Acquisition costs	9	(46 139)	(40 794)
Administrative expenses	10	(10 691)	(11 149)
Total insurance expenses		**(56 830)**	**(51 943)**
Net result of insurance activities		**7 511**	**5 827**
Investment activity result	11	3 047	2 650
Finance income and costs	12	(754)	(500)
Other income and expenses	13	(297)	224
Profit / (loss) before tax		**9 507**	**8 201**
Income tax expense	14	(1 350)	(1 932)
Profit / (loss) for the year		**8 157**	**6 269**
Other comprehensive income			
Financial investments revaluation effect	17, 35	103	530
Total comprehensive profit / (loss) for the reporting year		**8 260**	**6 799**

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

Notes on pages 18 to 58 are an integral part of these financial statements.

Kęstutis Šerpytis Chief Executive Officer	Tatjana Kozlova Chief Accountant	Kęstutis Gadeikis Chief Actuary

29 March 2017

Statement of financial position
as at 31 December 2016
(all amounts in thousand euros, unless otherwise stated)

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

Statement of financial position
as at 31 December 2016
(all amounts in thousand euros, unless otherwise stated)

	Note	31.12.2016	31.12.2015	01.01.2015
ASSETS				
Intangible assets	15	**3 904**	**5 095**	**4 792**
Property and equipment	16	**10 219**	**10 509**	**11 040**
Investment property	16	**1 278**	**831**	**831**
Available-for-sale financial investments	17	106 828	114 373	128 072
Held-to-maturity financial investments	18	57 330	39 735	-
Total investments		**164 158**	**154 108**	**128 072**
Receivables due from policyholders		37 990	35 017	21 216
Receivables due from intermediaries		1 074	138	79
Total receivables from direct insurance operations	19	**39 064**	**35 155**	**21 295**
Reinsurance receivables	20	858	983	1 132
Other receivables	22	4 240	3 483	3 202
Total receivables		**5 098**	**4 466**	**4 334**
Reinsurers' share in unearned premium reserve	5	1 307	1 034	434
Reinsurers' share in reserve for outstanding claims	8	3 989	2 936	1 909
Reinsurers' share of insurance contract liabilities		**5 296**	**3 970**	**2 343**
Deferred income tax asset	14	**-**	**289**	**963**
Deferred acquisition costs	9	16 750	16 344	9 920
Other accrued income and deferred expenses	21	1 351	1 083	1 547
Prepayment for corporate income tax		1 176	1 059	-
Accrued income and deferred expenses		**19 277**	**18 486**	**11 467**
Cash and cash equivalents	23	**8 110**	**5 239**	**3 090**
TOTAL ASSETS		**256 404**	**238 148**	**188 227**

Notes on pages 18 to 58 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2017

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

Statement of financial position
as at 31 December 2016
(all amounts in thousand euros, unless otherwise stated)

	Note	31.12.2016	31.12.2015	01.01.2015
EQUITY, RESERVES AND LIABILITIES				
EQUITY AND RESERVES				
Share capital	24	11 665	11 665	11 666
Share premium	24	937	937	937
Reserve capital and other reserves	24	7 249	7 146	6 616
Retained earnings		54 670	46 513	47 809
TOTAL EQUITY AND RESERVES		**74 521**	**66 261**	**67 028**
LIABILITIES				
Unearned premium and risks reserves	5	92 217	85 759	58 736
Outstanding claims reserve	8	56 109	50 362	38 646
Insurance contract liabilities		**148 326**	**136 121**	**97 382**
Subordinated loan	29	10 000	10 000	-
Direct insurance creditors		1 820	1 369	744
Reinsurance creditors		2 058	1 757	749
Taxes	25	196	190	1 154
Deferred income tax liability	14	263	-	-
Accrued expenses and deferred income	26	11 695	12 432	10 910
Other creditors	27	7 525	10 018	10 260
Total creditors		**33 557**	**35 766**	**23 817**
TOTAL LIABILITIES		**181 883**	**171 887**	**121 199**
TOTAL EQUITY, RESERVES AND LIABILITIES		**256 404**	**238 148**	**188 227**

Notes on pages 18 to 58 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2017

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

Statement of changes in shareholders' equity
for the year ended December 2016
(all amounts in thousand euros, unless otherwise stated)

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance at 1 January 2015	**11 666**	**937**	**6 616**	**47 809**	**67 028**
Effect from Estonian branch acquisition (note 29)	-	-	-	(7 565)	**(7 565)**
Financial investments revaluation impact	-	-	530	-	**530**
Net profit for the reporting period	-	-	-	6 269	**6 269**
Effect of shares conversion to euro	(1)	-	-	-	**(1)**
Balance at 31 December 2015	**11 665**	**937**	**7 146**	**46 513**	**66 261**
Financial investments revaluation impact	-	-	103	-	**103**
Net profit for the reporting period	-	-	-	8 157	**8 157**
Balance at 31 December 2016	**11 665**	**937**	**7 249**	**54 670**	**74 521**

Notes on pages 18 to 58 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2017

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

Statement of cash flows
for the year ended 31 December 2016
(all amounts in thousand euros, unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Premiums received from direct insurance		180 742	149 255
Claims paid for direct insurance		(103 712)	(84 345)
Payments received from ceded reinsurance		566	990
Payments made for ceded reinsurance		(3 910)	(3 098)
Operating expenses paid		(46 109)	(38 571)
Taxes paid on ordinary activities	25	(15 831)	(17 266)
Amounts paid on other operating activities of insurance		413	964
Net cash from / (used in) operating activities:		**12 159**	**7 929**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	29	-	8 600
Disposal of investment units		16 271	40 255
Acquisition of investments		(29 060)	(68 244)
Interest received from shares, debt and other non-current assets		4 563	4 587
Amounts from other investing activities		(321)	(475)
Net cash generated from / (used in) investing activities:		**(8 547)**	**(15 277)**
Cash flows from financing activities			
Loans received		-	10 000
Amounts from other financial activities		(741)	(503)
Net cash from / (used in) financing activities:		**(741)**	**9 497**
Net increase / (decrease) in cash and cash equivalents		**2 871**	**2 149**
Cash and cash equivalents at the beginning of reporting year		**5 239**	**3 090**
Cash and cash equivalents at the end of reporting year	23	**8 110**	**5 239**

Notes on pages 18 to 58 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2017

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The Company's shares are not listed. The Company belongs to a group whose parent company trades its shares on the Warsaw Stock Exchange and whose main shareholder is the State Treasury of Poland owning more than 34% of the shares.
On 31 May 2015, the Company acquired the business in Estonia, which was registered by the name Lietuvos Draudimas AB Eesti filiaal. Company code 12831829, registered address Parnu mnt 141, Tallinn, Estonia.

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

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

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union (hereinafter "EU"), Lithuanian legislation applicable to insurance companies. These are the Company's first financial statements prepared in accordance with IFRS as adopted by the EU, and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.
An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 35.

2.1.2 Functional and presentation currency

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

2.1.3 Basis of measurement

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

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2016 to 31 December 2016.

2.1.5 Estimates

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

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

2.2.1 Standards and interpretations effective in the reporting period and changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

(i) IFRS 14 Regulatory Deferral Accounts;

(ii) Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);

(iii) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);

(iv) Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);

(v) Equity Method in Separate Financial Statements (Amendments to IAS 27);

(vi) Annual Improvements to IFRSs 2012-2017 Cycle – various standards;

(vii) Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);

(viii) Disclosure Initiative (Amendments to IAS 1).

2.2.2 New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements.

(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 – amortised 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 assets 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 recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company's financial instruments are expected to change.

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 standard until 1 January 2021; however, as PZU Group, to which the Company belongs, is not allowed to exercise this exemption due to a significant share of banking activity in the Group, Lietuvos draudimas AB will not apply the exemption from adopting IFRS 9 and plans to adopt it by 1 January 2018 together with other Group companies. The IFRS 9 implementation project in the Group is managed by the Company's parent company PZU S.A. At this stage, the impact of adopting IFRS 9 on the financial statements of the Company cannot be reliably estimated.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

(iii) Amendments to IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements of the Company. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Company act as lessee.

The Company has operating lease agreements for cars and premises lease agreements. The Company has not yet prepared an analysis of the expected quantitative impact of the new Standard.

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not enter into share-based payment transactions.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(ix) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

At this stage, the impact of adopting IFRS 9 on the financial statements of the Company cannot be reliably estimated.

