Lietuvos draudimas AB

Independent Auditor's Report,
Annual Management Report and
Financial Statements for the Year
Ended 31 December 2020

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Independent Auditor's Report

To the Shareholder 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 2020,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholder 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 2020, 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.

Measurement of claim reserves	
The Company's gross of reinsurance outstanding claims reserves as at 31 December 2020: EUR 123 million (31 December 2019: EUR 110 million). The change in gross reinsurance outstanding claims reserves in 2020: EUR 13 million (increase) (2019: 20 million (increase)). Reference to the financial statements: "Technical reserves" on page 34 (Summary of significant accounting policies) and Note 7 "Outstanding claim reserves" on page 44 (Notes to the financial statements).	
The key audit matter	**How the matter was addressed in our audit**
Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities 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 specialists, included, among others: • Testing of the design and implementation of the selected key controls related to the process of establishing and adjusting outstanding claim reserves. This included testing the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (claims paid and incurred, premiums written and earned, and number of claims), and data validation. • Assessing the appropriateness of the actuarial methodologies applied by the Company for consistency as well as against the requirements of the financial reporting standards and market/industry practice. • Challenging key inputs and assumptions applied in estimating claim reserves, including those in respect of the loss ratios, claim frequency and average size of claims, regress, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period - by reference to industry trends, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards. • For significant portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claim reserves recognized at the end of prior year, comparing this analysis to the Company's current year's actual experience, and seeking the Management Board's explanations for any significant differences.

	• For most significant insurance contract portfolios, including obligatory motor third party liability, motor own damage and property, developing an independent estimate of the gross outstanding claims liability for those not yet reported, comparing our independent estimates to the Company's estimates and seeking Management Board's explanations for any significant differences. • Assessing the Company's provision for outstanding claims-related disclosures against the requirements of the relevant financial reporting standards.

Other Information

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

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

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

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

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

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 7 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 on 26 March 2021 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
26 March 2021

Council

Name, Surname	*Position*
Katarzyna Anna Galus	Chairman of the Supervisory Board
Marcin Goral	Member of the Supervisory Board
Weronika Dejneka	Member of the Supervisory Board
Jan Pstragowski	Member of the Supervisory Board
Jaroslaw Mioskowski	Member of the Supervisory Board (until 07.09.2020)
Krzysztof Soltysik	Member of the Supervisory Board (from 07.09.2020)

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
Mihkel Uibopuu	Board Member, Manager of Lietuvos draudimas AB Eesti filiaal
Simonas Lisauskas	Board Member, Commercial Sales Department Director
Rafal Piotr Rybkowski	Board Member, Finance Department Director (until 30.06.2020)
Arūnas Rumskas	Board Member, Finance Department Director (from 20.07.2020)

Disclosure of Council Members participating in other organisations

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:	*Executive Director of PZU Group Strategy*
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:	*Executive Director of PZU Group Strategy*
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:	*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:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*

Weronika Dejneka

Position:	*Executive Director of Banking Services and Investment Products*
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:	*Executive Director of Banking Services and Investment Products*
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:	*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:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*

Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Coordinator*
Organisation:	*TFI PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000019102*
Address:	*Jana Pawla alėja II 24, 00-133 Warsaw, Poland*
Position:	*Member of Management Board*
Organisation:	*SA „PZU Cash"*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000688411*
Address:	*Jana Pawla alėja II 24, 00-133 Warsaw, Poland*

Jaroslaw Mioskowski

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:	*Head of the Actuarial Risk Team*
Organization:	*PZU SA*
Legal form of the organization:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Head of the Actuarial Risk Team*
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*

Jan Pstragowski

Position:	*Head of Project Management*
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*

Krzysztof Soltysik

Position:	*Director of Credit Risk and Related Parties*
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 Credit Risk and Related Parties*
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:	*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:	*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:	*PZU Ukraine PrJSC IC*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*20782312*
Address:	*62, Dehtiarivska str., Kyiv, 0411, Ukraine*

Position:	*Member of the Supervisory Board*
Organisation:	*PZU Ukraine Life Insurance PrJSC IC*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*20782312*
Address:	*62, Dehtiarivska str., Kyiv, 0411, Ukraine*

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:	*AB Lietuvos radijo ir televizijos centras*
Legal form of the organisation:	*Stock Company*
Company code:	*120505210*
Address:	*Sausio 13-osios St. 10, LT-04347 Vilnius, Lithuania*

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*

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*
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*

Arūnas Rumskas

Position:	*Coordinator of the Foreign Operations Supervision 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:	*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 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*

Name and address of the independent auditor:

KPMG Baltics, UAB
Lvovo st. 101
LT-08104, Vilnius
Lithuania

Overview of the market

The declaration of pandemic and impositions of restrictions on some activities or areas have had a negative impact on the non-life insurance market. In comparison with 2019, the Lithuanian non-life insurance market growth slightly decreased in 2020. According to the Bank of Lithuania, the non-life insurance market of the country, including the branches of foreign insurance companies doing business in Lithuania, reached EUR 664 million in insurance premiums written for 2020, which is 1.6% less than in 2019.

6.8 million contracts were concluded in 2020 in the Lithuanian non-life insurance market, which is 8.2% less than in 2019. There were 4.9 million valid non-life insurance contracts at the end of 2020, which is 2% more than in 2019. The largest part of those insurance contracts accounted for compulsory motor third party liability insurance policies (MTPL), comprising 45% of all the contracts, which is slightly more than in 2019.

According to written premiums, the MTPL remained the largest non-life insurance type, generating EUR 237 million in premiums in 2020, which is 36% of all non-life insurance market premiums. In the business insurance segment, the MTPL decrease was somewhat greater, falling by 8.6%, while in the resident insurance segment, this insurance type fall was somewhat slower, with the premiums decrease of 8.3% in 2020.

The second largest insurance type by the premiums written was the terrain vehicle Casco insurance. The Casco insurance premiums written in 2020 accounted for the same number (23%) of all the non-life insurance market premiums as in 2019, although the share of contracts is significantly more moderate, comprising 6%. In the resident insurance segment, the terrain vehicle insurance growth in 2020 remained positive, exceeding 7%, while the growth of the Casco insurance premiums written in the business segment decreased by nearly 7%.

The third largest insurance type is property insurance, accounting for 16% of all insurance premiums. Property insurance was not negatively affected by the pandemic as the motor insurance, maintaining a moderate growth in 2020 and growing at a stable pace, with premiums increase of 8%.

According to the insurance premiums written, these three types of insurance – MTPL, Casco and property insurance – comprised nearly 77% of the entire non-life insurance market in Lithuania.

In 2020, the premiums written by Lietuvos draudimas AB in the non-life insurance products decreased more than the market both in Lithuania and Estonia. Nonetheless, the Company maintains its leading position in Lithuania, with its position secured among the top four largest non-life insurance companies in Estonia.

Lithuanian Market

In 2020, the contracts concluded by Lietuvos draudimas AB amounted to 2 million, which is nearly 10% less than in 2019, insurance premiums written decreased by 3.4%. In 2020, the total premiums written by the Company in the Lithuanian market amounted to EUR 197 million. According to the country's market share held, Lietuvos draudimas AB remains a strong market leader, holding 29.6% of the entire market at the end of 2020.

The resident insurance market premiums amounted to EUR 308 million in 2020. In the resident insurance segment, the premiums decreased by 1.4% as compared to 2019, with Lietuvos draudimas AB decline comprising correspondingly 3.1%. The decline in the Company's corporate customer segment was slightly greater than in the residential segment. The amount of business insurance premiums written by Lietuvos draudimas AB decreased by 4% in 2020, while the market declined at the rate of 1.8%.

In 2020, the market growth was largely determined by the health insurance, the premium amount of which increased by more than 14% in comparison with 2019. The health insurance market share held by Lietuvos draudimas AB had the largest increase among all the insurers offering this service – from 11.8 to 15.2%.

Estonian Market

The number of non-life insurance premiums written by the Lietuvos draudimas AB Estonian branch in 2020 was 10% lower than in 2019 – amounting to a total of EUR 56 million. According to the data of the Estonian Department of Statistics, Lietuvos draudimas AB branch negative growth in 2020 was somewhat higher than the market, with its market share in Estonia amounting to 14.7%. Lietuvos draudimas AB Estonian branch ended fourth according to the premiums in the Estonia non-life insurance market.

Financial results of the company

Non-life insurance premiums written in 2020 by Lietuvos draudimas AB together with its Estonian branch amounted to EUR 253 million and, compared to the EUR 267 million of premiums written in 2019, dropped by 5.2%.

Lietuvos draudimas AB demonstrated profitable performance in both its markets. The net profit of Lietuvos draudimas AB in 2020, including the result of the Estonian branch, amounting to EUR 25.7, compared to EUR 21.5 million in 2019. The Company's operations were profitable in both the non-life insurance activities and investment portfolio management in 2020.

The Company earned EUR 27.6 million from direct non-life insurance activities in 2020 (EUR 21.4 million in 2019). The successful result in the non-life insurance segment and stable profits were determined by the lower incurred claims, improving results of some business segments and decreasing operating expense. Continuous fixed cost control in the Company and focus on operating efficiency prevented the increase of the expense indicators despite the decline in premiums written, resulting in the improvement of the Company's profitability.

The Company continued its conservative investment policy in 2020, concentrating its investments in the European government debt securities The profits from investment activities of Lietuvos draudimas AB together with the Estonian branch comprised EUR 2.7 million, as compared to EUR 3.9 million in profits from investment activities in 2019.

The sum of claims settled with the Company's customers decreased by 5.7 % comparing to previous year. In 2020, the Company together with the Estonian branch settled non-life insurance claims for the amount of EUR 130.3 million (EUR 138.1 million in 2019).

Corporate income tax expense of Lietuvos draudimas AB increased by 13% in 2020 and amounted to EUR 3.5 million (EUR 3.1 million in 2019).

Shareholders and structure

Lietuvos draudimas AB belongs to the Polish, Central and Eastern Europe insurance group Powszechny Zakład Ubezpieczen Spółka Akcyjna (PZU SA), which held 100% of Lietuvos draudimas AB shares

In 2020, the Company acquired, disposed and, as at 31 December 2020, held no own shares. In 2019 and as at 31 December 2020, Lietuvos draudimas AB did not have subsidiaries.

The Company has a branch in Estonia, which operates under a registered name of Lietuvos Draudimas AB Eesti filiaal. Company code 12831829, head office address Parnu mnt. 141, Tallinn, Estonia.

Company's strategy

In 2020, Lietuvos draudimas presented a new strategy Restart, according to which it will operate in 2020-2022. The strategy is focused on successful growth in order to maintain the position of the market leader and stable financial results: consistent profitability, ambitious combined insurance indicator and efficient cost management.

The Company's customers and their experience

At the end of 2020, Lietuvos draudimas AB had 588,155 unique customers, of which, 558,712 are natural and 29,443 are legal customers. In 2019, the Company had 586,204 customers.

Seeking improvement of the services and contact points with the customers, since 2010, Lietuvos draudimas AB has been using the Net Promoter Score system. This system helps to listen to customers and consider their opinion. At the end of 2020, the Net Promoter Score indicator amounted to 74.4% (72.9% in 2019). In addition, in 2020, the Company significantly improved the NPS indicator for claims administration, which amounted to 70% (58.5% in 2019).

During 2020, the number of private customers grew the fastest in the residential property product, while it decreased only in the compulsory insurance product. In the segment of legal customers, the highest growth was recorded in commercial transport (CASCO).

"It makes a difference where to acquire insurance" – a value strategy for private customers

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.

Compulsory consumer insurance

Added value was created by the new generation compulsory insurance against civil liability in respect of the use of motor vehicles (MTPL) for clients. In 2020, Lietuvos draudimas introduced an even wider range of technical assistance coverage to MTPL customers. This exclusive service comprises a package of 10 value options in the market.

The technical roadside assistance insurance, provided with the compulsory insurance, is valid whenever the driver fails to start the car, in case he or she 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 or her 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. In the spring of 2020, this service was supplemented by the following values: vehicle transportation in the event of mix of fuels and in case of a health problem of the driver, as well as a taxi service from the place of event.

The technical roadside assistance provided by Lietuvos draudimas AB to its customers was requested nearly 17,000 times in 2020. Technical assistance services were used by both Company's Casco customers and all of the Company's mandatory civil liability insurance clients. The most popular service remains the transportation of vehicles.

