LIETUVOS DRAUDIMAS

Independent Auditor's Report, Annual Management Report and Financial Statements for the Year Ended 31 December 2019

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

Phone: +370 5 2102600
Fax: +370 5 2102659
E-mail: vilnius@kpmg.lt
Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of Lietuvos draudimas AB

Report on the Audit of the Financial Statements

Opinion

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

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Company code: 111494971
VAT code: LT114949716

Measurement of claim reserves

The Company's gross of reinsurance outstanding claims reserves as at 31 December 2019: EUR 110 million (31 December 2018: EUR 90 million). The change in gross reinsurance outstanding claims reserves in 2019: EUR 20 million (increase) (2018: 13.6 million (increase)).

Reference to the financial statements: "Technical reserves" on page 39 (Summary of significant accounting policies) and Note 7 "Outstanding claim reserves" on page 49 (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 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, expected trends in court settlements and regress, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period - by reference to 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, comparing our independent estimates to the Company's estimates and seeking Management Board's explanations for any significant differences.

Other Information

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

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

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

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

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

We are also required to report on whether the Corporate Social Responsibility Report has been provided to us by the Company. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders 'meeting we were appointed on 28 March 2013 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed each two years under decision of the general shareholders 'meeting, and the total uninterrupted period of engagement is 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 31 March 2020 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
31 March 2020

Council

Name, Surname	*Position*
Roger Hilton Hodgkiss	Chairman of the Supervisory Board (until 24.05.2019)
Roger Hilton Hodgkiss	Member of the Supervisory Board (until 24.05.2019)
Katarzyna Anna Galus	Chairman of the Supervisory Board (from 27.05.2019)
Katarzyna Anna Galus	Member of the Supervisory Board
Marcin Goral	Member of the Supervisory Board
Weronika Dejneka	Member of the Supervisory Board
Jaroslaw Mioskowski	Member of the Supervisory Board
Jan Pstragowski	Member of the Supervisory Board (from 06.12.2019)

Board

Name, Surname	*Position*
Kęstutis Šerpytis	Chairman of the Board, Chief Executive Officer
Artūras Juodeikis	Board Member, Claims Department Director
Aurelija Kazlauskienė	Board Member, Strategy, Clients and Marketing Department Director
Julius Kondratas	Board Member, Underwriting Department Director
Raimondas Geleževičius	Board Member, Private Sales Department Director
Rafal Piotr Rybkowski	Board Member, Finance Department Director
Mihkel Uibopuu	Board Member, Manager of Lietuvos draudimas AB Eesti filiaal
Simonas Lisauskas	Board Member, Commercial Sales Department Director (from 10.06.2019)

Disclosure of Council Members participating in other organisations

Roger Hilton Hodgkiss

Position:	*Member of the Board*
Organisation:	*PZU SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000009831*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Member of the Board*
Organisation:	*PZU Zycie SA*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000030211*
Address:	*Jana Pawla Ave. II 24, 00-133 Warsaw, Poland*
Position:	*Chairman of the Supervisory Board*
Organisation:	*AAS BALTA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*40003049409*
Address:	*Raunas St. 10/12, LV-1039 Riga, Latvia*
Position:	*Chairman of the Supervisory Board*
Organisation:	*UAB PZU Lietuva gyvybės draudimas*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*110082737*
Address:	*Konstitucijos Ave. 7, LT-09308 Vilnius, Lithuania*
Position:	*Chairman of the Supervisory Board*
Organisation:	*Link4 Towarzystwo Ubezpieczen SA*
Legal form of the organisation:	*Insurance Joint Stock Company*
Company code:	*0000142452*
Address:	*Postepu 15, 02-676 Warsaw, Poland*

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

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

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

Katarzyna Anna Galus

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

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

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

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

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

Marcin Goral

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

Weronika Dejneka

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:	*Managing Director of Product Strategy and Customers*
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:	*Managing Director of Product Strategy and Customers*
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*

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*

Disclosure of Board Members participating in other organisations

Kęstutis Šerpytis

Position:	*Member of the Council*
Organisation:	*Lithuanian Insurers Association*
Legal form of the organisation:	*Association*
Company code:	*121737585*
Address:	*Gedimino Ave. 45-11, LT-01109 Vilnius, Lithuania*