(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

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

2.3 Insurance contracts, reinsurance

a) Classification of contracts

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

b) Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include the recoveries due from reinsurance companies in respect of claims paid and the reinsurance share in the technical insurance reserves.

The reinsurance share of the incurred but not reported claims technical provision for ceded reinsurance contracts is not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

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

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

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

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

c) Premiums

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

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

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

d) Incurred claims

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

As at the end of reporting period, not settled claims are recognised as outstanding claim technical reserve.

e) Administrative expenses

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

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

f) Client acquisition costs

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

g) Deferred client acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred. Deferred client acquisition cost assets are attributed to profit or loss over the terms of the policies as premium is earned.

h) Insurance contract liabilities

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

Unexpired risk reserve is set aside for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date exceeds the unearned premium reserve in relation to such policies after the deduction of any deferred acquisition costs.

On each reporting date, the Company prepares a liability adequacy test by assessing whether the insurance liabilities recognised during the reporting year for valid policies are adequate by comparing the insurance reserves established with the present value of the estimated future cash flows arising on existing insurance policies.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve (Note 31).

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet paid. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. The claims reserve is also created for direct loss adjustment expenses that will be necessary in order to regulate the claims incurred during the reporting and previous years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from claims reserve.

i) Fronting insurance

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

2.4 Interest income and expense

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

2.5 Financial instruments

The Company classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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

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

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

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

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

(ii) Non-derivative financial assets – Measurement

Held-to-maturity financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and are subject to impairment testing.

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) Non-derivative financial liabilities – Measurement

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

2.6 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

2.7 Receivables from direct insurance operations

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

(all amounts in thousand euros, unless otherwise stated)

2.8 Intangible assets

Intangible assets are stated at historical cost, less any subsequent accumulated amortisation and accumulated impairment losses, if any. Amortisation of intangible assets is charged so as to write off the cost of assets over their estimated useful lives, which are from 1 to 9 years.

2.9 Property and equipment

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

Assets are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated.

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

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

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

Leasehold improvements are written down on a straight line basis during leasehold period.

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

2.10 Investment property

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

Any repair works for the investment property reflected in the financial statements at their fair value are recognised as costs of the period during which they were incurred. Investment property is shown at fair value, based on periodic valuations.

2.11 Foreign currency revaluation

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

	31.12.2016	**31.12.2015**	**01.01.2015**
1 USD	EUR 0.9581	EUR 0.9153	EUR 0.8224
1 GBP	EUR 1.1772	EUR 1.3550	EUR 1.2783
1 PLN	EUR 0.2266	EUR 0.2359	EUR 0.2320

2.12 Corporate income tax

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

Income tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position. Income tax rate applied for the Company was 15% in 2016 (15% in 2015).

Deferred income tax
Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax is accounted for in profit or loss, except when it relates to items accounted for directly in equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.13 Cash and cash equivalents

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

2.14 Impairment

Impairment of property and equipment and intangible assets
At each reporting date, the Company reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation cannot be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available-for-sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the allowance account are recognised in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

Outstanding claims reserve is one of the main Company's evaluations which estimates the ultimate liability arising from claims made under insurance contracts.

The provision for reported but not settled claims (RBNS) is calculated automatically proceeding case estimates in the insurance system set by claims handlers as at the accounting date. For newly reported cases initial case estimates derived by actuaries from claims data are used, which then are updated by Claims specialists based on additional information received.

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

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

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

Reserve for recourse outstanding is calculated deriving historic recovery percentages by accident quarters and applying them on outstanding claims amounts.

Other areas where assumptions and estimation uncertainties are involved are impairment, evaluation of deferred acquisition costs, investment properties. Further information about the assumptions made on those areas are included in the following notes:

- Impairment: Note 2.14;
- Investment properties: Notes 2.1.3, 2.10;

(all amounts in thousand euros, unless otherwise stated)

- Deferred acquisition costs: Notes 9, 32.

4. NET WRITTEN PREMIUMS

	2016			2015		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Motor own damage insurance	63 757	(1 042)	62 715	52 133	(611)	51 522
Fire and other damage to property insurance	50 218	(1 592)	48 626	41 683	(1 033)	40 650
Motor vehicle third party liability insurance	49 971	(1 072)	48 899	42 793	(823)	41 970
Income protection insurance	8 248	(46)	8 202	7 579	(86)	7 493
General liability insurance	5 157	(301)	4 856	4 487	(236)	4 251
Medical expense insurance	2 316	(14)	2 302	1 565	(14)	1 551
Credit and suretyship insurance	1 633	(829)	804	972	(433)	539
Marine, aviation and transport insurance	987	(72)	915	756	(57)	699
Miscellaneous financial loss	639	(55)	584	595	(48)	547
	182 926	**(5 023)**	**177 903**	**152 563**	**(3 341)**	**149 222**

Premiums earned

	2016			2015		
	Gross premiums earned	**Reinsurers' share**	**Net premiums earned**	**Gross premiums earned**	**Reinsurers' share**	**Net premiums earned**
Motor own damage insurance	61 360	(744)	60 616	49 706	(500)	49 206
Motor vehicle third party liability insurance	48 824	(1 051)	47 773	40 943	(954)	39 989
Fire and other damage to property insurance	48 410	(1 678)	46 732	40 104	(1 137)	38 967
Income protection insurance	8 022	(46)	7 976	7 076	(86)	6 990
General liability insurance	4 727	(350)	4 377	4 514	(302)	4 212
Medical expense insurance	2 062	(14)	2 048	1 527	(18)	1 509
Credit and suretyship insurance	1 453	(742)	711	891	(462)	429
Marine, aviation and transport insurance	987	(72)	915	733	(82)	651
Miscellaneous financial loss	623	(53)	570	633	(49)	584
TOTAL	**176 468**	**(4 750)**	**171 718**	**146 127**	**(3 590)**	**142 537**

(all amounts in thousand euros, unless otherwise stated)

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 1 January 2015	**58 736**	**(434)**	**58 302**
Business combination (Note 29)	20 587	(849)	19 738
Written premiums	152 563	(3 341)	149 222
Earned premiums	146 127	(3 590)	142 537
Total change for the year	6 436	249	6 685
Balance at 31 December 2015	**85 759**	**(1 034)**	**84 725**
Written premiums	182 926	(5 023)	177 903
Earned premiums	176 468	(4 750)	171 718
Total change for the year	6 458	(273)	6 185
Balance at 31 December 2016	**92 217**	**(1 307)**	**90 910**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2016

	Gross amount	Reinsurers' share	Net amount
Motor own damage insurance	2 397	(298)	2 099
Fire and other damage to property insurance	1 808	86	1 894
Motor vehicle third party liability insurance	1 147	(21)	1 126
General liability insurance	430	49	479
Medical expense insurance	254	-	254
Income protection insurance	226	-	226
Credit and suretyship insurance	180	(87)	93
Miscellaneous financial loss	16	(2)	14
	6 458	**(273)**	**6 185**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2015

	Gross amount	Reinsurers' share	Net amount
Motor own damage insurance	2 427	(111)	2 316
Motor vehicle third party liability insurance	1 850	131	1 981
Fire and other damage to property insurance	1 579	104	1 683
Income protection insurance	503	-	503
Credit and suretyship insurance	81	29	110
Medical expense insurance	38	4	42
Marine, aviation and transport insurance	23	25	48
General liability insurance	(27)	66	39
Miscellaneous financial loss	(38)	1	(37)
	6 436	**249**	**6 685**

(all amounts in thousand euros, unless otherwise stated)

d) Gross unearned premium reserve as at end of year

	31.12.2016	31.12.2015	01.01.2015
Motor own damage insurance	34 529	32 132	21 000
Fire and other damage to property insurance	25 904	24 096	16 543
Motor vehicle third party liability insurance	22 915	21 768	15 241
Income protection insurance	4 191	3 965	3 462
General liability insurance	2 728	2 298	1 846
Credit and suretyship insurance	793	613	147
Medical expense insurance	693	439	138
Marine, aviation and transport insurance	286	286	158
Miscellaneous financial loss	178	162	201
	92 217	**85 759**	**58 736**