Casco insurance

In 2020, the company introduced to the market an updated CASCO product. The unique feature of this product is even better conditions for a replacement vehicle in Lithuania and the expanded values of technical assistance: the product terms and conditions have been updated, pricing has been improved, and a more flexible choice of insurance options has been included.

Home insurance

Like every year, in 2020, the existing terms and conditions of the insurance applicable to clients were supplemented with the values allowing to maintain relevance of the coverage, meet their needs and allow the clients to feel the Company's care.

In 2020, two value options were presented to new customers: "Home" and "Home Plus", in which we increased the amounts of third-party liability, added personal third-party free of charge and offered an extended insurance coverage. In order to encourage non-insured residents to take out home insurance, the Company organised a communication campaign "Extended home insurance" and offered a 15-month housing coverage for a 12-month price.

Personal insurance

Lietuvos draudimas started the year 2020 with a campaign for customers "Two insurances as gifts" and paid great attention to personal insurance sales in the family segment. All new clients with family personal insurance were given two additional insurances free of charge: personal third-party liability and medical expenses.

In response to the pandemic, in 2020, the company offered private customers the opportunity to acquire a Personal Insurance product with a current COVID-19 risk.

Personal third-party liability insurance

In the summer of 2020, Lietuvos draudimas introduced a new product – personal third-party liability insurance. Until this year, customers could purchase similar insurance cover next to another insurance, i.e., when buying a home insurance, they could also choose the PTPL coverage, which, however, was not as extensive as the new product. In 2020, customers were offered a separate product with higher sums insured and expanded coverage territory, which can be purchased as protection against financial losses when damage is caused to third parties.

The most common situations: careless behaviour of children resulting in damage of property, damage caused by animals, and accidents involving non-motorised vehicles (bicycles, scooters, segway).

School pupils' insurance programme

During the pandemic, the majority of pupils studied remotely. In order to contribute to education in the country, the company has modified its Primary School Pupils Insurance programme, it has been offering since 2018. In 2020, the programme was extended to the School Pupils Insurance programme, which:

- Received over 20,000 registrations and nearly 18,000 children have been covered under the School Pupils Insurance (for the amount of EUR 5,000) against traffic accidents.
- More e-learning environments have been donated.
- Additional attention was granted to teachers – for the registration of a class, each teacher was given the Personal Third-Party Liability Insurance for a year as a gift.

By means of this programme, the Company aims to reduce the expenses of parents at the start of the school year, enhance the feeling of security in the family and provide modern learning aids to children. The programme is implemented in cooperation with the partner E-mokykla (E-school).

Customer service

The global pandemic that began in 2020 stimulated an even more efficient development of remote customer service systems, while it was important to make service as the points of sale as safe as possible.

The Company manages the largest sales network and has customer service departments in different Lithuanian cities. In 2020, safe customer service points were installed in all Lietuvos draudimas branches: table partitions and disinfectants. The sales network staff were provided with face masks, shields, gloves, and were trained to properly disinfect the customer service area. All COVID-19 safety requirements specified in the laws of the Republic of Lithuania have been implemented in the company's offices and customer service points: maintaining a required distance, flow regulation and ventilation of premises.

Self-service website development

In 2020, the Company focused even more attention on customer service in electronic space. To contribute to containing the pandemic, the company informed its customers and encouraged them to opt for distance service. On the website of Lietuvos draudimas, the customers can purchase the necessary products, view all available contracts, and conveniently pay their invoices.

A number of improvements have been implemented to the self-service this year:

- An option is now available to customers to pay for services in a more flexible way in instalments by an automatic debit, using the services of 3 large banks.
- The project of the new claims administration system "My Claims" has been completed. In the self-service Savas LD, this system provides Lietuvos draudimas customers with the opportunity to conveniently and securely provide information about an event or register a claim, while the claims administration staff can serve customers quickly and efficiently. This space now also features an innovative calculator (*Auda Smart*) that automatically calculates the insurance benefit, which customers can see on their phones. If everything is acceptable, the customer will receive the payment in a bank account within two or three days. "My Claims" is an innovative and effective solution that provides the opportunity to create an even better customer experience.

In 2020, the Company registered an overall growth of self-service Savas LD logins – the customers have successfully logged in to self-service more than 922,000 times (251,000 times in 2019).

Collaboration with aggregators

Taking into account the needs and security of customers when purchasing services remotely, in 2020, Lietuvos draudimas AB started cooperation with aggregators. Starting in April, the Company's customers were able to receive the Compulsory Insurance (MTPL) offers on edrauda.lt and draudimas.lt online platforms, and from November, also at Perlas terminals.

Corporate customer products

The most significant aspect of Lietuvos draudimas business strategy in 2020 was to help the country's businesses overcome the challenges caused by the pandemic. In April 2020, in response to the situation, Lietuvos draudimas introduced insurance for business against the COVID-19 virus. It was developed together with the country's largest insurance broker company Aon Baltic and invited businesses to insure their employees. As the second wave of coronavirus approaches, the company has adapted the proposed coverage, extending it to allow each resident to be covered with Personal Insurance that includes COVID-19 risk, while legal clients can conclude Employee Insurance contracts that include this risk; those with Health Insurance coverage can be reimbursed for COVID-19-related tests or services.

The companies unable to provide their employees with remote work opportunities were the ones to acquire this insurance. During the entire year, the offer of Lietuvos draudimas AB was used by more than 300 Lithuanian companies, which insured over 50,000 of country's employees. At the end of 2020, the company estimated that it had already paid more than EUR 44 thousand to the employees to insured by these companies.

As health coverage becomes more relevant, in 2020, Lietuvos draudimas AB continued expanding the number of insured persons and increased its market share in health insurance products by offering a complex of additional actions, which allowed to expand the penetration of this segment and stimulated companies, which previously did not have this insurance, to acquire this product. According to the 2020 data, the health insurance market share held by Lietuvos draudimas AB had the largest increase among all the insurers offering this service – from 11.8% to 15.2%.

Contributing to emotional stability and health, the Company organised online lectures on health topics for its Health Insurance customers.

Assessing the situation in the country and the importance of remote services, the Company also included the payment for remote medical consultations in the package of expenses covered by the Health Insurance, and started cooperation with Mano Daktaras (My Doctor), where it created very convenient conditions for its Health Insurance clients to register with a specialist by using this electronic system or get an online consultation.

Innovations

The ambition of Lietuvos draudimas AB is to implement innovations in the insurance market, thus streamlining the activities of the company's employees and improving customer experience.

Innovative sales system

In 2020, the company completed an important stage of the new sales system – all products for private customers were installed and launched in a faster and more efficient sales system goLD developed by the company. goLD is an innovative, informative and intuitive sales system developed inside the Company. In the long run, this system will replace the existing sales systems used and allow to create a modern, even simpler and more convenient insurance product sales process.

The functions of the system make the daily work of Lietuvos draudimas AB consultants, intermediaries, brokers and service partners simpler, faster and more efficient. The system allows you to create an offer for a customer in just a few steps, i.e., by entering the basic information about the client, an offer is generated with the help of several clicks, and the submitted offer can be converted into an insurance contract by a single click. The new sales management system clearly provides the seller with all relevant information about the customer: insurance, ending contracts, upcoming payments, etc. This step allows the Company's sales team and brokers cooperating with Lietuvos draudimas AB to execute sales faster and more efficiently, and provide the customer with a more innovative insurance service purchasing experience.

Hackathon

The company involves its employees in the development of innovations. This year, for the first time in the company history, a remote data analytics hackathon (datathon) aimed at assessing the risk of a pandemic was held at the company. For a period of 24 hours, employees focused on a specific area of business – claims fraud investigation. Two prototypes of tools based on artificial intelligence have been developed, and their application will make a significant contribution to a faster and simpler fraud detection in the future.

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.

Working with Agile

The Information Technologies and Operation Department of Lietuvos draudimas AB has been operating according to the Agile methodology and applying SCRUM practice for several years. 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. 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 implementing a change or an innovation in a shorter period of time, in order to feel the benefit or to change solutions faster.

Activities of the Estonian Branch

The Estonian branch has focused its attention on developing self-service platform. In March a self-service portal to customers was opened. People can see and update their contact details, review and download insurance policies, see invoices and pay these and also order and download green card. The self-service platform development continues also in 2021, which will allow the Estonian branch to be even more modern and transparent, and be a unique service provider.

Claim indemnification in Lithuania

During the year 2020, the number of cases of claims registered in Lithuania increased by 9.37% compared to 2019 and reached a total of 215.6 thousand claims. The largest part of claims handled by the Company in Lithuania in 2020 were health claims – 47.0% and transport claims – 28.6%.

In 2020, 73% of all claims were settled by the Company within a month, 27.8% – within 5 days, and 7.7% of claims – on the day of reporting. The pandemic brought a new approach to claim inspections. The Company administered more claims from photos of damaged property, vehicles and insured items provided by customers.

In addition to the losses due to the pandemic, in 2020, the country was devastated by several major storms. During the year 2020, the Company's clients were compensated with EUR 4.23 million for claims caused by storms and other natural disasters. During 12-14 March 2020, the storms sweeping across the country caused damages amounting to EUR 1.6 million. Vilnius and Kaunas are the cities that suffered the most damages.

In 2020, the settlement and indemnification of the largest claim (EUR 0.140 million euros) to a legal person due to the theft that occurred in 2016, during which the devices stored in the customer's warehouse – transformers – have been stolen.

The largest damages incurred in 2020 have been indemnified to a private client – EUR 0.180 million for a burnt down residential house – the second storey and roof have burnt down completely, and the first storey was heavily flooded with water.

The largest damage that was incurred and settled in 2020 was with a legal client – EIR 0.146 million for driving into an automatic vehicle identification device.

Compared to 2019, the Company identified 7.8% less fraudulent cases (769 in 2020), while their value (amounts unpaid) reaching EUR 1.492 million, or 15.1% less than in 2019. The most frequent types of fraud according to the identified number of fraud cases: increased value of damages – 29%, falsification of circumstances of the event – 26%, attempting to receive indemnification by purchasing insurance after the event – 13%. Even though according to the statistics, falsification of circumstances amounts to only 26%, these cases are of a higher value as the falsification of circumstances comprises 35% of value of all identified fraudulent actions in 2020 (comprising 30% in 2019). The largest revealed fraud of 2019, when the event circumstances were attempted to be tampered with, amounted to EUR 73.8 thousand.

Claim indemnification in Estonia

Lietuvos draudimas AB Estonian branch registered 27,118 claims in 2020, which is 17% less than in 2019, which is due to imposed moving restrictions during the virus impacting positively motor claims frequency. The largest share of claims in the Estonian branch were transport claims, comprising 67.5% of all the claims, private property claims – 17.8% and travel insurance claims – 8.1%.

Human resources

Year 2020 was a year of great changes in the organisation of work. For the reasons of the safety of its employees, Lietuvos draudimas AB has relocated all its activities to remote operation – after the start of quarantine in the spring, 97% of the company's employees worked remotely. Due to the country's security requirements, some employees (mainly at points of sale) returned to the office during the year, while complying with security requirements and regulating customer flows. Most employees continued working remotely throughout the year.

Despite the difficult conditions in the country's labour market, Lietuvos draudimas managed to maintain stable indicators. The total turnover of the Company's employees usually ranges between 15% and 11%. In 2020, the turnover rate was 13.5%. Comparing the Company's turnover indicator with the market data, it has been observed that the turnover in the Lithuanian labour market in 2020 was higher and amounted to 22%, in the insurance sector – 19%.

In 2020, Lietuvos draudimas AB together with the Estonian branch employed 1,266 specialists (including all approved positions). Compared to the previous year, the total number of employees in 2019 was 1,300 (1,342 in 2018). The average aggregate working time of Lietuvos draudimas AB employees is 10 years, average age – 42 years. This indicator is stable and has not changed for the past 6 years.

Employee involvement

The involvement survey of Lietuvos draudimas AB is used as a tool allowing to objectively measure the Company's success in creating a culture of trust and involvement, assess the strategic coherence, motivation and relations, as well as implementation of objectives. 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.

Lietuvos draudimas AB monitors and analyses the involvement of its employees since 2000 and initiates actions that promote employee involvement. In 2020, the survey was conducted taking into account the changed situation of work organisation, remote work, and employer behaviour during the pandemic. The survey was conducted by the company Kantar TNS, which compared the results with the survey data of the Lithuanian population. 90% of the Company employees took part in the survey, the involvement of which was measured by Kantar TNS on the basis of the following basic criteria:

- General satisfaction
- Recommendation
- Re-employment
- Motivation of colleagues
- Company activity and success.