Position:	*Member of the Council*
Organisation:	*Motor Insurers' Bureau of the Republic of Lithuania*
Legal form of the organisation:	*Association*
Company code:	*125709291*
Address:	*Algirdo St. 38, LT-03606 Vilnius, Lithuania*

Raimondas Geleževičius

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

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*

Rafal Piotr Rybkowski

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

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

Position:	*Member of the Supervisory Board*
Organisation:	*Bank BPH S.A.*
Legal form of the organisation:	*Joint Stock Company*
Company code:	*0000010260*
Address:	*Jana Palubickiego St. 2, 80-175 Gdansk, Poland*

Position:	*Member of the Supervisory Board*
Organisation:	*PayPro SA*
Legal form of the organisation:	*Joint-stock company (JSC)*
Company code:	*0000347935*
Address:	*Kanclerska Ave. 15, 60-327 Poznan, Poland*

Mihkel Uibopuu

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

Name and address of the independent auditor:

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(All amounts in thousands of euro unless otherwise stated)

	Note	2019	2018 (Restated, note 37)
Insurance income			
Gross written premiums	4	267 052	253 118
Reinsurers share in premiums	4	(8 322)	(7 960)
Net written premiums	4	258 730	245 158
Change in gross unearned premiums reserve	5	(8 399)	(7 779)
Change in unearned premiums reserve, reinsurers' share	5	(664)	(159)
Change in unearned premiums reserve	5	(9 063)	(7 938)
Net premiums earned		**249 667**	**237 220**
Other technical income		23	(16)
Total insurance income		**249 690**	**237 204**
Insurance expense			
Gross claims paid to policyholders		(138 148)	(128 085)
Claims settlement expense	37	(10 970)	(10 659)
Recovered losses		7 786	5 659
Claims paid	6	(141 332)	(133 085)
Reinsurers share	6	2 788	6 299
Net claims paid		(138 544)	(126 786)
Change in outstanding claims reserve	7	(19 680)	(13 606)
Change in outstanding claims reserve, reinsurers' share	7	5 469	(4 245)
Net incurred claims		**(152 755)**	**(144 637)**
Acquisition costs	8, 37	(56 207)	(54 370)
Administrative expense	9, 37	(16 800)	(16 233)
Other expense related to insurance activities	10, 37	(2 532)	(2 334)
Total insurance expense		**(75 539)**	**(72 937)**
Net result of insurance activities		**21 396**	**19 630**
Interest income	11	2 442	2 555
Other profit (loss) from investment activity	11	1 506	(1 368)
Change in expected credit loss	12	(21)	197
Financial income and expense	13	(822)	(678)
Other income and expense	14, 37	160	6
Profit / (loss) before tax		**24 661**	**20 342**
Income tax expense	15	(3 150)	(2 795)
Profit / (loss) for the year		**21 511**	**17 547**
Other comprehensive income (OCI)			
Items that are or may be reclassified to profit or loss	20	1 558	(1 390)
Items that will not be reclassified to profit or loss	20	265	(67)
Total comprehensive profit / (loss) for the reporting year		**23 334**	**16 090**

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

Notes on pages 35 to 79 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

31 March 2020

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2019	31.12.2018
ASSETS			
Intangible assets	16	**3 331**	**2 907**
Property and equipment	17	**13 922**	**10 983**
Investment property	18	**1 500**	**1 500**
Financial assets at fair value through other comprehensive income	19	239 526	202 455
Financial asset at fair value through profit or loss	19	23 529	30 523
Total investments		**263 055**	**232 978**
Receivables due from policyholders	21	52 293	48 475
Receivables due from intermediaries	21	1 976	1 854
Reinsurance receivables	22	3 155	2 660
Other receivables	24	3 313	3 461
Total receivables		**60 737**	**56 450**
Reinsurers' share in unearned premium reserve	5	819	1 483
Reinsurers' share in outstanding claims reserve	7	11 340	5 872
Reinsurers' share of reserves		**12 159**	**7 355**
Deferred acquisition costs	8	22 548	20 796
Other accrued income and deferred expense	23	1 984	2 094
Accrued income and deferred expense		**24 532**	**22 890**
Cash and cash equivalents	25	**7 685**	**5 567**
TOTAL ASSETS		**386 921**	**340 630**

Notes on pages 35 to 79 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

31 March 2020

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(All amounts in thousands of euro unless otherwise stated)