6. OTHER TECHNICAL INCOME

	2016	2015
Change in non-technical life insurance provision	52	634
	52	**634**

7. CLAIMS PAID

	2016			2015		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Motor own damage insurance	(44 198)	559	(43 639)	(36 353)	285	(36 068)
Motor vehicle third party liability insurance	(30 879)	320	(30 559)	(24 535)	165	(24 370)
Fire and other damage to property insurance	(21 848)	3	(21 845)	(17 835)	37	(17 798)
Income protection insurance	(3 354)	-	(3 354)	(3 081)	-	(3 081)
Medical expense insurance	(1 511)	-	(1 511)	(855)	-	(855)
General liability insurance	(1 373)	-	(1 373)	(1 057)	21	(1 036)
Marine, aviation and transport insurance	(269)	-	(269)	(71)	113	42
Miscellaneous financial loss	(135)	-	(135)	(51)	-	(51)
Credit and suretyship insurance	(121)	80	(41)	(54)	36	(18)
Other	(9)	-	(9)	(15)	-	(15)
	(103 697)	**962**	**(102 735)**	**(83 907)**	**657**	**(83 250)**

(all amounts in thousand euros, unless otherwise stated)

8. CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2016			2015		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Notified claims	37 382	(2 052)	35 330	29 986	(1 789)	28 197
Incurred, but not reported	12 980	(884)	12 096	8 660	(120)	8 540
Total at beginning of year	**50 362**	**(2 936)**	**47 426**	**38 646**	**(1 909)**	**36 737**
Business combination (Note 29)	-	-	-	9 857	(1 319)	8 538
Cash paid for claims notified in prior years	18 057	(450)	17 607	13 776	(281)	13 495
Changes in liabilities arising from current and prior year claims	(12 310)	(603)	(12 913)	(11 917)	573	(11 344)
Total change in year	5 747	(1 053)	4 694	1 859	292	2 151
Total at end of year	**56 109**	**(3 989)**	**52 120**	**50 362**	**(2 936)**	**47 426**
Notified claims	44 566	(3 689)	40 877	37 382	(2 052)	35 330
Incurred, but not reported	11 543	(300)	11 243	12 980	(884)	12 096
Total at end of year	**56 109**	**(3 989)**	**52 120**	**50 362**	**(2 936)**	**47 426**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2016:

	Gross amount	**Reinsurers' share**	**Net amount**
Motor vehicle third party liability insurance	4 598	(1 565)	3 033
Miscellaneous financial loss	905	-	905
General liability insurance	560	244	804
Marine, aviation and transport insurance	335	-	335
Credit and suretyship insurance	69	(18)	51
Medical expense insurance	54	-	54
Income protection insurance	(17)	-	(17)
Motor own damage insurance	(67)	110	43
Fire and other damage to property insurance	(690)	176	(514)
	5 747	**(1 053)**	**4 694**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2015:

	Gross amount	**Reinsurers' share**	**Net amount**
Motor vehicle third party liability insurance	2 587	(19)	2 568
Credit and suretyship insurance	109	(40)	69
Medical expense insurance	35	-	35
Income protection insurance	18	-	18
Miscellaneous financial loss	(40)	-	(40)
Motor own damage insurance	(50)	(60)	(110)
General liability insurance	(139)	18	(121)
Fire and other damage to property insurance	(310)	393	83
Marine, aviation and transport insurance	(351)	-	(351)

(all amounts in thousand euros, unless otherwise stated)

	1 859	**292**	**2 151**

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

	31.12.2016	**31.12.2015**	**01.01.2015**
Motor vehicle third party liability insurance	34 790	30 192	23 362
Motor own damage insurance	7 510	7 577	5 900
Fire and other damage to property insurance	6 020	6 710	4 307
General liability insurance	4 286	3 726	3 247
Miscellaneous financial loss	1 008	103	142
Income protection insurance	887	904	886
Marine, aviation and transport insurance	677	342	472
Credit and suretyship insurance	541	472	218
Medical expense insurance	390	336	112
	56 109	**50 362**	**38 646**

9. CLIENT ACQUISITION COSTS

	2016	**2015**
Commissions to brokers and other intermediaries	(17 491)	(13 542)
Personnel expenses	(14 987)	(14 542)
Commissions and other agent related expense	(5 228)	(4 981)
Office expenses	(2 546)	(3 191)
Depreciation and amortisation	(1 945)	(1 733)
Compulsory state social security contributions related to agents' remuneration	(1 453)	(1 338)
Premises expenses	(1 432)	(1 311)
Representation and marketing expenses	(1 347)	(2 046)
Other acquisition costs	(395)	(865)
Reinsurance commission	279	189
Change in deferred client acquisition costs	406	2 566
	(46 139)	**(40 794)**

Deferred client acquisition costs

As at 1 January 2015	**9 920**
Business combination (Note 29)	3 858
Deferred client acquisition costs	18 414
Amortisation of deferred acquisition costs	(15 848)
As at 31 December 2015	**16 344**
Deferred client acquisition costs	17 174
Amortisation of deferred acquisition costs	(16 768)
As at 31 December 2016	**16 750**

(all amounts in thousand euros, unless otherwise stated)

10. ADMINISTRATIVE EXPENSES

	2016	**2015**
Wages and salaries:		
- salaries to staff	(4 850)	(4 211)
- state compulsory social insurance contributions	(1 281)	(1 183)
Motor Bureau fee	(1 144)	(1 210)
Depreciation and amortisation costs	(919)	(1 227)
Information technology and communication expense	(886)	(1 142)
Other administrative costs	(562)	(163)
Advertisement and public relations	(399)	(448)
Professional services	(254)	(237)
Premises utility, maintenance, repair expense and rent	(206)	(573)
Transport	(131)	(221)
Office expenses	(59)	(534)
	(10 691)	**(11 149)**

At the end of year 2016, the Company employed 1 158 employees (2015 – 1 244) and 591 agents (2015 – 653).

Distribution of administrative expense by type of insurance, based on management allocation, is as follows	**2016**	**2015**
Fire and other damage to property insurance	(3 633)	(3 622)
Motor vehicle third party liability insurance	(3 181)	(3 483)
Motor own damage insurance	(2 810)	(2 949)
Income protection insurance	(483)	(563)
General liability insurance	(227)	(229)
Medical expense insurance	(176)	(151)
Credit and suretyship insurance	(91)	(53)
Miscellaneous financial loss	(48)	(52)
Marine, aviation and transport insurance	(42)	(47)
	(10 691)	**(11 149)**

11. INVESTMENT ACTIVITY RESULT

	2016	**2015**
Interest income from available-for-sale financial investments:		
Government bonds	1 774	2 250
Investment funds	259	-
Shares	93	198
Corporate bonds	26	39
Interest income from held-to-maturity financial investments:		
Government bonds	694	205
Corporate bonds	65	2
Net profit on financial assets:		
Government bonds	233	346
Shares	5	11
Corporate bonds	-	79
Investment valuation and management expenses:		
Revaluation of investment property	447	-
Investment management expenses	(395)	(480)
Investment impairment expenses	(154)	-
	3 047	**2 650**

(all amounts in thousand euros, unless otherwise stated)

12. FINANCE INCOME AND COSTS

	2016	2015
Gain from foreign currency fluctuations	10	-
Bank commission	(449)	(305)
Accrued interest for subordinated loan	(315)	(195)
	(754)	**(500)**

13. OTHER INCOME AND EXPENSES

	2016	2015
Income from other activity	169	482
Income from properties	92	-
Other technical income	-	254
Other expenses	(558)	(512)
	(297)	**224**

14. CORPORATE INCOME TAX EXPENSES AND DEFERRED TAX ASSETS OR LIABILITIES

	2016	2015
Corporate income tax for the reporting year	(816)	(1 307)
Change in deferred income tax balances	(534)	(625)
Total income tax expense	**(1 350)**	**(1 932)**

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

	2016	2015
Profit / (loss) before tax	**9 507**	**8 201**
Theoretically calculated tax at a tax rate of 15%	1 426	1 230
Effect of non-deductible expenses and non-taxable income, net	(76)	702
Total tax	**1 350**	**1 932**

Effective corporate income tax rate in 2016 is 14.2% (2015: 24.1%).