The survey demonstrated that the involvement index of Lietuvos draudimas employees is 69, which is 28 points higher than the Lithuanian average. In addition, based on this survey, the Company assessed the possibility of continuing the mixed work model in the future, i.e., maintaining a balance between remote and office work. The vast majority (75% of the Company's employees) stated that they would choose to work 3 or more days remotely: 3 days – 33%, 4 days – 17%, all 5 days – 25%. 4% of employees would like to work from home one day a week.

The survey assessed both the success of decision-making and effectiveness, comparing the work before and during the pandemic.

- We rated decision-making and work organisation with very high score of 9.2 (out of 10) points, and it did not change when comparing assessments before and during the pandemic.
- We also rated effectiveness of personal performance, own team performance and performance of other teams with a high score of 8.8, 9.0 and 8.8 points respectively. During the pandemic, these assessments varied only slightly (-0.2 p.p.).

Internal career

Lietuvos draudimas AB pays a lot of attention to the internal career of its employees and promotes growth of its employees inside of the Company. In 2020, 59% of vacancies were filled by internal candidates (in 2019 – 56%). In 2020, 74 employees made internal vertical or horizontal careers (in 2019 – 75). 7 people became managers from specialists (3 in 2019), and 4 managers became managers in the next level/in another field (4 in 2019).

In 2020, a new works council of 11 members was elected and started its activities at Lietuvos draudimas AB; one of the members was delegated to the employees' labour union of Lietuvos draudimas AB. 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 the PVPA.

HR activities in the Estonian branch

In 2019, the Estonian branch participated in a long-term programme organised by the Ministry of Social Affairs of Estonia "Family friendly employer". This programme is designed to support the balance between work and leisure. In 2020 Estonian branch was awarded with silver label. Also, the tradition to announce and award the best employee of the year was continued.

Additional benefits

In 2020, when the issue of health care became even more relevant than usual, upon an adequate evaluation and completion of a trial period, Lietuvos draudimas AB insured all employees with the Health Insurance. The Company also continued the added benefit of health days, i.e., a leave for improvement of health in the case of mild and short-term health problems. Such health days are provided to all employees, up to 4 days per year in cases where the employee does not seek help at a health care institution and recovers at home.

In order to improve the work and rest balance, in 2018, the Company introduced and continues the added benefit of an additional leave: employees employed for more than two years who produce good and efficient results are granted 5 additional 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.

Achievements and awards

In 2020, Lietuvos draudimas was awarded the 3rd place price of the PR Impact Awards for internal communication actions when transferring all employees to work remotely. The Company ensures and prioritises the rapid, efficient and transparent dissemination of information within the company, which has had a significant impact on the implementation of the new work model and maintaining the emotional stability of employees during the pandemic. The main criteria on the basis of which the company assessed the effectiveness of internal communication were:

- impact in creating an emotionally safe environment, which employees rated with a score of 9.36 points (out of 10).
- trust in the employer – 96% of employees stated that their trust in the employer increased (44%) or remained unchanged (51%) during the pandemic.

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 activities are governed by the social responsibility strategy 2018-2020 of the Company's shareholder PZU Group and devotes special attention to social responsibility in business. Pursuant to this strategy, the growth of all companies of PZU GROUP must be compatible with environmental protection and depend on sustainable use of resources. PZU group of companies seeks responsible management of its capital: financial, human, environmental and social.

Acting as a socially responsible company, Lietuvos draudimas AB devotes all its efforts to the following areas conforming to the shareholders' social responsibility strategy:

- "Create a safe world" (initiative aimed at road safety and public security promotion);
- Support to the projects promoting financial education of young people and/or public financial integration;
- "Creating communities" (initiative aimed at strengthening communities, especially on a regional level), conforming to the support, charity and social responsibility area of the strategy.

Lietuvos draudimas AB is also 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.

Health system support

Lietuvos draudimas AB responded to the situation in the country due to the pandemic and provided aid to the health system. The aid for the amount of EUR 30,000 was provided by means of essential medical supplies to the largest hospital in the country – Kaunas Clinics, and EUR 20,000 was allocated to a private fund for the fight against coronavirus – Support Fund for Health Care Institutions.

It was decided to provide support to Kaunas Clinics after learning that at the onset of the fight against coronavirus, the institution lacked the necessary equipment – medical masks, respirators, etc. Lietuvos draudimas AB made a purchase of this equipment – more than 15,000 medical masks and more than 2,000 respirators were handed over to this medical institution.

Health system support of Lietuvos draudimas AB Estonian branch

During the difficult state of emergency, Estonian branch contributed to ensuring that the ambulance, hospitals and alarm centre staff across Estonia remained healthy. Donation of primary protection means was done to hospitals located in crises hotspots in the amount of EUR 3,880.

Protect me

In 2020, Lietuvos draudimas AB continued implementation of the children's road safety action "Protect me", organising it for the 21st time. 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. In 2020, the "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 2020, 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.

During 20 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.

Mentorship in the Lithuanian Junior Achievement programme

In 2019, Lietuvos draudimas AB renewed its long-term partnership with Junior Achievement Lithuania and continued this initiative in 2020. Junior Achievement Lithuania is an NGO organising economics and business education programmes for Lithuanian school children. One of the objectives of this organisation is the Student Teaching Community Programme, where high school students together with their economics teachers and mentors learn to create business enterprises. Lietuvos draudimas AB contributed to this programme. In cooperation with Junior Achievement Lithuania, the Company built a team of 10 mentors for the country's youth. The managers of the Company's departments dedicate their time and help students to develop their first businesses by offering consultations, mentor advice and facilitate practical opportunities.

After the implementation of distance learning in the country in the spring of 2020, 10 mentors of Lietuvos draudimas AB continued to work with students remotely. At the end of academic year 2020, one of the teams mentored by the managers of Lietuvos draudimas AB ended in the top ten at the closing event of the Junior Achievement Lithuanian programme. At the same event, the Company established its nomination – the Most Innovative Young Student Company.

Insuring the only found original copy of the Lithuanian Independence Act

Lietuvos draudimas AB continued to provide coverage of 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, Building and Community 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.

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 is 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 consumed 1,493 MW of electricity in 2020. In 2019, power consumption amounted to 1,661 MW, which is 3.77% less. The energy consumption of the Estonian branch amounted to 93 MW.

In 2020, the energy consumption for heating of premises comprised 5,880 GJ, and, as compared to 2019, decreased by 4.95%.

The amount of paper used by Lietuvos draudimas for printing amounted to 11.74 tons in 2020, and compared to last year's indicator, decreased by 31.69%.

In the course of the year 2020, in all its divisions in Lithuania, the Company used 5,902.40 m^3 of water, which is by 40.6% less than in the previous year. The natural gas consumption in the said period amounted to 29.9 thousand m^3, comprising a 4.42% decrease.

The vehicles used by the Company employees travelled a total of 5,599 million km. The most travelling, i.e. 4,413 million km, was made by diesel cars, 1,078 million km – by petrol cars, and 107.4 thousand km – powered by gas. The Company employees travelled 1.2 thousand km by taxis for the needs of the Company. In 2020, during the business trips, employees flew 25,173 thousand km.

In 2020, Lietuvos draudimas AB removed 793.71 m^3 of waste, which is 13.9% less than in 2019. The Company also contributed to the recycling of waste – in the course of the year, its employees separated and recycled 1.27 tons of paper.

Environmental protection in the Estonian branch

The energy consumption of the Estonian branch amounted to 42 MW, in 2019 it was 93 MW. The heating energy consumption of the Estonian branch amounted to 873 GJ, decreasing 13.6% compared to 2019 (1,010 GJ). The water consumption of the Estonian branch amounted to 336 m3 in 2020, decreasing by 62% compared to 2019, caused by COVID-19 as offices were closed some months and most of employees worked from home offices in 2020.

The Estonian branch managed to decrease paper consumption from 0.97 t to 0.8 t of paper in 2020.

The Estonian branch owns no company vehicles.

General Data Protection Regulation

Implementing the General Data Protection Regulation (GDPR), which came into force on 25 May 2018, Lietuvos draudimas AB act consistently ensuring high level of data protection, i.e., regularly reviewing and updating its internal procedures regulating processing of personal data to ensure that they conform to the current provisions of the legal framework (laws and requirements set forth by the State Data Protection Inspectorate) and relevant interpretation of the court rulings.

In 2020, the Privacy Policy of Lietuvos draudimas AB and the Procedure for Legal Protection of Personal Data of Lietuvos draudimas AB regulating the basic principles of personal data protection, the Procedure for Identifying and Investigating Personal Data Security Violations and the Procedure for Assessing the Impact on Personal Data Protection have been updated, and all the company's employees have been familiarised therewith. The employees of the Lietuvos draudimas AB annually broaden their knowledge in the field of protection of personal data by taking the assessment test compulsory to all employees.

Seeking to ensure protection of personal data and all information related to secure and convenient provision of insurance-related information to clients, the self-service portal Savas LD of Lietuvos draudimas AB is being expanded with additional functions introduced annually.

In 2020, the representative of Lietuvos draudimas AB continued participation in the GDPR working group organised by a non-life insurance association, one of the purposes of which is to prepare the Code of Conduct of the insurance sector together with the selected law firm. Upon approval of the Code by the State Data Protection Inspectorate, it will be used as an additional measure allowing to ensure that the activities of Lietuvos draudimas AB conform to the GDPR requirements.

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 officials 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.

Lietuvos draudimas AB community 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 undertakes to ensure to prevent any human rights violations in 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 in its activities, that a safe and healthy workplace is provided to the employees, and that the employees are paid a fair wage, that no bribes are paid and the Company's products are not used to abuse human rights.

The Company continues construction of the new office and residential complex

In autumn of 2019, Lietuvos draudimas AB obtained the construction permit for construction of the administrative and residential complex on the land parcel on J. Basanavičiaus St. 10 in Vilnius held in its management. The construction of the complex was commenced on 2 January 2020. The complex construction will be ensured by the contractor selected in procurement procedure – Panevėžio statybos trestas UAB. The authors of the complex project are the team of architects from the Lithuanian and Danish companies Archinova and PLH Arkitekter A/S.

This complex of administrative and residential buildings for presented to the public in the summer of 2018. The project has been reviewed and approved by all competent authorities and the construction permit has already been issued. The complex will comprise the administrative premises with an area of 3,600 sq. m and residential premises with an area of 2,000 sq. m, including the underground parking lots. All the employees of Lietuvos draudimas headquarters will be moved to the largest building of the complex. This building will feature 300 workstations provided with day light illumination, modern meeting rooms and break areas. The office complex and building with modern studio apartments will be built next to this building, which will be all joined by an inner yard with the stair terraces. All the premises will be arranged autonomously and provided with separate drive-ins, entrances and car parking spaces. The buildings will feature the optimal microclimate from renewable energy sources, which will conform to efficiency class A+. Part of the underground parking spaces will be used for the public needs in accordance with the contract concluded with the Vilnius City Municipality.

The construction of the complex is expected to be completed in 2022. Lietuvos draudimas AB investment into the project will amount to EUR 18.5 million.

The site under development is managed by Lietuvos draudimas AB according to the land use agreement concluded with the National Land Service under the Ministry of Agriculture. Its development with construction of administrative, commercial and residential buildings was approved in the detailed plan of the land parcel in 2007 by the Vilnius City Municipality.

