Lietuvos draudimas AB

Independent Auditor's Report,
Annual Management Report and
Financial Statements for the Year
Ended 31 December 2017

PAGE

(All amounts in thousands of euro unless otherwise stated)

Council

Name, Surname	*Position*
Roger Hilton Hodgkiss	Chairman of the Supervisory Board (from 12.06.2017)
Roger Hilton Hodgkiss	Member of the Supervisory Board (from 28.04.2017)
Slawomir Wlodzimierz Niemierka	Member of the Supervisory Board (from 31.10.2014)
Lidia Maria Orzechowska	Member of the Supervisory Board (from 29.06.2017)
Pawel Karol Zacharkiewicz	Member of the Supervisory Board (from 29.06.2017)
Katarzyna Anna Galus	Member of the Supervisory Board (from 08.12.2017)
Jacek Adrian Matusiak	Chairman of the Supervisory Board (from 20.12.2016 until 26.04.2017)
Jacek Adrian Matusiak	Member of the Supervisory Board (from 12.12.2016 until 26.04.2017)
Maciej Bogdan Rapkiewicz	Member of the Supervisory Board (from 28.04.2016 until 08.12.2017)
Agnieszka Ewa Karbowiak	Member of the Supervisory Board (from 12.12.2016 until 19.06.2017)
Andrzej Jaworski	Member of the Supervisory Board (from 13.07.2016 until 01.06.2017)

Board

Name, Surname	*Position*
Kęstutis Šerpytis	Chairman of the Board, Chief Executive Officer
Artūras Juodeikis	Board Member, Claims Department Director
Aurelija Kazlauskienė	Board Member, Strategy, Clients and Marketing Department Director
Julius Kondratas	Board Member, Underwriting Department Director
Raimondas Geleževičius	Board Member, Private Sales Department Director
Tadas Dovbyšas	Board Member (until 08.03.2018), Commercial Sales Department Director
Rafal Piotr Rybkowski	Board Member, Finance Department Director
Mihkel Uibopuu	Board Member (from 22.05.2017), Manager of Lietuvos draudimas AB Eesti filiaal
Bogdan Benczak	Board Member (until 15.05.2017)

Disclosure of Board Members participating in other organisations

Kęstutis Šerpytis

Position:	*Chairman of the Council*
Organisation:	*Lithuanian Insurers Association*
Legal form of the organisation:	*Association*
Company code:	*121737585*
Address:	*Gedimino Ave. 45-11, LT-01109 Vilnius, Lithuania*
Position:	*Member of the Council*
Organisation:	*Motor Insurers' Bureau of the Republic of Lithuania*
Legal form of the organisation:	*Association*
Company code:	*125709291*
Address:	*Algirdo St. 38, LT-03606 Vilnius, Lithuania*

Raimondas Geleževičius

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

(All amounts in thousands of euro unless otherwise stated)

Tadas Dovbyšas (Board Member until 08.03.2018)

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

Rafal Piotr Rybkowski

Position:	*Member of the Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company (JSC)*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Member of the Board, Chief Financial Officer*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company (JSC)*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Member of the Supervisory Board, Head of the Audit Committee*
Organisation:	*Bank BPH S.A.*
Legal form of the organisation:	*Joint Stock Company (JSC)*
Company code:	*0000010260*
Address:	*Jana Palubickiego St. 2, 80-175 Gdansk, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*PayPro SA*
Legal form of the organisation:	*Joint-stock company (JSC)*
Company code:	*0000347935*
Address:	*Kanclerska Ave. 15, 60-327 Poznan, Poland*

Mihkel Uibopuu

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

Bogdan Benczak
(during the term in Lietuvos Draudimas AB Management Board):

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

Name and address of the independent auditor:

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

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Independent Auditor's Report

To the Shareholders of Lietuvos draudimas AB

Report on the Audit of the Financial Statements

Opinion

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

- the statement of financial position as at 31 December 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholder's equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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 Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Company code: 111494971
VAT code: LT114949716

Measurement of claims provisions

The Company's gross of reinsurance outstanding claims reserves as at 31 December 2017 amounted to EUR 77 million (31 December 2016: EUR 56 million). The change in gross of reinsurance outstanding claims reserves in 2017 amounted to EUR 21 million (increase).

Reference to the financial statements: "Technical reserves" on page 36 (Summary of significant accounting policies) and Note 7 "Outstanding claim reserves" on page 44 (Notes to the financial statements).

The key audit matter	How the matter was addressed in our audit
Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented in the Company's statement of financial position. The most significant claim reserves are associated with the obligatory motor third party liability, motor own damage and property portfolios. Management uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not reported (i.e. IBNR). The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus the completeness and accuracy of the data underlying the actuarial projections was area of our audit focus. The estimation of the amounts of claim reserves generally involves a significant degree of Management's judgment mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a significant effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss rates, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, regress and the expected payment period. Due to the above factors, we considered measurement of the non-life insurance claim reserves to be our key audit matter.	Our audit procedures, performed with the assistance of our actuarial and IT specialists, included, among others: • Testing the design, implementation and operating effectiveness of key controls related to the process of establishing and adjusting outstanding claims reserves, including the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (such as reports on claims paid and incurred, premiums written and earned and number of claims), as well as testing of general controls in the IT environment regarding data extraction and validation. • Assessing for reasonableness the actuarial methodologies and assumptions applied by the Company, including in particular the loss ratios, claim frequency and average size of claims, expected trends in court settlements, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period, by reference to the methodologies and assumptions applied by the Company in prior period and the prevailing industry practice, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards.

	• For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claims reserves recognized at the end of prior year, comparing this analysis to the Company's estimates, and seeking management's explanations for any significant differences. • For all significant insurance contract portfolios, such as, among others, obligatory motor third party liability, motor own damage and property, developing an independent estimate of the gross outstanding claims liability, comparing our independent estimates to the Company's estimates and seeking management's explanations for any significant differences.

Other Information

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

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

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

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

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

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 28 March 2013 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 5 years.

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

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

In the course of audit, we have not provided any other services except for audit of financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
28 March 2018

Market overview

The year 2017 was a year of record growth for the non-life insurance market in Lithuania. According to the Bank of Lithuania, the non-life insurance market of the country, including the branches of foreign insurance companies doing business in Lithuania, reached EUR 561 million in insurance premiums written for 2017, which is 21% more than in 2016. The Bank of Lithuania estimates that the country's non-life insurance market can grow for an additional 10–12% in the year 2018.

6.45 million contracts were concluded in 2017 in the Lithuanian non-life insurance market, which is 12% more than in 2016 when the number of contracts reached 5.74 million. There were 4.2 million valid non-life insurance contracts at the end of the reporting year. The largest part of those insurance agreements accounted for compulsory motor third party liability insurance policies (MTPL), motor own damage insurance (Casco) and property insurance. These three types of insurance accounted for 65% of concluded contracts and 82% of premiums written.

The largest part of non-life insurance market based on premiums written accounts for MTPL insurance. This type of insurance was also the fastest growing one, in 2017 – the premiums written increased by 38% up to EUR 216 million and comprised 38% of all non-life insurance premiums written. In the business insurance segment, this type of insurance significantly increased in 2016 (by 25%) and the growth was even bigger in 2017 (49%). The resident insurance segment also had an impact on the growth of MTPL premiums written, since it grew by only 8% in 2016, but accelerated the growth to 31% in 2017.

The terrain vehicle Casco insurance (excluding railway vehicles) reached EUR 133 million in premiums written, which is 18% more than in the year 2016 and accounted for 24% of all non-life insurance premiums.

The amount of the property insurance premium increased by 6% up to EUR 103 million and accounted for 18% of all non-life insurance premiums.

According to the Estonian Department of Statistics, non-life insurance premiums in the amount of EUR 335 million were written in 2017 in Estonia, and the market growth reached 11%. The growth of the non-life insurance was higher than in 2016, when the market grew by 8% and non-life insurance premiums written amounted to EUR 302 million.

Lietuvos draudimas AB has grown in its both markets

During the year 2017, all of the Baltic States' markets showed two-digit growth in non-life insurance products. Lithuania and Estonia were no exceptions, and such a favorable market situation allowed Lietuvos draudimas AB to remain in the position of a single leader in Lithuania, and take the foothold as one of the four strongest insurance companies in Estonia. In both markets the increase in premiums written of Lietuvos draudimas AB was higher compared with overall market growth. Such growth was achieved mainly due to the increased number of clients and the increasing general penetration of voluntary insurance products.

Lithuanian market

During the year 2017, Lietuvos draudimas AB attracted 19% more clients in Lithuania and had 582 thousand private and business clients at the end of the reporting year.

The year 2017 was very successful for Lietuvos draudimas AB – the Company demonstrated profitable performance, as well as increased its market share by 1.5 percentage points to 31% by managing the largest non-life insurance portfolio in Lithuania. The Company's premiums written in Lithuania grew by 27% up to EUR 174 million, surpassing the growth of the market in both resident and business insurance segments.

Lietuvos draudimas AB grew by 30% in the resident insurance products, thus bypassing the competition twofold since they grew by 15%. The Company grew larger than the market in both resident vehicle insurance types – the MTPL insurance and Casco, and larger than all four types of resident insurance types if the resident accident insurance and property insurance were to be added in the second half of the year.

The growth of the Company in the business client segment was 24% and it was higher compared to 21% growth of the competition. The Company grew higher than the market in both motor insurance types as well as non-motor insurance products.

Estonian market

At the end of the year 2017, the Estonian market had 13 companies participating in non-life insurance market, four of which were branches of foreign companies. There are four strongest companies in the market, each of it having more than 15% of the market share and altogether 70% of the total non-life insurance market. The Lietuvos draudimas AB Estonian branch grew more than the rest of the market and this growth allowed the branch to increase its market share by 1.1 percentage point and take the fourth position with a 15.6% market share.

The number of non-life insurance premiums written by the Lietuvos draudimas AB Estonian branch was 17.8% higher in 2017 compared to the previous year for a total of EUR 53.8 million. The growth was mostly influenced by the motor insurance types. The Estonian branch also successfully increased its online sales – the amount of insurance sold through this distribution channel increased by 172% in 2017 compared to the previous year and accounted for 5.2% of all Estonian branch premium written portfolio.

Shareholders and structure

Lietuvos draudimas AB belongs to the Polish, Central, and Eastern Europe insurance group Powszechny Zakład Ubezpieczen Spółka Akcyjna (PZU SA), which owned 100% of Lietuvos draudimas AB shares in 2017 and as at 31 December 2017.

In 2017 the Company did not acquire and did not dispose as well as did not hold any of its own shares as at 31 December 2017.

In 2017 and as at 31 December 2017 Lietuvos draudimas AB did not have subsidiaries.

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

Company performance results

Non-life insurance premiums written in 2017 by Lietuvos draudimas AB together with its Estonian branch amounted to EUR 228.2 million and comparing to the EUR 182.9 million of written premiums in 2016 achieved a 24.8% growth. The Company successfully grew in both of its Lithuanian and Estonian markets.

Lietuvos draudimas AB not only surpassed its competition by growing faster than the market in 2017 but also operated profitably in both of its markets. The net profit of Lietuvos draudimas AB in 2017 including the result of the Estonian branch reached EUR 13.1 million compared to EUR 8.2 million in 2016.

The Company's operations were profitable in both the non-life insurance activities and the investment portfolio management in 2017. Despite increasing insurance claims, the Company managed to earn EUR 13.2 million from direct non-life insurance activities in 2017 (EUR 7.1 million in 2016). The increase of profit from non-life insurance activities was mainly driven by the improvement in the Company's expense ratio, caused by the successful continuation of operating expense optimization initiatives, profit generated by the Estonian branch and improving results of unprofitable segments.

The Company continued its conservative investment policy in 2017, concentrating its investments in the strong European companies' and government debt securities. This strategy continued to provide positive results – the profit earned from investment activities reached EUR 2.7 million in 2017, compared to EUR 3.0 million in 2016. Lietuvos draudimas AB will continue to retain a conservative investment policy by directing the largest part of its portfolio to lower risk debt securities.

The amount of claims settled with the Company's clients continues to increase. The Company together with the Estonian branch settled non-life insurance claims of EUR 120.6 million, which is 18% more compared to the previous year (EUR 102.1 million in 2016).

The growth of claims ratio in 2017 was mostly caused by the increasing number of clients – the number of clients increased by 19% from the start of the year, which consequently generated more claims. Additionally, the claim ratio was essentially influenced by the growth in frequency and the average amount of claim settlement in MTPL insurance, or, in other words, by the damage inflation. Damage inflation (the increase of costs incurred to compensate the damage, such as service pricing and other) can be observed in other insurance product portfolios as well. The clients of the Company suffered several particularly large damages in 2017, amongst them – damages from natural disasters, which also affected the growth of claims settlement amounts.