Deferred tax assets or liabilities at the end of the reporting period

	2016	2015
Deferred income tax asset as at the beginning of the reporting year	289	963
Deferred income tax changes recognised through profit or loss	(534)	(625)
Deferred income tax changes recognised through other comprehensive income	(18)	(49)
Deferred income tax asset (liability) as at the end of the reporting year	**(263)**	**289**

(all amounts in thousand euros, unless otherwise stated)

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

	31.12.2016	**31.12.2015**	**01.01.2015**
Temporary difference for accrued expenses	983	1 268	1 572
Temporary difference for impairment for overdue debtors	131	100	103
Temporary difference for property revaluation and depreciation	43	74	29
Other temporary differences	(122)	62	345
Temporary difference for recoverable regress	(430)	(365)	(330)
Temporary difference for available-for-sale investments revaluation	(868)	(850)	(756)
Deferred income tax asset as at the end of the reporting year	**(263)**	**289**	**963**

Movement in deferred tax balances:

	Net balance 1 January 2016	**Recognised in profit or loss**	**Recognised in OCI**	**Net balance 31 December 2016**	**31 December 2016**	
					Deferred tax asset	**Deferred tax liability**
Accrued expenses	1 268	(285)	-	983	983	-
Trade and other receivables	100	31	-	131	131	-
Property	74	(31)	-	43	43	-
Other insignificant amounts	62	(184)	-	(122)	-	(122)
Recoverable regress	(365)	(65)	-	(430)	-	(430)
Available-for-sale investments	(850)	-	(18)	(868)	-	(868)
Deferred tax assets/ (liabilities) before set-off					**1 157**	**(1 420)**
Set-off of tax					(1 157)	1 157
Net deferred tax assets/ (liabilities)					**-**	**(263)**

	Net balance 1 January 2015	**Recognised in profit or loss**	**Recognised in OCI**	**Net balance 31 December 2015**	**31 December 2015**	
					Deferred tax asset	**Deferred tax liability**
Accrued expenses	1 572	(304)	-	1 268	1 268	-
Other insignificant amounts	345	(283)	-	62	62	-
Trade and other receivables	103	(3)	-	100	100	-
Property	29	-	45	74	74	-
Recoverable regress	(330)	(35)	-	(365)	-	(365)
Available-for-sale investments	(756)	-	(94)	(850)	-	(850)
Deferred tax assets/ (liabilities) before set-off					**1 504**	**(1 215)**
Set-off of tax					(1 215)	1 215
Net deferred tax assets/ (liabilities)					**289**	**-**

(all amounts in thousand euros, unless otherwise stated)

15. INTANGIBLE ASSETS

	Software	Other assets	Total
As at 1 January 2015			
Historical cost	13 923	-	13 923
Accumulated amortisation	(9 131)	-	(9 131)
Net book amount	**4 792**	**-**	**4 792**
In 2015			
Additions arising from internal development	677	-	677
Additions arising from external development	462	-	462
Business combination (Note 29)	4 006	980	4 986
Written off	(714)	-	(714)
Amortisation for intangible assets written off	233	-	233
Amortisation charge	(2 105)	(114)	(2 219)
Amortisation charge on business combination (Note 29)	(2 338)	(784)	(3 122)
Closing net book amount	**5 013**	**82**	**5 095**
As at 31 December 2015			
Historical cost	18 587	980	19 567
Accumulated amortisation	(13 574)	(898)	(14 472)
Net book amount	**5 013**	**82**	**5 095**
In 2016			
Additions arising from internal development	540	-	540
Additions arising from external development	416	-	416
Written off	-	(980)	(980)
Amortisation for intangible assets written off	-	980	980
Amortisation charge	(2 065)	(82)	(2 147)
Closing net book amount	**3 904**	**-**	**3 904**
As at 31 December 2016			
Historical cost	19 543	-	19 543
Accumulated amortisation	(15 639)	-	(15 639)
Net book amount	**3 904**	**-**	**3 904**

Acquisition cost of fully amortised intangible assets in use:

	31.12.2016	31.12.2015
Computer software	7 882	4 572

(all amounts in thousand euros, unless otherwise stated)

16. PROPERTY, INVESTMENT PROPERTY AND EQUIPMENT

	Land and buildings	Investment property	Other (structures)	Construction in progress and prepayments	Leasehold improve-ments	Motor vehicles	Office and other equipment	Total
As at 1 January 2015								
Historical cost	13 881	831	1 162	95	546	3 254	1 793	21 562
Accumulated depreciation	(5 783)	-	(484)	-	(512)	(1 388)	(1 524)	(9 691)
Net book amount	**8 098**	**831**	**678**	**95**	**34**	**1 866**	**269**	**11 871**
In 2015								
Additions	11	-	-	39	-	532	125	707
Business combination (Note 29)	-	-	-	-	-	-	392	392
Disposals	-	-	-	-	-	(124)	(2)	(126)
Reclassification	73	-	-	(73)	-	-	-	-
Write-offs	-	-	-	-	-	-	(24)	(24)
Impairment	-	-	-	-	-	(76)	-	(76)
Depreciation charge	(510)	-	(70)	-	(16)	(388)	(147)	(1 131)
Depreciation on disposed assets	-	-	-	-	-	-	(273)	(273)
Closing net book amount	**7 672**	**831**	**608**	**61**	**18**	**1 810**	**340**	**11 340**
As at 31 December 2015								
Historical cost	13 965	831	1 162	61	546	3 586	2 284	22 435
Accumulated depreciation	(6 293)	-	(554)	-	(528)	(1 776)	(1 944)	(11 095)
Net book amount	**7 672**	**831**	**608**	**61**	**18**	**1 810**	**340**	**11 340**
In 2016								
Additions	12	447	14	192	29	542	69	1 305
Disposals	-	-	-	-	-	(411)	-	(411)
Reclassification	190	-	-	(190)	-	-	-	-
Depreciation charge	(441)	-	(70)	-	(13)	(384)	(150)	(1 058)
Depreciation on disposed assets	-	-	-	-	-	321	-	321
Closing net book amount	**7 433**	**1 278**	**552**	**63**	**34**	**1 878**	**259**	**11 497**
As at 31 December 2016								
Historical cost	14 167	1 278	1 176	63	575	3 717	2 353	23 329
Accumulated depreciation	(6 734)	-	(624)	-	(541)	(1 839)	(2 094)	(11 832)
Net book amount	**7 433**	**1 278**	**552**	**63**	**34**	**1 878**	**259**	**11 497**

Acquisition cost of fully depreciated property and equipment in use:

	31.12.2016	**31.12.2015**
Motor vehicles	87	52
Office and other equipment	1 434	1 340
	1 351	**1 083**

(all amounts in thousand euros, unless otherwise stated)

17. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2016 Amortised cost	Cost	31.12.2016 Fair value	31.12.2015 Amortised cost	Cost	31.12.2015 Fair value	01.01.2015 Amortised cost	Cost	01.01.2015 Fair value
Lithuania government debt securities	67 596	68 136	72 272	83 142	82 976	88 391	105 854	112 730	118 547
Poland government debt securities	2 151	2 075	2 153	-	-	-	-	-	-
Corporate bonds	1 427	1 427	1 474	1 454	1 427	1 465	4 896	4 962	4 953
Romania government debt securities	681	683	692	-	-	-	-	-	-
Slovenia government debt securities	-	-	-	-	-	-	1 038	1 012	1 075
France government bonds	-	-	-	-	-	-	1 028	1 079	1 029
Investment funds	-	-	26 360	-	-	20 399	-	-	-
Shares	-	-	3 877	-	-	4 118	-	-	2 468
	71 855		**106 828**	**84 596**		**114 373**	**112 816**		**128 072**

The split between current and non-current available-for-sale financial investments is included in Note 32. Available-for-sale financial investments in total of EUR 107 million are attributed to Level l in the fair value hierarchy in accordance with IFRS 7 definitions.

Revaluation effect for available-for sale-financial investments which in 2016 was recognised through equity amounted to EUR 103 thousand (2015: EUR 530 thousand).

18. HELD-TO-MATURITY FINANCIAL INVESTMENTS

	31.12.2016 Amortised cost	Cost	31.12.2016 Fair value	31.12.2015 Amortised cost	Cost	31.12.2015 Fair value	01.01.2015 Amortised cost	Cost	01.01.2015 Fair value
Lithuania government debt securities	18 146	18 079	18 743	18 163	18 079	18 391	-	-	-
Poland government debt securities	7 507	7 511	7 586	4 750	4 658	4 844	-	-	-
Croatia government debt securities	7 421	7 427	7 620	2 845	2 815	2 808	-	-	-
Romania government debt securities	6 687	6 700	6 783	3 388	3 413	3 415	-	-	-
Bulgaria government debt securities	6 171	6 154	6 361	2 526	2 512	2 525	-	-	-
Hungary government debt securities	5 681	5 709	5 951	2 236	2 194	2 251	-	-	-
Corporate bonds	2 977	2 968	3 084	3 018	2 968	3 009	-	-	-
Ireland government debt securities	1 735	1 744	1 852	1 771	1 744	1 830	-	-	-
Slovenia government debt securities	1 005	1 019	1 029	1 038	1 019	1 050	-	-	-
	57 330		**59 009**	**39 735**		**40 123**	-		-

The split between current and non-current held-to-maturity financial investments is included in Note 32. Held-to-maturity financial investments in total of EUR 57 million are attributed to Level 1 in the fair value hierarchy in accordance with IFRS 7 definitions.