Being a leader, creating value for employees, clients and shareholders

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

Raimondas Geleževičius
Acting Chief Executive Officer

26 March 2021

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(All amounts in thousands of euro unless otherwise stated)

	Note	2020	2019
Insurance income			
Gross written premiums	4	253 251	267 052
Reinsurers share in premiums	4	(9 320)	(8 322)
Net written premiums	4	243 931	258 730
Change in gross unearned premiums reserve	5	1 971	(8 399)
Change in unearned premiums reserve, reinsurers' share	5	277	(664)
Change in unearned premiums reserve	5	2 248	(9 063)
Net premiums earned		**246 179**	**249 667**
Other technical income		14	23
Total insurance income		**246 193**	**249 690**
Insurance expense			
Gross claims paid to policyholders		(130 280)	(138 148)
Claims settlement expense		(12 258)	(10 970)
Recovered losses		6 972	7 786
Claims paid	6	(135 566)	(141 332)
Reinsurers share	6	2 115	2 788
Net claims paid		(133 451)	(138 544)
Change in outstanding claims reserve	7	(13 528)	(19 680)
Change in outstanding claims reserve, reinsurers' share	7	2 470	5 469
Net incurred claims		**(144 509)**	**(152 755)**
Acquisition costs	8	(54 543)	(56 207)
Administrative expense	9	(17 145)	(16 800)
Other expense related to insurance activities	10	(2 391)	(2 532)
Total operating expense		**(74 079)**	**(75 539)**
Total Insurance expense		**(218 588)**	**(228 294)**
Net result of insurance activities		**27 605**	**21 396**
Interest income	11	2 139	2 442
Other profit (loss) from investment activity	11	562	1 506
Change in expected credit loss	12	58	(21)
Financial income	13	17	17
Financial expense	13	(823)	(839)
Other income	14	485	160
Other expense	14	(833)	-
Profit / (loss) before tax		**29 210**	**24 661**
Income tax expense	15	(3 478)	(3 150)
Profit / (loss) for the year		**25 732**	**21 511**
Other comprehensive income (OCI)			
Items that are or may be reclassified to profit or loss	20	456	1 558
Items that will not be reclassified to profit or loss	20	394	265
Total comprehensive profit / (loss) for the reporting year		**26 582**	**23 334**

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

Notes on pages 30 to 72 are an integral part of these financial statements.

Raimondas Geleževičius
Acting Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

26 March 2021

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2020	31.12.2019
ASSETS			
Intangible assets	16	**3 590**	**3 331**
Property and equipment	17,38	**16 126**	**13 922**
Investment property	18	**1 500**	**1 500**
Financial assets at fair value through other comprehensive income	19	269 495	239 526
Financial asset at fair value through profit or loss	19	24 335	23 529
Total investments		**293 830**	**263 055**
Receivables due from policyholders	21	50 791	52 293
Receivables due from intermediaries	21	1 188	1 976
Reinsurance receivables	22	3 384	3 155
Other receivables	24	2 500	3 313
Total receivables		**57 863**	**60 737**
Reinsurers' share in unearned premium reserve	5	1 096	819
Reinsurers' share in outstanding claims reserve	7	13 811	11 340
Reinsurers' share of reserves		**14 907**	**12 159**
Prepaid income tax		**213**	**-**
Deferred acquisition costs	8	20 981	22 548
Other accrued income and deferred expense	23	1 946	1 984
Accrued income and deferred expense		**22 927**	**24 532**
Cash and cash equivalents	25	**15 982**	**7 685**
TOTAL ASSETS		**426 938**	**386 921**

Notes on pages 30 to 72 are an integral part of these financial statements.

Raimondas Geleževičius
Acting Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

26 March 2021

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2020	31.12.2019
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	26	11 665	11 665
Share premium	26	937	937
Reserves	26	9 209	8 325
Retained earnings		114 580	88 882
TOTAL EQUITY AND RESERVES		**136 391**	**109 809**
LIABILITIES			
Unearned premium and unexpired risk reserves	5	127 303	129 274
Outstanding claims reserve	7	123 484	109 956
Technical reserves		**250 787**	**239 230**
Direct insurance creditors		3 828	4 456
Reinsurance creditors		2 258	2 421
Taxes	27	236	232
Corporate income tax liability		-	298
Deferred income tax liability	15	796	531
Accrued expenses and deferred income	28	16 202	15 708
Other liabilities	29,38	16 440	14 236
Total creditors		**39 760**	**37 882**
TOTAL LIABILITIES		**290 547**	**277 112**
TOTAL EQUITY, RESERVES AND LIABILITIES		**426 938**	**386 921**

Notes on pages 30 to 72 are an integral part of these financial statements.

Raimondas Geleževičius	Tatjana Kozlova	Kęstutis Gadeikis
Acting Chief Executive Officer	Accounting and reporting manager	Chief Actuary

26 March 2021

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2020
(All amounts in thousands of euro unless otherwise stated)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2018	**11 665**	**937**	**2 333**	**4 210**	**75 800**	**94 945**
Other comprehensive income	-	-	-	1 782	41	**1 823**
Dividends paid	-	-	-	-	(8 470)	**(8 470)**
Net profit for the reporting period	-	-	-	-	21 511	**21 511**
Balance at 31 December 2019	**11 665**	**937**	**2 333**	**5 992**	**88 882**	**109 809**
Other comprehensive income	-	-	-	884	(34)	**850**
Net profit for the reporting period	-	-	-	-	25 732	**25 732**
Balance at 31 December 2020	**11 665**	**937**	**2 333**	**6 876**	**114 580**	**136 391**

Notes on pages 30 to 72 are an integral part of these financial statements.

Raimondas Geleževičius
Acting Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

26 March 2021

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(All amounts in thousands of euro unless otherwise stated)

	Note	2020	2019
Cash flows from operating activities			
Premiums received from direct insurance		253 608	259 853
Claims paid for direct insurance		(135 897)	(142 039)
Payments received from ceded reinsurance		1 476	1 838
Payments made for ceded reinsurance		(8 297)	(8 018)
Operating expenses paid		(50 056)	(52 307)
Taxes paid on ordinary activities		(20 936)	(20 089)
Amounts paid on other operating activities of insurance		234	217
Net cash from / (used in) operating activities:		**40 132**	**39 455**
Cash flows from investing activities			
Disposal of investment units		33 990	17 528
Acquisition of investments		(69 055)	(49 364)
Interest received		5 019	4 746
Amounts from other investing activities		(404)	(443)
Net cash generated from / (used in) investing activities:		**(30 450)**	**(27 533)**
Cash flows from financing activities			
Dividends paid		-	(8 470)
Payments made for lease liabilities including fees and interest		(1 385)	(1 334)
Net cash from / (used in) financing activities:		**(1 385)**	**(9 804)**
Net increase / (decrease) in cash and cash equivalents		**8 297**	**2 118**
Cash and cash equivalents at the beginning of reporting year		**7 685**	**5 567**
Cash and cash equivalents at the end of reporting year	25	**15 982**	**7 685**

Notes on pages 30 to 72 are an integral part of these financial statements.

Raimondas Geleževičius
Acting Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

26 March 2021

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. Financial statements have been authorised by the Management Board. The shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements be issued.

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.

Reporting year

The reporting period comprises the 12 months from 1 January 2020 to 31 December 2020.

2.1.4 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

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

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

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

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

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

(iii) Amendments to IFRS 3: Definition of business

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

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

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

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

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

2.2.2 New Standards and Interpretations not yet adopted

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

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

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

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

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

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

- General Measurement Model (further – GMM) – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of discounted value of the best estimate of future cash flows, risk adjustment (further – RA) and contractual service margin (further – CSM);
- Premium allocation approach (further – PAA) – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM);
- Variable fee approach (further – VFA) – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions.

The Company launched a project to prepare for the implementation of IFRS 17: review processes, analyse data, evaluate systems and reporting tools, although has not yet prepared an analysis of the expected quantitative impact of the new Standard.

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

The amendments pertain to:

- IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS;
- IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability;
- IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties);
- IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method.

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:

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

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)

Direct incremental costs associated with acquisition of new or renewal of insurance contracts are deferred, to the extent that such costs are deemed recoverable from future premiums or gross profits. Commissions and other acquisition costs, such as, among others, sales personnel remuneration and social contributions and maintenance, that in the Company's management judgement, 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 corresponding policies and lines of insurance 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 34), recognised in the same way as changes in unearned premium reserve.

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. Only MTPL annuities are discounted due to low discounting effect for other liabilities.

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 its financial assets in the following categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

Measured at amortized cost

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 and is not designated at fair value through profit loss:

- 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.

Financial assets measurement at fair value

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.

Debt instruments measured at fair value through other comprehensive income

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, which is why they are carried at fair value through other comprehensive income. These assets are initially measured at fair value plus any directly attributable transaction costs and 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.

Equity investments at fair value through other comprehensive income

The Company holds equity instruments for strategic purposes for a long time. Trading 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.

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.

Financial instruments at fair value through profit or loss

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.

These assets are initially measured at fair value plus any directly attributable transaction costs. 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.

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

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.

Property and equipment also include assets from operating leases of land and premises. The value of such assets in the financial statements is shown at the present value of all future lease payments.

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.

(All amounts in thousands of euro unless otherwise stated)

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.

	31.12.2020	**31.12.2019**
1 USD	EUR 0.8149	EUR 0.8937
1 GBP	EUR 1.1123	EUR 1.1736
1 PLN	EUR 0.2193	EUR 0.2349

2.12 Corporate income tax

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

Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position. Income tax rate applied for the Company was 15% in 2020 (15% in 2019).

Deferred income tax

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is accounted for in profit or loss, except when it relates to items accounted for directly in equity, in which case the deferred tax is also dealt with in equity and the change of deferred tax is recognised in OCI. 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.

<u>Terms and definitions:</u>

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.

<u>ECL on debt instruments measured at FVOCI</u>

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.

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.

2.15 Employee benefits

The Company calculates annual bonuses for personnel based on the Company's reporting year's financial results and the achievement of personal goals. Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on an accrual basis. For some employees, a part of the annual bonus may be deferred and paid out in up to several years subsequent to the calculation year. The accruals for personnel bonuses represent the amount accrued as at the year end. The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

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. Outstanding claims reserve includes the reserve for reported but not settled claims (RBNS), incurred but not reported claims (IBNR), claims handling provision and recourse outstanding provision. Outstanding claims reserve is disclosed in Note 7.

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.

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 (Note 24).

(All amounts in thousands of euro unless otherwise stated)

4. NET WRITTEN PREMIUMS

	2020 Gross amount	2020 Reinsurers' share	2020 Net amount	2019 Gross amount	2019 Reinsurers' share	2019 Net amount
Motor vehicle third party liability insurance	83 268	(1 627)	81 641	96 774	(2 163)	94 611
Motor own damage insurance	74 018	(1 501)	72 517	77 624	(966)	76 658
Fire and other damage to property insurance	61 562	(3 673)	57 889	60 477	(3 240)	57 237
Income protection insurance	14 129	(68)	14 061	12 764	(56)	12 708
Medical expense insurance	8 437	(17)	8 420	8 115	(17)	8 098
General liability insurance	5 988	(248)	5 740	6 037	(297)	5 740
Credit and suretyship insurance	2 538	(610)	1 928	797	(134)	663
Miscellaneous financial loss	2 217	(1 520)	697	3 210	(1 388)	1 822
Marine, aviation and transport insurance	1 094	(56)	1 038	1 254	(61)	1 193
	253 251	**(9 320)**	**243 931**	**267 052**	**(8 322)**	**258 730**

Premiums earned

	2020 Gross premiums earned	2020 Reinsurers' share	2020 Net premiums earned	2019 Gross premiums earned	2019 Reinsurers' share	2019 Net premiums earned
Motor vehicle third party liability insurance	88 010	(1 638)	86 372	92 927	(2 146)	90 782
Motor own damage insurance	75 142	(1 515)	73 627	78 116	(1 476)	76 640
Fire and other damage to property insurance	60 983	(3 711)	57 272	58 111	(3 264)	54 847
Income protection insurance	13 450	(68)	13 382	11 774	(56)	11 718
Medical expense insurance	7 350	(17)	7 333	7 281	(17)	7 264
General liability insurance	5 865	(272)	5 593	5 766	(291)	5 475
Credit and suretyship insurance	2 409	(1 137)	1 272	2 720	(1 541)	1 179
Marine, aviation and transport insurance	1 117	(57)	1 060	1 223	(61)	1 162
Miscellaneous financial loss	896	(628)	268	734	(134)	600
TOTAL	**255 222**	**(9 043)**	**246 179**	**258 652**	**(8 986)**	**249 667**

(All amounts in thousands of euro unless otherwise stated)

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 2018	**120 875**	**(1 483)**	**119 392**
Written premiums	267 052	(8 322)	258 730
Earned premiums	258 653	(8 986)	249 667
Total change for the year	8 399	664	9 063
Balance at 31 December 2019	**129 274**	**(819)**	**128 455**
Written premiums	253 251	(9 320)	243 930
Earned premiums	255 222	(9 043)	246 178
Total change for the year	(1 971)	(277)	(2 248)
Balance at 31 December 2020	**127 303**	**(1 096)**	**126 207**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2020