Corporate income tax expense of Lietuvos draudimas AB increased by 55% in 2017 and amounted to EUR 2.1 million (EUR 1.4 million in 2016).

General Data Protection Regulation

Whilst preparing for the General Data Protection Regulation (hereinafter – "GDPR") coming into legal effect on 25 May 2018, the Company started to implement the requirements of the regulation in the middle of 2017. According to the requirements of the regulation, the Company executed the data protection audit, during which all of the Company's processes (related to the personal data) were reviewed and the needed corrections were applied in order to properly and completely adhere to the regulation coming into legal force. The Company has created a special team of responsible specialists, which presents the progress regarding the preparation for the GDPR to the Board of the Company on a monthly basis. During the implementation of the GDPR requirements, the client's agreements on receiving marketing information will be updated, the agreements with intermediaries, brokers, partners, employees will be updated, special IT applications for the safekeeping of sensitive information will be created and installed, client property inspection (review) photo storage will be changed and an IT data de-personalization algorithm will be created. The Company's preparation for the implementation of this regulation is proper and timely.

Preparation for the EU directive "On insurance distribution"

During the implementation of the EP and EC 20.01.2016 directive (ES) 2016/97 "On insurance distribution", Lietuvos draudimas AB started preparation works for the implementation of this directive. The main changes applied when this directive is transitioned into national law are: (1) revealing information to the policyholders – extended information provision volume, each insurance product will have to have an informational document IPID, the format of which is specified by the EC regulation in detail, the distributors will also have to reveal the type of received remuneration; (2) tightened requirements for the distributors' (insurer's employees and intermediaries) qualification and reputation: the insurers will be obliged to check the qualification and reputation of employees and intermediaries, and the distributors will have to improve their qualification for at least 15 hours annually; (3) new requirements to the management of intermediary lists are set.

Lietuvos draudimas AB has prepared informational documents to clients, new agreements for intermediaries and the internal regulations of the Company are being changed according to the directive. A legal basis in the local law is needed for the final implementation of the changes: the decisions from the Bank of Lithuania and the changes in the Law on Insurance of the Republic of Lithuania.

Strategy

In 2017, Lietuvos draudimas AB continued its activities according to the active Lietuvos draudimas AB strategy for the years 2016–2020 named "Sekmes kodas" (Code of success). According to this strategy, the Company seeks to remain the Lithuanian non-life insurance leader, successfully execute its activities, while showing consistent profitability, ambitious combined insurance indicator and effective cost management. The long-term strategy project implementation is continued.

Trust is of the utmost importance

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

By performing its activities, 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 surveys, Lietuvos draudimas AB 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 2017 show that 42% of non-life insurance service users trust Lietuvos draudimas AB.

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 AB has been using the Customer Voice System to listen to the client satisfaction and evaluate it by an NPS score that indicates a favourable customer rate. This system, which is now widely applied in various sectors, was used first in Lithuania by Lietuvos draudimas AB. During the year 2017, the "Client voice" system was used to interview more than 25 thousand of the Company's clients.

Value strategy: it makes a difference where to obtain insurance

Additional value strategy for compulsory insurance claims.

Lietuvos draudimas AB has continued the value strategy for private clients, thus further improving and expanding the offer of products, looking to offer more value to the clients. During the year 2015, a new type of insurance against civil liability in respect of the use of motor vehicles MTPL was offered, making the mandatory insurance with technical assistance on the road a typical service, which is actively used by the Company's clients. According to the data from consumer surveys executed by the Company, 70% of drivers in Lithuania stated that the specific service of technical assistance on the road is what they need. The technical assistance is an integral part of the mandatory insurance, changing the driver's view and making him realize that there is a difference where to get the insurance from, even when choosing only a mandatory one. The technical assistance on the road insurance, provided with the mandatory insurance, is valid whenever the driver fails to start the car, in case he runs out of fuel, whenever a vehicle needs transportation to a repair shop or a parking lot after a road accident, whenever a driver locks his keys inside the car, is trapped in the snow or mud, or in case the driver just needs a consultation over a phone. The assistance service is provided on a 24/7 basis, covering all the territory of Lithuania. The time between the client asking for assistance and the arrival of the recovery unit, is up to an hour within city limits.

According to the data provided by the Lithuanian road police service, approximately 2.5 thousand drivers and passengers suffer damages every year in Lithuania. Taking this into account, the Company came up with another new service for the MTPL clients – the Drivers and passengers insurance, costing EUR 1 per month. This service immediately became popular amongst the MTPL clients, and 10.4 thousand of new Drivers and passengers' insurance policies were signed during the first year.

Housing insurance offers

Lietuvos draudimas AB has taken into account the reviews of its clients regarding the increase of prices for products and services in the general context of all sectors and has decided to freeze the home insurance prices for a part of the clients renewing their agreements, to show that loyal customers are valued. Although the insurance premiums for house insurance should increase due to the inflation level, the increasing frequency of damages, the increasing average payout for each damage, and the increasing price of repair/reconstruction services and construction materials, the Company strived to promote the use of the insurance service to as many loyal clients as possible.

Lietuvos draudimas AB has continued the offers of fixed protection for a fixed price, seeking to increase the understanding of the value and the insurance itself amongst its clients, especially the people who have never used any housing insurance services. These insurance packages have been conveniently set up for the clients, taking their needs into consideration, and providing a fixed monthly price. This type of fixed protection and price services help to attract new clients.

Special housing insurance program for seniors

During the year 2017, the Company offered a special housing insurance program for seniors, helping this group of society to take care of the safety of their homes. According to the research data, the seniors were aware of the types of the damage and the size of financial damage they can expect. Additionally, this group has clearly stated that the rebuilding of the property would be really hard, since they do not have a lot of savings. During the execution of this program, the Company offered the seniors the necessary insurance for a flat or a house at an affordable price, which was one of the most important criteria for the seniors for choosing the service.

Sales network

Lietuvos draudimas AB remains the non-life insurance Company having the largest own sales network in Lithuania in 2017. Taking the client's convenience and behavior into account, changes have been made to achieve a higher efficiency of the sales network by merging some of the sales departments or moving them to different locations. The aim of this optimization is to improve the accessibility of the services and manage client service in a more efficient way. The sales departments in Naujoji Vilnia district of Vilnius, Joniskis and Palanga have been moved to new premises.

In 2017, much attention was paid to the manager development according to the "Manager – professional mentor" program. Quality training sessions oriented at the improvement of the insurance consultant sales quality increase were continued.

In 2017, Lietuvos draudimas AB continued to develop its insurance client self-service "SavasLD" (MyownLD). It promoted client activeness (lotteries for clients), clients were provided with the possibility to receive life insurance offers, Personal insurance and Housing insurance offers were also actively provided to the clients.

A Salesmen board was initiated and started its activities in 2017. An advisory board was created, consisting of the best insurance consultants, in order to be even closer to the clients and hear their needs as well as possible prior to making important business decisions. The Salesmen board members gather for quarterly meetings to discuss the most relevant questions, provide offers regarding the development of insurance products or changes in working processes.

At the end of 2017, the fifth anniversary of the Small business division was celebrated. This division began its way as a couple of insurance experts serving small business clients, growing into a solid team of dozens of specialists, specializing specifically in small business insurance. The number of clients during this period grew approximately 20 times, and the small business insurance permeability in large cities increased by 10–15 percentage points.

The Lietuvos draudimas AB Estonian branch continued its successful cooperation with the SEB bank and SEB leasing, providing insurance services to its clients: the insurance volumes increased due to the increase in sales of new cars and housing. The sales in these segments went up 16% according to the premiums written.

Sales through partners channels

In 2017, Lietuvos draudimas AB became an insurer servicing the clients of two large banks active in Lithuania. Lietuvos draudimas AB has been providing housing and travel insurance services for the clients of the SEB bank since 2015. The Company is now also offering insurance services to the clients of the former DnB bank for a number of months, and, after it later merged with the Nordea bank, the Company increased its insurance portfolio amongst the banking sector clients in 2017 and is now providing insurance services to the clients of Luminor and SEB. The clients are offered home insurance, personal insurance, and travel insurance services. The type of clients that sign an insurance through a bank care for convenience and speed – such clients are also frequently credit receivers; therefore, it is important to provide a convenient and simple insurance protection. The client-friendly upgrade processes help to achieve such goals.

At the end of the year, the Company offered a special pupil insurance, which the parents can conveniently order through the electronic "Tamo" pupil's record journal platform.

Business client services

From the start of 2017, taking into account the changes in the Law on Construction of the Republic of Lithuania, Lietuvos draudimas AB offered the Construction building, reconstruction, repair, renovation (modernization), demolition or cultural heritage construction management construction works and civil liability mandatory insurance. Prior to the changes, this insurance was voluntary. Each and every construction (with the exception of simple constructions and during simple repair works) has to be insured by this type of insurance from 2017, from the start of the construction to its end. Insurance coverage includes the construction work damages of the construction and the civil liability regarding the damages caused to third persons by the execution of construction works.

Claim indemnification in Lithuania

During the year 2017, the number of cases of claims by Lietuvos draudimas AB increased by 7% compared to 2016 and reached a total of 133.3 thousand claims. The largest part of the claims handled by Lietuvos draudimas AB in 2017, as in 2016 was transport claims.

The Company continues to maintain a high claims handling speed. In most cases, more than two thirds (68.5%) of all claims were settled during a month, a fifth (21%) in 5 days, and almost every tenth claim (9%) was settled on the same day it had been reported.

During the year 2017, the Company's clients were compensated with EUR 1.3 million for claims caused by storms and other natural disasters. During 11–12 June 2017 storms sweeping across the Southern and Eastern regions of Lithuania caused damages worth EUR 325 thousand.

The largest claim of 2017 and the largest claim in the history of Lietuvos draudimas AB was the fire at the fish processing company "Norvelita". The fire that started in May 2017 destroyed a part of the factory overnight, with some of the workshops and other production premises being totally burnt down. A special group has been created at the Company to handle the compensation for the claim of this magnitude, which cooperated with the client regarding the damage compensation, working towards getting it settled in stages. Taking into account the client's request to restore the business as fast as possible, an action plan had been agreed upon. This plan would allow restoring the processing company's production within several months. Therefore, the first advance of indisputable benefits was paid to the client several weeks after the incident. In cases of such large-scale disasters, the insurance benefit payout is an indispensable help to the business, and it is needed to ensure the continuity of the business. It is commonplace that the damage is compensated in specific parts, allowing the company to gradually return to its usual rhythm of business. It is very important that this long-term client of Lietuvos draudimas AB had insured not only the company's property, meaning the equipment, which burnt down during the fire, but also the continuity of its business. A total amount of EUR 12 million has been compensated to "Norvelita" as of 2017, and the damage settlement continues in 2018. The "Norvelita" company has fully restored its production after the fire.

The largest damage that took place and was compensated to a private client during 2017 was equal to EUR 216 thousand for a burnt down residential house. Additionally, other complex and large foreign claims were settled in 2017: EUR 331 thousand were paid for personal harm in 2008 in Denmark and EUR 245 thousand for personal harm in 2007 in Norway.

Claim indemnification in Estonia

The Lietuvos draudimas AB Estonian branch registered 30 823 claims in 2017 (compared to 28 246 in 2016), with the largest part of them consisting of transport damages (69%), followed by property damages (20%), travel insurance damages (7%), and other damages (4%). The Estonian branch's amount of compensated damage was 4.7% higher than in 2016.

Claims indemnification process improvements

In order to ensure the fast and effective damage regulation process, with increasing number of damages and increasing customer expectations, the Company executes a strategic project during which the processes are handled in such a way that the client damage claim settlement is as simple and efficient as possible. This long-term project, executed according to the long-term Company strategy "Sekmes kodas" (Success code) (2016–2020), includes the following three damage claim settlement areas: the general damage settlement process efficiency improvement; the improvement of the communication with the client who suffered the damage; and the increase of client's trust regarding the damage settlement process. Following this process, Lietuvos draudimas AB is able to increase the efficiency of the damage claim settlement processes and to ensure its clarity and simplicity for the clients in order to meet their expectations.

In order to do that, process changes are made in the area of damage claim settlement. A new process was fully implemented on 1 October 2017 stating that from now on vehicle damage assessment is carried out by the Lietuvos draudimas AB partners represented by car repair shops all around Lithuania. This is aimed at making the damage administration process more efficient and providing the clients a more convenient and easier service, taking their ever-changing expectations into account.

Lietuvos draudimas AB offers its clients the option to choose a vehicle repair shop for the assessment or repairs from a wide variety of repair shops from the authorized network, which is expanding annually. It is noted that the number of clients that choose to repair their vehicles at the Lietuvos draudimas AB recommended repair shops is increasing. In 2017, 62% of the clients having the possibility to choose any repair shop at their will chose the ones recommended by the Company. The vehicles repaired in the larger cities receive quality and guarantee certificates, which ensure that provided services are of the highest quality and they are subject to warranty.