(all amounts in thousand euros, unless otherwise stated)

19. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2016	**31.12.2015**	**01.01.2015**
Gross receivables from direct insurance operations	39 518	35 571	21 786
Doubtful debt allowances for receivables from direct insurance operations	(454)	(416)	(491)
	39 064	**35 155**	**21 295**

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

	Gross 31.12.2016	**Impairment 31.12.2016**	**Gross 31.12.2015**	**Impairment 31.12.2015**	**Gross 01.01.2015**	**Impairment 01.01.2015**
Not past due	35 838	(137)	32 936	(145)	19 186	(141)
Past due 0-30 days	2 740	(47)	2 105	(29)	2 054	(54)
Past due 31-60 days	654	(13)	218	(17)	186	(5)
More than 60 days	286	(257)	312	(225)	360	(291)
	39 518	**(454)**	**35 571**	**(416)**	**21 786**	**(491)**

The management believes that the net amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk.

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

As at 1 January 2015	**491**
Additional allowances	503
Recovered debts	(578)
As at 31 December 2015	**416**
Additional allowances	539
Recovered debts	(501)
As at 31 December 2016	**454**

20. REINSURANCE RECEIVABLES

	31.12.2016	**31.12.2015**	**01.01.2015**
Gross receivables from reinsurance operations	1 136	988	1 137
Doubtful debt allowances for receivables from reinsurance operations	(278)	(5)	(5)
	858	**983**	**1 132**

21. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2016	**31.12.2015**	**01.01.2015**
Deferred Motor Bureau fee	510	488	605
Deferred information system maintenance fees	380	501	535
Other deferred expenses	461	94	407
	1 351	**1 083**	**1 547**

(all amounts in thousand euros, unless otherwise stated)

22. OTHER RECEIVABLES

	31.12.2016	31.12.2015	01.01.2015
Receivables for subrogation transactions	3 128	2 468	2 210
Receivables from the Motor Bureau	756	503	661
Receivables from prepayments	248	269	303
Other receivables	164	345	124
Impairment of other overdue receivables	(56)	(102)	(96)
Total other receivables	**4 240**	**3 483**	**3 202**

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

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

As at 1 January 2015	**96**
Additional allowances	28
Recovered debts	(22)
As at 31 December 2015	**102**
Additional allowances	3
Recovered debts	(49)
As at 31 December 2016	**56**

23. CASH AND CASH EQUIVALENTS

	31.12.2016	31.12.2015	01.01.2015
Cash in bank	8 110	5 239	2 140
Bank deposits with original maturity of three months or less	-	-	950
	8 110	**5 239**	**3 090**

In 2016 and 2015, the Company did not have any term deposits with credit institutions. The average interest rate at the end of 2014 for term deposits with credit institutions with original maturity of three months or less was 0.1% and the average term was 7 days.

24. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 805 620 (as at 31 December 2015 and 1 January 2015, the number of ordinary shares was the same). The nominal value of one share as at 31 December 2016 is EUR 14.48 (as at 31 December 2015, the nominal value of one share was the same). All issued shares are fully paid. The share capital of the Company as at 31 December 2016 is EUR 11 665 thousand (as at 31 December 2015 – EUR 11 665 thousand, which was obtained recalculating the registered one share value of LTL 50 using the official currency exchange rate of LTL 3.45280 to EUR 1).

In accordance with the Lithuanian legislation, on 23 May 2016, the share capital of the Company was re-registered at the official currency exchange rate of LTL 3.4528 to EUR 1, due to which changes in the total authorised number and nominal value of ordinary shares were registered. The difference of EUR 1 thousand which resulted from the change in denomination is recognised through the Company's statement of other comprehensive income.

The Company's shares are not listed.

b) The shareholder

As at 31 December 2016, the shareholder of the Company with 100% shares (31 December 2015: 805 432 shares or 99.98%) is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company.

(all amounts in thousand euros, unless otherwise stated)

c) Share premium

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

d) Reserve capital and other reserves

The reserves have been created by transferring profit from retained earnings to these reserves during the previous years in accordance with the applicable Lithuanian legislation requirements and shareholders' decisions.

These reserves are available to shareholders, and there are no restrictions on those reserves. Reserves include revaluation reserve for available-for-sale investments.

e) Profit distribution plan

Undistributed result – profit – at the end of prior financial year	46 513
Net result of financial year – profit	8 157
Distributable result – at the end of financial year	54 670
Profit distribution – dividends	-
Remaining undistributed result – profit	**54 670**

25. TAXES

	31.12.2016	31.12.2015	01.01.2015
Payable corporate income tax	-	-	1 154
Compulsory state social security contributions	196	190	-
Liabilities	**196**	**190**	**1 154**

During the reporting year, the following tax payments were made:

	2016	2015
Compulsory state social security contributions	9 288	8 581
Personal income tax	3 568	3 268
Motor Bureau fee	952	1 163
Corporate income tax	912	3 432
Value added tax	430	296
Other taxes	681	526
	15 831	**17 266**

(all amounts in thousand euros, unless otherwise stated)

26. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2016	31.12.2015	01.01.2015
Accrued expenses			
Commissions	5 799	5 193	2 949
Operating expenses	3 465	4 700	5 306
Intermediary commissions	548	547	410
Additional sales bonuses	510	513	371
Audit expenses and related services	50	33	40
Other	-	-	145
Total accrued expenses	**10 372**	**10 986**	**9 221**
Other accrued expenses and deferred income			
Not settled insurance prepayments	1 178	1 335	1 571
Other deferred income	145	111	118
Total accrued expenses and deferred income	**1 323**	**1 446**	**1 689**
	11 695	**12 432**	**10 910**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2015	**5 193**	**4 700**	**2 539**	**12 432**
Additions	20 247	6 880	17 215	44 342
Used and reversed	(19 641)	(8 115)	(17 323)	(45 079)
As at 31 December 2016	**5 799**	**3 465**	**2 431**	**11 695**
Long-term part	-	-	-	-
Short-term part	**5 799**	**3 465**	**2 431**	**11 695**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 1 December 2015	**2 949**	**5 306**	**2 655**	**10 910**
Additions	20 951	5 131	14 625	40 737
Reversed	(18 707)	(5 737)	(14 741)	(39 185)
As at 31 December 2015	**5 193**	**4 700**	**2 539**	**12 432**
Long-term part	-	-	-	-
Short-term part	**5 193**	**4 700**	**2 539**	**12 432**

(all amounts in thousand euros, unless otherwise stated)

27. OTHER CREDITORS

	31.12.2016	31.12.2015	01.01.2015
Payables salaries, bonuses and other related payments	4 702	4 448	5 277
Other liabilities	1 678	3 927	3 896
Other payables to policyholders	768	1 259	-
Life insurance non-technical additional liability	78	130	764
Due to the Motor Insurers' Bureau	299	254	323
	7 525	**10 018**	**10 260**

28. RESULT OF CEDED REINSURANCE (-)

	2016	2015
Reinsurers' share in written premiums (see Note 4)	(5 023)	(3 341)
Reinsurers' share in changes in unearned premiums (see Note 5)	273	(249)
Reinsurance commission income (see Note 9)	279	189
Reinsurers' share in claims (see Note 7)	962	657
Reinsurers' share in changes in provisions for claims (see Note 8)	1 053	(292)
Net result of ceded reinsurance activities:	**(2 456)**	**(3 036)**

29. RELATED PARTIES TRANSACTIONS

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

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

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

The parent company of the Company as of 31 October 2014 is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (Poland). Until 31 October 2014, the parent company of the Company was Royal & Sun Alliance Insurance PLC (UK).

