Lietuvos draudimas AB

Independent Auditor's Report,
Annual Management Report and
Financial Statements for the Year
Ended 31 December 2018

KPMG

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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 2018,
- 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
- 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 2018, 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 claim reserves

The Company's gross of reinsurance outstanding claims reserves as at 31 December 2018 amounted to EUR 90 million (31 December 2017: EUR 77 million). The change in gross of reinsurance outstanding claims reserves in 2018 amounted to EUR 13.6 million (increase). (2017: 20.6 million).

Reference to the financial statements: "Technical reserves" on page 38 (Summary of significant accounting policies) and Note 7 "Outstanding claim reserves" on page 47 (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 its statement of financial position. The most significant claim reserves are associated with the obligatory motor third party liability, motor own damage and property portfolios. The Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not yet reported (i.e. IBNR). The estimation of the amounts of claim reserves generally involves a significant degree of Management Board's judgment mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a material effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss ratios, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, regress and the expected payment period. The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus the completeness and accuracy of the data underlying the actuarial projections was also an area of our audit focus. 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, where applicable, with the assistance of our own actuarial and information technology (IT) specialists, included, among others: • Testing the design and implementation of the key controls related to the process of establishing and adjusting outstanding claim reserves. • Testing the operating effectiveness of the related controls, 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 general controls in the IT environment regarding data extraction and validation. • Assessing reasonableness of 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 and regress, 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 claim reserves recognized at the end of prior year, comparing this analysis to the Company's current year's actual experience, 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 Board'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 are also required to report on whether the Corporate Social Responsibility Report has been provided to us by the Company. 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 two years under decision of the general shareholders 'meeting, and the total uninterrupted period of engagement is 6 years.

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

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

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

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
29 March 2019

Council

Name, Surname	*Position*
Roger Hilton Hodgkiss	Chairman of the Supervisory Board
Katarzyna Anna Galus	Member of the Supervisory Board
Marcin Goral	Member of the Supervisory Board (from 31.10.2018)
Weronika Dejneka	Member of the Supervisory Board (from 31.10.2018)
Jaroslaw Mioskowski	Member of the Supervisory Board (from 31.10.2018)
Slawomir Wlodzimierz Niemierka	Member of the Supervisory Board (until 30.04.2018)
Lidia Maria Orzechowska	Member of the Supervisory Board (until 31.10.2018)
Pawel Karol Zacharkiewicz	Member of the Supervisory Board (until 31.10.2018)

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
Rafal Piotr Rybkowski	Board Member, Finance Department Director
Mihkel Uibopuu	Board Member, Manager of Lietuvos draudimas AB Eesti filiaal
Tadas Dovbyšas	Board Member (until 08.03.2018)

Disclosure of Council Members participating in other organisations

Roger Hilton Hodgkiss

Position: *Member of the Board*
Organisation: *PZU SA*
Legal form of the organisation: *Joint Stock Company*
Company code: *0000009831*
Address: *Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Position: *Member of the Board*
Organisation: *PZU Zycie SA*
Legal form of the organisation: *Joint Stock Company*
Company code: *0000030211*
Address: *Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

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

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

Position: *Chairman of the Supervisory Board*
Organisation: *Link4 Towarzystwo Ubezpieczen SA*
Legal form of the organisation: *Insurance Joint Stock Company*
Company code: *0000142452*

Address: *Postepu 15, 02-676 Warsaw, Poland*
Position: *Chairman of the Supervisory Board*
Organisation: *TUW PZUW*
Legal form of the organisation: *Mutual Insurance Society*
Company code: *0000587260*
Address: *Ogrodowa St. 58, 00-876 Warsaw, Poland*

Position: *Member of the Supervisory Board*
Organisation: *Fundusz Ubezpieczen Gwarancyjnych*
Legal form of the organisation: *Fund*
Company code: *010000400*
Address: *Plocka St. 9/11, 01-231 Warsaw, Poland*

Position: *Member of the Board*
Organisation: *British Polish Chamber of Commerce*
Legal form of the organisation: *Limited Liability Company*
Company code: *0000097444*
Address: *Zielna 37, 00-108 Warsaw, Poland*

Katarzyna Anna Galus

Position: *Director of Supervision of Foreign Operations Department*
Organisation: *PZU SA*
Legal form of the organisation: *Joint Stock Company*
Company code: *0000009831*
Address: *Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Position: *Director of Supervision of Foreign Operations Department*
Organisation: *PZU Zycie SA*
Legal form of the organisation: *Joint Stock Company*
Company code: *0000030211*
Address: *Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

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

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

Position: *Member of the Supervisory Board*
Organisation: *OPEC Pulawy*
Legal form of the organisation: *Limited liability company*
Company code: *0000012660*
Address: *Izabelli St. 6, 24-100 Pulawy, Poland 7*

Marcin Goral

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

Position:	*Member of the Board*
Organisation:	*Stowarzyszenie Compliance*
Legal form of the organisation:	*Association*
Company code:	*0000412343*
Address:	*Jerozolimskie Ave. 65/79 / 1724, 00-697 Warsaw, Poland*

Slawomir Wlodzimierz Niemierka

Position:	*Managing Director of Regulatory Risk*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Managing Director of Regulatory Risk*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*Alior Bank SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000305178*
Address:	*Lopuszanska 38 D 02-232 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*TUW PZUW*
Legal form of the organisation:	*Mutual Insurance Society*
Company code:	*0000587260*
Address:	*Ogrodowa St. 58, 00-876 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Member of the Supervisory Board*
Organisation:	*TFI PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000019102*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*

Lidia Maria Orzechowska

Position:	*Member of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*

Pawel Karol Zacharkiewicz

Position:	*Managing Director for Audit*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Managing Director for Audit*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Chairman of the Supervisory Board*
Organisation:	*Tower Inwestycje Sp. z o.o.*
Legal form of the organisation:	*Limited liability company*
Company code:	*0000021844*
Address:	*Ogrodowa St. 58, 00-876 Warsaw, Poland*
Position:	*Member of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Member of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*

Disclosure of Board Members participating in other organisations

Kęstutis Šerpytis

Position:	*Member 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*
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*
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*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Member of the Supervisory Board*
Organisation:	*Bank BPH S.A.*
Legal form of the organisation:	*Joint Stock Company*
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*
Company code:	*12206020*
Address:	*Metsise St. 5-3 Tallinn, Estonia*

Name and address of the independent auditor:

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

Market overview

In 2018, the non-life insurance market in Lithuania was growing rapidly. Although in comparison to 2017, the year of record growth, the increase has slowed down slightly, it remained in the double digits. According to the Bank of Lithuania, the non-life insurance market of the country, including the branches of foreign insurance companies operating in Lithuania, reached EUR 630 million in insurance premiums written for 2018, which is 12% more than in 2017. The Bank of Lithuania estimates that the country's non-life insurance market growth will continue slowing down with the increase of 5–7% in the year 2019.

7 million contracts were concluded in 2018 in the Lithuanian non-life insurance market, which is 9% more than in 2017. There were 4.8 million valid non-life insurance contracts at the end of 2018, which is 12% more than in 2017. The largest part of those insurance contracts accounted for compulsory motor third party liability insurance policies (MTPL), comprising 44% of all the contracts. In 2017, the MTPL contracts accounted for 46% of the contracts concluded; this percentage decrease can be explained by the improving penetration of other insurance products.

According to written premiums, the MTPL remained the largest non-life insurance type, generating EUR 254 million in premiums in 2018, which is 40% of all non-life insurance market premiums. In the resident insurance segment, the MTPL growth was lower, just over 10%, while in the business insurance segment, this insurance type growth was faster, with the premiums increase of 23% in 2018.

The second largest insurance type by the premiums written was the terrain vehicle Casco insurance. The Casco insurance premiums written in 2018 accounted for nearly a quarter (24%) of all the non-life insurance market premiums, although the share of contracts is significantly more moderate, comprising 4%. In 2018, the terrain vehicle insurance grew at the same ratio as the entire market, i.e. by 12%.

The third largest insurance type is property insurance, accounting for 17% of all insurance premiums. The property insurance had a moderate growth in 2018, increasing at a stable rate, just like in 2017, with the premiums increase of 6%.

According to the insurance premiums written, these three types of insurance – MTPL, Casco and property insurance – comprised somewhat over 80% of the entire non-life insurance market in Lithuania.

Lietuvos draudimas AB continued double-digit growth in both of its markets

During the year of 2018, Lietuvos draudimas AB demonstrated double-digit growth of premiums written in non-life insurance products in both Lithuania and Estonia. Such growth allowed the Company to remain in the position of a single leader in Lithuania and to get among top three non-life insurance companies in Estonia.

<u>Lithuanian market</u>
In 2018, the contracts concluded by Lietuvos draudimas AB amounted to 2.1 million, which is 12% more than in 2017. The growth rate of the insurance premiums written exceeded 10%. In 2018, the total premiums written by the Company in the Lithuanian market amounted to EUR 192 million. According to the country's market share held, Lietuvos draudimas AB remains a strong market leader, holding 30.5% of the entire market at the end of 2018. In comparison to 2017, the market share held decreased slightly; however, in the long-term perspective it demonstrated an increase – in 2016, the Company's market share amounted to 29.5% while exceeding the threshold of 30% in the past two years.

The resident insurance market premiums amounted to EUR 290 million in 2018. In the resident insurance segment, the premiums grew by 10% as compared to 2017, with Lietuvos draudimas AB growth comprising correspondingly 8%. In two of the four main resident-oriented products, the Company succeeded in bypassing the market.

The Company's growth in the business client segment was higher than in the resident segment, and somewhat lower than in the overall commercial market growth. The amount of business insurance premiums written by Lietuvos draudimas AB increased by 13% in 2018 and grew close to the market growth of 14%.

Estonian market

The number of non-life insurance premiums written by the Lietuvos draudimas AB Estonian branch was 11% higher in 2018 compared to the previous year for a total of EUR 60 million. According to the *Statistics Estonia*, the market share of Lietuvos draudimas AB Estonian branch amounted to 16% in 2018. Lietuvos draudimas AB Estonian branch grew faster than the market and reached the third position according to premiums in the Estonian non-life insurance market.

Company's performance results

Non-life insurance premiums written in 2018 by Lietuvos draudimas AB together with its Estonian branch amounted to EUR 253.1 million and, compared to the EUR 228.2 million of premiums written in 2017, achieved a 10.9% growth. The Company successfully grew in both of its Lithuanian and Estonian markets.

Lietuvos draudimas AB demonstrated profitable performance in both its markets. The net profit of Lietuvos draudimas AB in 2018, including the result of the Estonian branch, reached EUR 17.5 million compared to EUR 13.1 million in 2017. The Company's operations were profitable in both non-life insurance activities and investment portfolio management in 2018.

The Company earned EUR 19.4 million from direct non-life insurance activities in 2018 (EUR 13.2 million in 2017). The increase of profit from non-life insurance activities was mainly driven by rapid growth of premiums earned, which was a result of increased Company's business volumes in 2017, improving results of certain business segments, decrease in the expense ratio and profitable operations of the Estonian branch. The fixed cost control in the Company and focus on efficiency to prevent the increase of the expense at the same or higher rate than income, resulting in the improvement of the Company's profitability.

The Company continued its conservative investment policy in 2018, concentrating its investments in the strong European companies' and government debt securities.

The profit earned from investment activities in 2018 decreased from EUR 2.7 million to EUR 1.2 million. The decrease in profit from investment activities was a result of drops on the global market, with the most significant impact from the USA and China trade war exerting influence on the share prices of the European companies trading in China.

In response to the changes in the global market, 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 paid to the Company's clients continues to increase annually. In 2018, the Company together with the Estonian branch settled non-life insurance claims for the amount of EUR 128.1 million, which is 6% more compared to the previous year (EUR 120.6 million in 2017).

Corporate income tax expense of Lietuvos draudimas AB increased by 34% in 2018 and amounted to EUR 2.8 million (EUR 2.1 million in 2017).

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 2018 and as at 31 December 2018.

In 2018 the Company did not acquire and did not dispose as well as did not hold any of its own shares as at 31 December 2018.

In 2018 and as at 31 December 2018 Lietuvos draudimas AB did not have subsidiaries.

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

Strategy

In 2018, Lietuvos draudimas AB continued its activities according to the active Lietuvos draudimas AB strategy for the years 2016-2020 called "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 ratio and effective expense management. The long-term strategy project implementation is continued.

General Data Protection Regulation

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation – hereinafter the GDPR) came into effect on 25 May 2015. The requirements of this Regulation are binding to all organisations possessing the data that allow identification of persons. It sets forth a more stringent set of personal data protection rules for processes and free movement of data of natural persons. The aims of the Regulation are to improve protection of data of natural persons, whose personal data are being processed, reduce administrative burdens and ensure more business possibilities in the common digital market.