Seeking simple and convenient communication with clients, the Company offers each client the option to choose convenient and acceptable ways of notification, related to the event and types of damage regulation. The self-service platform "Savas LD" not only provides the opportunity to register and settle simple damage claims by the clients themselves but also offers the option to choose a repair shop where the client's vehicle will be repaired while registering the damage.

Compared to 2016, the Company revealed 15% less fraudulent cases (573 in 2017), and their value (amounts unpaid) reached EUR 1.15 million. The most frequent types of fraud are the same: 27% of all fraudulent cases were related to the event circumstances forgery. Although the number of cases when the event circumstances were tried to be forged remains similar, the value of such fraudulent cases has significantly increased. The largest revealed fraud of 2017, when the event circumstances were tried to be tampered with, reached EUR 72 thousand. 21% of all revealed frauds are attempts to conclude the insurance contract after the occurrence of the damage, while 19% represent fraudulently increased event damage. Seeking efficiency and precision in the areas of fraud prevention, the Company installed automatic fraud prevention improvements in 2017, allowing to determine messages causing suspicion with greater precision and providing a possibility for additional investigation.

The technical assistance on the roads, provided by Lietuvos draudimas AB to its clients, was requested 22 045 times in 2017. Technical assistance services were used by both Company Casco clients (who receive a wider package of services), and all of the Company's mandatory civil liability insurance clients. The most popular service remains the transportation of vehicles. The most intense period of clients requesting technical assistance for their vehicles is during the month of January when the Company receives 27% more calls compared to the average number of calls per month. The main reason for this is the cold weather and the cars' ignition failing to start.

Innovations

One of the main values in Lietuvos draudimas AB is seeking for innovation. The Company constantly seeks new ways to innovate and offer solutions according to the ever-changing surroundings. In order to do so, Lietuvos draudimas AB implements the world-renown Agile methodology from the middle of the year. The Company's IT employees have the possibility to work with the world-famous trainer and mentor Angel Diaz-Maroto during a week every month. He consults on how to convert to the SCRUM (one of the Agile methods) in a more convenient and easy way and how to be more flexible, which is required a lot during the modern and quickly changing environment. The Agile methodology helps to promote and develop innovative decisions.

The IT department of Lietuvos draudimas AB started using the SCRUM practice in 2017. This world-popular method helps us to be more flexible and react faster to the ever-changing situations. By installing it, the Company seeks to be closer to the business and offer everyone the best solutions. The SCRUM practice reduces the risk of large changes by splitting them into smaller parts called experiments. Furthermore, the SCRUM practice allows the Company to see the results of executing a change or an innovation in a shorter period of time, in order to feel the benefit or to change solutions faster.

A lot of attention is directed towards the promotion of employee innovations and the search of advanced solutions in the search for innovation in the Company's everyday life. Lietuvos draudimas AB organized the first Hackathon in 2017 – a specific format event that takes place during twenty-four hours without any breaks, and brings together teams that create strange early-stage products. Not only did the Company's programmers participate but they were also accompanied by representatives of other business areas, and two idea prototypes were presented at the end of that day: the Company employee parking application and a conversation robot using an artificial intelligence. These prototype ideas will be further developed.

In order to reduce costs, the Company implemented the "no-print" process in 2017. This change is aimed at reducing printing amounts as much as possible and aims to install the easiest user solutions in processing documents in an electronic environment. During the implementation of this project, IT changes will be needed, as well as new, modern, smart printing equipment, which should be installed in all of the departments and divisions of the Company.

Achievements and awards

Lietuvos draudimas AB Strategy, Client and Marketing Department director Aurelija Kazlauskiene has been selected as the "Head of the marketing of the year". This award has been presented and the title announced at the largest Baltic States advertising festival, "Adrenalin".

The Lithuanian reputation index research, which is carried out during a number of consecutive years, allows revealing the views on business reputation, belonging to the three main groups – the public, the decision makers and opinion leaders. According to the 2017 results of such a research, Lietuvos draudimas AB was acknowledged as having the highest reputation in the insurance sector, and the Company also entered the top 10 companies with the highest reputation in Lithuania.

The "Transparency International" Lithuanian department executed a transparency research and Lietuvos draudimas AB was acknowledged as one of the most transparent (95 points out of 100) companies in Lithuania, which publicly announces information regarding its most important activity indicators. While evaluating the Company's transparency, anti-corruption, and open/clear reporting to the public in the areas of finance and management, Lietuvos draudimas was assessed AB to be the highest of all financial institutions in Lithuania.

The decision of Lietuvos draudimas AB to talk to their clients regarding the insurance services in a simple language allowed the Company to score two business awards. In order to do so, at the beginning of 2017, a #LDpaprastai (LDeasy) content marketing solution was created in an electronic environment, where simple language is used to answer the insurance-related questions of the population. This decision was awarded at the annual business company awards "Verslo gurmanai" (Business gourmets) and announced as the best-integrated content marketing project digital communication work at the competition at the "Best Internet 2017" festival, where the Company won the best project nomination. Both awards were given to the #LDpaprastai project for its insight and a simple way to tell complex things.

Human resources area

The general turnover of LD employees in Lithuania in 2017 reduced from 16.4% in 2016 to 12%. While comparing the Company's employee turnover data with the market data it should be noted that, the turnover on the market is even higher and reaches 24% ("Hay group" research data). The general employee turnover in the insurance sector is also larger than in Lietuvos draudimas AB, standing at 19%, with 5% of involuntary and 14% of voluntary employee turnover. Lietuvos draudimas AB involuntary employee turnover is 5%, while the voluntary one is 7%. The turnover of employees in the Estonian branch reached 9% in 2017.

Average number of employees (counted in approved FTE) in Lietuvos draudimas AB together with the Estonian branch was 1 361 in the financial year 2017 (1 394 in 2016).

Lietuvos draudimas AB pays a lot of attention to the internal career of its employees and promotes the upbringing and education of its employees inside of the Company: 35% of vacant working positions in the Company are filled internally.

In 2017, 53 employees (excluding the sales area) in Lithuania made a career inside of the Company, 6 of them being re-assigned to managerial positions. In 2017, a total of 23 trainees took their internships at the Company (13 in 2016), and 3 of them were employed by Lietuvos draudimas AB after the internship period ended (2 to assistant positions, 1 to a specialist position). A total of 47 people were employed as assistants in 2016, and 10 of the assistants were promoted to specialist positions (21% of all assistants).

Lietuvos draudimas AB continues to up-bring needed sales specialists by continuing the junior insurance consultant's training program in Lithuania: 24 junior insurance consultants (JIC) were employed in 2017, and 5 employees were transferred from other positions. 13 junior insurance consultants climbed the career ladders inside of the Company with 12 being promoted to the insurance consultant duties and 1 being transferred to work as a damage expert. At the end of 2017, the Company employed 28 junior insurance consultants.

2 employees of the Company are delegated as members of the labor disputes commissions at the State Labor Inspectorate, representing both the employer's and the trade union's interests.

One employee was drafted for voluntary military service in 2017.

Lietuvos draudimas AB takes pride in its especially involved employees. It allows the Company to sustain its employees in the dynamic labor market and ensure them proper working conditions. Since the year 2012, the Company researches the involvement of its employees according to the world-recognized human resources management consulting and solutions company "Aon Hewitt" – "Best employer" research method. According to this method, the "Best employer" is calculated according to surveys inside the Company. With the survey results being provided anonymously in an electronic environment by employees at all levels of the organization.

According to the above-mentioned research data, Lietuvos draudimas AB achieved the highest involvement indicator in 2017, with its employee involvement reaching 85%. Such an involvement score shows that Lietuvos draudimas AB is higher than the average of best employers in the Baltic States and even higher than the Eastern Europe employers in the field of insurance and finance.

The main criteria used to determine the best employers according to the world-recognized "Aon Hewitt" method are the factors that determine sustainable performance: employee involvement, high activity standard culture, leadership, and employer's attractiveness index. According to the human resources experts and scientists in this field of research, an organization being chosen as the best employer - strengthens its attractiveness, trust in it and proves the recognition of the Company's activities.

The Lietuvos draudimas AB "Best employer" research is used as a tool to objectively measure how well the Company is creating trust and an involvement culture in the workplace. By actively and openly cooperating with each employee, the Company manages to preserve the focus on a human being, the involvement of all of the employees and their satisfaction. Trust is successfully earned not only in relations with the clients but also on the inside of the Company (i.e. between the employee and the employer): communication is open and uncomplicated, understanding each other is valued, promises are kept.

According to this research method, an involved employee is an employee who talks about the organization, associates his future with it, and works for the benefit and the result of the organization. The result of these three involvement components is 8 percentage points higher than the average of the best employers. Lietuvos draudimas AB does its best for the employees to be proud of working at the Company, to recommend it to their friends and acquaintances, and to become the true ambassadors of the Company. In such a way, by creating the conditions for the Company's employees to become its ambassadors, the employer earns a competitive advantage in the fight for the best employees available on the labor market.

Being recognized as the best employer is a special achievement also because such a result is achieved by a large company, having spread out a network of its employees throughout Lithuania. It is a complicated challenge to achieve results when the employees are actively involved in the Company's activities and express their satisfaction of various aspects of the organization for a large company which has departments with tens or dozens of employees working, spread out throughout the whole country. The experience of the experts in other countries shows that the title of the best employer reinforces the attractiveness of the organization in the eyes of the employees even further and adds up to the creation and supporting of a positive image of the organization for the outside world.

Trainings

In 2017, the employees of Lietuvos draudimas AB were provided with 689 training days. During these days, the employees raised their qualifications through internal or external trainings and went to seek experience in Lithuanian and foreign conferences and seminars.

In 2017, 138 employees took part in 71 Lithuanian and foreign conferences or seminars: 42 Company's employees took part in 33 foreign ones (Canada, UK, Switzerland, Austria, Hungary, Sweden, the Netherlands, Belgium, France, Germany, Latvia, Estonia) and 96 employees in 38 domestic Lithuanian conferences or seminars.

The Lietuvos draudimas AB Estonian branch PZU Estonia employees improved their knowledge on risk management (by taking part in international courses), and the branch also had internal sales trainings.

Lietuvos draudimas AB continues its internal program for the most talented and potent Company's specialists. In 2017, the first Lietuvos draudimas AB talent group was formed. This group includes high-potential specialists from various areas of expertise, who will improve their management and leadership skills for a year and a half through a special training program with training sessions. The aim of this program is to provide intense trainings and possibilities to contribute to the development of important Company projects in various areas of expertise by its most potent specialists, together with their improvement.

The employees train their new skills and raise their qualifications not only during trainings and by helping lectors but also by transferring experience from one to another. The Company has organized the "Geek days" initiative for the sixth time. During this initiative, employees from various areas of expertise provide training to their colleagues on different topics. In 2017, 16 training sessions were organized with approximately 700 participants.

Additional benefits for employees. The implementation of the new Labor Code

A new automated online vacation system was installed in the Company in 2017, allowing the management of the vacation requests, granting and substituting them in a comfortable and easy manner for the employees, managers, and human resource administration specialists.

Since the adoption of the new Labor Code of Lithuania on 1 July 2017, Lietuvos draudimas AB has provided its employees with more than the code requires. Taking the employee vacation terms, it has been decided to convert the calendar vacation days to business days starting only from 2018. This way, the employees were allowed to use their collected annual vacation terms in a more advantageous way.

In 2017, while caring for the health of its employees, Lietuvos draudimas AB implemented the illness vacation. Each employee is granted annually up to 4 business days to recover their health, whenever the employee is not addressing the healthcare institution, for example in cases of lighter and shorter-term health problems.

Furthermore, the Company has extended the additional employee benefits related to the possibility to spend more time with children, while taking care of the employees' obligations to their families, and the general work and rest balance. All of the employees that have children aged up to 14 are allowed to take a day's leave for the celebration of their school year start, instead of a half day as per the Labor Code of Lithuania.

In 2017, the Company's Board took an especially important decision related to the involvement of employees and their satisfaction with the employer and provided 5 additional business days of vacation to employees working for more than 2 years in the Company.

At the end of 2017, during the implementation of the requirements of the new Labor Code, Lietuvos draudimas AB employees used a secret electronic voting system to elect a Workers' Council. This Workers' Council consists of 11 members, according to the number of employees of the Company, one of them is delegated by the Lietuvos draudimas AB employee trade union.

In 2017, the Company approved an updated remuneration system based on job position levels. The Company has no employees (apart from the assistants) who would work for a minimum monthly salary. The minimum monthly wage of the Lietuvos draudimas AB employees, taking the remuneration system into account, cannot be less than EUR 405–410 per month.