Miscellaneous financial loss	1 642	18	1 660
Medical expense insurance	1 087	-	1 087
Income protection insurance	679	-	679
Fire and other damage to property insurance	579	38	617
General liability insurance	123	24	147
Marine, aviation and transport insurance	(23)	-	(23)
Credit and suretyship insurance	(192)	(383)	(575)
Motor own damage insurance	(1 124)	15	(1 109)
Motor vehicle third party liability insurance	(4 742)	11	(4 731)
	(1 971)	**(277)**	**(2 248)**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2019

	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	3 846	(17)	3 829
Fire and other damage to property insurance	2 366	24	2 390
Income protection insurance	990	-	990
Medical expense insurance	834	-	834
Credit and suretyship insurance	490	153	643
General liability insurance	271	(6)	265
Miscellaneous financial loss	63	-	63
Marine, aviation and transport insurance	30	-	30
Motor own damage insurance	(491)	510	19
	8 399	**664**	**9 063**

(All amounts in thousands of euro unless otherwise stated)

d) Gross unearned premium reserve as at end of year

	31.12.2020	31.12.2019
Motor own damage insurance	38 913	40 038
Motor vehicle third party liability insurance	37 044	41 786
Fire and other damage to property insurance	32 184	31 605
Income protection insurance	7 280	6 601
Medical expense insurance	4 599	3 511
General liability insurance	3 314	3 191
Miscellaneous financial loss	1 926	284
Credit and suretyship insurance	1 730	1 922
Marine, aviation and transport insurance	313	336
	127 303	**129 274**

6. CLAIMS PAID

	2020			2019		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Motor own damage	(46 929)	761	(46 168)	(50 152)	828	(49 324)
Motor vehicle third party liability insurance	(46 457)	112	(46 345)	(52 425)	1 613	(50 812)
Fire and other damage to property insurance	(28 689)	982	(27 707)	(24 661)	40	(24 621)
Medical expense insurance	(6 272)	-	(6 272)	(5 406)	-	(5 406)
Income protection insurance	(4 223)	-	(4 223)	(4 174)	-	(4 174)
General liability insurance	(2 402)	12	(2 390)	(2 925)	24	(2 901)
Miscellaneous financial loss	(423)	210	(213)	(576)	-	(576)
Marine, aviation and transport insurance	(125)	22	(103)	(779)	148	(631)
Credit and suretyship insurance	(46)	16	(30)	(230)	135	(95)
Other	-	-	-	(4)	-	(4)
	(135 566)	**2 115**	**(133 451)**	**(141 332)**	**2 788**	**(138 544)**

(All amounts in thousands of euro unless otherwise stated)

7. OUTSTANDING CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2020			2019		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Notified claims	75 985	(10 636)	65 349	63 957	(5 313)	58 644
Incurred, but not reported	33 971	(704)	33 267	26 319	(559)	25 760
Total at beginning of year	**109 956**	**(11 340)**	**98 616**	**90 276**	**(5 872)**	**84 404**
Cash paid for claims notified in prior years	(27 957)	290	(27 667)	(30 058)	1 762	(28 296)
Changes in liabilities arising from current and prior year claims	41 485	(2 761)	38 724	49 738	(7 231)	42 507
Total change in year	13 528	(2 471)	11 057	19 680	(5 469)	14 211
Total at end of year	**123 484**	**(13 811)**	**109 673**	**109 956**	**(11 340)**	**98 616**
Notified claims	84 132	(13 050)	71 082	75 985	(10 636)	65 349
Incurred, but not reported	39 352	(761)	38 591	33 971	(704)	33 267
Total at end of year	**123 484**	**(13 811)**	**109 673**	**109 956**	**(11 340)**	**98 616**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2020:

	Gross amount	**Reinsurers' share**	**Net amount**
Motor vehicle third party liability insurance	6 648	95	6 743
Fire and other damage to property insurance	4 496	(2 339)	2 157
Miscellaneous financial loss	1 861	(110)	1 751
General liability insurance	941	50	991
Medical expense insurance	474	-	474
Credit and suretyship insurance	278	(291)	(13)
Marine, aviation and transport insurance	180	4	184
Income protection insurance	104	-	104
Motor own damage insurance	(1 454)	121	(1 333)
	13 528	**(2 470)**	**11 058**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2019:

	Gross amount	**Reinsurers' share**	**Net amount**
Motor vehicle third party liability insurance	13 889	(337)	13 552
Fire and other damage to property insurance	7 308	(4 620)	2 688
Credit and suretyship insurance	456	(250)	206
Medical expense insurance	368	-	368
Motor own damage insurance	128	(101)	27
Income protection insurance	83	-	83
Marine, aviation and transport insurance	63	(84)	(21)
General liability insurance	(1 029)	(75)	(1 104)
Miscellaneous financial loss	(1 586)	(2)	(1 588)
	19 680	**(5 469)**	**14 211**

(All amounts in thousands of euro unless otherwise stated)

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

	31.12.2020	31.12.2019
Motor vehicle third party liability insurance	79 675	73 028
Fire and other damage to property insurance	20 889	16 393
General liability insurance	7 337	6 396
Motor own damage insurance	7 169	8 623
Credit and suretyship insurance	2 323	2 044
Miscellaneous financial loss	2 135	275
Medical expense insurance	1 983	1 509
Income protection insurance	1 248	1 144
Marine, aviation and transport insurance	725	544
	123 484	**109 956**

8. ACQUISITION COSTS

	2020	2019
Commissions to brokers and other intermediaries	(24 218)	(27 962)
Personnel expenses	(14 712)	(15 050)
Commissions and other agent related expense	(7 356)	(7 254)
Office expenses	(2 671)	(3 708)
Premises expenses	(1 681)	(1 443)
Marketing and representation expenses	(1 622)	(1 403)
Change of deferred acquisition costs	(1 567)	1 751
Depreciation and amortisation	(883)	(942)
Other acquisition costs	(345)	(321)
Compulsory state social security contributions related to agents	(261)	(443)
Reinsurance commission	773	568
	(54 543)	**(56 207)**

Deferred client acquisition costs

As at 31 December 2018	**20 796**
Deferred client acquisition costs additions to new contracts	35 167
Amortisation of deferred acquisition costs	(33 415)
As at 31 December 2019	**22 548**
Deferred client acquisition costs additions to new contracts	29 485
Amortisation of deferred acquisition costs	(31 052)
As at 31 December 2020	**20 981**

Deferred acquisition cost (DAC) change during 2020 is EUR (1 567) thousand (during 2019: EUR 1 751 thousand) and presented in Statement of comprehensive income Acquisition costs position as disclosed above.

9. ADMINISTRATIVE EXPENSE

	2020	2019
Wages and salaries:		
- salaries to staff	(10 121)	(9 456)
- state compulsory social insurance contributions	(903)	(981)
Information technology and communication expense	(1 574)	(1 619)
Office expenses	(1 257)	(469)
Advertisement and public relations	(836)	(1 367)
Premises utility, maintenance, repair expense and rent	(793)	(837)
Professional services	(645)	(509)
Depreciation and amortisation	(555)	(535)
Other administrative expense	(341)	(802)
Transport	(120)	(225)
	(17 145)	**(16 800)**

(All amounts in thousands of euro unless otherwise stated)

10. OTHER EXPENSE RELATED TO INSURANCE ACTIVITIES

	2020	2019
Motor Bureau fee	(1 807)	(2 019)
Fees to regulatory institutions and other expenses	(584)	(513)
	(2 391)	**(2 532)**

11. INVESTMENT ACTIVITY RESULT

	2020	2019
Interest income:		
Government debt securities	1 924	2 267
Corporate debt securities	215	175
	2 139	**2 442**
Other profit (loss) from investment activity:		
Equity instruments measured at FVOCI:		
Dividend income	123	145
Realisation result	-	-
Debt instruments measured at FVOCI realised gains/(losses):		
Government debt securities	92	-
Corporate debt securities	58	-
Financial assets at fair value through profit or loss:		
Collective investment undertakings unrealised gains/(losses)	805	1 770
Investment valuation and management expenses:		
Revaluation of investment property	-	-
Investment management expenses	(516)	(409)
	562	**1 506**
	2 701	**3 948**

Derecognised equity instruments measured at FVOCI dividend income value is EUR 12 thousand during the 2020 financial year (EUR 0 in 2019), fair value at the date of derecognition is EUR 140 thousand (EUR 162 thousand in 2019).

12. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS

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

	Exposure 31.12.2020	ECL 31.12.2020	Exposure 31.12.2019	ECL 31.12.2019
Debt instruments measured at FVOCI (Note 19)	266 970	(97)	237 331	(79)
Other receivables (Note 24)	2 555	(55)	3 368	(55)
	269 525	**(152)**	**240 699**	**(134)**

13. FINANCIAL INCOME AND EXPENSE

	2020	2019
Financial income		
Gain from foreign currency fluctuations	17	17
Financial expense		
Bank commission	(755)	(781)
Interest from operating lease (see Note 38)	(68)	(58)
Total financial expense	**(823)**	**(839)**

(All amounts in thousands of euro unless otherwise stated)

14. OTHER INCOME AND EXPENSES

	2020	2019
Other income		
Income from properties	111	33
Other income	374	127
Total other income	**485**	**160**
Other expenses	**(833)**	-

15. CORPORATE INCOME TAX

	2020	2019
Corporate income tax for the reporting year	(3 369)	(3 148)
Change in deferred income tax recognized through profit or loss	(109)	(2)
Total income tax expense	**(3 478)**	**(3 150)**

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.

	2020	2019
Profit / (loss) before tax	**29 210**	**24 661**
Theoretically calculated tax at a tax rate of 15%	4 382	3 699
Theoretical effect of non-deductible expenses and non-taxable income	(904)	(549)
Total tax	**3 478**	**3 150**

Effective corporate income tax rate in 2020 is 11.9% (2019: 12.8%).

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

	2020	2019
Deferred income tax asset (liability) as at the beginning of the reporting year	(531)	(215)
Deferred income tax changes recognised through profit or loss	(109)	(2)
Deferred income tax changes recognised through other comprehensive income	(156)	(314)
Deferred income tax asset (liability) as at the end of the reporting year	**(796)**	**(531)**

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:

	31.12.2020	31.12.2019
Deferred income tax effect of:		
temporary difference for accrued expenses	1 568	1 509
temporary difference for impairment for overdue debtors	99	131
temporary difference for property revaluation and depreciation	16	5
other temporary differences	(755)	(640)
temporary difference for recoverable regress	(179)	(265)
temporary difference for financial assets at fair value through other comprehensive income revaluation	(1 213)	(1 057)
temporary difference for financial asset at fair value through profit or loss revaluation	(332)	(214)
Deferred income tax asset (liability) as at the end of the reporting year	**(796)**	**(531)**

The Company does not have significant tax positions that are subject to uncertainties and therefore does not form an amount of uncertainty in the calculation of income tax in accordance with IFRIC Interpretation 23 Uncertainties relating to the measurement of income taxes.