Preparing for the adoption of the General Data Protection Regulation (GDPR), Lietuvos draudimas AB implemented the requirements of this 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 requirements.

The implementation of the GDPR requirements included renewal of consent of the clients to receive marketing information, review and signing of updated contracts with mediators, brokers, partners and employees. The Company's internal documents and regulations were updated to meet the GDPR requirements, the personal data of employees were placed to storage in the personnel databases, reports and documents were reviewed and additional protection provided, and excessive data were eliminated. The changes implemented allow to familiarise data subjects with data retained and grant the right to data portability. All of the Company's employees were informed about the personal data processing requirements, who familiarised with the requirements and passed the GDPR test.

In 2018, the representative of Lietuvos draudimas AB participated in the GDPR working group organised by a non-life insurance association, the purpose of which was to select a company able to prepare the Code of Conduct of the insurance sector. The company selected was the law firm, which will start the Code preparation activities in 2019. This Code will be an additional measure enabling to ensure conformity of the Company's operations to the GDPR requirements.

The new Law on Legal Protection of Personal Data was adopted on 30 June 2018 and came into effect on 16 July 2018. This law regulates the provisions for the use of personal ID number and data processing at workplace. Correspondingly, the Company's new Procedure for Legal Protection of Personal Data was adopted and the Privacy Policy was renewed.

Implementation of the Directive (EU) on insurance distribution

Directive (EU) 2016/97 of the European Parliament and of the Council on insurance distribution (hereinafter – the IDD) was adopted on 20 January 2016, which had to be transposed into natural law of the EU countries and implemented as of 23 February 2018. On 20 December 2017, the European Commission postponed the IDD implementation until 1 October 2018; however, Lietuvos draudimas AB was consistently preparing for the implementation of this Directive and did not suspend the preparation procedures.

The modifications to the Republic of Lithuania Insurance Law implementing the IDD requirements were adopted on 19 April 2018 (modifications to the RL Law on Insurance came into force on 1 October 2018). Correspondingly, on 12 June 2018, the Bank of Lithuania adopted the resolutions on implementation of new provisions of the law: on qualification of insurance distributors and its improvement requirements; on professional civil liability insurance of insurance intermediaries; on registration of intermediaries, reinsurance intermediaries and supplementary insurance intermediaries; on information to be provided to policyholders by insurance distributors, etc. Following adoption of the national legal acts implementing the IDD, the Company has undertaken all necessary actions in order to comply with the legal requirement, which came into force on 1 October 2018. The following modifications have been introduced: template business management contracts have been modified and supplemented with the new requirements for insurance distributors, and the new business management contracts updated according to the renewed terms and conditions have been concluded with the existing distributors; training materials (including tests) have been provided to insurance distributors; distributors took the tests in order to comply with the applicable qualification requirements of the legal acts; product information documents on products distributed by the Company are published on the Company's website and provided to a customer pursuant to the procedure prescribed by the legal acts; the Company's Procedure for Conclusion of Insurance Contracts has been renewed pursuant to the new legal requirements.

Lietuvos draudimas AB considers that the requirements of IDD have been implemented in the Company in a due and timely manner.

Trust is of the utmost importance

The mission of Lietuvos draudimas AB 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 because its 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, which is the exclusive feature of the Company. Public opinion surveys conducted in 2018 show that 37% of non-life insurance service users trust Lietuvos draudimas AB. The Company is the most recommended company on the market, with the external recommendation indicator – Net Promoter Score (NPS) – measured during surveys, amounting to 30%.

Seeking improvement of the services and contact points with clients, since 2010, Lietuvos draudimas AB has been using the Customer Voice System. This system is used to take customer opinion into consideration. During the year 2018, the Customer Voice System was used to interview more than 21 thousand of the Company's clients. At the end of 2018, the Customer Voice NPS indicator reached 68.6%.

The Company informed about construction of the new office and residential complex

In 2018, Lietuvos draudimas AB publicly announced its plans for construction of the administrative and residential complex on the land parcel on J. Basanavičiaus g. 10 in Vilnius held in its management. The Company organised the international architectural procurement and the complex will be built according to the project developed by the team of architects from the Lithuanian and Danish companies Archinova and PLH Arkitekter A/S, who submitted the winning tender. As required by the legal acts, the information on the planned construction was publicised, and the project is being coordinated with the authorities and the public. The Company expects that construction of the new office and residential complex will be completed by the end of 2021.

According to the Company, it implements this project seeking to fully justify the title of the best employer in the Baltics granted to Lietuvos draudimas AB on multiple occasions, and create modern and attractive conditions, as well as a healthy working environment for its employees. The project is designed to enable integration of the complex into the existing environment of the capital's downtown. The complex developed will be supplied with power from the renewable energy sources and feature geothermal heating and cooling, as well as other microclimate support solutions conforming to the advanced and modern standards.

Value strategy for clients: it makes a difference where to obtain insurance

Additional value strategy for compulsory civil liability insurance clients
Lietuvos draudimas AB continued the value strategy for private clients prepared in 2015, thus further improving and expanding the range of products with added value for clients. Added value was created by the new generation compulsory insurance against civil liability in respect of the use of motor vehicles (MTPL) for clients. The Company continues to be the only in the market to offer its MTPL clients free technical roadside assistance together with insurance. According to the consumer survey conducted by the Company, 70% of drivers in Lithuania stated that it is the technical roadside assistance that meets their direct needs. The technical assistance is an integral part of the compulsory insurance, changing the driver's view and making him realise that there is a difference where to acquire insurance, even when choosing only a compulsory one. The technical roadside assistance insurance, provided with the compulsory 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 the entire territory of Lithuania. The time between the call for assistance and response is up to an hour within city limits.

Additionally, the Company annually creates services intended to further expand the scope of MTPL. In 2018, the clients were offered the driver and passenger insurance, which included insurance of pets travelling together, if they were to suffer or die in a traffic accident. These services are oriented towards families and their on-road protection.

Housing insurance offers
The new fire safety legal acts came into force in 2018, which stipulate that all residential premises must be provided with smoke detectors in order to reduce the number of fire fatalities and promote public safety. Our Company continuously supports the topic of safety of people and their assets; therefore, in order to stimulate residents with uninsured homes to take care of that and acquire a housing insurance, the Company initiated the action "Don't be late – insure your property", during which it contributed to communicating the message of relevant safety requirements and distributed 10,000 smoke detectors to clients with insured homes.

Primary school pupils insurance programme
Lietuvos draudimas AB proactively ensures quality of clients' housing insurance; therefore, observing the claims and benefits statistics, annually offers to its loyal clients the extension of the insurance contract under more advantageous terms. In 2018, the sum insured for events in auxiliary buildings was doubled for the Company's private clients, the limit for residential rent expenditure was also increased (where due to damages, i.e. fire or natural disaster, the housing owned is temporarily unavailable for living), and the civil liability sum insured for apartment residents was doubled up.

Seeking to ensure full protection of housing and third person liability for the Company's clients, the civil liability insurance was included into contracts, the value of which can be used by the entire family, where damages to the health of others or their assets are caused by negligent and unintentional actions.

Seeking to diminish the costs for parents at the start of a school year, enhance the feeling of security in the family and provide modern learning means to children, before the start of the school year 2018, Lietuvos draudimas AB together with its partner E-mokykla (E-school) created a unique "Primary school pupils insurance" programme, which enabled to introduce the smart learning process to pupils of classes 1-4 and allowed parents to insure their young schoolchildren against traffic accidents during the entire school year.

"Primary school pupils insurance" programme offers free special insurance of Lietuvos draudimas AB to schoolchildren during the entire school year and a free electronic exercise license that can be used in EMA (Electronic Learning Environment).

Sales network

The special feature of the Company is its largest sales network in Lithuania allowing to provide services to clients in places convenient for them, even in small towns. The Company currently has 100 own points of sales throughout Lithuania. This network is optimised annually in respect to customer convenience and behaviour, seeking a higher efficiency of the sales network. In 2018, Lietuvos draudimas AB opened a new modern customer service division in Alytus and a subdivision in Kupiškis settled in a new building. The new modern point of sales was opened in Vilnius – the Orange Office.

Much attention in 2018 was focused on the work of the division managers with new sales employees. The Company implemented a large-scale programme "Young generation salespersons management". The training was mainly concentrated on practical activities and feedback. The Company continued the successful introduction of the programme for new employees seeking to nurture employee competences and knowledge. Both internal and external training sessions have been organised.

In 2018, Lietuvos draudimas AB continued to develop its clients' self-service "SavasLD" (MyownLD). It promoted client activeness (lotteries for clients), clients were provided with the possibility to receive life insurance offers, the Personal Insurance and Housing Insurance offers were also actively provided to the clients.

Lietuvos draudimas AB Estonian branch continued successful expansion and development of online sales in 2018. The sales of this channel grew by 72% as compared to 2017, comprising 8% of all Estonian branch premiums written. The Estonian clients are offered to purchase all basic non-life insurance products online: compulsory motor third party liability insurance policies (MTPL), Casco insurance, travel insurance, private property and personal insurance.

In 2018, Lietuvos draudimas AB Estonian branch continued its successful cooperation with 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 clients were offered a new two-year Casco product.

Business client services

In 2018, the attention of Lietuvos draudimas AB in the business client segment was focused on the development of employee health insurance introduced two years ago. According to the representative survey of Lithuania's employees conducted by the order of Lietuvos draudimas AB, health insurance is acknowledged to be the most effective means of employee motivation. 56% of the respondents name this insurance provided by employers as one of the most significant means of motivation and consider this benefit granted by employers to have an impact on the employee's attitude towards the employer, loyalty and determination to recommend this employer.

Seeking to stimulate employees and employers to use health insurance actively, in 2018, Lietuvos draudimas AB organised and implemented activities aimed at better product visibility and provision of added value to persons insured. The Company created and presented to the market single short-term health insurance packages with validity of half a year designed to introduce the advantages of this insurance. The Company also organised cycles of lectures across Lithuania, attended conferences, offered trainings, created the electronic publication for employers on employee intensives, health promotion and health insurance. These and other measures helped the Company to attract new health insurance clients, who have not previously used this service, and stimulate penetration of health insurance.

Clients

Lietuvos draudimas AB is the non-life insurance company with the highest number of clients in Lithuania. At the end of 2018, the Company had 582,934 unique private and legal clients. In comparison to 2017, this number had a slight increase. The number of clients (companies) insured by health insurance with employer's funds had the fastest growth in the Company. This is the newest product in Lietuvos draudimas AB portfolio.

Innovations

One of the main values in Lietuvos draudimas AB is seeking innovations. The Company constantly seeks new ways to introduce innovations and offer solutions according to the ever-changing environment. The insurance and financial start-ups continuously emerging around the world are always the field of attention of Lietuvos draudimas AB. The Company's representatives participate in discussions and events, where they share their insights on new approaches and novelties that could have influence on the traditional insurance market in the future. It is the ambition of Lietuvos draudimas AB to be always a step ahead in the field of creation and implementation of innovations. Seeking innovations in the Company's daily operations, its attention is focused on stimulating innovative attitude of employees and search for cutting edge solutions.

In 2018, Lietuvos draudimas AB established the Innovations Laboratory. It is a space inside the Company where innovations are created and developed, various innovation-oriented events are organised, a place where the newest trends are shared, meetings with innovation leaders are held, courses and training sessions on how to be innovative, and where and how to find new ideas are offered. The Innovations Laboratory of Lietuvos draudimas AB unites several dozens of company employees with various specialisations – the so-called innovators. They are open to and interested in novelties and enjoy trying them in practice; they are early adopters and enthusiasts who do not give up. It is important to them that Lietuvos draudimas AB is the market leader with bold innovations. For these purposes, the Company facilitates all necessary conditions for its innovators. The areas of operation of the Innovations Laboratory, which have been singled out in 2018 during workshops, are digitisation and artificial intelligence.

In 2018, Lietuvos draudimas AB continued the Hackathon initiative by organising two hackathons, which have become traditional and much-welcomed Company events. Hackathon is a 24-hours-long event of a specific format that takes place without any breaks and brings together teams that create early-stage products. The teams include the Company's programmers and representatives of other business areas; the prototype ideas created by the team are presented after 24 hours of work. *LDCoin*, the virtual cryptocurrency of Lietuvos draudimas AB was created during the spring Hackathon. This cryptocurrency, to be mined by the Company's employees, is used in the employee incentive system and linked to employee communication and involvement: the employees transfer *LDCoins* to each other to thank for the work performed, cooperation during projects and involvement. The cryptocurrency can be converted to different commodities granting additional motivation to employees: various prizes with the Company's logo, free visits to fitness clubs, entertainment, tickets to sports events, private lunches with the Company's managers, extra days off, travel vouchers and different activities stimulating teamwork.

The Christmas Hackathon was attended by students not employed by the Company, where the artificial intelligence prototype was tested.