(all amounts in thousand euros, unless otherwise stated)

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

a) Transactions with related parties

Reinsurance and fronting insurance

	2016	**2015**
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance premiums ceded	(3 641)	(3 332)
Change of reinsurance unearned premium reserve	132	327
Reinsurance claims	77	-
Change of reinsurance claim reserve	1 855	176
	(1 577)	**(2 829)**

	2016	**2015**
Balta AAS (sister company):		
Master agreement's premiums	277	331
Reinsurance premiums ceded	(22)	(26)
Change of reinsurance unearned premium reserve	(17)	28
Reinsurance claims	24	-
Change of reinsurance claim reserve	(3)	(4)
	259	**329**

Other transactions

	2016	**2015**
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Subordinated loan*	**-**	(10 000)
Accrued interest and amortisation for subordinated loan	(315)	(195)
Indemnity cost and handling fee	367	-
	52	**(10 195)**

*On 29 May 2015 the Company received a subordinated loan of EUR 10 million from its main shareholder Powszechny Zaklad Ubezpieczen SA. The loan interest rate is 3-month Euribor plus annual margin. The loan repayment term is not strictly defined by the contract.

	2016	**2015**
Balta AAS (sister company):		
Indemnity cost and handling fee	(77)	(113)
Compensation of expenses	79	-
	2	**(113)**

	2016	**2015**
Other related companies (LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI):		
Investment fund	(1)	-
Indemnity cost and handling fee	33	9
Compensation of expenses	181	171
	213	**180**

(all amounts in thousand euros, unless otherwise stated)

Balances with related parties

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

	31.12.2016	**31.12.2015**	**01.01.2015**
Reinsurers' share in unearned premium reserves with PZU	526	394	-
Reinsurers' share in claims reserves with PZU	1 993	138	311
Reinsurers' share in unearned premium reserves with Balta AAS	11	28	-
Reinsurers' share in claims reserves with Balta AAS	1	4	-
Reinsurance receivables from PZU	23	10	199
Reinsurance receivables from Balta AAS	48	127	-
Receivables from PZU	210	-	-
Receivables from Balta AAS	146	34	6
Receivables from other related parties	10	24	-
Reinsurance payables to PZU	(890)	(578)	-
Subordinated loan from PZU	(10 000)	(10 000)	-
Payables loan interests for PZU	(179)	(195)	-
Payables to PZU SA, Balta AAS	(6)	(8)	-
Reinsurance payables to Balta AAS	(12)	(34)	-
Payables to other related parties	(3)	-	-
	(8 122)	**(10 056)**	**516**

b) Management remuneration

In 2016, the Company paid remuneration, including compulsory state social security contributions, to the Board of Directors in the amount of EUR 1 653 thousand (2015: EUR 1 420 thousand).

c) Business transfer of PZU Lietuva Estonian branch

On 31 May 2015, a business in Estonia owned by the shareholder of Lietuvos draudimas AB was acquired and affiliated to Lietuvos draudimas AB. The assets and liabilities of the acquired business were taken over in carrying values.

Identifiable assets and liabilities related to the acquired business as of acquisition date, 31 May 2015, as well as the acquisition price, are provided below:

Assets taken over at carrying value	**33 276**
Intangible assets	1 864
Property and equipment	392
Amounts receivable	11 050
Other assets	3 805
Cash and cash equivalents	1 799
Investment	14 366
Liabilities assumed at carrying values	**33 276**
Unearned premium reserve	19 738
Claim reserves	8 538
Other liabilities	5 000
Net assets	**-**
Acquisition price	**7 565**
Difference between acquisition price and net assets written off to retained earnings (loss)	**(7 565)**

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

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

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2016 there were EUR 3 672 thousand (31 December 2015: EUR 2 845 thousand) where the Company is defendant. The management is of the opinion that no material unrecognised losses will be incurred.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2016.

The Company does not have any non-cancellable operating leases as at 31 December 2016, other than the rent of premises that usually can be terminated at 1 to 6 months' notice. Total minimal commitment for rent payments as at 31 December 2016 amounts to EUR 292 thousand (31 December 2015: EUR 290 thousand).

d) Tax contingencies

The local tax authorities have the power to examine the tax position of the Company for the previous five years (five years for transfer pricing). The Company's management believes that the outcome of tax authority's examination will not result in a material impact on the Company's results and operations or its financial position.

31. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

<u>Types of significant insurance contracts</u>

Motor third party liability insurance

It is a compulsory insurance type, the policy conditions and indemnification rules of which are prescribed by the Motor Third Party Liability Insurance Act and other related legislation. 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. However, long-term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over decades.

Accident insurance

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

Travel insurance

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

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

Motor own damage insurance

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

Property insurance, business interruption insurance and building risks insurance

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

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

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

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

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

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

General liability insurance

This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity or by an insured company, due to its operations or products. In respect of property damages, only direct losses are covered, but in respect of bodily injuries, direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the specifics of a customer's commercial activity and a customer's turnover.

(all amounts in thousand euros, unless otherwise stated)

Reinsurance contract assets

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

These assets consist of short-term balances due from reinsurers as well as longer term receivables 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 recognised as an expense when due.

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

Sensitivity to insurance risk

Based on the fact that the Company provides non-life insurance services, only the accounting estimates and assumptions for provision for incurred but not reported claims, as disclosed in Note 3, are assessed by the Company to have a material effect on the timing and uncertainty of the Company's future cash flows.

The Company performs sensitivity testing of IBNR claims provisions by detailed analysis of the results calculated by using several statistical methods to ensure that the currently used method gives the best estimate of provisions for IBNR recognised.

Sensitivity analysis for claims provisions at 31.12.2016 (EUR):

	Impact if loss ratio 1 percent points higher than used in IBNR estimates	**Impact if loss ratio 1 percent points lower than used in IBNR estimates**	**Impact if claims handling expenses 1% higher than used in reserve estimates**	**Impact if claims handling expenses 1% lower than used in reserve estimates**
Motor vehicle third party liability insurance	789 004	(789 004)	13 939	(13 939)
General liability insurance	47 079	(47 079)	3 869	(3 869)
Credit and suretyship insurance	23 408	(23 408)	313	(313)
Marine, aviation and transport insurance	4 857	(4 857)	312	(312)
Fire and other damage to property insurance	4 470	(4 470)	2 244	(2 244)
Income protection insurance	3 739	(3 739)	391	(391)
Miscellaneous financial loss	1 442	(1 442)	287	(287)
Medical expense insurance	(561)	561	107	(107)
Motor own damage insurance	(6 944)	6 944	3 074	(3 074)
Total	**866 494**	**(866 494)**	**24 536**	**(24 536)**

(all amounts in thousand euros, unless otherwise stated)

Concentration by territory

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

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

Year 2016	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of claim reserves			
Available-for-sale financial investments	75 255	31 573	106 828
Held-to-maturity financial investments	18 146	39 184	57 330
Insurance and reinsurance debtors	26 061	13 861	39 922
Reinsurers' share of outstanding claim reserves	338	3 651	3 989
Cash and cash equivalents	7 021	1 089	8 110
Other debtors	3 976	264	4 240
Total financial assets and reinsurers' share of claim reserves	**130 797**	**89 622**	**220 419**
Financial liabilities and claim reserves			
Outstanding claim reserves	(31 237)	(24 872)	(56 109)
Financial liabilities (Note 29)	-	(10 000)	(10 000)
Total financial liabilities and claim reserves	**(31 237)**	**(34 872)**	**(66 109)**
Net position as at 31 December 2016	**99 560**	**54 750**	**154 310**

Year 2015	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of claim reserves			
Available-for-sale financial investments	91 621	22 752	114 373
Held-to-maturity financial investments	18 163	21 572	39 735
Insurance and reinsurance debtors	24 231	11 907	36 138
Reinsurers' share of outstanding claim reserves	472	2 464	2 936
Cash and cash equivalents	2 850	2 389	5 239
Other debtors	3 293	190	3 483
Total financial assets and reinsurers' share of claim reserves	**140 630**	**61 274**	**201 904**
Financial liabilities and claim reserves			
Outstanding claims reserves	(30 656)	(19 706)	(50 362)
Financial liabilities (Note 29)	-	(10 000)	(10 000)
Total financial liabilities and claim reserves	**(30 656)**	**(29 706)**	**(60 362)**
Net position as at 31 December 2015	**109 974**	**31 568**	**141 542**

(all amounts in thousand euros, unless otherwise stated)

Reinsurance coverage

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

Maximum own retention:

	2016	**2015**
Personal accident & Travel medical expense	94	100
Motor own damage	150	150
Motor vehicle third party liability	400	400
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 173	1 173
General TPL insurance	352	352
Bonds and guarantees	235	300

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of contract premiums to liabilities net of related deferred acquisition costs (DAC) assets, administrative, claim handling expenses and bonus and rebates. In performing these tests, current best estimates of future contractual cash flows are used. If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting additional unexpired risk reserve.