The Company continues its traditions and has organized the "Family afternoons" during which the employees' children are acquainted with the Company and the work of their parents and have fun in special events dedicated to that day.

The Lietuvos draudimas AB Estonian branch (PZU Eesti) drew most of the attention in 2017 to the employer's attractiveness project, aimed at showing the possibility of career development for talented employees and attracting young specialists and students. An Employee Value Proposition (EVP) project has been started by the Company in cooperation with the Tallinn Higher School of Economics.

During the development of the employee recognition culture, the employees of the Estonian branch were presented with various achievement celebration events, an Employee of the Year nomination, the employees celebrating their jubilees at the working place were honored and celebrated, etc.

The Lithuanian Personnel Management Professionals Association has organized a visit of their members to the Company. This association unites its members – various Company human resources specialists and managers, who constantly organize outbound visits to share good practices. During their visit to Lietuvos draudimas AB, the members from other companies have listened to the experience of Lietuvos draudimas. The content of the visit has been appreciated with the association's gratitude certificate and awarded the "Visit of the year 2017".

Promoting employees' active lifestyle – "ZingsniuOK" (take a step) project

During the year 2017, Lietuvos draudimas AB paid special attention to promoting the employees' health and active lifestyle. In March, the healthiness project "ZingsniuOK" (take a step) was started. For the project duration of ten months, employees were encouraged to not only walk 10 000 steps a day but to take part in hiking, special employee-only hiking with a Nordic-walking instructor, and were provided with lectures on the benefits of a healthy lifestyle and motivation to move. The project's Facebook group had more than 300 employees connected, and they used this group to share the number of steps taken on a daily basis. Other employees organized team competitions on how many steps had been taken. The most active employees took 2 million steps during the project, and a third of the Company's employees began stepping actively.

Being a leader, creating value for clients and benefits to the shareholders

In 2018, the Company will seek ensured leadership on the market and growth, as well as profitable activities. It will provide exceptional client service and will seek to uphold the high level of employee involvement. The "Sekmes kodas 2016–2020" (Success Code 2016–202) strategy will be further consistently implemented, the Company will further consistently upkeep its mission to be a reliable insurance expert and a leader of non-life insurance drawing new directions, and creating and providing relevant and innovative insurance decisions.

Other information

Information regarding Management Board members participating in other organisations is disclosed in disclosure report: "Members of the Supervisory Board, the Board of Directors and Independent Auditors".

Information regarding significant subsequent events is provided in Note 37 of the financial statements.

The risk management applied by the Company is described in Notes 32 and 33 of the financial statements.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Lietuvos draudimas AB acts as a socially responsible member of the society and employer. The Company seeks to provide the best insurance offers and ideal client service to its customers and seeks ways of making the provided offers and services to be beneficial to the public. Therefore, it actively initiates and develops social responsibility projects.

Lietuvos draudimas AB corporative social responsibility principles

Lietuvos draudimas AB is a part of the Global Compact Initiative since 2008 and seeks to implement the ten principles of this agreement as a part of the everyday organization culture and everyday work. The World agreement principles, which the Company uses as its guide, are:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights in their area of influence.

Principle 2: Make sure that businesses are not complicit in human rights abuses.

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: Businesses should seek the elimination of all forms of forced and compulsory labor.

Principle 5: Businesses should seek the effective abolition of child labor.

Principle 6: Businesses should seek the elimination of discrimination in respect of employment and occupation.

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The Company, as a socially responsible part of the public, acts according to the above-mentioned principles.

While acting as a socially responsible Company, Lietuvos draudimas AB focuses on the following main areas of activity: "Create a safe world" (initiative aimed at road safety promotion); "Creating communities" (initiative aimed at strengthening communities, especially on a regional level, promoting cooperation and including the Company's employees to volunteering. These are activities, including the involvement and participation of the employees in various events and the Company's employees initiatives and donations, which they collect and allocate to different socially excluded groups); "Connecting history" (Lietuvos draudimas AB supports the national pride projects and promotes modern heritage and young people financial education and/or public financial integration including projects). While being active in these areas (supporting the projects in these areas or organizing various campaigns including such experiences), the Company seeks to organize as many people as possible for a common cause and try to solve the above-mentioned problems together – protect the world surrounding us and promote changes, which could help to create a safer and more sustainable future.

Protect me

During the autumn of 2017, Lietuvos draudimas AB initiated the children's road safety action "Protect me" for the 18th time. During each of these actions, the Company insured each and every pedestrian schoolchild with an amount of EUR 5 thousand. According to the data of the Ministry of Education and Science, in 2017 approximately 326 thousand schoolchildren were studying in the schools of Lithuania. In the event of a pedestrian schoolchild being involved in an accident, his or her parents or guardians should have reported it to Lietuvos draudimas AB by telephone (tel. no. 1828) and receive their insurance benefit.

In 2017, during the "Protect me" action in September, Lietuvos draudimas AB collected information regarding 12 schoolchildren being harmed in traffic accidents. All of their parents or guardians were paid-out the insurance benefits.

During the "Protect me" action in 2017, Lietuvos draudimas AB together with the municipalities of 12 smaller cities, initiated a safety promotion measure: supplying light-reflecting jackets to regional schools. Lietuvos draudimas AB bought and presented a total of 12 thousand light-reflecting jackets to the elementary school students in Alytus, Birzai, Druskininkai, Ignalina, Jonava, Kaisiadorys, Kedainiai, Kupiskis, Mazeikiai, Telsiai, Varena and Visaginas schools.

In order to get the attention of pedestrians to traffic safety during the month of September, the Company organized and presented the city of Vilnius with the innovative "talking road crossings". According to the order of the Lietuvos draudimas AB, the talking road crossings technology has been designed and implemented from scratch by Lithuanian engineers. These road crossings have been installed in four places near schools.

The implementation of the "Protect me" initiative for 18 years has succeeded in drawing the public's attention to the safety of children who return to schools after summer holidays and to encourage them to responsibly take care of these children.

Insuring the only found original copy of the Lithuanian Independence Act

As Lietuvos draudimas AB has prepared itself to cherish the 100 years anniversary of the restoration of the Lithuanian Independence, it has insured the Lithuanian Council's 1918 February 16 Decision, proclaiming the Independence of Lithuania, brought from the Political archive of the German Federal Ministry of the Interior.

The Company has provided extensive insurance coverage for this single found original copy of the Independence Act, which has become the symbol of the Lithuanian 100th anniversary. This insurance coverage ensures its all-round safety during both transporting and safekeeping time, as well as the insurance of the exposition place, in case the document, the area of exposition or the visitors sustained damage due to a sudden and unexpected event. It is not common in archive practice when original documents leave the storage facilities for a longer period of time; therefore, especially high safety standards are applied to their protection.

Contribution to the national tree planting initiative – 64 100 planted trees

In 2017, the Company, while implementing its social responsibility "By insuring home, you will plant a tree", planted a total of 64 100 trees in the Lithuanian forests.

The essence of the "Plant a tree by insuring your home" campaign is that the Company promised the clients who would insure their home between December 2016 and March 2017 to plant a small tree for every insurance policy. During the springtime, Lietuvos draudimas AB and its clients' forestry presents to Lithuania began growing in various parts of the country, with a total area of approximately 15 ha. The forests were planted in several Lithuanian tree-cutting areas. Approximately 300 Lietuvos draudimas AB employees and their families joined the planting of the trees.

This meaningful gift from the Company's employees and customers to the environment and the entire population of the country is intended to draw attention to the Lithuanian assets, the forests, and provide a possibility to everyone to contribute to their preservation.

A present to schools – economics schoolbooks

In 2017, Lietuvos draudimas AB in cooperation with the Lithuanian free-market institute, purchased and gifted the country's high schools with 1 000 economics schoolbooks. These books are meant for the economic education of higher school class students.

Volunteer work of the employees

In 2017, Lietuvos draudimas AB continued its employees' social responsibility practice by voluntarily providing support to Lithuanian non-governmental organizations. The Company's employees participated in a Maltese order action for socially supported children. The employees voluntarily donated school supplies and essential hygiene products to the lonely people cared for by the Maltese order. The employees who are fond of animals donated products (animal food) to animal care organizations.

Lietuvos draudimas AB has continued its long-term partnership with the "Lietuvos Junior Achievement" (LJA) organization, taking care of the economic education of the students.

Last year, the Company donated insurance to the participants of a patriotic project "Mission: Siberia", the expedition to the Siberia.

The Company's employees actively take part in the Company's teams in various public sports events: in 2017, Lietuvos draudimas AB employees participated in the "Danske bank Vilnius marathon", the "Velomarathon", and played basketball and football with other companies' teams in various inter-company tournaments.

PZU Estonia socially responsible activities

During May 2017, the Lietuvos draudimas AB Estonian branch organized the best driver competition, "Best car parking in Tallinn". The aim of this initiative is to train better driving skills, especially in the safe parking of a vehicle area, since a third of all traffic accidents happen due to the bad parking skills of the drivers.

Additionally, during the whole year of 2017, the Estonian branch executed an active campaign in social networks aimed at damage prevention, during which the drivers were informed about various events causing damage.

Environmental protection

Although the impact of companies working in the same field as Lietuvos draudimas AB on nature and environmental pollution is minimal, we always search for ways on how to save the resources we use every day and contribute to a more cherished environment. That is why Lietuvos draudimas AB is using energy produced by renewable energy sources as a part of its energy consumption since 2011. This is supported by the "Powered by Green" certificate. The Company strives to recycle as large a portion of secondary raw materials as possible, and choose more efficient means of transportation and more economical ways to travel to work. The Company seeks to apply the sustainable business principles in cooperation with its partners.

During the year 2017, the Company used 1.950 GWh of electricity. The amount of used electrical energy remains similar to 2016; however, it decreased by 0.4%. The Estonian branch used 0.184 GWh of electricity in 2017.

The Company used 8 219 cubical meters of water and 32.3 thousand cubical meters of natural gas in its departments in Lithuania during 2017.

1 979 389 GJ of energy were used for premises heating, which is 27% less than in 2016. The heating of the Estonian branch premises required 186 690 GJ of energy.

The amount of paper used for printed materials during 2017 equals to 16.8 tons and is 30.9% less than in 2016. The aim of the Estonian branch is to become a paperless bureau, and used only 1 ton of paper during 2017.

The vehicles of the Company traveled a total of 5.7 million of kilometers, most of it (4.6 million) were traveled by diesel cars, 1 million with petrol cars and 160 thousand kilometers with LPG cars. Another 28 thousand kilometers were logged with the private cars of the employees. Additionally, the Company used taxi cars to drive approximately 3.9 thousand of kilometers. The Estonian branch does not use its own vehicles.

In 2017, the Company employees flew a total of 6 195 km in short-range flights, 103 332 km in mid-range ones, and 57 849 km in long-range flights.

In 2017, Lietuvos draudimas AB removed 1 045 cubical meters of waste.

The Company also contributed to the recycling of waste – during the year, its employees graded and recycled 2.6 tons of paper and 0.3 tons of electronic equipment.

Corruption prevention

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

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

The Company's team members have to immediately inform the law enforcement representatives or their own management regarding any attempts of bribing. The Company has undertaken to fight bribery and corruption according to the Lithuanian effective legal acts, ethics standards, and according to the best practice, which is listed in the Company's Corruption and Bribery Prevention Policy.

Lietuvos draudimas AB community also joins the fight against corruption itself, as well as adherence to supporting principle which does not allow to support and allocate funds for political parties, military organizations, organizations representing any single religion and persons who seek individual support.

Human rights

Acting as a socially responsible company, Lietuvos draudimas AB supports the human rights principles, which are determined in the Universal Declaration of Human Rights, the ILO Labor core conventions, and the United Nations Universal Declaration and is a signatory of the UN Global Compact. The Company undertook to ensure that any types of human right violations are not present in its activities.