The artificial intelligence robot James was designed and installed in 2018 in the claims-related area, which helps to find connection and facilitates the work of investigators by determining fraudulent actions.

In 2018, Lietuvos draudimas AB organised the Innovation Workshops – individual and organisational learning and self-development events. This presented the possibility to expand the competences in a real but at the same time experiment-friendly environment with the involvement of consumers, proposing daring ideas, testing unconventional solutions or even simulating near future. The methodology of the Innovation Workshops is based on (but not limited to) the Design Thinking process quickly gaining worldwide popularity.

In 2018, the Information Technologies and Operation Department (ITOD) of Lietuvos draudimas AB completed implementation of SCRUM in its practice. This world-popular method helps to be more flexible and react faster to the ever-changing situations. The aim of the SCRUM is to increase operating capacity and reduce time consumption in order to adapt to the rapidly changing environment, be closer to 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.

Lietuvos draudimas AB continues to apply and implement in its activities the globally recognised Agile methodology. One week of the month, the IT employees of the Company worked with the worldwide renown Agile trainer and mentor Angel Diaz-Maroto, who, in 2018, provided consultations on how to achieve the optimal and easy transformation to SCRUM (one of Agile methods) and be more flexible, which is essential in today's rapidly changing environment. The Agile methodology helps to promote and develop innovative solutions.

The Communities of Practice have been created and put into operation in the IT Department, where the colleagues can share practices and resolve work-related problems. This promotes cooperation – one of the values of the Company, as the Communities of Practice are accessible to co-workers from other departments. The Mentoring Programme was launched at the IT division in 2018. Its purpose is to learn new things and look for innovative solutions together with the fellow workers. Mentoring is one for the forms of leadership, defining a leader whose main purpose is to educate and offer consultations to other persons, in this case colleagues, deepen their knowledge and assist in planning personal growth. The Mentoring Programme facilitates the learning environment, while the employees are responsible for their own improvement. During personal meetings with a mentor, the current achievements and challenges are discussed and further plans are made: development areas, aims of activities and growth perspectives.

The IT division mentors will in the long run take over part of the managers' functions and will be responsible for the improvement processes and acquisition of necessary competences. The focus of the IT Department will be a gradual transition towards a new culture where the role of managers in the educational process will be delegated to mentors.

Innovations in Lietuvos draudimas AB Estonian branch

The Company's Estonian branch aspires to become local market leader in the future, the Company's setup and strengths have to be different than the ones at current leader. The Company recognizes that the clients' number of visits in physical offices is dropping – so it puts emphasis on the digitalization for simple services. That's the reason why the Company created PIRI (name of a virtual assistant). With a help of PIRI, the Company can communicate with many people at the same time and influence them to buy products or services. In addition, these customers will perceive the Company as a modern, more transparent and different service provider.

PIRI was created to offer a quick and easy way to buy Casco insurance using Facebook chat. PIRI will help to answer the question of the clients from the Facebook messenger and on the Company's homepage. Company is keeping teaching and the developing the young PIRI further.

Claim indemnification in Lithuania

During the year 2018, the number of cases of claims registered by Lietuvos draudimas AB increased by 23% compared to 2017 and reached a total of 163.5 thousand claims. The largest part of claims handled by the Company in Lithuania in 2018 were transport claims.

In 2018, 62% of all claims were settled by the Company within a month, 17% – within 5 days, and 8% of claims – on the day of reporting.

During the year 2018, the Company's clients were compensated with EUR 1.49 million for claims caused by storms and other natural disasters. The most extensive damages in 2018 resulted from the storm of 5 September that swept across the Central Lithuania (mainly in the Kaunas County), with damages amounting to EUR 358 thousand.

In 2018, the settlement of the largest claim of 2017 and, overall, the largest claim (EUR 16 million) in the history of Lietuvos draudimas AB – fire at the fish processing company Norvelita – was completed. The fire that occurred 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 the 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 pay-out is an indispensable help to the business, and it is necessary to ensure the continuity of the business. It is commonplace that the damages are compensated in specific parts, allowing the company to gradually return to its usual rhythm of business. Prompt restoration of the company was also facilitated by the insurance conditions: this long-term client of Lietuvos draudimas AB insured not only the company's property, meaning the equipment, which burnt down during the fire, but also the continuity of its business. The company has fully restored its production after the fire.

The largest damage that took place and was compensated to a private client in 2018 amounted to EUR 172 thousand for a burnt down residential house. Additionally, the settlement of the foreign (France) complex and large personal harm claim from previous years was completed in 2018, with pay-outs amounting to EUR 914 thousand (total pay-outs – EUR 1.12 million).

Claim indemnification in Estonia

Lietuvos draudimas AB Estonia branch registered 32,734 claims in 2018; this number increased by 6.2% compared to 2017 where the number of claims reported amounted to 30,823. The largest share of claims registered comprised transport damages – 68.9%, property – 18.1% of claims, travel insurance – 8.1%, and other damages – 4.39%.

Claim indemnification process improvements

In order to ensure fast and effective damage regulation process, with an 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 damages; 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.

Compared to 2017, the Company identified 11% less fraudulent cases (509 in 2018), however, their value (amounts unpaid) reached EUR 1.358 million, or 18%, more than in 2017. The most frequent types of fraud according to the identified number of fraud cases: 23% – attempts to receive insurance benefit with the insurance contract concluded after the occurrence of damage, 20% – attempts to tamper with the event circumstances, and 18% – attempts to increase the event damage. Although the number of cases of insurance after the event exceed the number of cases of forgery of event circumstances, the value of cases of fraudulent event circumstances is higher (amounting to 28% of all revealed fraud amounts in 2018) than cases of insurance after the event (amounting to 8% of all revealed fraud cases in 2018). The largest revealed fraud of 2018, when the event circumstances were tried to be tampered with, amounted to EUR 72 thousand. Seeking efficiency in the areas of fraud prevention and identification, in 2018, the Company installed and put into operation a data link analysis tool allowing to determine messages causing suspicion with greater precision and providing a possibility for additional investigation.

The technical roadside assistance provided by Lietuvos draudimas AB to its clients was requested more than 20,000 times in 2018. Technical assistance services were used by both Company's 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.

Achievements and awards

According to the annual Lithuanian Reputation Survey, in 2018, Lietuvos draudimas AB was recognised to be the insurance company with the best reputation in Lithuania and the company with the highest reputation in the country in all sectors. In the TOP 15 general rating list of Lithuanian companies with the best reputation, Lietuvos draudimas AB climbed five positions up – from the tenth, taken in 2017, to the fifth position.

In the B2C (business-to-consumer) business sector, Lietuvos draudimas AB is classified as the third best according to the reputation index among the B2C companies with the highest reputation. This independent survey is carried out annually. In 2018, it was carried out on a sample of 1,371 respondents from three different public groups – decision makers (company managers, politicians, etc.), opinion leaders (experts, journalists, marketing specialists, etc.) and society representatives (country residents aged 18-74) – 1,000. The Company's reputation survey included evaluation of reputation in different business sectors taking into account three main criteria: good reputation, attractiveness and positive assessment, and trust.

According to the results of the traditional mystery shopping survey conducted annually independently from the market participants by Slapto pirkėjo tyrimai UAB (trademark Dive Lietuva), Lietuvos draudimas AB was acknowledged to be the non-life insurance company with the best customer service. The survey revealed that the fulfilment of the general customer service criteria in the insurance sector amounted to 89.7% of 100 possible in 2018. This corresponds to the average service quality group. Meanwhile, the best customer service assessment of Lietuvos draudimas amounted to 92.8%.

In the periodic survey of the most memorable ads conducted by the daily newspaper Verslo Žinios at the end of 2018 (Christmas period), the sales promotion advertising "Buy insurance in LD, win BMW!" of Lietuvos draudimas AB was named as the most memorable (places 6-7 among the best) and most liked (place 3) advertising. This evaluation was achieved with the advertising budgets that do not compare to the largest advertisers.

Among the most effective marketing campaigns of the year chosen during Password 2018 marketing conference, Lietuvos draudimas AB seniors safety programme was recognised to be the Most Effective Sales Promotion Campaign for its insightful concept and excellent results achieved.

Human resources

The annual average turnover at Lietuvos draudimas AB fluctuates between 12% and 16%. The general employee turnover in 2018 increased from 12% to 15%, voluntary from 7% to 11%. Comparing the Company's turnover indicator with market data demonstrates that the market turnover is even higher, amounting to 23%, where 5% accounts for involuntary and 17% for voluntary turnover. The turnover in the insurance sector is 25%, voluntary – 18% (according to Korn Ferry data).

The average number of employees (counted in approved FTE) in Lietuvos draudimas AB together with the Estonian branch was 1,342 in the financial year 2018 (1,361 in 2017).

Lietuvos draudimas AB pays a lot of attention to the internal career of its employees and promotes education of its employees inside of the Company: 31% of vacant positions at the Company are filled internally (i.e., every third vacancy is taken by the internal employee of Lietuvos draudimas AB).

In 2018, 70 employees (excluding sales areas) made an internal career at the Company, of which 12 were appointed managers, and 5 became managers of a higher level. In 2018, a total of 5 trainees took their internships at the Company (23 in 2017), 1 of them was employed by Lietuvos draudimas AB after the internship period ended. A total of 77 people were employed as assistants in 2018 (47 in 2017), and 17 of these assistants were promoted to specialist positions (22% of all assistants).

Lietuvos draudimas AB continues upbringing of the needed sales specialists by continuing the junior insurance consultant's training programme in Lithuania: 40 junior insurance consultants were employed in 2018, half of them made the internal career and were transferred to the insurance consultant positions.

2 employees of the Company are delegated members of the Labour Disputes Commission under the State Labour Inspectorate, representing both the employer's and trade union's interests.

The Company is a member of the Human Resource Management Professionals Association (PVPA) participating actively in the activities and events of this organisation. One of the Company's employees is a lecturer of the HR Standard Programme organised by PVPA.

In 2018, Lietuvos draudimas AB Estonian branch mainly focused on maintaining good working conditions and balance between work and rest, employee acknowledgement and incentive, internal communication and training. All employees completed the training according to the GDPR requirements. The Company's Estonian branch participated in the Estonian programme of the Ministry of Social Affairs "Family and family-friendly workplace", which is designed to enhance reconciliation of family and work.

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

Engagement of Lietuvos draudimas AB employees – 83 percent

Lietuvos draudimas AB takes pride in its engaged employees. It allows the Company to sustain its best employees in the dynamic labour market situation. Since the year 2012, the Company has measured the engagement of its employees according to the world-recognised Aon Best Employer involvement research methodology.

Every year, the Company's employees fill out an anonymous online involvement survey. This survey measures engagement and other important factors, such as learning and improvement, empowerment/autonomy, top management, work/rest balance, remuneration and recognition, etc. Every manager who has 5 or more employees receives the results of his team, which he analyses and presents to the team to initiate a discussion and set up action plans. In this manner, the employees can both express their opinions and are empowered to share their insights, as well as to determine which actions are required to enhance their engagement.

Measuring employee engagement, producing and implementation of actions plans allow our Company to maintain a high engagement level. In 2018, Lietuvos draudimas AB engagement index was 83% (a percentage of engaged employees in the organisation). As confirmed by Aon certifications, for the sixth time since 2012, Lietuvos draudimas AB is one of the best employers both in Lithuania and in the Baltic States.

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

According to this research method, an engaged employee is an employee who talks about the organisation, associates his future with it, and works for the benefit and result of the organisation. The result of these three engagement 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 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 labour market.

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

Additional benefits for employees. Implementation of the new Labour Code and preparation for tax reform

Lietuvos draudimas AB provided to its employees more than what is stipulated in the requirements of the Labour Code that came into force on 1 July 2017. Taking into account the employee holiday leave periods, it has been decided to convert leave days from calendar to business days as of 2018, which allowed the employees to use their accumulated annual leave days in a more advantageous way, and when converting the leave days at the start of the year, there was not a single employee with unused leave days accumulations for more than three years.

Caring for the health of its employees, Lietuvos draudimas AB implemented the sick leave. Each employee is granted annually up to 4 business days to recover their health, whenever the employee is not treated by a healthcare institution, for example in cases of lighter and shorter-term health problems. The employees actively enjoy these benefits – more than half of the Company's employees used this possibility in 2018.

In order to improve the work and rest balance, in 2018, the Company introduced additional leave for employees employed for more than two years who produce good and efficient results – 5 calendar days per calendar year. The employees can use these days as they see fit, for example, to extend their leave by a week or take separate days off and work five weeks of four working days.

In 2018, together with the Company's Workers Council, which, according to the number of the Company's employees, comprises 11 members, where one of the members is delegated to Lietuvos draudimas AB labour union, Lietuvos draudimas AB coordinated the renewed Company's Internal Work Regulations according to the requirements of the new Labour Code of the Republic of Lithuania, renewed the Company's Procedure for Protection of Personal Data according to the GDPR requirements, as well as the expected employee remuneration modifications related to the new Tax Reform to come into force in 2019.