Unexpired risk reserve as at 31 December 2016 is EUR 2.0 million (31 December 2015: EUR 2.2 million).

32. FINANCIAL RISK MANAGEMENT

Risk management framework:

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

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

32.1 Credit risk

The Company takes an exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

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

(all amounts in thousand euros, unless otherwise stated)

a) Maximum credit exposure

	31.12.2016	31.12.2015	01.01.2015
Lithuania government debt securities	90 418	106 554	118 547
Investment funds	26 360	20 399	-
Poland government debt securities	9 660	4 750	-
Cash and cash equivalents	8 110	5 239	3 090
Croatia government debt securities	7 421	2 845	-
Romania government debt securities	7 379	3 388	-
Bulgaria government debt securities	6 171	2 526	-
Hungary government debt securities	5 681	2 236	-
Corporate bonds	4 451	4 483	4 953
Shares	3 876	4 118	2 468
Ireland government debt securities	1 736	1 771	-
Slovenia government debt securities	1 005	1 038	1 075
France government debt securities	-	-	1 029
Credit risk	**172 268**	**159 347**	**131 162**

Reinsurers' share in unearned premium reserves	1 307	1 034	434
Outstanding claims reserve, reinsurers' share	3 989	2 936	1 909
Reinsurance debtors	858	983	1 132
Receivables due from policyholders	37 990	35 017	21 216
Receivables due from intermediaries	1 074	138	79
Other receivables	4 240	3 483	3 202
	49 458	**43 591**	**27 972**
Maximum credit exposure, total	**221 726**	**202 938**	**159 134**

(all amounts in thousand euros, unless otherwise stated)

b) Reinsurance risk breakdown by key counterparties

Reinsurer	31.12.2016 Assets related to reinsurance	S&P Rating	31.12.2015 Assets related to reinsurance	S&P Rating	01.01.2015 Assets related to reinsurance	S&P Rating
Powszechny Zaklad Ubezpieczen SA	2 547	**AA-**	538	**AA-**	511	**AA-**
ALD RE DESIGNATED ACTIVITY COMPANY	983	**NR**	811	**NR**	239	**NR**
HANNOVER RUCK SE	368	**AA-**	416	**AA-**	389	**AA-**
SWISS RE EUROPE S.A., NIEDERLASSUNG DEUTSCHLAND	341	**AA-**	344	**AA-**	412	**AA-**
SWISS RE EUROPE S.A.	287	**AA-**	292	**AA-**	266	**AA-**
SCOR GLOBAL P&C SE	199	**AA-**	175	**AA-**	101	**AA-**
ROYAL & SUN ALLIANCE INSURANCE PLC.	167	**A**	993	**A**	164	**A**
SCOR Reassurance	163	**AA-**	168	**AA-**	158	**AA-**
CAISSE CENTRALE DE REASSURANCE	104	**AA**	104	**AA**	143	**AA**
AXIS RE SE, DUBLIN, ZURICH BRANCH	101	**A+**	101	**A+**	144	**A+**
RSA Global Belgium	93	**A**	-	**A**	-	**A**
R+V VERSICHERUNG AG	84	**AA-**	75	**AA-**	23	**AA-**
MUNICH REINSURANCE COMPANY	71	**AA-**	45	**AA-**	233	**AA-**
XL RE EUROPE LIMITED	68	**A+**	60	**A+**	-	**A+**
TRANSATLANTIC REINSURANCE COMPANY	64	**A+**	100	**A+**	129	**A+**
Balta A/S	60	**NR**	154	**NR**	-	**NR**
ODYSSEY REINSURANCE COMPANY	60	**A-**	60	**A-**	79	**A-**
ENDURANCE SPECIALTY INSURANCE LTD	53	**A**	46	**A**	-	**A**
ALEA EUROPE LTD	32	**NR**	55	**NR**	55	**NR**
Other - less than EUR 50 thousand by one reinsurer	309		415		428	
Reinsurance risk	**6 154**		**4 952**		**3 474**	

c) Investment breakdown by ratings as at the reporting date (all amounts in EUR thousand):

Year 2016	**Rated AAA**	**AA**	**A**	**BBB**	**BB**	**Without rating**	**Total**
Government bonds	-	-	93 159	22 720	13 591	-	129 470
Corporate bonds	-	-	-	3 460	992	-	4 452
Investment funds	-	-	-	-	-	26 360	26 360
Shares	-	-	-	-	-	3 876	3 876
Total investment assets	**-**	**-**	**93 159**	**26 180**	**14 583**	**30 236**	**164 158**

Year 2015	**Rated AAA**	**AA**	**A**	**BBB**	**BB**	**Without rating**	**Total**
Government bonds	-	-	114 113	3 388	7 608	-	125 109
Corporate bonds	-	-	-	3 483	999	-	4 482
Investment funds	-	-	-	-	-	20 399	20 399
Shares	-	-	-	-	-	4 118	4 118
Total investment assets	**-**	**-**	**114 113**	**6 871**	**8 607**	**24 517**	**154 108**

32.2 Liquidity risk

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

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

Year 2016	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claim reserves				
Financial investments	11 326	81 577	71 255	164 158
Insurance and reinsurance debtors	38 494	1 313	115	39 922
Reinsurers' share of outstanding claim reserves	1 858	1 008	1 123	3 989
Cash and cash equivalents	8 110	-	-	8 110
Total financial assets and reinsurers' share of claim reserves	**59 788**	**83 898**	**72 493**	**216 179**
Financial liabilities and claim reserves				
Outstanding claim reserves	(31 662)	(14 068)	(10 379)	(56 109)
Financial liabilities	-	-	(10 000)	(10 000)
Total financial liabilities and claim reserves	**(31 662)**	**(14 068)**	**(20 379)**	**(66 109)**
Net position as at 31 December 2016	**28 126**	**69 830**	**52 114**	**150 070**

(all amounts in thousand euros, unless otherwise stated)

Year 2015	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claim reserves				
Financial investments	14 083	78 649	61 376	154 108
Insurance and reinsurance debtors	35 516	622	-	36 138
Reinsurers' share of outstanding claim reserves	1 972	526	438	2 936
Cash and cash equivalents	5 239	-	-	5 239
Total financial assets and reinsurers' share of claim reserves	**56 810**	**79 797**	**61 814**	**198 421**
Financial liabilities and claims reserves				
Outstanding claim reserves	(32 702)	(11 791)	(5 869)	(50 362)
Financial liabilities	-	-	(10 000)	(10 000)
Total financial liabilities and claim reserves	**(32 702)**	**(11 791)**	**(15 869)**	**(60 362)**
Net position as at 31 December 2015	**24 108**	**68 006**	**45 945**	**138 059**

32.3 Market risk

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

a) Exposure to interest rate risk

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

	2016	**2015**
Corporate bonds	2.06%	2.06%
Government bonds	2.05%	2.05%
Investment funds	1.41%	1.46%

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

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

		2016 EUR	**2015 EUR**
Market interest rate and impact on fair value	+0.5 percent point	(2 888)	(2 611)
	-0.5 percent point	2 888	2611

b) Fair value risk

Financial assets and financial liabilities other than those reflected at their fair value (see Note 17) and those classified as held-to-maturity (see Note 18), are receivables, term deposits with credit institutions, cash and cash equivalents and payables.

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

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

(all amounts in thousand euros, unless otherwise stated)

c) Currency risk

The Company was exposed to currency risk arising from various currency exposures. The Company is not exposed to significant currency risk as the reinsurance coverage is provided in, and other transactions are, denominated in Euros. Management of the Company seeks to limit currency risk through an investment portfolio created in respective currencies in the amount equal to respective claim reserves and liabilities. Reserves currencies are classified according to the main currency in the country of events incurred.