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

Kęstutis Šerpytis
Chief Executive Officer

28 March 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017
(All amounts in thousands of euro unless otherwise stated)

	Note	2017	2016 (Restated, Note 36)
Insurance income			
Gross written premiums	4	228 174	182 926
Reinsurers share in premiums	4	(6 777)	(5 023)
Net written premiums	4	221 397	177 903
Change in gross unearned premiums reserve	5	(20 880)	(6 458)
Change in unearned premiums reserve, reinsurers' share	5	335	273
Change in unearned premiums reserve	5	(20 545)	(6 185)
Net premiums earned		**200 852**	**171 718**
Other technical income		32	52
Total insurance income		**200 884**	**171 770**
Insurance expenses			
Gross claims paid to policyholders		(120 623)	(102 071)
Claims settlement expense		(9 295)	(8 993)
Recovered losses		7 834	7 367
Claims paid	6	(122 084)	(103 697)
Reinsurers share	6	13 166	962
Net claims paid		(108 918)	(102 735)
Change in outstanding claims reserve	7	(20 561)	(5 747)
Change in outstanding claims reserve, reinsurers' share	7	6 128	1 053
Net incurred claims		**(123 351)**	**(107 429)**
Acquisition costs	8	(51 925)	(45 841)
Administrative expenses	9	(10 132)	(9 509)
Other expenses related to insurance activities	10	(2 253)	(1 888)
Total insurance expenses		**(64 310)**	**(57 238)**
Net result of insurance activities		**13 223**	**7 103**
Investment activity result	11	2 666	3 047
Financial income and expense	12	(708)	(754)
Other income and expenses	13	(39)	111
Profit / (loss) before tax		**15 142**	**9 507**
Income tax expense	14	(2 087)	(1 350)
Profit / (loss) for the year		**13 055**	**8 157**
Other comprehensive income (OCI)			
OCI to be reclassified to profit or loss in subsequent periods:			
Financial investments revaluation effect	18	(192)	103
Total comprehensive profit / (loss) for the reporting year		**12 863**	**8 260**

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

Notes on pages 29 to 68 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

28 March 2018

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2017	31.12.2016 (Restated, Note 36)
ASSETS			
Intangible assets	15	**3 182**	**3 904**
Property and equipment	16	**10 517**	**10 219**
Investment property	17	**1 422**	**1 278**
Available-for-sale financial investments	18	136 848	106 828
Held-to-maturity financial investments	19	56 099	57 330
Total investments		**192 947**	**164 158**
Receivables due from policyholders	20	44 692	37 430
Receivables due from intermediaries	20	2 017	1 634
Reinsurance receivables	21	1 780	858
Other receivables	23	4 680	4 240
Total receivables		**53 169**	**44 162**
Reinsurers' share in unearned premium reserve	5	1 642	1 307
Reinsurers' share in outstanding claims reserve	7	10 117	3 989
Reinsurers' share of reserves		**11 759**	**5 296**
Deferred income tax asset	14	-	-
Deferred acquisition costs	8	20 643	16 750
Other accrued income and deferred expenses	22	1 422	1 351
Prepayment for corporate income tax		-	1 176
Accrued income and deferred expenses		**22 065**	**19 277**
Cash and cash equivalents	24	**9 833**	**8 110**
TOTAL ASSETS		**304 894**	**256 404**

Notes on pages 29 to 68 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

28 March 2018

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2017	31.12.2016
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	25	11 665	11 665
Share premium	25	937	937
Reserve capital and other reserves	25	7 057	7 249
Retained earnings		63 625	54 670
TOTAL EQUITY AND RESERVES		**83 284**	**74 521**
LIABILITIES			
Unearned premium and unexpired risk reserves	5	113 097	92 217
Outstanding claims reserve	7	76 670	56 109
Technical reserves		**189 767**	**148 326**
Subordinated loan	30	-	10 000
Direct insurance creditors		2 767	1 820
Reinsurance creditors		2 473	2 058
Taxes	26	687	196
Deferred income tax liability	14	393	263
Accrued expenses and deferred income	27	13 145	11 695
Other liabilities	28	12 378	7 525
Total creditors		**31 843**	**33 557**
TOTAL LIABILITIES		**221 610**	**181 883**
TOTAL EQUITY, RESERVES AND LIABILITIES		**304 894**	**256 404**

Notes on pages 29 to 68 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

28 March 2018

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 2017
(All amounts in thousands of euro unless otherwise stated)

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance at 31 December 2015	**11 665**	**937**	**7 146**	**46 513**	**66 261**
Other comprehensive income	-	-	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**
Other comprehensive income	-	-	(192)	-	**(192)**
Dividends paid	-	-	-	(4 100)	**(4 100)**
Net profit for the reporting period	-	-	-	13 055	**13 055**
Balance at 31 December 2017	**11 665**	**937**	**7 057**	**63 625**	**83 284**

Notes on pages 29 to 68 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

28 March 2018

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(All amounts in thousands of euro unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Premiums received from direct insurance		218 738	180 742
Claims paid for direct insurance		(122 345)	(103 712)
Payments received from ceded reinsurance		13 854	566
Payments made for ceded reinsurance		(5 652)	(3 910)
Operating expenses paid		(43 112)	(46 109)
Taxes paid on ordinary activities		(17 118)	(15 831)
Amounts paid on other operating activities of insurance		454	413
Net cash from / (used in) operating activities:		**44 819**	**12 159**
Cash flows from investing activities			
Disposal of investment units		11 041	16 271
Acquisition of investments		(43 726)	(29 060)
Interest received		4 723	4 563
Amounts from other investing activities		(354)	(321)
Net cash generated from / (used in) investing activities:		**(28 316)**	**(8 547)**
Cash flows from financing activities			
Subordinated loans repaid		(10 000)	-
Dividends paid		(4 100)	-
Amounts from other financial activities		(680)	(741)
Net cash from / (used in) financing activities:		**(14 780)**	**(741)**
Net increase / (decrease) in cash and cash equivalents		**1 723**	**2 871**
Cash and cash equivalents at the beginning of reporting year		**8 110**	**5 239**
Cash and cash equivalents at the end of reporting year	24	**9 833**	**8 110**

Notes on pages 29 to 68 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

28 March 2018

1. GENERAL INFORMATION

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

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

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

The Company has a branch in Estonia, by the name Lietuvos Draudimas AB Eesti filiaal. 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"), and Lithuanian legislation applicable to insurance companies.

2.1.2 Functional and presentation currency

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

2.1.3 Basis of measurement

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

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2017 to 31 December 2017.

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 adopted by the Company

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 2017.

The following guidance with effective date of 1 January 2017 did not have any impact on these financial statements:

(i) *Disclosure Initiative (Amendments to IAS 7);*
(ii) *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);*
(iii) *Annual Improvements to IFRS 2014-2016 cycle - changes to IFRS 12.*

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 2017, 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)

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 standard until 1 January 2021 or to use "Overlay approach" which permits to adjust P&L and OCI with single line item adjustment, so, the Net result of the Company would become the same as applying IAS 39; however, as PZU Group, to which the Company belongs, is not allowed to exercise these exemptions due to a significant share of banking activity in the Group, Lietuvos draudimas AB will not apply the exemptions from adopting IFRS 9 and going to adopt it by 1 January 2018 together with other Group companies.

a) Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortized cost (AC);
- measured at fair value through statement of other comprehensive income (FVOCI);
- measured at fair value through statement of profit or loss (FVTPL).

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.

After adoption of IFRS 9, the Company's financial assets will be divided in such investment categories: FVOCI (debt instruments and shares), FVTPL (collective investment undertakings) and AC (accounts receivable).

(All amounts in thousands of euro unless otherwise stated)

b) Impairment model

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

This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. The Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

c) Estimated impact of the adoption of IFRS 9

The estimated impact of the adoption of this standard on the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarized below. The actual impact of adopting the standard at 1 January 2018 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjusted opening balance at 1 January 2018
Reserves	7 057	1 109	8 166
Retained earnings	63 625	1 183	64 808
Total effect on equity	**70 682**	**2 292**	**72 974**

The total estimated adjustment to the opening balance of the Company's equity at 1 January 2018 is EUR 2 292 thousand. The principal components of the estimated adjustment are as follows.

- An increase of EUR 2 292 thousand in reserves due to reclassification of debt securities that were classified as held-to-maturity to assets measured at fair value through the statement of other comprehensive income.
- An increase of EUR 1 061 thousand in retained earnings (decrease in reserves) due to collective investment undertakings measured at fair value through profit or loss after adopting IFRS 9. Since 1 January 2018 – fair value through the statement of other comprehensive income.
- An increase of EUR 153 thousand in retained earnings (decrease in reserves) due to option to measure equity instruments at fair value through the statement of other comprehensive income. No impairment should be recognized in the statement of profit or loss. Therefore, impairment recognized in previous periods for equity instruments will be derecognized. The difference between the fair value and acquisition value will be recognized in reserves.
- A decrease of EUR 31 thousand in retained earnings and increase in reserves due to expected credit losses model applied and therefore impairment on investments recognized under IFRS 9 requirements.

(ii) 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)

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 is not going to use overlay approach, neither temporary exemption from IFRS 9. 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.

(iii) IFRS 15 Revenue from contracts with customers and Clarifications to 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.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

The Company's 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.

(iv) IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.). This pronouncement is not yet endorsed by the EU.

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

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

The Company has not yet prepared an analysis of the expected quantitative impact of the new Standard.

(v) 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.)

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.

(vi) 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.

(vii) 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.

The Company does not expect that the amendments will have a material impact on the financial statements because the Company transfers a property asset to, or from, investment property only when there is an actual change in use.

(viii) Amendments to IFRS 10 and 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 takes place during that reporting period.

(ix) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019.)

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

The Company does not expect the Amendments to have a material impact on its financial statements when initially applied.

(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) IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.). This pronouncement is not yet endorsed by the EU.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company does not have material uncertain tax positions.

(xii) Annual Improvements to IFRS 2014-2016 Cycle Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that are applied for annual periods beginning on or after 1 January 2017.

The main changes:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;
- clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

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

(xiii) Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019). These annual improvements are not yet endorsed by the EU.

The Improvements to IFRSs (2015-2017) contain four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;

- clarify that the entity should always account for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes 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 limiting its net loss potential. Assets, liabilities, income, and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

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

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

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

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

c) Premiums

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

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

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

d) Incurred claims

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

e) Administrative 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. Expenses are accounted on an accrual basis.

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

f) Client acquisition costs

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

g) Deferred client acquisition costs (DAC)

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) Technical reserves

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

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

On each reporting date, the Company prepares a liability adequacy test by assessing whether the insurance liabilities recognised during the reporting year for valid policies are adequate.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting unexpired risk reserve (Note 32).

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

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.

(All amounts in thousands of euro unless otherwise stated)

2.7 Receivables from direct insurance operations

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

2.8 Intangible assets

Intangible assets are stated at historical cost, less any subsequent accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. Assets are amortized on a straight-line basis over their estimated useful lives, which are from 1 to 9 years. The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets.

2.9 Property and equipment

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

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

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

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

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

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

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

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.

	31.12.2017	**31.12.2016**
1 USD	EUR 0.8338	EUR 0.9581
1 GBP	EUR 1.1127	EUR 1.1772
1 PLN	EUR 0.2394	EUR 0.2266

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 2017 (15% in 2016).

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 estimate the ultimate liability arising from claims made under insurance contracts.

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

The reserve for incurred but not reported claims (IBNR) is calculated by lines of business using Bornhuetter-Ferguson, Loss Ratio and Average 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 provision is calculated as a percentage from outstanding claims assuming that on average half of reported, but not settled claims are not yet handled. Coefficients for claims handling reserve are selected analysing historical ratios of claims handling expenses.

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 is included in the following notes:

- Impairment: Note 2.14;
- Investment property: Notes 2.1.3, 2.10; 17
- Deferred acquisition costs: Notes 8, 32.