For the purposes of implementation of the said changes, in 2018, the Company signed the recast Collective Agreement with the representatives of labour unions, which was confirmed by the absolute majority vote of the employees and is binding to all of the Company's employees.

In the course of 2018, the recast employment contracts were signed with all the employees. The new employment contracts provide for the alternative proportional training expenses restitution possibilities, while implementing the LR Tax Reform that comes into force as of the beginning of 2019, the fixed wage amount is rounded up to euro units for the employee benefit more than provided by the law. Taking into account the nature of the work performed, flexible working hours and remote work possibilities were made available to certain employees. The new type of an employment contract with several employers was concluded between the companies of the group in relation to shared employees, which allows simplifying the management and administration of such labour relations, and division of costs.

In 2018, an employee of Lietuvos draudimas AB received an average of ~31 hours of training (~4 days) per year: internal and external qualification improvement trainings and seminars, visits to Lithuanian and foreign companies allowing to expand experience, learning via the electronic LD Academy – eLDa, and participation in the Geek Days.

In 2018, ~200 employees attended 26 conferences in Lithuania and 36 conferences abroad (in Germany, Austria, Poland, Hungary, Belgium, France, Latvia, Estonia and other countries).

Lietuvos draudimas AB continues its internal programme for the most talented and potent Company specialists. In the summer of 2018, the new Talent Programme was launched by Lietuvos draudimas AB. During this six-months' programme, 18 potential specialists will be developing their leadership, self-acceptance, teamwork, project management skills and other expertise required from leaders. The aim of this programme is to provide intense training and possibilities to contribute to the development of important Company projects in various areas of expertise by its most potent specialists and improve their competences.

The employees develop their new skills and improve their qualifications not only during training and by helping external lecturers but also by drawing experience from each other. The Company organised the Geek Days initiative for the seventh time. During this initiative, employees from various areas of expertise provide training to their colleagues on different topics. In 2018, 19 training sessions were organised with approximately 540 participants.

Social responsibility: creating a safer world

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 customer service to its clients, 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 has been a participant of the Global Compact since 2008 and seeks to integrate the ten principles of the Compact as a part of its everyday organisation's culture and everyday work. The Global Compact 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 elimination of all forms of forced and compulsory labour.

Principle 5: Businesses should seek effective abolition of child labour.

Principle 6: Businesses should seek 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.

Acting as a socially responsible company, Lietuvos draudimas AB focuses all its efforts on the following main areas of operation: "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 involving the Company's employees in volunteering activities. These are the activities featuring involvement and participation of employees in various events and the Company's employee initiatives and donations; "Connecting history" (Lietuvos draudimas AB supports the national pride projects and promotes modern heritage and financial education of young people and/or projects of public financial integration). While being active in these areas (supporting the projects in these areas or organising various campaigns focused on such experiences), the Company seeks to bring together as many people as possible for a common cause to solve the problems together – to protect the world surrounding us and promote changes, which could facilitate the creation of a safer and more sustainable future.

Protect me

In 2018, Lietuvos draudimas AB initiated the children's road safety action "Protect me". This is one of the long living social responsibility initiatives in Lithuania. It was first initiated in 2000 by Lietuvos draudimas AB together with the Vilnius City Municipality in Vilnius, which in the long-run spread across Lithuania.

During the 19th "Protect me" initiative, the Company insured every pedestrian schoolchild in Lithuania in the month of September for the amount of EUR 5,000. According to the data of the Ministry of Education and Science, in 2018 approximately 320 thousand schoolchildren were studying in the schools of Lithuania. In the event a pedestrian schoolchild is involved in a traffic accident, his or her parents or guardians must report it to Lietuvos draudimas AB by calling 1828 and receive their insurance benefit.

There were 3 reports of children involved in accidents in September of the initiate. All their parents or guardians received the appropriate insurance benefits. Fortunately, no pupil road fatalities were reported in September 2018.

During the "Protect me" project of 2018, Lietuvos draudimas AB continued and expanded the project initiative to provide the schools of smaller towns and regions with safety vests. In 2018, Lietuvos draudimas AB purchased and presented 10,000 safety vests to children in primary classes of schools in Anykščiai, Pasvalys, Joniškis, Raseiniai, Širvintos, Molėtai, Šilutė, Zarasai, Utena and Marijampolė. They will be used to ensure safety of children during school outings.

In the course of implementation of this project in the period of 2017–2018, 22,000 safety vests have been provided to children. In 2017, safety vests were presented to 12 regional schools.

During 19 years of implementation of the "Protect me" initiative, this project succeeded in drawing the public's attention to the safety of children who return to schools after summer holidays, and encouraging to take care of these children with utmost responsibility. Lietuvos draudimas AB considers this social responsibility area to be one of its priority areas and will continue the "Protect me" initiative in the coming year.

Insuring the only found original copy of the Lithuanian Independence Act
In preparations to celebrate the 100 years anniversary of the restoration of the Lithuanian Independence, Lietuvos draudimas AB insured the Lithuanian Council's Decision of 16 February 1918 proclaiming the Independence of Lithuania, brought from the Political Archive of the Federal Ministry of the Interior of Germany.

The Company has provided extensive insurance coverage for this single found original copy of the Independence Act, which has become the symbol of Lithuania's 100th anniversary. This insurance coverage ensures its all-round safety during transporting, safekeeping and exposition as well as insurance of the place of exposition, in case the document, the area of exposition or visitors sustain damage due to a sudden and unexpected event. It is not common in archive practice that original documents leave the storage facilities for a longer period of time; therefore, particularly high safety standards are applied to their protection. From January to November, the document was displayed at the House of Signatories in Vilnius. At the end of the year, Lietuvos draudimas AB signed the extension of the document's insurance coverage.

I can help
In 2018, Lietuvos draudimas AB launched "I can help" programme. This initiative has been organised in cooperation with the Lithuanian Red Cross and is intended to create a safe environment and offer assistance during accidents. This programme designed to teach first aid assistance is intended for the company employees and clients. With regards to the essence of the insurance business, the promise is made to provide assistance when it is needed, therefore, Lietuvos draudimas AB initiated the first aid assistance training for its employees and clients to ensure that in the event of accident everyone is able to provide assistance before arrival of the medical emergency response team. 5 minutes – this is how long it takes for a human brain to die. In the event of cardiac arrest, a person stops breathing, and due to compromised blood flow, the brain's oxygen supply is cut off and it stops functioning in only 4-5 minutes. It takes some 10 minutes or longer for the ambulance to arrive. The aim of the project is to protect the Company's employees and their family members, as well as the clients, because the Company wants to enhance the safety and assurance both at work and at home in the event of life-threatening situations. If the heart massage is performed in time, it can help to avoid fatality and save someone's life; therefore, the ability to provide first aid assistance is a vital skill.

The total of 211 training sessions were organised in 18 cities across the country during this project, where more than 2,400 people were trained to offer emergency assistance. This initiative was also aimed at offering advice on the provision of first aid assistance by means of different public information channels.

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

The Company's employees actively take part in the Company's teams in various public sports events: in 2018, Lietuvos draudimas AB employees participated in the Danske Vilnius Marathon, the Velomarathon, and played basketball and football with other companies' teams in various inter-company tournaments.

The Company's employees actively create and participate in social initiatives. During this year's auction, the funds donated were used to purchase television sets for a Jonava retirement home. The employees also actively support animal shelters.

Lietuvos draudimas AB Estonian branch socially responsible activities
In August 2018, Lietuvos draudimas AB Estonian branch organised its second driver competition: "Best car parking in Tallinn". The aim of this initiative is to train better driving skills, especially safe parking of vehicles, since a third of all traffic accidents occur due to poor parking skills of drivers.

Additionally, during the entire year of 2018, 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.

Social responsibility and environmental protection

Although the impact on nature and environmental pollution from the companies working in the same field as Lietuvos draudimas AB is minimal, we always search for ways for efficient consumption of resources we use every day and contribute to a more cherished environment. Therefore, since 2011, Lietuvos draudimas AB has been using energy from renewable energy sources as a part of its energy consumption. This is confirmed 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 for work assignments. The Company also seeks to apply the sustainable business principles in cooperation with its partners.

The Company used 1,726.5 MW of electricity in 2018. In 2017, power consumption amounted to 1,950 MW, which is 13% less. The energy consumption of the Estonian branch amounted to 104.6 MW.

In 2018, the energy consumption for heating of premises comprised 6,317.26 GJ, and compared to 2017, decreased by 12.7%. The heating energy consumption of the Estonian branch amounted to 687 GJ.

The amount of paper used by Lietuvos draudimas AB for printing amounted to 18.31 tons in 2018, and compared to last year's indicator, increased by 8.3%. The Estonian branch continues the initiative seeking to become a paperless office; therefore, it continued to focus on reducing paper consumptions in 2018: 0.76 tons of paper were used in 2018, which is by 32% less than in 2017.

In the course of the year, in all its division in Lithuania, the Company used 8,777.48 m^3 of water, which is by 6.3% more than in the previous year. The natural gas consumption amounted to 29.7 m^3, comprising an 8.3% decrease.

The mileage of the vehicles owned by the Company comprised a total of 5.6 million km, which is 1.7% less than in 2017, The Estonian branch owns no company vehicles.

The most travelling, i.e. 4.5 million km, was made by diesel cars, 1.03 million km – by petrol cars, and 112 thousand km – by LPG cars. The distance travelled by the Company's vehicles comprised 42 thousand km and 5.3 thousand km – by taxi for the Company's needs.

In 2018, the Company's employees flew a total of 4,007 km of short-haul flights, 103 67,423 km of medium-haul flights, and 31,314 km of long-haul flights.

In 2018, Lietuvos draudimas AB removed 913.5 m^3 of waste, which is 12.5% less than in 2017.

The Company also contributed to the recycling of waste – during the year 2018, its employees separated and recycled 4.79 tons of paper, which is 53% more than in 2017.

Corruption prevention

Lietuvos draudimas AB takes a strict stance in its corruption and bribery prevention policy, which is binding for all Company employees and applies to all its 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. This commitment applies not only in interactions with the state officials but also with any natural or legal persons.

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 training.

The Company's team members must immediately inform the law enforcement representatives or their own management regarding any attempts of bribing. The Company has undertaken the obligation to combat bribery and corruption according to the legal acts in force in Lithuania, codes of conducts, and according to the best practice, which is disclosed in the Company's Corruption and Bribery Prevention Policy.

The community of Lietuvos draudimas AB also joins the fight against corruption, as well as adherence to the supporting principle, which prohibits to support and allocate funds to political parties, military organisations, organisations 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 proclaimed in the Universal Declaration of Human Rights, the ILO Labour Core Conventions, and is a signatory of the UN Global Compact. The Company undertook to ensure that all types of human right violations are eliminated from its activities.

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

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

In 2019, the "Sekmes kodas 2016–2020" (Success Code 2016–2020) 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 solutions.

The Company will seek growth and ensured leadership on the market, as well as profitable activities. It will provide exceptional customer service and will seek to maintain a high level of employee involvement.

Kęstutis Šerpytis
Chief Executive Officer

29 March 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(All amounts in thousands of euro unless otherwise stated)

	Note	2018	2017
Insurance income			
Gross written premiums	4	253 118	228 174
Reinsurers share in premiums	4	(7 960)	(6 777)
Net written premiums	4	245 158	221 397
Change in gross unearned premiums reserve	5	(7 779)	(20 880)
Change in unearned premiums reserve, reinsurers' share	5	(159)	335
Change in unearned premiums reserve	5	(7 938)	(20 545)
Net premiums earned		**237 220**	**200 852**
Other technical income		(16)	32
Total insurance income		**237 204**	**200 884**
Insurance expense			
Gross claims paid to policyholders		(128 085)	(120 623)
Claims settlement expense		(10 622)	(9 295)
Recovered losses		5 659	7 834
Claims paid	6	(133 048)	(122 084)
Reinsurers share	6	6 299	13 166
Net claims paid		(126 749)	(108 918)
Change in outstanding claims reserve	7	(13 606)	(20 561)
Change in outstanding claims reserve, reinsurers' share	7	(4 245)	6 128
Net incurred claims		**(144 600)**	**(123 351)**
Acquisition costs	8	(58 322)	(51 925)
Administrative expense	9	(12 116)	(10 132)
Other expense related to insurance activities	10	(2 799)	(2 253)
Total insurance expense		**(73 237)**	**(64 310)**
Net result of insurance activities		**19 367**	**13 223**
Interest income	11	2 555	2 589
Other profit (loss) from investment activity	11	(1 368)	77
Change in expected credit loss	12	197	-
Financial income and expense	13	(678)	(708)
Other income and expense	14	269	(39)
Profit / (loss) before tax		**20 342**	**15 142**
Income tax expense	15	(2 795)	(2 087)
Profit / (loss) for the year		**17 547**	**13 055**
Other comprehensive income (OCI)			
Items that are or may be reclassified to profit or loss	20	(1 390)	(192)
Items that will not be reclassified to profit or loss	20	(67)	-
Total comprehensive profit / (loss) for the reporting year		**16 090**	**12 863**

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

Notes on pages 34 to 75 are an integral part of these financial statements.