(All amounts in thousands of euro unless otherwise stated)

Movement in deferred income tax balances:

	Net balance 31 December 2019	Recognised		Net balance 31 December 2020	31 December 2020	
		In P/L	In OCI		Deferred tax asset	Deferred tax liability
Accrued expenses	1 509	59	-	1 568	1 568	-
Trade and other receivables	131	(32)	-	99	99	-
Property	5	11	-	16	16	-
Other amounts causing temporary differences	(640)	(115)	-	(755)	-	(755)
Recoverable regress	(265)	86	-	(179)	-	(179)
Financial assets at fair value through other comprehensive income (former available-for-sale)	(1 057)	-	(156)	(1 213)	-	(1 213)
Financial asset at fair value through profit or loss	(214)	(118)	-	(332)	-	(332)
Deferred tax asset/ (liability) before set-off					**1 683**	**(2 479)**
Set-off of tax					(1 683)	1 683
Net deferred tax asset/ (liability)					**-**	**(796)**

	Net balance 31 December 2018	Recognised		Net balance 31 December 2019	31 December 2019	
		In P/L	In OCI		Deferred tax asset	Deferred tax liability
Accrued expenses	1 251	258	-	1 509	1 509	-
Trade and other receivables	132	(1)	-	131	131	-
Property	(9)	14	-	5	5	-
Other amounts causing temporary differences	(588)	(52)	-	(640)	-	(640)
Recoverable regress	(299)	34	-	(265)	-	(265)
Financial assets at fair value through other comprehensive income (former available-for-sale)	(743)	-	(314)	(1 057)	-	(1 057)
Financial asset at fair value through profit or loss	41	(256)	-	(214)	-	(214)
Deferred tax asset/ (liability) before set-off					**1 645**	**(2 176)**
Set-off of tax					(1 645)	1 645
Net deferred tax asset/ (liability)					**-**	**(531)**

(All amounts in thousands of euro unless otherwise stated)

16. INTANGIBLE ASSETS

	Software	Total
As at 31 December 2018		
Acquisition cost	21 853	21 853
Accumulated amortisation	(18 946)	(18 946)
Net book value	**2 907**	**2 907**
In 2019		
Additions	1 321	1 321
Amortisation charge	(897)	(897)
Closing net book value	**3 331**	**3 331**
As at 31 December 2019		
Acquisition cost	23 174	23 174
Accumulated amortisation	(19 843)	(19 843)
Net book value	**3 331**	**3 331**
In 2020		
Additions	1 080	1 080
Amortisation charge	(821)	(821)
Closing net book value	**3 590**	**3 590**
As at 31 December 2020		
Acquisition cost	24 254	24 254
Accumulated amortisation	(20 664)	(20 664)
Net book value	**3 590**	**3 590**

(All amounts in thousands of euro unless otherwise stated)

17. PROPERTY AND EQUIPMENT

	Land and buildings	Lands and premises lease by IFRS 16[1]	Other (structures)	Construction in progress and prepayments	Leasehold improve-ments	Motor vehicles	Office and other equipment	Total
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**
As at 1 January 2019 initial recognition by IFRS 16	-	2 092	-	-	-	-	-	**2 092**
In 2019								
Additions	94	-	-	532	171	1 259	145	**2 201**
Additions by IFRS 16	-	478	-	-	-	-	-	**478**
Disposals	(97)	-	-	-	-	(841)	(2)	**(940)**
Reclassification	241	-	-	(278)	-	-	37	**-**
Discarded	-	-	-	-	(1)	-	(187)	**(188)**
Depreciation charge	(276)	-	(61)	-	(28)	(509)	(151)	**(1 025)**
Depreciation by IFRS 16	-	(583)	-	-	-	-	-	**(583)**
Depreciation on disposed assets	28	-	-	-	-	688	1	**717**
Depreciation on discarded assets	-	-	-	-	-	-	187	**187**
Closing net book value	**7 587**	**1 987**	**361**	**670**	**188**	**2 834**	**295**	**13 922**
As at 31 December 2019								
Acquisition cost	14 856	2 570	1 146	670	788	4 574	2 514	**27 396**
Accumulated depreciation	(7 269)	(583)	(785)	-	(600)	(1 740)	(2 219)	**(13 474)**
Net book value	**7 587**	**1 987**	**361**	**670**	**188**	**2 834**	**295**	**13 922**
In 2020								
Additions	39	-	-	2 391	34	315	150	**2 929**
Additions by IFRS 16	-	1 180	-	-	-	-	-	**1 180**
Disposals	-	-	(10)	-	-	(571)	(1)	**(582)**
IFRS 16 decreases (cancellations)	-	(7)	-	-	-	-	-	**(7)**
Reclassification	-	-	-	-	-	19	-	**19**
Discarded	-	-	(69)	-		-	(39)	**(108)**
Depreciation charge	(280)	-	(61)	-	(47)	(493)	(159)	**(1 040)**
Depreciation by IFRS 16	-	(650)	-	-	-	-	-	**(650)**
Depreciation on disposed assets	-	-	10	-	-	345	-	**355**
Depreciation on discarded assets	-	-	69	-	-	-	39	**108**
Closing net book value	**7 346**	**2 510**	**300**	**3 061**	**175**	**2 449**	**285**	**16 126**
As at 31 December 2020								
Acquisition cost	14 895	3 743	1 067	3 061	822	4 337	2 624	**30 549**
Accumulated depreciation	(7 549)	(1 233)	(767)	-	(647)	(1 888)	(2 339)	**(14 423)**
Net book value	**7 346**	**2 510**	**300**	**3 061**	**175**	**2 449**	**285**	**16 126**

[1] Land and premises lease by IFRS 16 is disclosed in Note 38.

(All amounts in thousands of euro unless otherwise stated)

18. INVESTMENT PROPERTY

Net book value at 31 December 2018	**1 500**
Change in fair value in 2019	-
Net book value at 31 December 2019	**1 500**
Change in fair value in 2020	-
Net book value at 31 December 2020	**1 500**

Investment property comprises commercial property, building located in Vilnius, that the Company rents out 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. No disposal or reclassification of investment property during 2020 and 2019 respectfully were recognised. Rental income during 2020 year is EUR 111 thousand (2019: EUR 33 thousand) recognised in the statement of Comprehensive Income under Other income as disclosed in Note 14. No operating expenses for Investment property were recognised during 2020 and 2019 respectfully.

Measurement of investment property is sensitive to macroeconomic environment (e.g. economic growth, inflation rate, interest rate), supply and demand on individual local property markets, the value may change depending on the current market situation. 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 measurement for Investment property of EUR 1 500 thousand (2019: EUR 1 500 thousand) has been categorised as Level 3 in the fair value hierarchy. Valuation technique used measuring fair value of investment property, as well as the significant unobservable inputs used as at 31 December 2020 was discounted cash flows technique. Discount rate used was 8.69% and rental income per sq. m. is in the range between EUR 7 to 25. Anticipated future rental price growth is from 0.9% to 2%.

19. FINANCIAL INVESTMENTS

	31.12.2020		**31.12.2019**	
	Acquisition cost	**Fair value**	**Acquisition cost**	**Fair value**
Financial investments at fair value through other comprehensive income:				
Lithuania government debt securities	131 611	133 936	119 904	121 993
Poland government debt securities	40 246	39 508	40 246	40 434
Romania government debt securities	19 451	19 538	20 485	20 954
Croatia government debt securities	21 926	21 847	20 242	20 516
Bulgaria government debt securities	12 138	12 353	12 138	12 546
Hungary government debt securities	14 109	14 254	4 292	4 401
Latvia government debt securities	5 286	5 492	3 285	3 429
Spain government debt securities	2 414	2 447	2 414	2 455
Ireland government debt securities	1 744	1 654	1 744	1 708
Slovenia government debt securities	-	-	-	-
Corporate debt securities	15 337	15 941	8 623	8 895
Shares (irreversible option)	1 522	2 525	1 696	2 195
Total Financial investments at fair value through other comprehensive income:	**265 784**	**269 495**	**235 069**	**239 526**
Financial investments at fair value through profit or loss - mandatory:				
Collective investment undertakings	22 022	24 335	22 022	23 529
Total financial investments:	**287 806**	**293 830**	**257 091**	**263 055**

(All amounts in thousands of euro unless otherwise stated)

Financial investments at FVOCI in total of EUR 269 495 thousand at fair value are quoted. 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. As at 31 December 2020, the Company did not have unquoted financial investments measured at FVOCI.

Financial investments at FVTPL in total of EUR 1 891 thousand at fair value are quoted (Level 1 in the fair value hierarchy). Assets amounting to EUR 22 444 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.

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 2019	**(79)**	-	-	**(79)**
ECL measurements	(13)	-	-	(13)
New assets acquired	(11)	-	-	(11)
Financial assets derecognised	6	-	-	6
As at 31 December 2020	**(97)**	**-**	**-**	**(97)**

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

20. OTHER COMPREHENSIVE INCOME (OCI)

	2020	**2019**
Items that are or may be reclassified to profit or loss:		
Revaluation of debt securities measured at fair value through OCI	307	1 517
Realisation result reclassified to profit or loss	150	41
Items that will not be reclassified to profit or loss:		
Revaluation of equity instruments measured at fair value through OCI	393	265
	850	**1 823**

Amounts are presented net of related tax effect.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2020	**31.12.2019**
Gross receivables from direct insurance operations	52 345	54 830
Impairment for receivables from direct insurance operations	(366)	(561)
	51 979	**54 269**

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

	Gross 31.12.2020	**Life-time ECL 31.12.2020**	**Gross 31.12.2019**	**Impairment 31.12.2019**
Current	51 439	(163)	53 045	(201)
Past due 0-30 days	663	(43)	1 374	(61)
Past due 31-60 days	71	(6)	100	(8)
Past due more than 60 days	172	(154)	311	(291)
	52 345	**(366)**	**54 830**	**(561)**

(All amounts in thousands of euro unless otherwise stated)

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 2018	**551**
Additional allowances	597
Recovered debts	(407)
Written-off debts	(180)
As at 31 December 2019	**561**
Debts recovered	(5)
Debts written-off	(190)
As at 31 December 2020	**366**

22. REINSURANCE RECEIVABLES

	31.12.2020	**31.12.2019**
Gross receivables from reinsurance operations	3 662	3 433
Impairment for receivables from reinsurance operations	(278)	(278)
	3 384	**3 155**

23. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2020	**31.12.2019**
Deferred Motor Bureau fee	732	871
Deferred information system maintenance fees	574	537
Other deferred expenses	640	576
	1 946	**1 984**

24. OTHER RECEIVABLES

	31.12.2020	**31.12.2019**
Receivables for subrogation transactions	1 326	1 768
Receivables from the Motor Bureau	673	671
Other receivables	275	564
Receivables from prepayments	281	365
Impairment of other receivables	(55)	(55)
Total other receivables	**2 500**	**3 313**

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 2018	**80**
ECL measurements	12
Debts recovered	(15)
Debts written-off	(22)
As at 31 December 2019	**55**
ECL measurements	-
Debts recovered	-
Debts written-off	-
As at 31 December 2020	**55**

(All amounts in thousands of euro unless otherwise stated)

25. CASH AND CASH EQUIVALENTS

	31.12.2020	31.12.2019
Cash in banks	15 982	7 685
	15 982	**7 685**

In 2020 and 2019, 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 2019 the number of ordinary shares was the same). The nominal value of one share as at 31 December 2020 is EUR 14.48 (as at 31 December 2019, 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 2020, is EUR 11 665 thousand (as at 31 December 2019 – EUR 11 665 thousand).

The Company's shares are not listed.

b) The shareholder

As at 31 December 2019 and as at 31 December 2018, 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 2020 was the same as at 31 December 2019 and amounted to EUR 2 333 thousand. Legal reserve was formed in full capacity and cannot be distributed.

The revaluation reserve increased throughout the year from EUR 5 992 thousand at 31 December 2019 to EUR 6 876 thousand at 31 December 2020.

e) Profit distribution as dividends

In accordance with the Company's Dividend Policy, the amount of dividends determined as available for distribution for the year ended 31 December 2020 is EUR 21 million. However, considering uncertainties related with COVID-19 pandemic development and its economic impact, and taking into account EIOPA Financial Stability Report Recommendations published on 18 December 2020, also related recommendation of the Bank of Lithuania, the Management of the Company reduced foreseeable dividends to EUR 15 million, and the remainder of the net profit of 2020 is to be transferred to the Company's retained earnings. The final amount of dividends is subject to recommendation of the Management Board, proposal of the Supervisory Board and the decision of the General Shareholders' Meeting.

f) Dividends per share

There were no dividend payments during 2020. Value of dividends per share paid during 2019 was EUR 10.51.