	Note	31.12.2019	31.12.2018
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	26	11 665	11 665
Share premium	26	937	937
Reserves	26	8 325	6 543
Retained earnings		88 882	75 800
TOTAL EQUITY AND RESERVES		**109 809**	**94 945**
LIABILITIES			
Unearned premium and unexpired risk reserves	5	129 274	120 875
Outstanding claims reserve	7	109 956	90 276
Technical reserves		**239 230**	**211 151**
Direct insurance creditors		4 456	3 863
Reinsurance creditors		2 421	3 151
Taxes	27	232	219
Corporate income tax liability		298	1 147
Deferred income tax liability	15	531	215
Accrued expenses and deferred income	28	15 708	14 227
Other liabilities	29	14 236	11 712
Total creditors		**37 882**	**34 534**
TOTAL LIABILITIES		**277 112**	**245 685**
TOTAL EQUITY, RESERVES AND LIABILITIES		**386 921**	**340 630**

Notes on pages 35 to 79 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

31 March 2020

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2019
(All amounts in thousands of euro unless otherwise stated)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2017	**11 665**	**937**	**2 333**	**4 724**	**63 625**	**83 284**
Initial application of IFRS 9	-	-	-	943	1 028	**1 971**
Balance at 1 January 2018	**11 665**	**937**	**2 333**	**5 667**	**64 653**	**85 255**
Other comprehensive income	-	-	-	(1 457)	-	**(1 457)**
Dividends paid	-	-	-	-	(6 400)	**(6 400)**
Net profit for the reporting period	-	-	-	-	17 547	**17 547**
Balance at 31 December 2018	**11 665**	**937**	**2 333**	**4 210**	**75 800**	**94 945**
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**

Notes on pages 35 to 79 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

31 March 2020

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(All amounts in thousands of euro unless otherwise stated)

	Note	2019	2018
Cash flows from operating activities			
Premiums received from direct insurance		259 853	246 497
Claims paid for direct insurance		(142 039)	(132 767)
Payments received from ceded reinsurance		1 838	4 902
Payments made for ceded reinsurance		(8 018)	(6 394)
Operating expenses paid		(52 307)	(51 297)
Taxes paid on ordinary activities		(20 089)	(17 396)
Amounts paid on other operating activities of insurance		217	(364)
Net cash from / (used in) operating activities:		**39 455**	**43 181**
Cash flows from investing activities			
Disposal of investment units		17 528	29 702
Acquisition of investments		(49 364)	(75 013)
Interest received		4 746	5 267
Amounts from other investing activities		(443)	(360)
Net cash generated from / (used in) investing activities:		**(27 533)**	**(40 404)**
Cash flows from financing activities			
Dividends paid		(8 470)	(6 400)
Amounts from other financial activities		(1 334)	(643)
Net cash from / (used in) financing activities:		**(9 804)**	**(7 043)**
Net increase / (decrease) in cash and cash equivalents		**2 118**	**(4 266)**
Cash and cash equivalents at the beginning of reporting year		**5 567**	**9 833**
Cash and cash equivalents at the end of reporting year	25	**7 685**	**5 567**

Notes on pages 35 to 79 are an integral part of these financial statements.

Kęstutis Šerpytis
Chief Executive Officer

Tatjana Kozlova
Accounting and reporting manager

Kęstutis Gadeikis
Chief Actuary

31 March 2020

1. GENERAL INFORMATION

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

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

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

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

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

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

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union (hereinafter "EU"), and Lithuanian legislation applicable to insurance companies.

2.1.2 Functional and presentation currency

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

2.1.3 Basis of measurement

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

Reporting year

The reporting period comprises the 12 months from 1 January 2019 to 31 December 2019.

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

On 1 January 2019, the Company adopted IFRS 16, which replaces existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The standard provides a model for recognizing leases between lessees and lessors and disclosing them in the financial statements. The most significant change concerns the Lessee - the standard eliminates the distinction between finance and operating leases and requires the balance sheet to recognize the present value of future lease payments as a liability and to capitalize the right-of-use the leased asset. Short-term and low-value assets leases are exempt from recognition. Lessor accounting remains similar to the existing standard, i. e. lessors continue to subdivide their leases into finance and operating leases. Details in the note 38.