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

29 March 2019

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2018	31.12.2017
ASSETS			
Intangible assets	16	**2 907**	**3 182**
Property and equipment	17	**10 983**	**10 517**
Investment property	18	**1 500**	**1 422**
Financial assets at fair value through other comprehensive income	19	202 455	-
Financial asset at fair value through profit or loss	19	30 523	-
Available-for-sale financial investments	19	-	136 848
Held-to-maturity financial investments	19	-	56 099
Total investments		**232 978**	**192 947**
Receivables due from policyholders	21	48 475	44 692
Receivables due from intermediaries	21	1 854	2 017
Reinsurance receivables	22	2 660	1 780
Other receivables	24	3 461	4 680
Total receivables		**56 450**	**53 169**
Reinsurers' share in unearned premium reserve	5	1 483	1 642
Reinsurers' share in outstanding claims reserve	7	5 872	10 117
Reinsurers' share of reserves		**7 355**	**11 759**
Deferred acquisition costs	8	20 796	20 643
Other accrued income and deferred expense	23	2 094	1 422
Accrued income and deferred expense		**22 890**	**22 065**
Cash and cash equivalents	25	**5 567**	**9 833**
TOTAL ASSETS		**340 630**	**304 894**

Notes on pages 34 to 75 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2019

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2018	31.12.2017
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	26	11 665	11 665
Share premium	26	937	937
Reserves	26	6 543	7 057
Retained earnings		75 800	63 625
TOTAL EQUITY AND RESERVES		**94 945**	**83 284**
LIABILITIES			
Unearned premium and unexpired risk reserves	5	120 875	113 097
Outstanding claims reserve	7	90 276	76 670
Technical reserves		**211 151**	**189 767**
Direct insurance creditors		3 863	2 767
Reinsurance creditors		3 151	2 473
Taxes	27	219	206
Corporate income tax liability		1 147	481
Deferred income tax liability	15	215	393
Accrued expenses and deferred income	28	14 227	13 145
Other liabilities	29	11 712	12 378
Total creditors		**34 534**	**31 843**
TOTAL LIABILITIES		**245 685**	**221 610**
TOTAL EQUITY, RESERVES AND LIABILITIES		**340 630**	**304 894**

Notes on pages 34 to 75 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2019

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018
(All amounts in thousands of euro unless otherwise stated)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2016	**11 665**	**937**	**2 333**	**4 916**	**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**	**2 333**	**4 724**	**63 625**	**83 284**
Adjustment of initial application of IFRS 9 (Note 37)	-	-	-	943	1 028	**1 971**
Balance at 1 January 2018	**11 665**	**937**	**2 333**	**5 667**	**64 653**	**85 255**
Other comprehensive income	-	-	-	(1 457)	-	**(1 457)**
Dividends paid	-	-	-	-	(6 400)	**(6 400)**
Net profit for the reporting period	-	-	-	-	17 547	**17 547**
Balance at 31 December 2018	**11 665**	**937**	**2 333**	**4 210**	**75 800**	**94 945**

Notes on pages 34 to 75 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2019

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(All amounts in thousands of euro unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Premiums received from direct insurance		246 497	218 738
Claims paid for direct insurance		(132 767)	(122 345)
Payments received from ceded reinsurance		4 902	13 854
Payments made for ceded reinsurance		(6 394)	(5 652)
Operating expenses paid		(51 297)	(43 112)
Taxes paid on ordinary activities		(17 396)	(17 118)
Amounts paid on other operating activities of insurance		(364)	454
Net cash from / (used in) operating activities:		**43 181**	**44 819**
Cash flows from investing activities			
Disposal of investment units		29 702	11 041
Acquisition of investments		(75 013)	(43 726)
Interest received		5 267	4 723
Amounts from other investing activities		(360)	(354)
Net cash generated from / (used in) investing activities:		**(40 404)**	**(28 316)**
Cash flows from financing activities			
Subordinated loans repaid		-	(10 000)
Dividends paid		(6 400)	(4 100)
Amounts from other financial activities		(643)	(680)
Net cash from / (used in) financing activities:		**(7 043)**	**(14 780)**
Net increase / (decrease) in cash and cash equivalents		**(4 266)**	**1 723**
Cash and cash equivalents at the beginning of reporting year		**9 833**	**8 110**
Cash and cash equivalents at the end of reporting year	25	**5 567**	**9 833**

Notes on pages 34 to 75 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Chief Accountant

Kęstutis Gadeikis
Chief Actuary

29 March 2019

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. Registration number 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: financial investments measured at fair value and investment property. As explained in note 37, the Company has adopted IFRS 9 Financial Instruments, including any consequential amendments to other standards, with a date of initial application of 1 January 2018.

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2018 to 31 December 2018.

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 adopted IFRS 9 on 1 January 2018. 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 impact of changes is disclosed on the Note 37.

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these financial statements. Those, which may be relevant to the Company as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations, are set out below. The Company does not plan to adopt these amendments, standards and interpretations early:

(i) IFRS 16 Leases.

(ii) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019. These amendments are not yet endorsed by the EU.)

(iii) 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.)

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

(v) Annual Improvements to IFRS 2015-2017 Cycle (issued o 12 December 2017. Effective for annual periods beginning on or after 1 January 2019. These annual improvements are not yet endorsed by the EU.)

2.2.2 New Standards and Interpretations not yet adopted

(i) IFRS 16 Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The actual impacts of adopting the standard on 1 January 2019 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.

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

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

i. Leases in which the Company is a lessee

The Company will recognize new assets and liabilities for its operating leases of land and premises (see Note 32). The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

The Company is in the process of assessing the impact of IFRS 16 application on its financial statements.

ii. Leases in which the Company is a lessor

The Company will reassess the classification of sub-leases in which the Company is a lessor. No significant impact is expected for other leases in which the Company is a lessor.

(ii) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019. These amendments are not yet endorsed by the EU.)

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 an impact on its financial statements when initially applied.

(iii) 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.

(iv) IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. This interpretation 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.

(v) Annual Improvements to IFRS 2015-2017 Cycle (issued o 12 December 2017. 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)* contains 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 accounts 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.

Other standards

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

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);

- Amendments to References to Conceptual Framework in IFRS Standards.

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 expense

Administrative expense is 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 33).

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: financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost and financial assets measured at fair value through profit or loss.

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.

<u>Measured at amortized cost</u>

These assets are initially measured at fair value plus any directly attributable transaction costs. Assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

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

- the assets are 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.

<u>Debt instruments measured at fair value through other comprehensive income</u>

These assets are initially measured at fair value plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

<u>Equity investments at fair value through other comprehensive income</u>

For equity investments held for non-trade purpose the Company elects to apply fair-value-through-other-comprehensive income option. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequently these financial instruments are measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

<u>Financial instruments at fair value through profit or loss</u>

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 profit or loss.

(ii) Non-derivative financial liabilities – Measurement

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

2.6 Fair value measurement

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

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

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

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

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

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

2.7 Receivables from direct insurance operations

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

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 14 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

(All amounts in thousands of euro unless otherwise stated)

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.

	31.12.2018	**31.12.2017**
1 USD	EUR 0.8733	EUR 0.8338
1 GBP	EUR 1.1179	EUR 1.1127
1 PLN	EUR 0.2324	EUR 0.2394

2.12 Corporate income tax

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

<u>Income tax</u>

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 2018 (15% in 2017).

<u>Deferred income tax</u>

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

Impairment of financial assets is recognised based on expected credit loss (ECL) which could be suffered due to counterparty default. Expected credit losses model is applied on financial assets measured at fair value through other comprehensive income (except equity instruments) and on financial instruments measured at amortised cost. It is not applicable on financial instruments measured at fair value through profit or loss as well as on equity instruments measured at fair value through other comprehensive income.

Terms and definitions:

Expected Credit Loss (ECL) – the probable decrease in future cash-flows due to default event or impairment of receivables;
Probability of default (PD) – probability that over particular time liabilities to the Company will not be fulfilled.
Loss Given Default (LGD) – share of financial asset expected to lose in the case of default event;
Exposure at Default (EAD) – the amount which is exposed to default risk and for which expected credit losses are calculated;

Lifetime ECL – the expected credit losses from all possible default events over the expected life of the financial instrument;
12-month ECL – the part of the credit loss for the period of validity, resulting from loss events likely to occur within the next 12 months from the assessment date;
Recovery rate – is the extent to which defaulted debt can be recovered.

ECL on debt instruments measured at FVOCI

ECL on debt instruments is calculated based on probability of counterparty default (PD) and expected loss given default (LGD). PDs are determined by using statistics (default history of issuers with the same rating) published by major credit rating agencies. Certain probabilities of default are calculated and assigned to each financial instrument according credit rating of issuer. LGDs evaluation is also based on historical recovery rates published by credit agencies.

The Company applies 12-month ECL on debt instruments. Except if credit risk of a financial asset at the reporting date increased significantly compared to credit risk at date of initial recognition the Company applies Life-time ECL. Credit risk is determined based on external credit rating. Company considers that a financial asset's credit risk has not increased significantly if the asset has low credit risk (credit rating is under investment-grade class) at the reporting date.

ECL on receivable amounts

Life-time ECL is applied on amounts receivable. ECL is calculated based on statistics of debts aging and recoverability of debts of certain aging group (step of one-month) throughout last 15 months. ECL calculations on receivables from intermediaries are performed using intermediaries creditworthiness and debts aging data. Also, indicators about possible difficulties of debtors are considered. That includes both publicly available and through Company's internal channels gathered information. Default event is considered to be occurred when receivable amount becomes 90 days past due.

Presentation in financial statements

For financial assets measured at amortised cost the loss allowance is deducted from the gross carrying amount of the assets. For debt investments measured at FVOCI the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position. The impairment on receivables is recognised in profit or loss for the period.

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 Pay-out 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 Pay-out or Loss Ratio methods.

(All amounts in thousands of euro unless otherwise stated)

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.

Reserves for recourse outstanding and recourse asset are 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: Notes 2.14; 12.
- Investment property: Notes 2.1.3, 2.10; 18
- Deferred acquisition costs: Notes 8, 33.

4. NET WRITTEN PREMIUMS

	2018			2017		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Motor vehicle third party liability insurance	92 823	(2 358)	90 465	78 688	(1 832)	76 856
Motor own damage insurance	77 037	(1 062)	75 975	73 023	(1 259)	71 764
Fire and other damage to property insurance	56 406	(2 849)	53 557	53 194	(1 729)	51 465
Income protection insurance	10 995	(50)	10 945	9 513	(46)	9 467
Medical expense insurance	5 985	(14)	5 971	4 482	(11)	4 471
General liability insurance	5 548	(306)	5 242	5 729	(768)	4 961
Credit and suretyship insurance	2 488	(1 206)	1 282	1 848	(917)	931
Marine, aviation and transport insurance	1 060	(7)	1 053	1 042	(147)	895
Miscellaneous financial loss	776	(108)	668	655	(68)	587
	253 118	**(7 960)**	**245 158**	**228 174**	**(6 777)**	**221 397**

(All amounts in thousands of euro unless otherwise stated)

Premiums earned

	2018			2017		
	Gross premiums earned	Reinsurers' share	Net premiums earned	Gross premiums earned	Reinsurers' share	Net premiums earned
Motor vehicle third party liability insurance	89 911	(2 346)	87 565	66 575	(1 784)	64 791
Motor own damage insurance	75 833	(1 319)	74 514	68 227	(1 113)	67 114
Fire and other damage to property insurance	54 717	(2 853)	51 864	51 549	(1 685)	49 864
Income protection insurance	10 323	(51)	10 272	8 765	(45)	8 720
General liability insurance	5 413	(325)	5 088	5 673	(753)	4 920
Medical expense insurance	5 253	(14)	5 239	3 230	(11)	3 219
Credit and suretyship insurance	2 044	(1 055)	989	1 651	(874)	777
Marine, aviation and transport insurance	1 079	(44)	1 035	1 002	(110)	892
Miscellaneous financial loss	766	(112)	654	622	(67)	555
TOTAL	**245 339**	**(8 119)**	**237 220**	**207 294**	**(6 442)**	**200 852**

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
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**
Written premiums	253 118	(7 960)	245 158
Earned premiums	245 339	(8 119)	237 220
Total change for the year	7 779	159	7 938
Balance at 31 December 2018	**120 875**	**(1 483)**	**119 392**

(All amounts in thousands of euro unless otherwise stated)