(All amounts in thousands of euro unless otherwise stated)

4. NET WRITTEN PREMIUMS

	2017			2016		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	78 688	(1 832)	76 856	49 971	(1 072)	48 899
Motor own damage insurance	73 023	(1 259)	71 764	63 757	(1 042)	62 715
Fire and other damage to property insurance	53 194	(1 729)	51 465	50 218	(1 592)	48 626
Income protection insurance	9 513	(46)	9 467	8 248	(46)	8 202
General liability insurance	5 729	(768)	4 961	5 157	(301)	4 856
Medical expense insurance	4 482	(11)	4 471	2 316	(14)	2 302
Credit and suretyship insurance	1 848	(917)	931	1 633	(829)	804
Marine, aviation and transport insurance	1 042	(147)	895	987	(72)	915
Miscellaneous financial loss	655	(68)	587	639	(55)	584
	228 174	**(6 777)**	**221 397**	**182 926**	**(5 023)**	**177 903**

Premiums earned

	2017			2016		
	Gross premiums earned	Reinsurers' share	Net premiums earned	Gross premiums earned	Reinsurers' share	Net premiums earned
Motor own damage insurance	68 227	(1 113)	67 114	61 360	(744)	60 616
Motor vehicle third party liability insurance	66 575	(1 784)	64 791	48 824	(1 051)	47 773
Fire and other damage to property insurance	51 549	(1 685)	49 864	48 410	(1 678)	46 732
Income protection insurance	8 765	(45)	8 720	8 022	(46)	7 976
General liability insurance	5 673	(753)	4 920	4 727	(350)	4 377
Medical expense insurance	3 230	(11)	3 219	2 062	(14)	2 048
Credit and suretyship insurance	1 651	(874)	777	1 453	(742)	711
Marine, aviation and transport insurance	1 002	(110)	892	987	(72)	915
Miscellaneous financial loss	622	(67)	555	623	(53)	570
TOTAL	**207 294**	**(6 442)**	**200 852**	**176 468**	**(4 750)**	**171 718**

(All amounts in thousands of euro unless otherwise stated)

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 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**
Written premiums	228 174	(6 777)	221 397
Earned premiums	207 294	(6 442)	200 852
Total change for the year	20 880	(335)	20 545
Balance at 31 December 2017	**113 097**	**(1 642)**	**111 455**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2017

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	12 113	(48)	12 065
Motor own damage insurance	4 796	(146)	4 650
Fire and other damage to property insurance	1 646	(44)	1 602
Medical expense insurance	1 252	-	1 252
Income protection insurance	748	(1)	747
Credit and suretyship insurance	195	(43)	152
General liability insurance	57	(15)	42
Marine, aviation and transport insurance	40	(37)	3
Miscellaneous financial loss	33	(1)	32
	20 880	**(335)**	**20 545**

c) 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**

(All amounts in thousands of euro unless otherwise stated)

d) Gross unearned premium reserve as at end of year

	31.12.2017	31.12.2016
Motor own damage insurance	39 325	34 529
Motor vehicle third party liability insurance	35 028	22 915
Fire and other damage to property insurance	27 551	25 904
Income protection insurance	4 938	4 191
General liability insurance	2 785	2 728
Medical expense insurance	1 945	693
Credit and suretyship insurance	988	793
Marine, aviation and transport insurance	326	286
Miscellaneous financial loss	211	178
	113 097	**92 217**

6. CLAIMS PAID

	2017 Gross amount	2017 Reinsurers' share	2017 Net amount	2016 Gross amount	2016 Reinsurers' share	2016 Net amount
Motor own damage insurance	(46 628)	650	(45 978)	(44 198)	559	(43 639)
Motor vehicle third party liability insurance	(35 057)	734	(34 323)	(30 879)	320	(30 559)
Fire and other damage to property insurance	(32 693)	11 677	(21 016)	(21 848)	3	(21 845)
Income protection insurance	(3 231)	-	(3 231)	(3 354)	-	(3 354)
Medical expense insurance	(2 206)	-	(2 206)	(1 511)	-	(1 511)
General liability insurance	(1 756)	-	(1 756)	(1 373)	-	(1 373)
Miscellaneous financial loss	(175)	-	(175)	(135)	-	(135)
Marine, aviation and transport insurance	(174)	-	(174)	(269)	-	(269)
Credit and suretyship insurance	(163)	105	(58)	(121)	80	(41)
Other	(1)	-	(1)	(9)	-	(9)
	(122 084)	**13 166**	**(108 918)**	**(103 697)**	**962**	**(102 735)**

7. OUTSTANDING CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2017 Gross amount	2017 Reinsurers' share	2017 Net amount	2016 Gross amount	2016 Reinsurers' share	2016 Net amount
At beginning of year						
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 beginning of year	**56 109**	**(3 989)**	**52 120**	**50 362**	**(2 936)**	**47 426**
Cash paid for claims notified in prior years	19 492	(739)	18 753	18 057	(450)	17 607
Changes in liabilities arising from current and prior year claims	1 069	(5 389)	(4 320)	(12 310)	(603)	(12 913)
Total change in year	20 561	(6 128)	14 433	5 747	(1 053)	4 694
Total at end of year	**76 670**	**(10 117)**	**66 553**	**56 109**	**(3 989)**	**52 120**
Notified claims	60 717	(9 737)	50 980	44 566	(3 689)	40 877
Incurred, but not reported	15 953	(380)	15 573	11 543	(300)	11 243
Total at end of year	**76 670**	**(10 117)**	**66 553**	**56 109**	**(3 989)**	**52 120**

(All amounts in thousands of euro unless otherwise stated)

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2017:

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	9 859	(271)	9 588
Fire and other damage to property insurance	5 111	(3 739)	1 372
Miscellaneous financial loss	2 633	(1 500)	1 133
General liability insurance	1 408	(237)	1 171
Credit and suretyship insurance	916	(356)	560
Motor own damage insurance	655	(25)	630
Medical expense insurance	242	-	242
Income protection insurance	(82)	-	(82)
Marine, aviation and transport insurance	(181)	-	(181)
	20 561	**(6 128)**	**14 433**

c) 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**

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

	31.12.2017	31.12.2016
Motor vehicle third party liability insurance	44 649	34 790
Fire and other damage to property insurance	11 131	6 020
Motor own damage insurance	8 165	7 510
General liability insurance	5 694	4 286
Miscellaneous financial loss	3 641	1 008
Credit and suretyship insurance	1 457	541
Income protection insurance	805	887
Medical expense insurance	632	390
Marine, aviation and transport insurance	496	677
	76 670	**56 109**

(All amounts in thousands of euro unless otherwise stated)

8. ACQUISITION COSTS

	2017	2016 (Restated, Note 36)
Commissions to brokers and other intermediaries	(21 683)	(17 491)
Personnel expenses	(16 170)	(14 987)
Commissions and other agent related expense	(7 584)	(5 228)
Office expenses	(3 469)	(2 546)
Representation and marketing expenses	(2 204)	(1 347)
Depreciation and amortisation	(1 725)	(1 945)
Compulsory state social security contributions related to agents' remuneration	(1 628)	(1 453)
Premises expenses	(1 412)	(1 432)
Other acquisition costs	(237)	(97)
Reinsurance commission	294	279
Change in deferred client acquisition costs	3 893	406
	(51 925)	**(45 841)**

Deferred client acquisition costs

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**
Deferred client acquisition costs	23 166
Amortisation of deferred acquisition costs	(19 273)
As at 31 December 2017	**20 643**

9. ADMINISTRATIVE EXPENSES

	2017	2016 (Restated, Note 36)
Wages and salaries:		
- salaries to staff	(5 401)	(4 850)
- state compulsory social insurance contributions	(1 393)	(1 281)
Information technology and communication expense	(995)	(886)
Depreciation and amortisation	(644)	(919)
Premises utility, maintenance, repair expense and rent	(360)	(206)
Professional services	(309)	(254)
Advertisement and public relations	(306)	(399)
Office expenses	(203)	(59)
Transport	(161)	(131)
Other administrative expense	(360)	(524)
	(10 132)	**(9 509)**

(All amounts in thousands of euro unless otherwise stated)

Distribution of administrative expense by type of insurance, based on management allocation, is as follows	**2017**	**2016** (Restated, Note 36)
Fire and other damage to property insurance	(3 860)	(3 622)
Motor vehicle third party liability insurance	(2 354)	(2 029)
Motor own damage insurance	(2 783)	(2 794)
Income protection insurance	(510)	(483)
General liability insurance	(243)	(226)
Medical expense insurance	(187)	(175)
Credit and suretyship insurance	(110)	(90)
Marine, aviation and transport insurance	(43)	(42)
Miscellaneous financial loss	(42)	(48)
	(10 132)	**(9 509)**

10. OTHER EXPENSES RELATED TO INSURANCE ACTIVITIES

	2017	**2016** (Restated, Note 36)
Motor Bureau fee	(1 768)	(1 552)
Fees to regulatory institutions	(485)	(336)
	(2 253)	**(1 888)**

11. INVESTMENT ACTIVITY RESULT

	2017	**2016**
Interest income from available-for-sale financial investments:		
Government debt securities	1 715	1 774
Collective investment undertakings	288	259
Shares	91	93
Corporate debt securities	30	26
Interest income from held-to-maturity financial investments:		
Government debt securities	780	694
Corporate debt securities	65	65
Net profit on financial assets:		
Government debt securities	2	233
Shares	(1)	5
Corporate debt securities	-	-
Investment valuation and management expenses:		
Revaluation of investment property	144	447
Investment management expenses	(448)	(395)
Investment impairment expenses	-	(154)
	2 666	**3 047**

12. FINANCIAL INCOME AND EXPENSE

	2017	**2016**
Gain from foreign currency fluctuations	11	10
Bank commission	(558)	(449)
Interest for subordinated loan	(161)	(315)
	(708)	**(754)**

(All amounts in thousands of euro unless otherwise stated)

13. OTHER INCOME AND EXPENSES

	2017	2016
Income from other activity	170	169
Income from properties	94	92
Other expenses	(303)	(150)
	(39)	**111**

14. CORPORATE INCOME TAX

	2017	2016
Corporate income tax for the reporting year	(1 923)	(816)
Change in deferred income tax recognized through profit or loss	(164)	(534)
Total income tax expense	**(2 087)**	**(1 350)**

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.

	2017	2016
Profit / (loss) before tax	**15 142**	**9 507**
Theoretically calculated tax at a tax rate of 15%	2 271	1 426
Effect of non-deductible expenses and non-taxable income, net	(184)	(76)
Total tax	**2 087**	**1 350**

Effective corporate income tax rate in 2017 is 13.8% (2016: 14.2%).

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

	2017	2016
Deferred income tax asset (liability) as at the beginning of the reporting year	(263)	289
Deferred income tax changes recognised through profit or loss	(164)	(534)
Deferred income tax changes recognised through other comprehensive income	34	(18)
Deferred income tax asset (liability) as at the end of the reporting year	**(393)**	**(263)**

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:

	31.12.2017	31.12.2016
Deferred income tax effect of:		
temporary difference for accrued expenses	1 099	983
temporary difference for impairment for overdue debtors	172	131
temporary difference for property revaluation and depreciation	35	43
other temporary differences	(416)	(122)
temporary difference for recoverable regress	(449)	(430)
temporary difference for available-for-sale investments revaluation	(834)	(868)
Deferred income tax asset (liability) as at the end of the reporting year	**(393)**	**(263)**

(All amounts in thousands of euro unless otherwise stated)

Movement in deferred income tax balances:

	Net balance 31 December 2016	Recognised in profit or loss	Recognised in OCI	Net balance 31 December 2017	31 December 2017	
					Deferred tax asset	Deferred tax liability
Accrued expenses	983	116	-	1 099	1 099	-
Trade and other receivables	131	41	-	172	172	-
Property	43	(8)	-	35	35	-
Other amounts causing temporary differences	(122)	(294)	-	(416)	-	(416)
Recoverable regress	(430)	(19)	-	(449)	-	(449)
Available-for-sale investments	(868)	-	34	(834)	-	(834)
Deferred tax asset/ (liability) before set-off					**1 306**	**(1 699)**
Set-off of tax					(1 306)	1 306
Net deferred tax asset/ (liability)					**-**	**(393)**

	Net balance 31 December 2015	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 amounts	62	(184)	-	(122)	-	(122)
Recoverable regress	(365)	(65)	-	(430)	-	(430)
Available-for-sale investments	(850)	-	(18)	(868)	-	(868)
Deferred tax asset/ (liability) before set-off					**1 157**	**(1 420)**
Set-off of tax					(1 157)	1 157
Net deferred tax asset/ (liability)					**-**	**(263)**

(All amounts in thousands of euro unless otherwise stated)

15. INTANGIBLE ASSETS

	Software	Other assets	Total
As at 31 December 2015			
Acquisition cost	18 587	980	19 567
Accumulated amortisation	(13 574)	(898)	(14 472)
Net book value	**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 value	**3 904**	**-**	**3 904**
As at 31 December 2016			
Acquisition cost	19 543	-	19 543
Accumulated amortisation	(15 639)	-	(15 639)
Net book value	**3 904**	**-**	**3 904**
In 2017			
Additions arising from internal development	427	-	427
Additions arising from external development	704	-	704
Amortisation charge	(1 853)	-	(1 853)
Closing net book value	**3 182**	**-**	**3 182**
As at 31 December 2017			
Acquisition cost	20 674	-	20 674
Accumulated amortisation	(17 492)	-	(17 492)
Net book value	**3 182**	**-**	**3 182**

Acquisition cost of fully amortised intangible assets in use:

	31.12.2017	31.12.2016
Computer software	8 656	7 882

(All amounts in thousands of euro unless otherwise stated)

16. PROPERTY AND EQUIPMENT

	Land and buildings	Other (structures)	Construction in progress and prepayments	Leasehold improve-ments	Motor vehicles	Office and other equipment	Total
As at 31 December 2015							
Acquisition cost	13 965	1 162	61	546	3 586	2 284	21 604
Accumulated depreciation	(6 293)	(554)	-	(528)	(1 776)	(1 944)	(11 095)
Net book value	**7 672**	**608**	**61**	**18**	**1 810**	**340**	**10 509**
In 2016							
Additions	12	14	192	29	542	69	858
Disposals	-	-	-	-	(411)	-	(411)
Reclassification	190	-	(190)	-	-	-	-
Depreciation charge	(441)	(70)	-	(13)	(384)	(150)	(1 058)
Depreciation on disposed assets	-	-	-	-	321	-	321
Closing net book value	**7 433**	**552**	**63**	**34**	**1 878**	**259**	**10 219**
As at 31 December 2016							
Acquisition cost	14 167	1 176	63	575	3 717	2 353	22 051
Accumulated depreciation	(6 734)	(624)	-	(541)	(1 839)	(2 094)	(11 832)
Net book value	**7 433**	**552**	**63**	**34**	**1 878**	**259**	**10 219**
In 2017							
Additions	7	-	411	18	648	98	1 182
Disposals	-	-	-	-	(377)	(51)	(428)
Reclassification	184	-	(184)	-	-	-	-
Write-offs	-	-	-	-	-	(1)	(1)
Depreciation charge	(230)	(66)	-	(12)	(405)	(113)	(826)
Depreciation on disposed assets	-	-	-	-	319	52	371
Closing net book value	**7 394**	**486**	**290**	**40**	**2 063**	**244**	**10 517**
As at 31 December 2017							
Acquisition cost	14 358	1 176	290	593	3 988	2 399	22 804
Accumulated depreciation	(6 964)	(690)	-	(553)	(1 925)	(2 155)	(12 287)
Net book value	**7 394**	**486**	**290**	**40**	**2 063**	**244**	**10 517**

Acquisition cost of fully depreciated property and equipment in use:

	31.12.2017	**31.12.2016**
Office and other equipment	1 567	1 434
Leasehold improvements	510	477
Other (structures)	145	112
Motor vehicles	97	87
Land and buildings	5	5
	2 324	**2 115**

(All amounts in thousands of euro unless otherwise stated)

17. INVESTMENT PROPERTY

Net book value at 31 December 2015	**831**
Change in fair value in 2016	447
Net book value at 31 December 2016	**1 278**
Change in fair value in 2017	144
Net book value at 31 December 2017	**1 422**

Investment property comprises commercial property that is leased to a third party. The fair value of investment property is reviewed at each reporting date, and any changes are reflected in profit or loss.