27. TAXES

	31.12.2020	31.12.2019
Compulsory state social security contributions	236	232

(All amounts in thousands of euro unless otherwise stated)

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2020	31.12.2019
Accrued expenses		
Commissions	7 225	7 664
Operating expenses	5 044	4 500
Intermediary commissions	1 177	1 322
Additional sales bonuses	548	796
Audit expenses and related services	57	39
Total accrued expenses	**14 051**	**14 321**
Other accrued expenses and deferred income		
Not settled insurance prepayments	1 951	1 321
Other deferred income	200	66
Total accrued expenses and deferred income	**2 151**	**1 387**
	16 202	**15 708**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2019	**7 664**	**4 500**	**3 544**	**15 708**
Additions	42 892	6 485	20 973	70 350
Used and reversed	(43 331)	(5 941)	(20 584)	(69 856)
As at 31 December 2020	**7 225**	**5 044**	**3 933**	**16 202**
Long-term part	-	-	-	-
Short-term part	**7 225**	**5 044**	**3 933**	**16 202**

	Accruals for commissions	Accruals for operating liabilities	Other accrued expenses and deferred income	Total
As at 31 December 2018	**6 961**	**3 894**	**3 372**	**14 227**
Additions	46 734	5 574	24 008	76 316
Used and reversed	(46 031)	(4 968)	(23 836)	(74 835)
As at 31 December 2019	**7 664**	**4 500**	**3 544**	**15 708**
Long-term part	-	-	-	-
Short-term part	**7 664**	**4 500**	**3 544**	**15 708**

29. OTHER LIABILITIES

	31.12.2020	31.12.2019
Payable salaries, bonuses and other related payments	10 258	8 877
Financial liability by IFRS 16 (see Note 38)	2 569	2 018
Due to the Motor Insurers' Bureau	213	357
Other payables related to insurance activities	294	204
Other liabilities	3 106	2 780
	16 440	**14 236**

(All amounts in thousands of euro unless otherwise stated)

30. RESULT OF CEDED REINSURANCE

	2020	2019
Reinsurers' share in written premiums (see Note 4)	(9 320)	(8 322)
Reinsurers' share in changes in unearned premiums (see Note 5)	277	(664)
Reinsurance commission income (see Note 8)	773	568
Reinsurers' share in claims (see Note 6)	2 115	2 788
Reinsurers' share in changes in outstanding claims reserve (see Note 7)	2 470	5 469
Net result of ceded reinsurance activities:	**(3 685)**	**(161)**

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

	2020	2019
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Reinsurance premiums ceded	(7 327)	(6 384)
Change of reinsurance unearned premium reserve	261	(184)
Reinsurance claims	1 467	6 586
Change of reinsurance outstanding claims reserve	2 595	4 273
	(3 004)	**3 841**

	2020	2019
Balta AAS (Group company):		
Master agreement's premiums	217	271
Reinsurance premiums ceded	(2)	(41)
Change of reinsurance unearned premium reserve	(14)	(9)
Reinsurance claims	20	13
Change of reinsurance outstanding claims reserve	(15)	8
	206	**242**

(All amounts in thousands of euro unless otherwise stated)

Other transactions

POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):	2020	2019
Dividends paid	-	(8 470)
Indemnity cost and handling fee	293	133
	293	**(8 337)**

Other Group companies (Balta AAS, LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI, PZU CENTRUM OPERACIJI S.A.):	2020	2019
Indemnity cost and handling fee	(207)	10
Compensation of expenses	92	484
Other purchases	-	(36)
	(115)	**458**

Balances with related parties

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

	31.12.2020	31.12.2019
Reinsurers' share in unearned premium reserves with PZU	838	576
Reinsurers' share in outstanding claims reserves with PZU	11 531	8 498
Reinsurers' share in unearned premium reserves with Balta AAS	-	14
Reinsurers' share in outstanding claims reserves with Balta AAS	-	15
Reinsurance receivables from PZU	2 417	2 347
Reinsurance receivables from Balta AAS	43	13
Receivables from PZU	77	268
Receivables from Balta AAS	63	1
Receivables from other related parties	35	35
Reinsurance payables to PZU	(1 382)	(1 578)
Reinsurance payables to Balta AAS	-	(7)
Payables to other related parties	-	(4)
	13 622	**10 178**

b) Management remuneration

In 2020, the Company paid remuneration, including compulsory state social security contributions, to the Management Board in the amount of EUR 1 922 thousand (2019: EUR 1 789 thousand) and to the Supervisory Board in the amount of EUR 0 thousand (2019: EUR 0 thousand).

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 unrecognised 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 2020 there were EUR 3 732 thousand (31 December 2019: EUR 2 956 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 2020.

33. RISK MANAGEMENT

The Risk Management Strategy defines a consistent framework of the Risk Management System (including security management as part of operational risk management) and the Internal Control System (including Compliance function) as the element supporting Risk Management System in the Company.

The Company implements the Strategy, policies and methodologies with specific rules for risk identification, measurement and assessment, monitoring and control, reporting as well as taking management actions in response to this risk.

Risk Management Strategy is the main document describing the risk management framework in the Company. Risk Management Strategy is supported by the risk management policies and various additional documents (procedures, methodologies, etc.). Risk Appetite document as an integral part of Risk Management Strategy determines the maximum level of admissible risk by setting limits and thresholds for risks categories.

The risk management process consists of the following steps:

- Identification;
- Measurement and assessment;
- Monitoring and control;
- Reporting;
- Management actions.

The Risk Appetite framework is established in order to determine the maximum level of admissible risk when setting limits and thresholds on risks categories and as a level which, if exceeded, determines management actions necessary to reduce further growth of the risk.

34. 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.

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.

(All amounts in thousands of euro unless otherwise stated)

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 and the amounts below represent the test losses impacting result before taxes. Sensitivity of RBNS relating to annuities is also considered, which depends on indexation of social benefits and discounting rate used. The Company applies a joint 5% rate, which compared to last year 4,5% rate increased mainly because of decreased EIOPA risk free rate yield curve, used for discounting, other changes being immaterial. Annuity RBNS as consisting of non-current liabilities naturally is rather sensitive to the rate, and 0.5% change would result in RBNS change of approximately EUR 1.2 million.

Sensitivity analysis for claims reserves at 31.12.2020:

	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	737	(729)	25	(25)
General liability insurance	126	(126)	8	(8)
Fire and other damage to property insurance	63	(63)	5	(5)
Medical expense insurance	43	(43)	1	(1)
Credit and suretyship insurance	19	(19)	1	(1)
Miscellaneous financial loss	16	(16)	1	(1)
Income protection insurance	16	(16)	1	(1)
Motor own damage insurance	12	(12)	4	(4)
Marine, aviation and transport insurance	7	(7)	1	(1)
Total	**1 039**	**(1 031)**	**47**	**(47)**

(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 2020	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	135 710	133 785	269 495
Financial asset at fair value through profit or loss	4 168	20 167	24 335
Insurance and reinsurance debtors	38 667	16 696	55 363
Reinsurers' share of outstanding claims reserves	9 005	4 806	13 811
Cash and cash equivalents	14 900	1 083	15 983
Other receivables	2 454	46	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**204 904**	**176 582**	**381 486**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(67 212)	(56 272)	(123 484)
Insurance and reinsurance creditors	(3 401)	(2 685)	(6 086)
IFRS 16 lease financial liability	(1 213)	(1 356)	(2 569)
Other financial liabilities	(796)	(236)	(1 032)
Total financial liabilities and outstanding claims reserves	**(72 622)**	**(60 549)**	**(133 171)**
Net position as at 31 December 2020	**132 282**	**116 033**	**248 315**

Year 2019	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	126 799	112 727	239 526
Held-to-maturity financial investments	3 766	19 763	23 529
Insurance and reinsurance debtors	40 437	16 987	57 424
Reinsurers' share of outstanding claims reserves	6 316	5 024	11 340
Cash and cash equivalents	6 785	900	7 685
Other receivables	2 920	393	3 313
Total financial assets and reinsurers' share of outstanding claims reserves	**187 023**	**155 794**	**342 817**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(59 615)	(50 341)	(109 956)
Insurance and reinsurance creditors	(3 771)	(3 106)	(6 877)
IFRS 16 lease financial liability	(855)	(1 163)	(2 018)
Other financial liabilities	(829)	(232)	(1 061)
Total financial liabilities and outstanding claims reserves	**(65 070)**	**(54 842)**	**(119 912)**
Net position as at 31 December 2019	**121 953**	**100 952**	**222 905**

(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:

	2020	**2019**
Personal accident & Travel medical expense	106	102
Motor own damage	150	150
Motor vehicle third party liability	600	400
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 174	1 163
General TPL insurance	352	349
Debt securities and guarantees	470	465

Liability adequacy test

The technical provision for unexpired risks is formed for unexpired risks under general insurance contracts when the probable value of insurance benefits and expenses attributable to unexpired periods of insurance policies valid at the end of the reporting period exceeds the technical provision for unearned premiums related to these insurance policies. At the end of the financial reporting period, the Company assesses the adequacy of liabilities and determines whether the insurance liabilities recognized for insurance policies valid during the reporting year are sufficient. If the assessment of the adequacy of liabilities reveals that the carrying amount of liabilities is insufficient, this shortfall is recognized as a loss for the financial year in the formation of a technical provision for unexpired risks.

Unexpired risk reserve as at 31 December 2020 is EUR 5.4 million (31 December 2019: EUR 3.1 million) and disclosed below:

	31.12.2020	**31.12.2019**
Motor vehicle third party liability insurance	1 896	1 491
Motor own damage insurance	1 007	405
Miscellaneous financial loss	716	111
Credit and suretyship insurance	710	374
Medical expense insurance	710	347
General liability insurance	315	204
Fire and other damage to property insurance	74	186
Income protection insurance	24	11
Marine, aviation and transport insurance	0	0
	5 452	**3 129**

35. 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.

(All amounts in thousands of euro unless otherwise stated)

35.1 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.

The impairment model in IFRS 9 is based on an 'expected credit loss' 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 are 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. The Company considers expected credit loss for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific expected credit loss. All individually significant receivables found not to be specifically impaired are then collectively assessed for expected credit loss. Receivables that are not individually significant are collectively assessed for expected credit loss. As the Company's receivables are mostly short-term, the Company estimates that the expected credit loss allowances for Receivables from ceded reinsurance and other debtors according to IFRS 9 are not material.

a) Maximum credit exposure:

	31.12.2020	31.12.2019
Lithuania government debt securities	133 936	121 993
Poland government debt securities	39 508	40 434
Collective investment undertakings	24 335	23 529
Romania government debt securities	19 538	20 954
Croatia government debt securities	21 847	20 516
Bulgaria government debt securities	12 353	12 546
Corporate debt securities	15 941	8 895
Cash and cash equivalents	15 982	7 685
Hungary government debt securities	14 254	4 401
Latvia government debt securities	5 492	3 429
Spain government debt securities	2 447	2 455
Shares	2 525	2 195
Ireland government debt securities	1 654	1 708
Slovenia government debt securities	-	-
Credit risk	**309 812**	**270 740**
Receivables due from policyholders	50 791	52 293
Outstanding claims reserve, reinsurers' share	13 811	11 340
Other receivables	2 500	3 313
Reinsurance debtors	3 384	3 155
Receivables due from intermediaries	1 188	1 976
Reinsurers' share in unearned premium reserve	1 096	819
	72 770	**72 896**
Maximum credit exposure, total	**382 582**	**343 636**

(All amounts in thousands of euro unless otherwise stated)

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

Rated:	31.12.2020	31.12.2019
AA	1 378	1 920
A	16 238	12 488
Without rating	675	906
Assets related to reinsurance	**18 291**	**15 314**

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

Year 2020	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	1 654	178 934	70 440		-	251 029
Corporate debt securities	-	-	154	12 639	3 149	-	15 941
Collective investment undertakings	-	-	-	-	-	24 335	24 335
Shares	-	-	-	-	-	2 525	2 525
Total investment assets	**-**	**1 654**	**179 088**	**83 079**	**3 149**	**26 860**	**293 830**

Year 2019	Rated AAA	AA	A	BBB	BB	Without rating	Total
Government debt securities	-	1 708	165 856	47 597	13 275	-	228 436
Corporate debt securities	-	-	153	2 432	6 310	-	8 895
Collective investment undertakings	-	-	-	-	-	23 529	23 529
Shares	-	-	-	-	-	2 195	2 195
Total investment assets	**-**	**1 708**	**166 009**	**50 029**	**19 585**	**25 724**	**263 055**

35.2 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 2020	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	13 015	182 358	98 457	293 830
Insurance and reinsurance debtors	54 751	583	29	55 363
Reinsurers' share of outstanding claims reserves	8 866	2 949	1 996	13 811
Cash and cash equivalents	15 982	-	-	15 982
Other receivables	2 500	-	-	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**95 114**	**185 890**	**100 482**	**381 486**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(63 625)	(34 939)	(24 920)	(123 484)
Insurance and reinsurance creditors	(6 086)	-	-	(6 086)
IFRS 16 lease financial liability	(554)	(1 270)	(745)	(2 569)
Other financial liabilities	(1 032)	-	-	(1 032)
Total financial liabilities and outstanding claims reserves	**(71 297)**	**(36 209)**	**(25 665)**	**(133 171)**
Net position as at 31 December 2020	**23 817**	**149 681**	**74 817**	**248 315**

(All amounts in thousands of euro unless otherwise stated)

Year 2019	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	26 566	161 728	74 761	263 055
Insurance and reinsurance debtors	55 537	1 831	56	57 424
Reinsurers' share of outstanding claims reserves	6 668	3 000	1 672	11 340
Cash and cash equivalents	7 685	-	-	7 685
Other receivables	3 313	-	-	3 313
Total financial assets and reinsurers' share of outstanding claims reserves	**99 769**	**166 559**	**76 489**	**342 817**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(57 927)	(29 188)	(22 841)	(109 956)
Insurance and reinsurance creditors	(6 877)	-	-	(6 877)
IFRS 16 lease financial liability	(545)	(1 110)	(363)	(2 018)
Other financial liabilities	(1 061)	-	-	(1 061)
Total financial liabilities and outstanding claims reserves	**(66 410)**	**(30 298)**	**(23 204)**	**(119 912)**
Net position as at 31 December 2019	**33 359**	**136 261**	**53 285**	**222 905**

35.3 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:

	2020	2019
Corporate debt securities	1.64%	2.08%
Government debt securities	0.80%	1.00%
Collective investment undertakings	0%	0.21%

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:

		2020	2019
Market interest rate and impact on fair value	+0.5 percent point	(5 800)	(5 024)
	-0.5 percent point	5 800	5 024

(All amounts in thousands of euro unless otherwise stated)

b) Fair value determination

Financial assets fair value hierarchy consists of three levels. Level 1 – measured based on listed prices (unadjusted) from active markets for identical assets, i.e. listed liquid debt instruments, listed shares, listed derivatives. Level 2 assets measured based on input data other than listed prices, classified to Level 1, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market, i.e. fund units, listed debt instruments measured based on the valuations published by an authorised information service and others. Level 3 are assets measured based on input data unobserved on existing markets, they include investment property. The split of financial values by levels is described in Notes 18 and 19.