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

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

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

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

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

2.2.2 New Standards and Interpretations not yet adopted

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

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

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

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

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

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

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

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

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

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

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

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

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

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

Other standards

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

- 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);
- IFRS 14 Regulatory Deferral Accounts (not yet endorsed by EU).

2.3 Insurance contracts, reinsurance

a) Classification of contracts

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

b) Ceded reinsurance

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

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

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

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

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

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

c) Premiums

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

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

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

d) Incurred claims

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

e) Administrative expense

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

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

f) Client acquisition costs

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

g) Deferred client acquisition costs (DAC)

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

h) Technical reserves

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

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

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

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting unexpired risk reserve (Note 33).

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

i) Fronting insurance

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

2.4 Interest income and expense

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

2.5 Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost and financial assets measured at fair value through profit or loss.

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

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

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

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

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

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:

- 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.

Debt instruments measured at fair value through other comprehensive income

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

Equity investments 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

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in profit or loss.

(ii) Non-derivative financial liabilities – Measurement

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

2.6 Fair value measurement

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

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

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

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

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

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

2.7 Receivables from direct insurance operations

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

2.8 Intangible assets

Intangible assets are stated at historical cost, less any subsequent accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. Assets are amortized on a straight-line basis over their estimated useful lives, which are from 1 to 14 years. The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets.

2.9 Property and equipment

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

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

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

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

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. Investment property is shown at fair value, based on periodic valuations.

(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.

	31.12.2019	**31.12.2018**
1 USD	EUR 0.8937	EUR 0.8733
1 GBP	EUR 1.1736	EUR 1.1179
1 PLN	EUR 0.2349	EUR 0.2324

2.12 Corporate income tax

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

<u>Income tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position. Income tax rate applied for the Company was 15% in 2019 (15% in 2018).

<u>Deferred income tax</u>

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

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

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

Deferred tax is accounted for in profit or loss, except when it relates to items accounted for directly in equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.13 Cash and cash equivalents

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

2.14 Impairment

Impairment of property and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation cannot be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets

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

<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.

ECL on receivable amounts

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

Presentation in financial statements

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

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

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

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

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

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

Reserves for recourse outstanding and recourse asset are calculated deriving historic recovery percentages by accident quarters and applying them on outstanding claims amounts.

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

- Impairment: Notes 2.14; 12.
- Investment property: Notes 2.1.3, 2.10; 18
- Deferred acquisition costs: Notes 8, 33.

(All amounts in thousands of euro unless otherwise stated)

4. NET WRITTEN PREMIUMS

	2019 Gross amount	2019 Reinsurers' share	2019 Net amount	2018 Gross amount	2018 Reinsurers' share	2018 Net amount
Motor vehicle third party liability insurance	96 774	(2 163)	94 611	92 823	(2 358)	90 465
Motor own damage insurance	77 624	(966)	76 658	77 037	(1 062)	75 975
Fire and other damage to property insurance	60 477	(3 240)	57 237	56 406	(2 849)	53 557
Income protection insurance	12 764	(56)	12 708	10 995	(50)	10 945
Medical expense insurance	8 115	(17)	8 098	5 985	(14)	5 971
General liability insurance	6 037	(297)	5 740	5 548	(306)	5 242
Credit and suretyship insurance	3 210	(1 388)	1 822	2 488	(1 206)	1 282
Marine, aviation and transport insurance	1 254	(61)	1 193	1 060	(7)	1 053
Miscellaneous financial loss	797	(134)	663	776	(108)	668
	267 052	**(8 322)**	**258 730**	**253 118**	**(7 960)**	**245 158**

Premiums earned

	2019 Gross premiums earned	2019 Reinsurers' share	2019 Net premiums earned	2018 Gross premiums earned	2018 Reinsurers' share	2018 Net premiums earned
Motor vehicle third party liability insurance	92 928	(2 146)	90 782	89 911	(2 346)	87 565
Motor own damage insurance	78 116	(1 476)	76 640	75 833	(1 319)	74 514
Fire and other damage to property insurance	58 111	(3 264)	54 847	54 717	(2 853)	51 864
Income protection insurance	11 774	(56)	11 718	10 323	(51)	10 272
Medical expense insurance	7 281	(17)	7 264	5 413	(325)	5 088
General liability insurance	5 766	(291)	5 475	5 253	(14)	5 239
Credit and suretyship insurance	2 720	(1 541)	1 179	2 044	(1 055)	989
Marine, aviation and transport insurance	1 223	(61)	1 162	1 079	(44)	1 035
Miscellaneous financial loss	734	(134)	600	766	(112)	654
TOTAL	**258 652**	**(8 986)**	**249 667**	**245 339**	**(8 119)**	**237 220**