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2018

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	2 912	(13)	2 899
Motor own damage insurance	1 204	258	1 462
Fire and other damage to property insurance	1 689	4	1 693
Medical expense insurance	732	-	732
Income protection insurance	672	1	673
Credit and suretyship insurance	444	(151)	293
General liability insurance	135	19	154
Marine, aviation and transport insurance	(19)	37	18
Miscellaneous financial loss	10	4	14
	7 779	**159**	**7 938**

c) 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**

d) Gross unearned premium reserve as at end of year

	31.12.2018	31.12.2017
Motor own damage insurance	40 528	39 325
Motor vehicle third party liability insurance	37 940	35 028
Fire and other damage to property insurance	29 240	27 551
Income protection insurance	5 611	4 938
General liability insurance	2 920	2 785
Medical expense insurance	2 677	1 945
Credit and suretyship insurance	1 432	988
Marine, aviation and transport insurance	306	326
Miscellaneous financial loss	221	211
	120 875	**113 097**

(All amounts in thousands of euro unless otherwise stated)

6. CLAIMS PAID

	2018			2017		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Motor own damage insurance	(48 093)	704	(47 389)	(46 628)	650	(45 978)
Motor vehicle third party liability insurance	(46 856)	1 247	(45 609)	(35 057)	734	(34 323)
Fire and other damage to property insurance	(26 409)	3 894	(22 515)	(32 693)	11 677	(21 016)
Medical expense insurance	(3 893)	-	(3 893)	(2 206)	-	(2 206)
Income protection insurance	(3 592)	-	(3 592)	(3 231)	-	(3 231)
General liability insurance	(1 814)	-	(1 814)	(1 756)	-	(1 756)
Miscellaneous financial loss	(2 074)	298	(1 776)	(175)	-	(175)
Marine, aviation and transport insurance	(47)	-	(47)	(174)	-	(174)
Credit and suretyship insurance	(266)	156	(110)	(163)	105	(58)
Other	(4)	-	(4)	(1)	-	(1)
	(133 048)	**6 299**	**(126 749)**	**(122 084)**	**13 166**	**(108 918)**

7. OUTSTANDING CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2018			2017		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Notified claims	60 718	(9 737)	50 981	44 566	(3 689)	40 877
Incurred, but not reported	15 952	(380)	15 572	11 543	(300)	11 243
Total at beginning of year	**76 670**	**(10 117)**	**66 553**	**56 109**	**(3 989)**	**52 120**
Cash paid for claims notified in prior years	(32 504)	5 483	(27 021)	(19 492)	740	(18 753)
Changes in liabilities arising from current and prior year claims	46 110	(1 238)	44 872	40 053	(6 868)	33 186
Total change in year	13 606	4 245	17 851	20 561	(6 128)	14 433
Total at end of year	**90 276**	**(5 872)**	**84 404**	**76 670**	**(10 117)**	**66 553**
Notified claims	63 957	(5 313)	58 644	60 717	(9 737)	50 980
Incurred, but not reported	26 319	(559)	25 760	15 953	(380)	15 573
Total at end of year	**90 276**	**(5 872)**	**84 404**	**76 670**	**(10 117)**	**66 553**

(All amounts in thousands of euro unless otherwise stated)

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2018:

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	14 489	(739)	13 750
Fire and other damage to property insurance	(2 045)	3 592	1 547
Motor own damage insurance	330	43	373
General liability insurance	1 730	30	1 760
Miscellaneous financial loss	(1 780)	1 500	(280)
Credit and suretyship insurance	131	(181)	(50)
Medical expense insurance	509	-	509
Income protection insurance	256	-	256
Marine, aviation and transport insurance	(14)	-	(14)
	13 606	**4 245**	**17 851**

c) 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
Motor own damage insurance	655	(25)	630
General liability insurance	1 408	(237)	1 171
Miscellaneous financial loss	2 633	(1 500)	1 133
Credit and suretyship insurance	916	(356)	560
Medical expense insurance	242	-	242
Income protection insurance	(82)	-	(82)
Marine, aviation and transport insurance	(181)	-	(181)
	20 561	**(6 128)**	**14 433**

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

	31.12.2018	31.12.2017
Motor vehicle third party liability insurance	59 137	44 649
Fire and other damage to property insurance	9 086	11 131
Motor own damage insurance	8 495	8 165
General liability insurance	7 424	5 694
Miscellaneous financial loss	1 861	3 641
Credit and suretyship insurance	1 588	1 457
Medical expense insurance	1 141	632
Income protection insurance	1 062	805
Marine, aviation and transport insurance	482	496
	90 276	**76 670**

(All amounts in thousands of euro unless otherwise stated)

8. ACQUISITION COSTS

	2018	2017
Commissions to brokers and other intermediaries	(25 821)	(21 683)
Personnel expenses	(16 278)	(16 170)
Commissions and other agent related expense	(5 985)	(7 584)
Office expenses	(4 529)	(3 469)
Representation and marketing expenses	(1 784)	(2 204)
Compulsory state social security contributions related to agents' remuneration	(1 739)	(1 628)
Premises expenses	(1 397)	(1 412)
Depreciation and amortisation	(1 203)	(1 725)
Change in deferred client acquisition costs	423	3 893
Reinsurance commission	406	294
Other acquisition costs	(415)	(237)
	(58 322)	**(51 925)**

Deferred client acquisition costs

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**
Changes in presentation (see below)	(270)
Deferred client acquisition costs	25 743
Amortisation of deferred acquisition costs	(25 320)
As at 31 December 2018	**20 796**

In 2018, allocation of amounts between deferred acquisition costs and other accrued income and deferred expenses had been revised seeking to better reflect of the costs. Amount of EUR 270 thousand had been moved from deferred acquisition costs to other accrued income and deferred expenses.

9. ADMINISTRATIVE EXPENSE

	2018	2017
Wages and salaries:		
- salaries to staff	(6 021)	(5 401)
- state compulsory social insurance contributions	(1 525)	(1 393)
Information technology and communication expense	(1 241)	(995)
Advertisement and public relations	(853)	(306)
Premises utility, maintenance, repair expense and rent	(656)	(360)
Depreciation and amortisation	(578)	(644)
Other administrative expense	(400)	(360)
Professional services	(375)	(309)
Office expenses	(263)	(203)
Transport	(204)	(161)
	(12 116)	**(10 132)**

10. OTHER EXPENSE RELATED TO INSURANCE ACTIVITIES

	2018	2017
Motor Bureau fee	(2 041)	(1 768)
Fees to regulatory institutions and other expenses	(758)	(485)
	(2 799)	**(2 253)**

(All amounts in thousands of euro unless otherwise stated)

11. INVESTMENT ACTIVITY RESULT

	2018	2017
Interest income:		
Government debt securities	2 431	2 494
Corporate debt securities	124	95
	2 555	**2 589**
Other profit (loss) from investment activity:		
Equity instruments measured at FVOCI:		
Dividend income	108	-
Realisation result	-	-
Debt instruments measured at FVOCI:		
Government debt securities	17	-
Corporate debt securities	10	-
Financial assets at fair value through profit or loss:		
Collective investment undertakings	(1 061)	-
Available-for-sale financial investments		
Equity instruments	-	91
Collective investment undertakings	-	288
Held-to-maturity financial investments		
Government debt securities	-	2
Investment valuation and management expenses:		
Revaluation of investment property	78	144
Investment management expenses	(520)	(448)
	(1 368)	**77**
	1 187	**2 666**

12. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS

ECL amounts and amounts of assets exposed to ECL at reporting date and at IFRS 9 adoption date are presented in the table below:

	Exposure 31.12.2018	ECL 31.12.2018	Exposure 01.01.2018	ECL 01.01.2018
Debt instruments measured at FVOCI (Note 19)	200 306	(68)	163 176	(31)
Receivables from direct insurance operations (Note 21)	50 880	(551)	47 318	(609)
Reinsurance receivables (Note 22)	2 938	(278)	2 058	(278)
Other receivables (Note 24)	3 541	(80)	4 936	(256)
	257 665	**(977)**	**217 488**	**(1 174)**

Gains that resulted by decrease of ECL amount to EUR 197 thousand. Movements of loss allowances are presented at disclosure notes of each financial asset class separately.

13. FINANCIAL INCOME AND EXPENSE

	2018	2017
Gain from foreign currency fluctuations	7	11
Bank commission	(685)	(558)
Interest for subordinated loan	-	(161)
	(678)	**(708)**

(All amounts in thousands of euro unless otherwise stated)

14. OTHER INCOME AND EXPENSES

	2018	2017
Income from properties	98	94
Other income	605	170
Write-offs of assets measured at amortised cost	(431)	(125)
Other expenses	(3)	(178)
	269	**(39)**

15. CORPORATE INCOME TAX

	2018	2017
Corporate income tax for the reporting year	(3 036)	(1 923)
Change in deferred income tax recognized through profit or loss	241	(164)
Total income tax expense	**(2 795)**	**(2 087)**

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.

	2018	2017
Profit / (loss) before tax	**20 342**	**15 142**
Theoretically calculated tax at a tax rate of 15%	3 051	2 271
Effect of non-deductible expenses and non-taxable income, net	(256)	(184)
Total tax	**2 795**	**2 087**

Effective corporate income tax rate in 2018 is 13.7% (2017: 13.8%).

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

	2018	2017
Deferred income tax asset (liability) as at the beginning of the reporting year	(393)	(263)
Adoption of IFRS 9 (Note 37)	(321)	-
Deferred income tax changes recognised through profit or loss	241	(164)
Deferred income tax changes recognised through other comprehensive income	258	34
Deferred income tax asset (liability) as at the end of the reporting year	**(215)**	**(393)**

(All amounts in thousands of euro unless otherwise stated)

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

	31.12.2018	31.12.2017
Deferred income tax effect of:		
temporary difference for accrued expenses	1 251	1 099
temporary difference for impairment for overdue debtors	132	172
temporary difference for property revaluation and depreciation	(9)	35
other temporary differences	(588)	(416)
temporary difference for recoverable regress	(299)	(449)
temporary difference for financial assets at fair value through other comprehensive income revaluation	(743)	-
temporary difference for financial asset at fair value through profit or loss revaluation	41	-
temporary difference for available-for-sale investments revaluation	-	(834)
Deferred income tax asset (liability) as at the end of the reporting year	**(215)**	**(393)**

Movement in deferred income tax balances:

	Net balance 31 December 2017	Adoption of IFRS 9 (Note 37)	Net balance 1 January 2018	Recognised In P/L	Recognised In OCI	Net balance 31 December 2018	31 December 2018 Deferred tax asset	31 December 2018 Deferred tax liability
Accrued expenses	1 099	-	1 099	153	-	1 251	1 251	-
Trade and other receivables	172	-	172	(41)	-	132	132	-
Property	35	-	35	(44)	-	(9)	-	(9)
Other amounts causing temporary differences	(416)	-	(416)	(172)	-	(588)	-	(588)
Recoverable regress	(449)	-	(449)	150	-	(299)	-	(299)
Financial assets at fair value through other comprehensive income (former available-for-sale)	(834)	(167)	(1 001)	-	258	(743)	-	(743)
Financial asset at fair value through profit or loss	-	(154)	(154)	195	-	41	41	-
Deferred tax asset/ (liability) before set-off							**1 424**	**(1 639)**
Set-off of tax							(1 424)	1 424
Net deferred tax asset/ (liability)							-	**(215)**

(All amounts in thousands of euro unless otherwise stated)

	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	(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)**

16. INTANGIBLE ASSETS

	Software	Total
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	1 131	1 131
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**
In 2018		
Additions	1 140	1 140
Written-off	(205)	(205)
Amortisation for intangible assets written off	39	39
Amortisation charge	(1 249)	(1 249)
Closing net book value	**2 907**	**2 907**
As at 31 December 2018		
Acquisition cost	21 853	21 853
Accumulated amortisation	(18 946)	(18 946)
Net book value	**2 907**	**2 907**

(All amounts in thousands of euro unless otherwise stated)

17. 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 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)	-	-	-	-
Written-off	-	-	-	-	-	(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**
In 2018							
Additions	126	-	668	25	675	136	1 630
Disposals	(345)	(30)	-		(507)	-	(882)
Reclassification	479	-	(479)	-	-	-	-
Written-off	-	-	(161)	-	-	(14)	(175)
Depreciation charge	(253)	(64)	-	(19)	(434)	(115)	(885)
Depreciation on disposed assets	196	30	-	-	440	-	666
Depreciation on written-off assets	-	-	-	-	-	14	14
Revaluation gain (loss) on written-off assets	-	-	98	-	-	-	98
Closing net book value	**7 597**	**422**	**416**	**46**	**2 237**	**265**	**10 983**
As at 31 December 2018							
Acquisition cost	14 618	1 146	416	618	4 156	2 521	23 475
Accumulated depreciation	(7 021)	(724)		(572)	(1 919)	(2 256)	(12 492)
Net book value	**7 597**	**422**	**416**	**46**	**2 237**	**265**	**10 983**

(All amounts in thousands of euro unless otherwise stated)

18. INVESTMENT PROPERTY

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**
Change in fair value in 2018	78
Net book value at 31 December 2018	**1 500**

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. Fair value of property is determined using income approach. Fair value inputs are categorised as Level 3 in the fair value hierarchy defined in IFRS 13.