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

Year 2016	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of claim reserves			
Available-for-sale financial investments	106 828	-	106 828
Held-to-maturity financial investments	57 330	-	57 330
Insurance and reinsurance debtors	39 922	-	39 922
Reinsurers' share of outstanding claim reserves	3 965	24	3 989
Cash and cash equivalents	8 038	72	8 110
Other debtors	4 239	1	4 240
Total financial assets and reinsurers' share of claim reserves	**220 322**	**97**	**220 419**
Financial liabilities and claim reserves			
Outstanding claim reserves	(52 503)	(3 606)	(56 109)
Financial liabilities	(10 000)	-	(10 000)
Total financial liabilities and claim reserves	**(62 503)**	**(3 606)**	**(66 109)**
Net position as at 31 December 2016	**157 819**	**(3 509)**	**154 310**

Year 2015	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of claim reserves			
Available-for-sale financial investments	114 373	-	114 373
Held-to-maturity financial investments	39 735	-	39 735
Insurance and reinsurance debtors	36 138	-	36 138
Reinsurers' share of outstanding claim reserves	2 784	152	2 936
Cash and cash equivalents	5 236	3	5 239
Other debtors	3 483	-	3 483
Total financial assets and reinsurers' share of claim reserves	**201 749**	**155**	**201 904**
Financial liabilities and claim reserves			
Outstanding claim reserves	(47 963)	(2 399)	(50 362)
Financial liabilities	(10 000)	-	(10 000)
Total financial liabilities and claim reserves	**(57 963)**	**(2 399)**	**(60 362)**
Net position as at 31 December 2015	**143 786**	**(2 244)**	**141 542**

Changes in the exchange rates do not have a material impact on net position. The largest share of financial assets and liabilities is held in Euros, which is the functional currency starting from 1 January 2015.

(all amounts in thousand euros, unless otherwise stated)

33. CAPITAL RISK MANAGEMENT

As at 31 December 2015, the Company was compliant with Solvency I capital adequacy requirements which were replaced by Solvency II rules as of 1 January 2016. Solvency II entails new rules for calculating capital requirements and qualifying capital, risk management and internal control requirements and requirements for the reporting of the risk and capital situation. As at 31 December 2016, the Company assessed its specific facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

34. LOSS DEVELOPMENT TABLE

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

	2006 and prior	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year									18 668	25 799	27 852	
1 year later								4 873	19 242	23 717		
2 years later							3 295	5 588	18 285			
3 years later						2 376	2 672	4 920				
4 years later					1 430	1 731	1 781					
5 years later				1 526	1 357	1 680						
6 years later			1 826	1 248	1 039							
7 years later		1 120	1 197	1 121								
8 years later	1 623	850	1 031									
9 years later	1 235	1 053										
10 years later	742											
Estonia Branch net claim provisions as at acquisition date, 31 May 2015						**82**	**383**	**1 248**	**2 660**	**4 165**		**8 538**
Net claims paid												
1 year later									11 966	15 819		
2 years later								852	1 062			
3 years later							108	361				
4 years later						330	48					
5 years later					173	315						
6 years later				125	42							
7 years later			(13)	42								
8 years later		57	3									
9 years later	(104)	40										
10 years later	(125)											
Cumulative net claims paid	**(229)**	**97**	**(10)**	**167**	**215**	**645**	**156**	**1 213**	**13 028**	**15 819**		**31 101**
CY (deficiency)/ redundancy	**492**	**(203)**	**167**	**127**	**317**	**52**	**891**	**669**	**957**	**2 082**		**5 551**

(all amounts in thousand euros, unless otherwise stated)

35. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2.1.1, these are the Company's first financial statements prepared in accordance with IFRS as adopted by EU.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2016, the comparative information presented in these financial statements for the year ended 31 December 2015 and in the preparation of an opening IFRS EU statement of financial position as at 1 January 2015 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Lithuanian Business Accounting Standards (previous GAAP). An explanation of how the transition from the previous GAAP to IFRSs affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of comprehensive income for the year ended 31 December 2015:

	Note	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Gross written premium	A	151 100	1 463	152 563
Reinsurers' share in premiums		(3 341)		(3 341)
Net written premiums		**147 759**	**1 463**	**149 222**
Change in gross provision for unearned premiums	A	(4 973)	(1 463)	(6 436)
Change in provision for unearned premiums, reinsurers' share		(249)		(249)
Change in provision for unearned premiums		**(5 222)**	**(1 463)**	**(6 685)**
Net premiums earned		**142 537**		**142 537**
Other technical income		634		634
Total insurance income		**143 171**		**143 171**
Gross claims paid to policyholders		(82 521)		(82 521)
Loss adjustment expenses		(7 982)		(7 982)
Recovered losses		6 596		6 596
Claims paid		**(83 907)**		**(83 907)**
Reinsurers' share		657		657
Net claims paid		**(83 250)**		**(83 250)**
Change in gross provision for claims		(1 859)		(1 859)
Change in provision for claims, reinsurers' share		(292)		(292)
Net incurred claims		**(85 401)**		**(85 401)**
Client acquisition costs		(40 794)		(40 794)
Administrative expenses		(11 149)		(11 149)
Total insurance expenses		**(51 943)**		**(51 943)**
Net result of insurance activities		**5 827**		**5 827**
Investment activity result	B	3 273	(623)	2 650
Finance income and expenses		(500)		(500)
Other income and expenses		224		224
Profit / (loss) before tax		**8 824**	**(623)**	**8 201**
Changes in deferred tax asset	B	(2 025)	93	(1 932)
Profit / (loss) for the year		**6 799**	**(530)**	**6 269**
Available-for-sale investments revaluation result	B	-	530	530
Total comprehensive profit / (loss) for the reporting year		**6 799**		**6 799**

(all amounts in thousand euros, unless otherwise stated)

Reconciliation in the statement of financial position:

		1 January 2015			31 December 2015		
Assets	**Note**	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Intangible assets		4 792		4 792	5 095		5 095
Property and equipment		11 040		11 040	10 509		10 509
Investment property		831		831	831		831
Financial investments		128 072		128 072	154 108		154 108
Total non-current assets		**144 735**		**144 735**	**170 543**		**170 543**
Receivables from direct insurance operation	C	21 295		21 295	33 692	1 463	35 155
Other receivables		4 334		4 334	4 466		4 466
Reinsurers' share of insurance contract liabilities	D	2 343		2 343	4 002	(32)	3 970
Deferred income tax asset		963		963	289		289
Accrued income and deferred expenses	E	11 467		11 467	18 148	338	18 486
Cash and cash equivalents		3 090		3 090	5 239		5 239
Total current assets		**43 492**		**43 492**	**65 836**	**1 769**	**67 605**
Total assets		**188 227**		**188 227**	**236 379**	**1 769**	**238 148**
Equity							
Share capital		11 666		11 666	11 665		11 665
Share premium		937		937	937		937
Reserve capital and other reserves	F,G	5 057	1 559	6 616	4 804	2 342	7 146
Retained earnings	F,G	49 368	(1 559)	47 809	48 855	(2 342)	46 513
Total equity and reserves		**67 028**		**67 028**	**66 261**		**66 261**
Liabilities							
Insurance contract reserves and liabilities	C,D	97 382		97 382	134 690	1 431	136 121
Other creditors	E	23 817		23 817	35 428	338	35 766
Total current liabilities		**121 199**		**121 199**	**170 118**	**1 769**	**171 887**
Total liabilities		**188 227**		**188 227**	**236 379**	**1 769**	**238 148**

Material adjustments to the statement of cash flows for 2015
There are no material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous GAAP.

Index to the notes to the reconciliations
A. First time adoption for the part of long-term insurance policies through the statements of comprehensive income and statement of financial position, amount is EUR 1 463 thousand.
B. The revaluation result of available-for-sale financial investments, which comprises unrealized profit amount (EUR 623 thousand) and deferred income tax (EUR 93 thousand). Total result for the statement of other comprehensive income is EUR 530 thousand.
C. First time adoption of long-term insurance policies receivables from policyholders for the statement of financial position, amount is EUR 1 463 thousand.
D. First time adoption actuarial correction for outstanding claims reserve, amount is EUR 32 thousand.
E. First time adoption for deferred commission of long-term insurance policies, amount is EUR 338 thousand.
F. Not realized gains from available-for-sale financial investments, which were transferred from the statement of comprehensive income to equity:
- for the year 2014 amount is EUR 4 283 thousand;
- for year 2015 amount is EUR 4 813 thousand.

G. Real estate revaluation reserve was written off from other reserves to retained earnings, as the Company had elected to measure an item of PPE at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at the transition date:
- for year 2014 amount is EUR 2 724 thousand;
- for year 2015 amount is EUR 2 471 thousand.

36. SUBSEQUENT EVENTS

There are no subsequent events since the last day of the reporting year, which would have a significant effect on the financial statements of the Company as at and for the year ended 31 December 2016.

Sidevahendid

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