Financial assets and financial liabilities other than those reflected at their fair value 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.

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 2020	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	269 495	-	269 495
Financial asset at fair value through profit or loss	24 335	-	24 335
Insurance and reinsurance debtors	55 363	-	55 363
Reinsurers' share of outstanding claims reserves	13 643	168	13 811
Cash and cash equivalents	15 968	14	15 982
Other receivables	2 500	-	2 500
Total financial assets and reinsurers' share of outstanding claims reserves	**381 304**	**182**	**381 486**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(118 645)	(4 839)	(123 484)
Insurance and reinsurance creditors	(6 086)	-	(6 086)
IFRS 16 lease financial liability	(2 569)	-	(2 569)
Other financial liabilities	(1 032)	-	(1 032)
Total financial liabilities and outstanding claims reserves	**(128 332)**	**(4 839)**	**(133 171)**
Net position as at 31 December 2020	**252 972**	**(4 657)**	**248 315**

(All amounts in thousands of euro unless otherwise stated)

Year 2019	EUR	Other	Total
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	239 526	-	239 526
Held-to-maturity financial investments	23 529	-	23 529
Insurance and reinsurance debtors	57 424	-	57 424
Reinsurers' share of outstanding claims reserves	11 169	171	11 340
Cash and cash equivalents	7 685	-	7 685
Other receivables	3 313	-	3 313
Total financial assets and reinsurers' share of outstanding claims reserves	**342 646**	**171**	**342 817**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(106 230)	(3 726)	(109 956)
Insurance and reinsurance creditors	(6 877)	-	(6 877)
IFRS 16 lease financial liability	(2 018)		(2 018)
Other financial liabilities	(1 061)	-	(1 061)
Total financial liabilities and outstanding claim reserves	**(116 186)**	**(3 726)**	**(119 912)**
Net position as at 31 December 2019	**226 460**	**(3 555)**	**222 905**

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.

36. CAPITAL RISK MANAGEMENT

The Company is obliged to achieve and continuously maintain an appropriate level of capital to cover the solvency requirement. The Risk Appetite determines a targeted minimum level of own funds ensuring the defined minimum solvency ratio. The Management Board must be confident that the business holds enough capital to sustain it through significant (but realistic) negative impacts, yet at the same time provide itself with enough capital resource to satisfy its future growth ambitions.

In addition, the Company must ensure it maintains capital levels that comply with European solvency regulations and the requirements of the Bank of Lithuania. Starting from 1 January 2016, the Solvency II legislation is effective, and since then Solvency Capital Requirement (SCR) for the Company is calculated using the Standard Formula.

Own Risk and Solvency Assessment (ORSA) process is designed to make a clear link between the risks the Company has and the capital requirements resulting from taking on these risks as well as the prospective capital positions over the planning period. This Capital Management Plan is a significant element of the ORSA process that communicates the current capital position and the prospective capital position over the planning period and the need for any capital issuance or redemption.

Capital Management policy sets the minimum requirement for the capital management planning, organization, monitoring and remediation actions as well as for the measurement and reporting of capital position in order for the management of the Company to take timely and necessary actions.

The Company aims at:

- Maintenance of target solvency ratio above the lower level provided for the green zone, as defined in Risk Appetite;
- Effective capital management by optimizing the use of capital;
- Total shareholders return maximization for parent company investors in particular by optimizing the use of capital while maintaining safety;
- Maintenance of sufficient funds to cover the Company's liabilities to clients.

(All amounts in thousands of euro unless otherwise stated)

The Company's capital management process consists of the following stages:

- Planning;
- Organization;
- Monitoring;
- Remediation actions.

The main principles of determining the amount of proposed dividends to be paid out, as well as its approval and payment process are defined in the Company's Dividend Policy.

As at 31 December 2020 the Company assessed facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

37. LOSS DEVELOPMENT TABLE

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

Gross outstanding claims reserves at the end of accident year and cumulative incurred claims in subsequent years

At end of accident year	0	0	0	0	19 338	26 224	29 434	41 760	49 543	57 996	54 583	
1 year later	0	0	0	4 877	19 759	24 529	29 008	40 625	45 888	51 882		
2 years later	0	0	3 335	6 301	18 553	24 692	28 891	38 795	43 160			
3 years later	0	2 483	2 858	5 450	17 955	23 934	28 131	37 475				
4 years later	8 614	1 779	1 808	4 674	17 094	21 365	26 652					
5 years later	7 216	1 709	1 521	4 581	17 263	20 157						
6 years later	6 458	1 729	1 424	4 451	17 033							
7 years later	6 656	1 565	1 556	4 593								
8 years later	6 447	1 375	1 631									
9 years later	7 020	1 380										
10 years later	6 779											

Estonia Branch gross outstanding claims reserves as at acquisition date, 31 May 2015

	0	**82**	**553**	**1 979**	**2 923**	**4 319**	**-**	**-**	**-**	**-**		**9 856**
Gross claims paid												
1 year later	0	0	0	0	11 995	15 930	17 128	26 774	27 474	24 817		
2 years later	0	0	0	855	1 190	1 139	3 317	1 520	1 872			
3 years later	0	0	108	361	473	651	826	635				
4 years later	0	358	48	263	580	192	488					
5 years later	460	314	62	281	26	239						
6 years later	213	11	(24)	46	(31)							
7 years later	417	6	(61)	55								
8 years later	919	8	29									
9 years later	26	(1)										
10 years later	(146)											
Cumulative gross claims paid	**1 889**	**696**	**162**	**1 861**	**14 233**	**18 151**	**21 759**	**28 929**	**29 346**	**24 817**		**141 843**
CY (deficiency) excess	**241**	**(5)**	**(75)**	**(142)**	**230**	**1 208**	**1 479**	**1 320**	**2 728**	**6 114**		**13 098**

(All amounts in thousands of euro unless otherwise stated)

38. ASSET LEASE

a) Lease when a company is a lessee

The Company assesses lease agreements concluded during the financial period to determine whether they meet the criteria for right-of-use assets under IFRS 16. In assessing a lease, the leased asset is identified, the consideration for the use of the property, the contractual right to control the use of the property and the right to receive full economic benefits from its use over a period of time. At the inception of the lease, the right-of-use asset is measured at its acquisition cost, at the present value of all future payments. In the statement of financial position, right-of-use assets are classified in 'Property and equipment' position.

IFRS 16 right-of-use assets as at 31 of December 2020 consist of the lease of office premises of EUR 2 078 thousand (EUR 778 thousand in Lithuania and EUR 1 300 thousand in Estonia) and lease of land under buildings where insurance activities are carried out in Lithuania of EUR 432 thousand. As at 31 December 2020, the total value of right-of-use assets amounts to EUR 2 510 thousand. As at 31 December 2019, lease of office premises right-of-use assets amounted to EUR 1 728 thousand (EUR 592 thousand in Lithuania and EUR 1 136 thousand in Estonia) and the lease of land in Lithuania amounted to EUR 259 thousand. Total value of right-of-use assets as at 31 December 2019 amounted to EUR 1 987 thousand.

When the contract lacks interest rate implicit in the lease the Company sets lessee's incremental borrowing rate. Lessee's incremental borrowing rate is settled based on average interest rates for loans of similar characteristics as lease liabilities. As at 31 December 2020 the weighted average interest rate on recognition of lease liabilities in Lithuania was 3.14%, for the Estonian branch 2.65%. As at 31 December 2019, the weighted average interest rate on recognition of lease liabilities in Lithuania was 3.30% and 2.29% for the Estonian branch.

IFRS 16 right of use assets liabilities change:

31 December 2018	-		
1 January 2019	**2 092**	**31 December 2019**	**2 018**
New agreements, amendments	478	New agreements amendments	1 172
Lease liability payment	(610)	Lease liability payment	(690)
Lease liability interest	58	Lease liability interest	69
31 December 2019.	**2 018**	**31 December 2020**	**2 569**
Short-term	545	Short-term	554
Long-term	1 473	Long-term	2 015

Short-term and long-term lease liability:

	2020	2019
Short-term (payable up to 1 year)	**554**	**545**
Up to 3 months	144	**144**
From 3 months to 1 year	410	**401**
Long-term (payable after 1 year)	**2 015**	**1 473**
From 1 to 2 years	406	**417**
From 2 to 3 years	324	**251**
From 3 to 4 years	303	**223**
From 4 to 5 years	237	**219**
More than 5 years	745	**363**
Total lease liability	**2 569**	**2 018**

IFRS 16 lease liabilities are classified in the statement of financial position under "Other liabilities".

(All amounts in thousands of euro unless otherwise stated)

The Company paid lease expenses for right-of-use assets for the total amount of EUR 690 thousand during 2020, which are attributed to the item "Amounts from other financial activities" in the statement of cash flows (during 2019: EUR 610 thousand).

The Company has opted for exemptions from the IRFS 16 requirements for short-term contracts and low value leases, that is, recognizing the cost of such leases as operating leases.

	2020	**2019**
Depreciation of right-of-use assets:	**(652)**	**(583)**
- Land lease	(4)	(4)
- Premises lease	(648)	(579)
Right-of-use assets interest	(69)	(58)
Expenses relating to short-term leases and low value assets	(511)	(516)
Total lease expense	**(1 232)**	**(1 157)**

Depreciation of land as right-of-use asset is included in the statement of comprehensive income item "Acquisition costs" and depreciation of premises lease presented in an item of "Administrative expense". Right-of-use assets interest is attributed to the statement of comprehensive income, item "Financial income and expense".

b) Lease when a company is a lessor

The Company leases premises and classifies those leases as operating leases as it does not transfer substantially all the risks and rewards of the asset. Premises subleases are short-term or low value assets and are therefore classified as operating leases.

	2020	**2019**
Premises lease income	218	164

The table below provides an analysis of the off-balance sheet receivables for undue operating lease payments. Undiscounted amounts receivable after the reporting period from operating leases are disclosed.

Receivable amounts	**2020**	**2019**
Up to 1 year	197	195
From 1 to 2 years	127	117
From 2 to 3 years	125	115
From 3 to 4 years	59	115
From 4 to 5 years	3	52
More than 5 years	-	-
Total	**511**	**594**

39. COVID – 19 PANDEMIC IMPACT ASSESMENT

In spite of possible effects of COVID-19 pandemic continuation, the Management concluded that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date, Management's use of going concern basis of accounting is appropriate.

40. SUBSEQUENT EVENTS

No events have taken place from the Statement of Financial Position date to the date of approval of these financial statements that could materially affect the annual performance, cash flows or the financial position or related disclosures of Lietuvos draudimas AB as at and for the year ended on the reporting date.

Sidevahendid

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