19. FINANCIAL INVESTMENTS

	31.12.2018			01.01.2018 (IFRS 9 adoption, Note 37)		
	Amortised cost	**Acquisition cost**	**Fair value**	**Amortised cost**	**Acquisition cost**	**Fair value**
Financial investments at fair value through other comprehensive income:						
Lithuania government debt securities	102 672	103 212	105 220	74 526	75 625	78 277
Poland government debt securities	39 783	40 247	40 380	38 604	38 271	39 250
Bulgaria government debt securities	12 066	12 138	12 593	8 250	8 235	8 799
Romania government debt securities	10 558	10 802	10 822	9 186	9 297	9 577
Croatia government debt securities	10 381	10 353	10 682	9 045	9 203	9 366
Hungary government debt securities	5 527	5 709	5 716	5 604	5 709	5 897
Spain government debt securities	2 412	2 414	2 434	2 415	2 414	2 411
Ireland government debt securities	1 663	1 744	1 748	1 699	1 744	1 796
Latvia government debt securities	1 425	1 406	1 445	1 415	1 406	1 478
Slovenia government debt securities	939	1 019	940	972	1 019	983
Corporate debt securities	8 230	8 264	8 326	5 135	5 187	5 342
Shares (irreversible option)	-	1 915	2 149	-	1 915	2 228
Total Financial investments at fair value through other comprehensive income:	**195 656**	**199 223**	**202 455**	**156 851**	**160 025**	**165 404**
Financial investments at fair value through profit or loss - mandatory:						
Collective investment undertakings	-	30 726	30 523	-	28 774	29 835
Total Financial investments:	**195 656**	**229 949**	**232 978**	**156 851**	**188 799**	**195 239**

As at 1 January 2018 financial investments classified as held-to-maturity and as available-for-sale were designated as financial investments at fair value through other comprehensive income within the business model that these financial investments are held for collecting contractual cash with the possibility to sell if circumstances are favourable.

Financial investments into collective investment undertakings under a mandatory procedure were designated as financial investments at fair value through profit or loss as at 01.01.2018.

The Company has designated investments into equity instruments at FVOCI. These investments were made with no intention to profit on a subsequent sale but rather for strategic purposes and to collect dividends. Dividend income from these instruments amounted to EUR 26 thousand.

(All amounts in thousands of euro unless otherwise stated)

Financial investments at FVOCI in total of EUR 202 438 thousand at fair value are quoted and financial investments at FVOCI in total of EUR 7 thousand measured at fair value are unquoted. In accordance with IFRS 13 definitions, based on inputs used in the valuation techniques, fair values of quoted assets are categorised into the fair value hierarchy Level 1: unadjusted quoted prices in active markets for identical assets. For unquoted financial investments at FVOCI in the fair value hierarchy, based on inputs used in the valuation techniques, these fair values as at 31.12.2018 and as at 31.12.2017 are categorised into Level 2: quoted prices are not available but fair value is based on observable market data.

Financial investments at FVTPL in total of EUR 4 457 thousand at fair value are quoted (Level 1 in the fair value hierarchy). Assets amounting to EUR 26 066 thousand are categorised as Level 2 in the fair value hierarchy.

No movements between levels of the fair value hierarchy occurred throughout the financial year.

	31.12.2017		
	Amortised cost	**Acquisition cost**	**Fair value**
Financial investments – Available-for-sale:			
Lithuania government debt securities	56 399	57 546	59 670
Poland government debt securities	31 243	30 760	31 697
Bulgaria government debt securities	2 685	2 670	2 775
Romania government debt securities	2 600	2 597	2 652
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
Collective investment undertakings	-	28 774	29 835
Shares	-	1 915	2 228
Total Financial investments – Available-for-sale:	**100 752**	**132 077**	**136 848**
Financial investments – Held-to-maturity:			
Lithuania government debt securities	18 127	18 079	18 607
Poland government debt securities	7 361	7 511	7 553
Croatia government debt securities	7 246	7 427	7 537
Romania government debt securities	6 586	6 700	6 925
Hungary government debt securities	5 604	5 709	5 897
Bulgaria government debt securities	5 565	5 565	6 024
Ireland government debt securities	1 699	1 744	1 796
Slovenia government debt securities	972	1 019	983
Corporate debt securities	2 939	2 968	3 068
Total financial investment - Held-to-maturity:	**56 099**	**56 722**	**58 390**

Changes in ECL of financial instruments are presented below:

Debt instruments measured at FVOCI	**12-month ECL**	**Life-time ECL not credit-impaired**	**Life-time ECL credit-impaired**	**Total**
As at 31 December 2017	-	-	-	-
Adoption of IFRS 9	(31)	-	-	(31)
As at 1 January 2018	**(31)**	-	-	**(31)**
ECL measurements	(31)	(2)	-	(33)
New assets acquired	(17)	-	-	(17)
Financial assets derecognised	11	2	-	13
As at 31 December 2018	**(68)**	-	-	**(68)**

Equity instruments measured at FVOCI and financial assets measured at FVTPL are not subject to the ECL model.

(All amounts in thousands of euro unless otherwise stated)

20. OTHER COMPREHENSIVE INCOME (OCI)

	2018	2017
Items that are or may be reclassified to profit or loss:		
Revaluation of debt securities measured at fair value through OCI	(1 363)	(190)
Realisation result reclassified to profit or loss	(27)	(2)
Items that will not be reclassified to profit or loss:		
Revaluation of equity instruments measured at fair value through OCI	(67)	-
	(1 457)	**(192)**

Amounts are presented net of deferred income tax.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2018	31.12.2017
Gross receivables from direct insurance operations	50 880	47 318
Impairment for receivables from direct insurance operations	(551)	(609)
	50 329	**46 709**

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

	Gross 31.12.2018	Life-time ECL 31.12.2018	Gross 31.12.2017	Impairment 31.12.2017
Current	47 583	(180)	43 188	(228)
Past due 0-30 days	2 667	(52)	3 591	(112)
Past due 31-60 days	269	(7)	236	(7)
Past due more than 60 days	361	(312)	303	(262)
	50 880	**(551)**	**47 318**	**(609)**

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.

In accordance with IFRS 9 the incurred loss model has been replaced with the expected credit loss model (ECL). However, since the Company had been calculating allowances on receivables assessing not only impairment resulting events that already occurred but also the likelihood that debts which are not overdue will not be recovered, the application of the ECL model had no effect on allowances as at 1 January 2018.

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 2016	**454**
Additional allowances	1 006
Recovered debts	(684)
Written-off debts	(167)
As at 31 December 2017	**609**
Adoption of IFRS 9	-
As at 1 January 2018	**609**
ECL measurements	583
Debts recovered	(497)
Debts written-off	(144)
As at 31 December 2018	**551**

(All amounts in thousands of euro unless otherwise stated)

22. REINSURANCE RECEIVABLES

	31.12.2018	31.12.2017
Gross receivables from reinsurance operations	2 938	2 058
Impairment for receivables from reinsurance operations	(278)	(278)
	2 660	**1 780**

23. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2018	31.12.2017
Deferred Motor Bureau fee	904	561
Deferred information system maintenance fees	738	428
Other deferred expenses	452	433
	2 094	**1 422**

24. OTHER RECEIVABLES

	31.12.2018	31.12.2017
Receivables for subrogation transactions	2 109	3 351
Receivables from the Motor Bureau	906	988
Receivables from prepayments	276	308
Other receivables	250	289
Impairment of other receivables	(80)	(256)
Total other receivables	**3 461**	**4 680**

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 2016	**165**
Additional allowances	92
Recovered debts	(1)
As at 31 December 2017	**256**
Adoption of IFRS 9	-
As at 1 January 2018	**256**
ECL measurements	12
Debts recovered	(12)
Debts written-off	(176)
As at 31 December 2018	**80**

(All amounts in thousands of euro unless otherwise stated)

25. CASH AND CASH EQUIVALENTS

	31.12.2018	31.12.2017
Cash in banks	5 567	9 833
	5 567	**9 833**

In 2018 and 2017, the Company did not have any term deposits in credit institutions.

26. 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 2017 the number of ordinary shares was the same). The nominal value of one share as at 31 December 2018 is EUR 14.48 (as at 31 December 2017, 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 2018, is EUR 11 665 thousand (as at 31 December 2017 – EUR 11 665 thousand).

The Company's shares are not listed.

b) The shareholder

As at 31 December 2018 and as at 31 December 2017, 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

Reserves include legal reserve and revaluation reserve for financial instruments measured at fair value through OCI. The Company's legal reserve as at 31 December 2018 was the same as at 31 December 2017 and amounted to EUR 2 333 thousand. Legal reserve was formed in full capacity and cannot be distributed.

The revaluation reserve decreased throughout the year from EUR 4 724 thousand at 31 December 2017 to EUR 4 210 thousand at 31 December 2018.

e) Profit distribution as dividends

Profit to be distributed as dividends is determined in amount of EUR 8.47 million based on the provisions of the Company's dividend policy. The final amount of dividends is subject to recommendation of the Management Board, proposal of the Supervisory Board and decision of the General Shareholders' Meeting.

27. TAXES

	31.12.2018	31.12.2017
Compulsory state social security contributions	219	206

(All amounts in thousands of euro unless otherwise stated)

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2018	31.12.2017
Accrued expenses		
Commissions	6 961	6 874
Operating expenses	3 894	3 275
Intermediary commissions	956	864
Additional sales bonuses	567	635
Audit expenses and related services	19	34
Total accrued expenses	**12 397**	**11 682**
Other accrued expenses and deferred income		
Not settled insurance prepayments	1 622	1 282
Other deferred income	208	181
Total accrued expenses and deferred income	**1 830**	**1 463**
	14 227	**13 145**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2017	**6 874**	**3 275**	**2 996**	**13 145**
Additions	42 172	6 836	20 098	69 106
Used and reversed	(42 085)	(6 217)	(19 722)	(68 024)
As at 31 December 2018	**6 961**	**3 894**	**3 372**	**14 227**
Long-term part	-	-	-	-
Short-term part	**6 961**	**3 894**	**3 372**	**14 227**

	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**

29. OTHER LIABILITIES

	31.12.2018	31.12.2017
Payable salaries, bonuses and other related payments	7 035	5 880
Other payables related to insurance activities	553	3 246
Due to the Motor Insurers' Bureau	370	346
Other liabilities	3 754	2 906
	11 712	**12 378**

(All amounts in thousands of euro unless otherwise stated)

30. RESULT OF CEDED REINSURANCE

	2018	2017
Reinsurers' share in written premiums (see Note 4)	(7 960)	(6 777)
Reinsurers' share in changes in unearned premiums (see Note 5)	(159)	335
Reinsurance commission income (see Note 8)	406	294
Reinsurers' share in claims (see Note 6)	6 299	13 166
Reinsurers' share in changes in outstanding claims reserve (see Note 7)	(4 245)	6 128
Net result of ceded reinsurance activities:	**(5 659)**	**13 146**

31. 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

	2018	2017
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Reinsurance premiums ceded	(6 643)	(4 519)
Change of reinsurance unearned premium reserve	164	70
Reinsurance claims	4 540	12 196
Change of reinsurance outstanding claims reserve	(3 547)	5 779
	(5 486)	**13 526**

	2018	2017
Balta AAS (Group company):		
Master agreement's premiums	376	166
Reinsurance premiums ceded	(49)	(62)
Change of reinsurance unearned premium reserve	(11)	3
Reinsurance claims	31	11
Change of reinsurance outstanding claims reserve	(1)	7
	346	**125**

(All amounts in thousands of euro unless otherwise stated)

Other transactions

	2018	2017
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Subordinated loan	-	(10 000)
Accrued interest and amortisation for subordinated loan	-	(161)
Dividends paid	(6 400)	(4 100)
Indemnity cost and handling fee	73	137
	(6 327)	**(14 124)**

	2018	2017
Other Group companies (Balta AAS, LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI, PZU CENTRUM OPERACIJI S.A.):		
Investment fund	-	-
Indemnity cost and handling fee	(253)	(140)
Compensation of expenses	359	190
Other purchases	(23)	(40)
	83	**10**

Balances with related parties

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

	31.12.2018	31.12.2017
Reinsurers' share in unearned premium reserves with PZU	760	595
Reinsurers' share in outstanding claims reserves with PZU	4 225	7 772
Reinsurers' share in unearned premium reserves with Balta AAS	23	34
Reinsurers' share in outstanding claims reserves with Balta AAS	7	8
Reinsurance receivables from PZU	620	802
Reinsurance receivables from Balta AAS	34	18
Receivables from PZU	371	217
Receivables from Balta AAS	55	49
Receivables from other related parties	43	14
Reinsurance payables to PZU	(1 941)	(1 177)
Payables to PZU SA, Balta AAS	-	-
Reinsurance payables to Balta AAS	(1)	(11)
Payables to other related parties	(3)	(3)
	4 193	**8 318**

32. 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 2018 there were EUR 2 639 thousand (31 December 2017: EUR 3 792 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 2018.

d) Operating lease

The Company does not have any non-cancellable operating leases as at 31 December 2018, 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 2018 amounts to EUR 941 thousand (EUR 441 thousand to be paid in one year and EUR 500 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 2017 amounted 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).