(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 2017	**113 097**	**(1 642)**	**111 455**
Written premiums	253 118	(7 960)	245 158
Earned premiums	245 340	(8 119)	237 221
Total change for the year	7 779	159	7 938
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**

b) 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**

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

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

(All amounts in thousands of euro unless otherwise stated)

d) Gross unearned premium reserve as at end of year

	31.12.2019	31.12.2018
Motor vehicle third party liability insurance	41 786	37 940
Motor own damage insurance	40 038	40 528
Fire and other damage to property insurance	31 605	29 240
Income protection insurance	6 601	5 611
Medical expense insurance	3 511	2 677
General liability insurance	3 191	2 920
Credit and suretyship insurance	1 922	1 432
Marine, aviation and transport insurance	336	306
Miscellaneous financial loss	284	221
	129 274	**120 875**

6. CLAIMS PAID

	2019			2018		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Motor vehicle third party liability insurance	(52 425)	1 613	(50 812)	(46 990)	1 247	(45 743)
Motor own damage insurance	(50 152)	828	(49 324)	(48 256)	704	(47 552)
Fire and other damage to property insurance	(24 661)	40	(24 621)	(26 535)	3 894	(22 641)
Medical expense insurance	(5 406)	-	(5 406)	(3 533)	-	(3 533)
Income protection insurance	(4 174)	-	(4 174)	(3 546)	-	(3 546)
General liability insurance	(2 925)	24	(2 901)	(1 831)	-	(1 831)
Marine, aviation and transport insurance	(779)	148	(631)	(49)	-	(49)
Miscellaneous financial loss	(576)	-	(576)	(2 075)	298	(1 777)
Credit and suretyship insurance	(230)	135	(95)	(266)	156	(110)
Other	(4)	-	(4)	(4)	-	(4)
	(141 332)	**2 788**	**(138 544)**	**(133 085)**	**6 299**	**(126 786)**

(All amounts in thousands of euro unless otherwise stated)

7. OUTSTANDING CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2019			2018		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Notified claims	63 957	(5 313)	58 644	60 718	(9 737)	50 981
Incurred, but not reported	26 319	(559)	25 760	15 952	(380)	15 572
Total at beginning of year	**90 276**	**(5 872)**	**84 404**	**76 670**	**(10 117)**	**66 553**
Cash paid for claims notified in prior years	(30 058)	1 763	(28 295)	(32 504)	5 483	(27 021)
Changes in liabilities arising from current and prior year claims	49 738	(7 231)	42 507	46 110	(1 238)	44 872
Total change in year	19 680	(5 468)	14 212	13 606	4 245	17 851
Total at end of year	**109 956**	**(11 340)**	**98 616**	**90 276**	**(5 872)**	**84 404**
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 end of year	**109 956**	**(11 340)**	**98 616**	**90 276**	**(5 872)**	**84 404**

b) 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 protections 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**

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

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

(All amounts in thousands of euro unless otherwise stated)

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

	31.12.2019	31.12.2018
Motor vehicle third party liability insurance	73 028	59 137
Fire and other damage to property insurance	16 393	9 086
Motor own damage insurance	8 623	8 495
General liability insurance	6 396	7 424
Credit and suretyship insurance	2 044	1 588
Medical expense insurance	1 509	1 141
Income protection insurance	1 144	1 062
Marine, aviation and transport insurance	544	482
Miscellaneous financial loss	275	1 861
	109 956	**90 276**

8. ACQUISITION COSTS

	2019	2018
Commissions to brokers and other intermediaries	(27 962)	(26 262)
Personnel expenses	(15 050)	(13 242)
Commissions and other agent related expense	(7 254)	(5 543)
Office expenses	(3 708)	(3 672)
Premises expenses	(1 443)	(1 393)
Marketing and representation expenses	(1 403)	(1 705)
Depreciation and amortisation	(942)	(1 035)
Compulsory state social security contributions related to agents	(443)	(1 739)
Other acquisition costs	(321)	(607)
Reinsurance commission	568	406
Charge in deferred acquisition costs	1 751	422
	(56 207)	**(54 370)**