The Company assesses the fair value of investment property based on the opinion of independent property valuation agency that holds a recognised and relevant qualification.

18. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2017			31.12.2016		
	Amortised cost	**Acquisition cost**	**Fair value**	**Amortised cost**	**Acquisition cost**	**Fair value**
Lithuania government debt securities	56 399	57 546	59 670	67 596	68 136	72 272
Poland government debt securities	31 243	30 760	31 697	2 151	2 075	2 153
Bulgaria government debt securities	2 685	2 670	2 775	-	-	-
Romania government debt securities	2 600	2 597	2 652	681	683	692
Spain government debt securities	2 415	2 414	2 411	-	-	-
Croatia government debt securities	1 799	1 776	1 829	-	-	-
Latvia government debt securities	1 415	1 406	1 478	-	-	-
Corporate debt securities	2 196	2 219	2 273	1 427	1 427	1 474
Collective investment undertakings	-	28 774	29 835	-	27 260	27 960
Shares	-	1 915	2 228	-	2 082	2 277
	100 752		**136 848**	**71 855**		**106 828**

The split between current and non-current available-for-sale financial investments is included in Note 33. All available-for-sale financial investments in total of EUR 137 measured at fair value are quoted. In a fair value hierarchy, based on inputs used in the valuation techniques, these fair values as at 31.12.2017 and as at 31.12.2016 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets.

Revaluation effect for available-for-sale financial investments in 2017 resulted in loss in other comprehensive income amounting to EUR 192 thousand (2016: gain of EUR 103 thousand).

19. HELD-TO-MATURITY FINANCIAL INVESTMENTS

	31.12.2017			31.12.2016		
	Amortised cost	**Acquisition cost**	**Fair value**	**Amortised cost**	**Acquisition cost**	**Fair value**
Lithuania government debt securities	18 127	18 079	18 607	18 146	18 079	18 743
Poland government debt securities	7 361	7 511	7 553	7 507	7 511	7 586
Croatia government debt securities	7 246	7 427	7 537	7 421	7 427	7 620
Romania government debt securities	6 586	6 700	6 925	6 687	6 700	6 783
Hungary government debt securities	5 604	5 709	5 897	5 681	5 709	5 951
Bulgaria government debt securities	5 565	5 565	6 024	6 171	6 154	6 361
Ireland government debt securities	1 699	1 744	1 796	1 735	1 744	1 852
Slovenia government debt securities	972	1 019	983	1 005	1 019	1 029
Corporate debt securities	2 939	2 968	3 068	2 977	2 968	3 084
	56 099		**58 390**	**57 330**		**59 009**

The split between current and non-current held-to-maturity financial investments is included in Note 33. Held-to-maturity financial investments in total of EUR 56 million are recognized at amortised cost. All investments are attributed to Level 1 in the fair value hierarchy in accordance with IFRS 13 definitions.

(All amounts in thousands of euro unless otherwise stated)

20. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2017	31.12.2016
Gross receivables from direct insurance operations	47 318	39 518
Doubtful debt allowances for receivables from direct insurance operations	(609)	(454)
	46 709	**39 064**

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

	Gross 31.12.2017	Impairment 31.12.2017	Gross 31.12.2016	Impairment 31.12.2016
Current	43 188	(228)	35 838	(137)
Past due 0-30 days	3 591	(112)	2 740	(47)
Past due 31-60 days	236	(7)	654	(13)
Past due more than 60 days	303	(262)	286	(257)
	47 318	**(609)**	**39 518**	**(454)**

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 31 December 2015	**416**
Additional allowances	539
Recovered debts	(208)
Written-off debts	(293)
As at 31 December 2016	**454**
Additional allowances	1 006
Recovered debts	(684)
Written-off debts	(167)
As at 31 December 2017	**609**

21. REINSURANCE RECEIVABLES

	31.12.2017	31.12.2016
Gross receivables from reinsurance operations	2 058	1 136
Doubtful debt allowances for receivables from reinsurance operations	(278)	(278)
	1 780	**858**

22. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2017	31.12.2016
Deferred Motor Bureau fee	561	510
Deferred information system maintenance fees	428	380
Other deferred expenses	433	461
	1 422	**1 351**

(All amounts in thousands of euro unless otherwise stated)

23. OTHER RECEIVABLES

	31.12.2017	31.12.2016
Receivables for subrogation transactions	3 351	3 128
Receivables from the Motor Bureau	988	756
Receivables from prepayments	199	248
Other receivables	289	164
Impairment of other overdue receivables	(147)	(56)
Total other receivables	**4 680**	**4 240**

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

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

As at 31 December 2015	**102**
Additional allowances	3
Recovered debts	(49)
As at 31 December 2016	**56**
Additional allowances	92
Recovered debts	(1)
As at 31 December 2017	**147**

24. CASH AND CASH EQUIVALENTS

	31.12.2017	31.12.2016
Cash in banks	9 833	8 110
Bank deposits with original maturity of three months or less	-	-
	9 833	**8 110**

In 2017 and 2016, the Company did not have any deposits in credit institutions.

25. 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 2016 the number of ordinary shares was the same). The nominal value of one share as at 31 December 2017 is EUR 14.48 (as at 31 December 2016, 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 2017, is EUR 11 665 thousand (as at 31 December 2016 – EUR 11 665 thousand).

The Company's shares are not listed.

b) The shareholder

As at 31 December 2017 and as at 31 December 2016, the shareholder of the Company with 100% shares was POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company.

c) Share premium

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

d) Reserve capital and other reserves

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 Legal reserve and Revaluation reserve for available-for-sale investments. The Company's legal reserve as at 31 December 2017 was the same as at 31 December 2016 and amounted to EUR 2 333 thousand. Revaluation reserve decreased throughout the year from EUR 4 916 thousand at 31 December 2016 to EUR 4 724 thousand at 31 December 2017.

(All amounts in thousands of euro unless otherwise stated)

e) Profit distribution as dividends

Profit to be distributed as dividends is determined in amount of EUR 6.4 million based on the provisions of the Company's Dividend policy. The final amount of dividends is subject to recommendation of Management Board, proposal of Supervisory Board and decision of General Shareholders' Meeting.

26. TAXES

	31.12.2017	31.12.2016
Payable corporate income tax	481	-
Compulsory state social security contributions	206	196
Liabilities	**687**	**196**

27. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2017	31.12.2016
Accrued expenses		
Commissions	6 874	5 799
Operating expenses	3 275	3 465
Intermediary commissions	864	548
Additional sales bonuses	635	510
Audit expenses and related services	34	50
Total accrued expenses	**11 682**	**10 372**
Other accrued expenses and deferred income		
Not settled insurance prepayments	1 282	1 178
Other deferred income	181	145
Total accrued expenses and deferred income	**1 463**	**1 323**
	13 145	**11 695**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2016	**5 799**	**3 465**	**2 431**	**11 695**
Additions	41 333	5 848	24 553	71 734
Used and reversed	(40 258)	(6 038)	(23 988)	(70 284)
As at 31 December 2017	**6 874**	**3 275**	**2 996**	**13 145**
Long-term part	-	-	-	-
Short-term part	**6 874**	**3 275**	**2 996**	**13 145**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 1 December 2016	**5 193**	**4 700**	**2 539**	**12 432**
Additions	29 550	8 495	17 258	55 303
Used and reversed	(28 944)	(9 730)	(17 366)	(56 040)
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**

(All amounts in thousands of euro unless otherwise stated)

28. OTHER LIABILITIES

	31.12.2017	31.12.2016
Payable salaries, bonuses and other related payments	5 880	4 702
Other payables related to insurance activities	3 246	846
Due to the Motor Insurers' Bureau	346	299
Other liabilities	2 906	1 678
	12 378	**7 525**

29. RESULT OF CEDED REINSURANCE

	2017	2016
Reinsurers' share in written premiums (see Note 4)	(6 777)	(5 023)
Reinsurers' share in changes in unearned premiums (see Note 5)	335	273
Reinsurance commission income (see Note 8)	294	279
Reinsurers' share in claims (see Note 6)	13 166	962
Reinsurers' share in changes in outstanding claims reserve (see Note 7)	6 128	1 053
Net result of ceded reinsurance activities:	**13 146**	**(2 456)**

30. RELATED PARTIES TRANSACTIONS

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

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

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

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

a) Transactions with related parties

Reinsurance and fronting insurance

	2017	2016
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Reinsurance premiums ceded	(4 519)	(3 641)
Change of reinsurance unearned premium reserve	70	132
Reinsurance claims	12 196	77
Change of reinsurance outstanding claims reserve	5 779	1 855
	13 526	**(1 577)**

(All amounts in thousands of euro unless otherwise stated)

	2017	2016
Balta AAS (Group company):		
Master agreement's premiums	166	277
Reinsurance premiums ceded	(62)	(22)
Change of reinsurance unearned premium reserve	3	(17)
Reinsurance claims	11	24
Change of reinsurance outstanding claims reserve	7	(3)
	125	**259**

Other transactions

	2017	2016
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Subordinated loan	(10 000)	-
Accrued interest and amortisation for subordinated loan	(161)	(315)
Dividends paid	(4 100)	-
Indemnity cost and handling fee	137	367
	(14 124)	**52**

On 12 July 2017 the Company repaid a subordinated loan of EUR 10 million and accrued interest to its main shareholder Powszechny Zaklad Ubezpieczen S.A.

	2017	2016
Other Group companies (Balta AAS, LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI, PZU CENTRUM OPERACIJI S.A.):		
Investment fund	-	(1)
Indemnity cost and handling fee	(140)	(44)
Compensation of expenses	190	260
Other purchases	(40)	-
	10	**215**

Balances with related parties

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

	31.12.2017	31.12.2016
Reinsurers' share in unearned premium reserves with PZU	595	526
Reinsurers' share in outstanding claims reserves with PZU	7 772	1 993
Reinsurers' share in unearned premium reserves with Balta AAS	34	11
Reinsurers' share in outstanding claims reserves with Balta AAS	8	1
Reinsurance receivables from PZU	802	23
Reinsurance receivables from Balta AAS	18	48
Receivables from PZU	217	210
Receivables from Balta AAS	49	146
Receivables from other related parties	14	10
Reinsurance payables to PZU	(1 177)	(890)
Subordinated loan from PZU	-	(10 000)
Payables loan interests for PZU	-	(179)
Payables to PZU SA, Balta AAS	-	(6)
Reinsurance payables to Balta AAS	(11)	(12)
Payables to other related parties	(3)	(3)
	8 318	**(8 122)**

31. 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 2017 there were EUR 3 792 thousand (31 December 2016: EUR 3 672 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 significant capital commitments as at 31 December 2017.

d) Operating lease

The Company does not have any non-cancellable operating leases as at 31 December 2017, other than the rent of premises that usually can be terminated at terms agreed in lease contracts. Total minimal commitment for rent payments as at 31 December 2017 amounts to EUR 914 thousand (EUR 336 thousand to be paid in one year and EUR 578 thousand to be paid later than in one year but not later than in five years). Total minimal commitment for rent payments as at 31 December 2016 amounted to EUR 292 thousand (all amount to be paid in one year).

e) Tax contingencies

The local tax authorities have the power to examine the tax position of the Company for the previous five years. 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.

32. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

Types of significant insurance contracts

Motor third party liability insurance

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

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

Accident insurance

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

Travel insurance

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

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

Motor own damage insurance

The insurance indemnifies for losses which arise from damage to the vehicle, its destruction, theft or robbery. Several additional insurance covers may also be purchased (like possibility to repair the vehicle with new spare-parts for vehicles up to certain 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.

(All amounts in thousands of euro unless otherwise stated)

General liability insurance

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

Reinsurance contract assets

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

These assets consist of short-term balances due from reinsurers as well as longer term receivables 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 objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

Sensitivity to insurance risk

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

The Company performs sensitivity testing of IBNR claims reserves.
Sensitivity analysis for claims reserves at 31.12.2017:

	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	951	(951)	14	(4)
General liability insurance	74	(74)	7	(7)
Credit and suretyship insurance	4	(4)	-	-
Marine, aviation and transport insurance	5	(5)	-	-
Fire and other damage to property insurance	7	(7)	3	(3)
Income protection insurance	5	(5)	1	(1)
Miscellaneous financial loss	23	(23)	1	(1)
Medical expense insurance	5	(5)	-	-
Motor own damage insurance	(5)	5	3	(3)
Total	**1 069**	**(1 069)**	**29**	**(29)**

(All amounts in thousands of euro unless otherwise stated)

Concentration by territory

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

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

Year 2017	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	62 348	74 500	136 848
Held-to-maturity financial investments	18 127	37 972	56 099
Insurance and reinsurance debtors	31 660	16 829	48 489
Reinsurers' share of outstanding claims reserves	6 194	3 923	10 117
Cash and cash equivalents	8 689	1 145	9 834
Other debtors	4 134	546	4 680
Total financial assets and reinsurers' share of outstanding claims reserves	**131 152**	**134 915**	**266 067**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(46 394)	(30 276)	(76 670)
Insurance and reinsurance creditors	(1 549)	(3 691)	(5 240)
Other financial liabilities	(1 036)	(195)	(1 231)
Total financial liabilities and outstanding claims reserves	**(48 979)**	**(34 162)**	**(83 141)**
Net position as at 31 December 2017	**82 173**	**100 753**	**182 926**

Year 2016	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims 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 claims 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 outstanding claims reserves	**130 797**	**89 622**	**220 419**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(31 237)	(24 872)	(56 109)
Subordinated loan	-	(10 000)	(10 000)
Insurance and reinsurance creditors	(896)	(2 982)	(3 878)
Other financial liabilities	(469)	(180)	(649)
Total financial liabilities and outstanding claims reserves	**(32 602)**	**(38 034)**	**(70 636)**
Net position as at 31 December 2016	**98 195**	**51 588**	**149 783**

(All amounts in thousands of euro unless otherwise stated)

Reinsurance coverage

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

Maximum own retention:

	2017	2016
Personal accident & Travel medical expense	90	94
Motor own damage	150	150
Motor vehicle third party liability	400	400
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 130	1 173
General TPL insurance	339	352
Debt securities and guarantees	226	235

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of contract premiums to liabilities net of estimated claims paid, 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 unexpired risk reserve.

Unexpired risk reserve as at 31 December 2017 is EUR 1.7 million (31 December 2016: EUR 2.0 million).

33. 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.

33.1 Credit risk

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

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

(All amounts in thousands of euro unless otherwise stated)

a) Maximum credit exposure:

	31.12.2017	31.12.2016
Lithuania government debt securities	77 797	90 418
Poland government debt securities	39 058	9 660
Collective investment undertakings	29 835	27 959
Cash and cash equivalents	9 833	8 110
Romania government debt securities	9 238	7 379
Croatia government debt securities	9 075	7 421
Bulgaria government debt securities	8 340	6 171
Hungary government debt securities	5 604	5 681
Corporate debt securities	5 212	4 451
Spain government debt securities	2 411	-
Shares	2 228	2 277
Ireland government debt securities	1 699	1 736
Latvia government debt securities	1 478	-
Slovenia government debt securities	972	1 005
Credit risk	**202 780**	**172 268**
Reinsurers' share in unearned premium reserve	1 642	1 307
Outstanding claims reserve, reinsurers' share	10 117	3 989
Reinsurance debtors	1 780	858
Receivables due from policyholders	44 692	37 430
Receivables due from intermediaries	2 017	1 634
Other receivables	4 680	4 240
	64 928	**49 458**
Maximum credit exposure, total	**267 708**	**221 726**

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

Rated:	**31.12.2017**	**31.12.2016**
AA	1 849	1 632
A	10 216	3 377
Without rating	1 474	1 145
Assets related to reinsurance	**13 539**	**6 154**

(All amounts in thousands of euro unless otherwise stated)

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

Year 2017	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	-	81 946	64 651	9 075	-	155 672
Corporate debt securities	-	-	-	4 717	495	-	5 212
Collective investment undertakings	-	-	-	-	-	29 835	29 835
Shares	-	-	-	-	-	2 228	2 228
Total investment assets	-	-	**81 946**	**69 368**	**9 570**	**32 063**	**192 947**

Year 2016	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	-	93 159	22 720	13 591	-	129 470
Corporate debt securities	-	-	-	3 460	992	-	4 452
Collective investment undertakings	-	-	-	-	-	27 959	27 959
Shares	-	-	-	-	-	2 277	2 277
Total investment assets	-	-	**93 159**	**26 180**	**14 583**	**30 236**	**164 158**

33.2 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 2017	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	29 905	70 909	92 133	192 947
Insurance and reinsurance debtors	46 765	1 616	108	48 489
Reinsurers' share of outstanding claims reserves	7 159	1 533	1 425	10 117
Cash and cash equivalents	9 833	-	-	9 833
Other debtors	4 680	-	-	4 680
Total financial assets and reinsurers' share of outstanding claims reserves	**98 342**	**74 058**	**93 666**	**266 066**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(43 758)	(17 761)	(15 151)	(76 670)
Insurance and reinsurance creditors	(5 420)	-	-	(5 420)
Other financial liabilities	(1 231)	-	-	(1 231)
Total financial liabilities and outstanding claims reserves	**(50 409)**	**(17 761)**	**(15 151)**	**(83 321)**
Net position as at 31 December 2017	**47 933**	**56 297**	**78 515**	**182 745**

(All amounts in thousands of euro unless otherwise stated)

Year 2016	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of outstanding claims 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 claims reserves	1 858	1 008	1 123	3 989
Cash and cash equivalents	8 110	-	-	8 110
Other debtors	4 240	-	-	4 240
Total financial assets and reinsurers' share of outstanding claims reserves	**64 028**	**83 898**	**72 493**	**220 419**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(31 662)	(14 068)	(10 379)	(56 109)
Subordinated loan	-	-	(10 000)	(10 000)
Insurance and reinsurance creditors	(3 878)	-	-	(3 878)
Other financial liabilities	(649)	-	-	(649)
Total financial liabilities and outstanding claims reserves	**(36 189)**	**(14 068)**	**(20 379)**	**(70 636)**
Net position as at 31 December 2017	**27 839**	**69 830**	**52 114**	**149 783**

33.3 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:

	2017	**2016**
Corporate debt securities	1.63%	2.06%
Government debt securities	2.02%	2.05%
Collective investment undertakings	0.81%	1.41%

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:

		2017	**2016**
Market interest rate and impact on fair value	+0.5 percent point	(3 625)	(2 888)
	-0.5 percent point	3 625	2 888

b) Fair value determination

Financial assets and financial liabilities other than those reflected at their fair value (see Note 18) and those classified as held-to-maturity (see Note 19), 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.

(All amounts in thousands of euro unless otherwise stated)

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

c) Currency risk

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

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

Year 2017	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	136 848	-	136 848
Held-to-maturity financial investments	56 099	-	56 099
Insurance and reinsurance debtors	48 489	-	48 489
Reinsurers' share of outstanding claims reserves	10 092	25	10 117
Cash and cash equivalents	9 792	41	9 833
Other debtors	4 680	-	4 680
Total financial assets and reinsurers' share of outstanding claims reserves	**266 000**	**66**	**266 066**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(73 447)	(3 223)	(76 670)
Insurance and reinsurance creditors	(5 420)	-	(5 420)
Other financial liabilities	(1 209)	(22)	(1 231)
Total financial liabilities and outstanding claims reserves	**(80 076)**	**(3 245)**	**(83 321)**
Net position as at 31 December 2017	**185 924**	**(3 179)**	**182 745**

Year 2016	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims 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 claims 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 outstanding claims reserves	**220 322**	**97**	**220 419**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(52 503)	(3 606)	(56 109)
Subordinated loan	(10 000)	-	(10 000)
Insurance and reinsurance creditors	(3 878)		(3 878)
Other financial liabilities	(647)	(2)	(649)
Total financial liabilities and outstanding claim reserves	**(67 028)**	**(3 608)**	**(70 636)**
Net position as at 31 December 2016	**153 294**	**(3 511)**	**149 783**

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

(All amounts in thousands of euro unless otherwise stated)

34. CAPITAL RISK MANAGEMENT

As at 31 December 2017, the Company was compliant with Solvency II capital adequacy requirements which replaced Solvency I requirements on 1 January 2016. As at 31 December 2017 the Company assessed facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

35. LOSS DEVELOPMENT TABLE

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

	2007 and prior	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Net outstanding claims reserves at the end of accident year and cumulative incurred claims in subsequent years												
At end of accident year								18 668	25 799	27 852	35 416	
1 year later							4 873	19 242	23 717	27 251		
2 years later						3 295	5 588	18 285	23 820			
3 years later					2 376	2 672	4 920	17 620				
4 years later				1 430	1 731	1 781	4 094					
5 years later			1 526	1 357	1 680	1 521						
6 years later		1 826	1 248	1 039	1 699							
7 years later	2 743	1 197	1 121	917								
8 years later	2 085	1 031	1 239									
9 years later	1 796	1 120										
10 years later	1 712											
Estonia Branch net outstanding claims reserves as at acquisition date, 31 May 2015												
		1		**(1)**	**82**	**383**	**1 248**	**2 660**	**4 165**			**8 538**
Net claims paid												
1 year later								11 966	15 819	16 600		
2 years later							852	1 062	1 138			
3 years later						108	361	471				
4 years later					330	48	263					
5 years later				173	315	62						
6 years later			125	42	11							
7 years later		(13)	42	71								
8 years later	(47)	3	32									
9 years later	(85)	163										
10 years later	(58)											
Cumulative net claims paid	**(190)**	**152**	**199**	**287**	**656**	**218**	**1 476**	**13 499**	**16 957**	**16 600**		**49 854**
CY (deficiency)/ excess	**84**	**(89)**	**(118)**	**122**	**(19)**	**261**	**826**	**665**	**(103)**	**601**		**2 230**

(All amounts in thousands of euro unless otherwise stated)

36. RECLASSIFICATIONS OF COMPARATIVE INFORMATION

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. Comparative figures have been reclassified to conform to the current year's presentation.

Since 2017 expenses of taxes paid to insurance business regulatory institutions and insurers associations are presented in 'Other expenses related to insurance activities'. Consequently, comparative figures are reclassified from other lines of the statement of comprehensive income:

Statement of comprehensive income	**In 2016 (before reclassification)**	**Reclassification effect**	**In 2016 (after reclassification)**
Acquisition costs	(46 139)	298	(45 841)
Administrative expenses	(10 691)	1 182	(9 509)
Other expenses related to insurance activities	-	(1 888)	(1 888)
Total insurance expenses	**(56 830)**	**(408)**	**(57 238)**
Net result of insurance activities	**7 511**	**(408)**	**7 103**
Other income and expenses	(297)	408	111
Profit / (loss) for the year	**8 157**	-	**8 157**

In 2017, allocation of amounts between receivables from policyholders and intermediaries was revised to make the lines of the statement of financial position more representative. Therefore, comparative amounts were reclassified:

Statement of financial position	**31 December 2016 (before reclassification)**	**Reclassification effect**	**31 December 2016 (after reclassification)**
Receivables due from policyholders	37 990	(560)	37 430
Receivables due from intermediaries	1 074	560	1 634
Reinsurance receivables	858	-	858
Other receivables	4 240	-	4 240
Total receivables	**44 162**	-	**44 162**
TOTAL ASSETS	**256 404**	-	**256 404**

37. SUBSEQUENT EVENTS

There were no subsequent events after the last balance sheet date, which would have a significant effect on the financial statements of the Company as at 31 December 2017 and for the year then ended.

Sidevahendid

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