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.

33. 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 year 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 31.12.2018:

	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	1 694	(1 693)	18	(18)
General liability insurance	80	(80)	9	(9)
Credit and suretyship insurance	48	(43)	4	(4)
Marine, aviation and transport insurance	29	(29)	2	(2)
Fire and other damage to property insurance	14	(14)	1	(1)
Income protection insurance	10	(10)	1	(1)
Miscellaneous financial loss	9	(9)	-	-
Medical expense insurance	8	(8)	1	(1)
Motor own damage insurance	1	(1)	4	(4)
Total	**1 893**	**(1 887)**	**40**	**(40)**

(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 2018	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	109 177	93 278	202 455
Financial asset at fair value through profit or loss	3 284	27 239	30 523
Insurance and reinsurance debtors	34 858	18 131	52 989
Reinsurers' share of outstanding claims reserves	1 070	4 802	5 872
Cash and cash equivalents	4 447	1 120	5 567
Other receivables	3 237	224	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**156 073**	**144 794**	**300 867**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(49 293)	(40 983)	(90 276)
Insurance and reinsurance creditors	(2 036)	(4 977)	(7 013)
Other financial liabilities	(1 577)	(143)	(1 720)
Total financial liabilities and outstanding claims reserves	**(52 906)**	**(46 103)**	**(99 009)**
Net position as at 31 December 2018	**103 167**	**98 691**	**201 858**

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 receivables	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**

(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:

	2018	**2017**
Personal accident & Travel medical expense	96	90
Motor own damage	150	150
Motor vehicle third party liability	400	400
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 199	1 130
General TPL insurance	360	339
Debt securities and guarantees	240	226

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 2018 is EUR 1.9 million (31 December 2017: EUR 1.7 million).

34. 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.

34.1 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:

	31.12.2018	31.12.2017
Lithuania government debt securities	105 220	77 797
Poland government debt securities	40 380	39 058
Collective investment undertakings	30 523	29 835
Bulgaria government debt securities	12 592	8 340
Romania government debt securities	10 822	9 238
Croatia government debt securities	10 682	9 075
Corporate debt securities	8 326	5 212
Hungary government debt securities	5 716	5 604
Cash and cash equivalents	5 567	9 833
Spain government debt securities	2 434	2 411
Shares	2 149	2 228
Ireland government debt securities	1 748	1 699
Latvia government debt securities	1 446	1 478
Slovenia government debt securities	940	972
Credit risk	**238 545**	**202 780**
Reinsurers' share in unearned premium reserve	1 483	1 642
Outstanding claims reserve, reinsurers' share	5 872	10 117
Reinsurance debtors	2 660	1 780
Receivables due from policyholders	48 475	44 692
Receivables due from intermediaries	1 854	2 017
Other receivables	3 461	4 680
	63 805	**64 928**
Maximum credit exposure, total	**302 350**	**267 708**

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

Rated:	**31.12.2018**	**31.12.2017**
AA	1 890	1 849
A	6 681	10 216
Without rating	1 444	1 474
Assets related to reinsurance	**10 015**	**13 539**

(All amounts in thousands of euro unless otherwise stated)

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

Year 2018	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	-	149 734	31 564	10 682	-	191 980
Corporate debt securities	-	-	1 296	4 571	2 459	-	8 326
Collective investment undertakings	-	-	-	-	-	30 523	30 523
Shares	-	-	-	-	-	2 149	2 149
Total investment assets	**-**	**-**	**151 030**	**36 135**	**13 141**	**32 672**	**232 978**

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**

34.2 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 its liabilities.

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

Year 2018	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	8 591	138 818	85 569	232 978
Insurance and reinsurance debtors	51 472	1 460	57	52 989
Reinsurers' share of outstanding claims reserves	3 443	1 385	1 044	5 872
Cash and cash equivalents	5 567	-	-	5 567
Other receivables	3 461	-	-	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**72 534**	**141 663**	**86 670**	**300 867**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(48 216)	(23 634)	(18 426)	(90 276)
Insurance and reinsurance creditors	(7 013)	-	-	(7 013)
Other financial liabilities	(1 720)	-	-	(1 720)
Total financial liabilities and outstanding claims reserves	**(56 949)**	**(23 634)**	**(18 426)**	**(99 009)**
Net position as at 31 December 2018	**15 585**	**118 029**	**68 244**	**201 858**

(All amounts in thousands of euro unless otherwise stated)

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 receivables	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**

34.3 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 limit 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:

	2018	2017
Corporate debt securities	2.21%	1.63%
Government debt securities	1.22%	2.02%
Collective investment undertakings	(1.55%)	0.81%

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:

		2018	2017
Market interest rate and impact on fair value	+0.5 percent point	(4 296)	(3 625)
	-0.5 percent point	4 296	3 625

b) Fair value determination

Financial assets and financial liabilities other than those reflected at their fair value (see Notes 18, 19) are receivables, term deposits with credit institutions and cash and cash equivalents.

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 2018	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	202 455	-	202 455
Financial asset at fair value through profit or loss	30 523	-	30 523
Insurance and reinsurance debtors	52 989	-	52 989
Reinsurers' share of outstanding claims reserves	5 847	25	5 872
Cash and cash equivalents	5 542	25	5 567
Other receivables	3 461	-	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**300 817**	**50**	**300 867**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(87 848)	(2 428)	(90 276)
Insurance and reinsurance creditors	(7 013)	-	(7 013)
Other financial liabilities	(1 577)	(143)	(1 720)
Total financial liabilities and outstanding claims reserves	**(69 733)**	**(2 571)**	**(72 304)**
Net position as at 31 December 2018	**230 525**	**(2 521)**	**228 004**

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 receivables	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	(5 240)	-	(5 240)
Other financial liabilities	(1 209)	(22)	(1 231)
Total financial liabilities and outstanding claim reserves	**(79 896)**	**(3 245)**	**(83 141)**
Net position as at 31 December 2017	**186 104**	**(3 179)**	**182 925**

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)

35. CAPITAL RISK MANAGEMENT

As at 31 December 2018 the Company assessed facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

36. LOSS DEVELOPMENT TABLE

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

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	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	46 972	
1 year later						4 873	19 242	23 717	27 251	35 636		
2 years later					3 295	5 588	18 285	23 820	27 108			
3 years later				2 376	2 672	4 920	17 620	23 151				
4 years later			1 430	1 731	1 781	4 094	16 856					
5 years later		1 526	1 357	1 680	1 521	3 925						
6 years later	4 569	1 248	1 039	1 699	1 424							
7 years later	3 282	1 121	917	1 534								
8 years later	2 826	1 239	859									
9 years later	2 832	1 266										
10 years later	2 548											
Estonia Branch net outstanding claims reserves as at acquisition date, 31 May 2015												
	1	**-**	**(1)**	**82**	**383**	**1 247**	**2 660**	**4 165**	**-**	**-**		**8 538**
Net claims paid												
1 year later							11 966	15 819	16 600	22 384		
2 years later						852	1 062	1 138	3 118			
3 years later					108	361	471	651				
4 years later				330	48	263	579					
5 years later			173	315	62	281						
6 years later		125	42	11	(24)							
7 years later	(60)	42	71	5								
8 years later	(83)	32	(3)									
9 years later	105	106										
10 years later	(76)											
Cumulative net claims paid	**(114)**	**305**	**284**	**661**	**193**	**1 758**	**14 079**	**17 608**	**19 717**	**22 384**		**76 875**
CY (deficiency) / excess	**284**	**(27)**	**58**	**165**	**97**	**168**	**764**	**669**	**142**	**(220)**		**2 100**

37. ADOPTION OF IFRS 9

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 standard until 1 January 2021 or to use the "Overlay approach" which permits to adjust P&L and OCI with a single line item adjustment; therefore, the Net result of the Company would become the same as applying IAS 39; however, as the 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 did not apply the exemptions from adopting IFRS 9 and adopted it from 1 January 2018 together with other Group companies.

The Company has chosen the option set out in article 7.2.15 of IFRS 9 not to restate comparative numbers. This note of financial statements discloses the effect that IFRS 9 adoption had on the Company's statement of financial position.

Classification and subsequent measurement – 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 and is not designated at FVTPL:

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

A financial asset is measured at fair value if the following two conditions are met and the financial asset is not measured at fair value through profit or loss.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount 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.

Financial assets not classified as measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. The fair value option is available on initial recognition to irrevocably designate a financial asset as recognised at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

On 1 January 2018 the Company's management assessed the business model within which each group of financial assets were held and classified financial assets accordingly.

(All amounts in thousands of euro unless otherwise stated)

The table below discloses the changes in financial asset classification and carrying amounts resulting from transition from IAS 39 to IFRS 9:

	Financial investment classification according to IAS 39 31 December 2017	Financial investment classification according to IFRS 9 1 December 2018	Financial investment value according to IAS 39 31 December 2017	Financial investment value according to IFRS 9 1 January 2018
Government debt securities	Available-for-sale	Measured at fair value through other comprehensive income	102 512	102 512
Government debt securities	Held-to-maturity	Measured at fair value through other comprehensive income	53 161	55 323
Corporate debt securities	Available-for-sale	Measured at fair value through other comprehensive income	2 273	2 273
Corporate debt securities	Held-to-maturity	Measured at fair value through other comprehensive income	2 938	3 068

Debt securities are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling debt securities. These assets do not generate any other sort of income. As debt securities that according to IAS 39 were designated as measured at amortised cost were classified as measured at fair value, the carrying amount of investments increased by EUR 2 292 thousand.

Equity securities	Available-for-sale	Measured at fair value through other comprehensive income	2 228	2 228

The Company holds equity instruments for strategic purposes for a long time. Trading of equity securities is not a normal part of the business model. For these reasons, the Company has opted to measure equity instruments at fair value through other comprehensive income.

Collective investment undertakings	Available-for-sale	Measured at fair value through other comprehensive income	29 835	29 835

The Company's investments in collective investment undertakings do not meet the criteria to account for these investments in other categories of financial assets than the assets measured at fair value through profit or loss.

Investments in total:			**192 947**	**195 239**
Receivables	Loans and receivables	Measured at amortised cost	53 169	53 169
Cash and cash equivalents		Measured at amortised cost	9 833	9 833
Financial assets in total:			**255 949**	**258 241**

(All amounts in thousands of euro unless otherwise stated)

The impact of IFRS 9 adoption on the Company's equity is disclosed below:

Revaluation reserve

31 December 2017	**4 724**
a) Reclassification of debt securities according to IFRS 9	2 292
b) Reclassification of collective investment undertakings according to IFRS 9	(1 060)
c) Reversal of impairment of equity instruments	(153)
d) Recognition of expected credit losses	31
e) Deferred income tax	(167)
1 January 2018	**5 667**

Retained earnings

31 December 2017	**63 625**
b) Reclassification of collective investment undertakings according to IFRS 9	1 060
c) Reversal of impairment of equity instruments	153
d) Recognition of expected credit losses	(31)
e) Deferred Income tax	(154)
1 January 2018	**64 653**

a) An increase in revaluation reserve occurred due to classification of debt securities that were previously classified as held-to-maturity to assets measured at fair value through other comprehensive income;
b) An increase of EUR 1 060 thousand in retained earnings (decrease in reserves) due to collective investment undertakings classified as measured at fair value through profit or loss after adopting IFRS 9. According IAS 39 such investments were measured at fair value through other comprehensive income. Because of this, unrealised gains are reclassified from revaluation reserve to retained earnings;
c) The Company elected 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 (EUR 153 thousand) for equity instruments is derecognised;
d) A decrease of EUR 31 thousand in retained earnings and increase in reserves due to the expected credit loss model applied and, therefore, impairment on investments recognized under IFRS 9 requirements;
e) As the carrying amount of financial investments changes, temporary differences of the income tax changes as well, resulting in changes in deferred income tax.

b) Impairment model

The impairment model (Note 2.14) 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 requires considerable judgement about how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. The impairment model applies to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments.

38. SUBSEQUENT EVENTS

There were no subsequent events after reporting date, which would have a significant effect on the financial statements of the Company as at 31 December 2018 and for the year then ended.

Sidevahendid

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