Deferred client acquisition costs

As at 31 December 2017	**20 643**
Deferred client acquisition costs	37 202
Amortisation of deferred acquisition costs	(37 049)
As at 31 December 2018	**20 796**
Deferred client acquisition costs	35 167
Amortisation of deferred acquisition costs	(33 415)
As at 31 December 2019	**22 548**

9. ADMINISTRATIVE EXPENSE

	2019	2018
Wages and salaries:		
- salaries to staff	(9 456)	(8 106)
- state compulsory social insurance contributions	(981)	(2 165)
Information technology and communication expense	(1 619)	(1 678)
Advertisement and public relations	(1 367)	(1 381)
Premises utility, maintenance, repair expense and rent	(837)	(749)
Depreciation and amortisation	(802)	(451)
Other administrative expense	(535)	(348)
Professional services	(509)	(651)
Office expenses	(469)	(459)
Transport	(225)	(245)
	(16 800)	**(16 233)**

(All amounts in thousands of euro unless otherwise stated)

10. OTHER EXPENSE RELATED TO INSURANCE ACTIVITIES

	2019	2018
Motor Bureau fee	(2 019)	(2 041)
Fees to regulatory institutions and other expenses	(513)	(293)
	(2 532)	**(2 334)**

11. INVESTMENT ACTIVITY RESULT

	2019	2018
Interest income:		
Government debt securities	2 267	2 431
Corporate debt securities	175	124
	2 442	**2 555**
Other profit (loss) from investment activity:		
Equity instruments measured at FVOCI:		
Dividend income	145	108
Realisation result	-	-
Debt instruments measured at FVOCI:		
Government debt securities	-	17
Corporate debt securities	-	10
Financial assets at fair value through profit or loss:		
Collective investment undertakings	1 770	(1 061)
Available-for-sale financial investments		
Equity instruments	-	-
Collective investment undertakings	-	-
Held-to-maturity financial investments		
Government debt securities	-	-
Investment valuation and management expenses:		
Revaluation of investment property	-	78
Investment management expenses	(409)	(520)
	1 506	**(1 368)**
	3 948	**1 187**

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 31.12.2019	ECL 31.12.2019	Exposure 31.12.2018	ECL 31.12.2018
Debt instruments measured at FVOCI (Note 19)	237 331	(79)	200 306	(68)
Receivables from direct insurance operations (Note 21)	54 830	(561)	50 880	(551)
Reinsurance receivables (Note 22)	3 433	(278)	2 938	(278)
Other receivables (Note 24)	3 368	(55)	3 541	(80)
	298 962	**(973)**	**257 665**	**(977)**

Gains that resulted by decrease of ECL amount to EUR 4 thousand. Movements of loss allowances are presented at disclosure notes of each financial asset class separately.

13. FINANCIAL INCOME AND EXPENSE

	2019	2018
Gain from foreign currency fluctuations	17	7
Bank commission	(781)	(685)
Interest from operating lease (see Note 38)	(58)	-
	(822)	**(678)**

(All amounts in thousands of euro unless otherwise stated)

14. OTHER INCOME AND EXPENSES

	2019	2018
Income from properties	33	98
Other income	127	-
Other expenses	-	(92)
	160	**6**

15. CORPORATE INCOME TAX

	2019	2018
Corporate income tax for the reporting year	(3 148)	(3 036)
Change in deferred income tax recognized through profit or loss	(2)	241
Total income tax expense	**(3 150)**	**(2 795)**

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.

	2019	2018
Profit / (loss) before tax	**24 661**	**20 342**
Theoretically calculated tax at a tax rate of 15%	3 699	3 051
Effect of non-deductible expenses and non-taxable income, net	(549)	(256)
Total tax	**3 150**	**2 795**

Effective corporate income tax rate in 2019 is 12.8% (2018: 13.7%).

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

	2019	2018
Deferred income tax asset (liability) as at the beginning of the reporting year	(215)	(393)
Adoption of IFRS 9 (Note 37)	-	(321)
Deferred income tax changes recognised through profit or loss	(2)	241
Deferred income tax changes recognised through other comprehensive income	(314)	258
Deferred income tax asset (liability) as at the end of the reporting year	**(531)**	**(215)**

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:

	31.12.2019	31.12.2018
Deferred income tax effect of:		
temporary difference for accrued expenses	1 509	1 251
temporary difference for impairment for overdue debtors	131	132
temporary difference for property revaluation and depreciation	5	(9)
other temporary differences	(640)	(588)
temporary difference for recoverable regress	(265)	(299)
temporary difference for financial assets at fair value through other comprehensive income revaluation	(1 057)	(743)
temporary difference for financial asset at fair value through profit or loss revaluation	(214)	41
Deferred income tax asset (liability) as at the end of the reporting year	**(531)**	**(215)**

(All amounts in thousands of euro unless otherwise stated)

Movement in deferred income tax balances:

	Net balance 31 December 2018	Recognised In P/L	Recognised In OCI	Net balance 31 December 2019	31 December 2019 Deferred tax asset	31 December 2019 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)**

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

(All amounts in thousands of euro unless otherwise stated)

16. INTANGIBLE ASSETS

	Software	Total
As at 31 December 2017		
Acquisition cost	20 674	20 674
Accumulated amortisation	(17 492)	(17 492)
Net book value	**3 182**	**3 182**
In 2018		
Additions	1 140	1 140
Amortisation for intangible assets written off	(166)	(166)
Amortisation charge	(1 249)	(1 249)
Closing net book value	**2 907**	**2 907**
As at 31 December 2018		
Acquisition cost	21 853	21 853
Accumulated amortisation	(18 946)	(18 946)
Net book value	**2 907**	**2 907**
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**

(All amounts in thousands of euro unless otherwise stated)

17. PROPERTY AND EQUIPMENT

	Land and buildings	Lands and premises lease by IFRS 16	Other (structures)	Construction in progress and prepayments	Leasehold improve-ments	Motor vehicles	Office and other equipment	Total
As at 31 December 2017								
Acquisition cost	14 358	-	1 176	290	593	3 988	2 399	**22 804**
Accumulated depreciation	(6 964)	-	(690)	-	(553)	(1 925)	(2 155)	**(12 287)**
Net book value	**7 394**	**-**	**486**	**290**	**40**	**2 063**	**244**	**10 517**
In 2018								
Additions	126	-	-	668	25	675	136	**1 630**
Disposals	(345)	-	(30)	-	-	(507)	-	**(882)**
Reclassification	479	-	-	(479)	-	-	-	**-**
Written-off	-	-	-	(161)	-	-	(14)	**(175)**
Depreciation charge	(253)	-	(64)	-	(19)	(434)	(115)	**(885)**
Depreciation on disposed assets	196	-	30	-	-	440	-	**666**
Depreciation on written-off assets	-	-	-	-	-	-	14	**14**
Revaluation gain (loss) on written-off assets	-	-	-	98	-	-	-	**98**
Closing net book value	**7 597**	**-**	**422**	**416**	**46**	**2 237**	**265**	**10 983**
As at 31 December 2018								
Acquisition cost	14 618	-	1 146	416	618	4 156	2 521	**23 475**
Accumulated depreciation	(7 021)	-	(724)	-	(572)	(1 919)	(2 256)	**(12 492)**
Net book value	**7 597**	**-**	**422**	**416**	**46**	**2 237**	**265**	**10 983**
As at 1 January 2019 initial recognition by IFRS 16 (Note 38)	-	2 092	-	-	-	-	-	**2 092**
In 2019								
Additions	94	-	-	532	171	1 259	145	**2 201**
Additions by IFRS 16 (Note 38)	-	478	-	-	-	-	-	**478**
Disposals	(97)	-	-	-	-	(841)	(2)	**(940)**
Reclassification	241	-	-	(278)	-	-	37	**-**
Written-off	-	-	-	-	(1)	-	(187)	**(188)**
Depreciation charge	(276)	-	(61)	-	(28)	(509)	(151)	**(1 025)**
Depreciation by IFRS 16 (Note 38)	-	(583)	-	-	-	-	-	**(583)**
Depreciation on disposed assets	28	-	-	-	-	688	1	**717**
Depreciation on written-off 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	948	788	4 574	2 514	**27 396**
Accumulated depreciation	(7 269)	(583)	(785)	(278)	(600)	(1 740)	(2 219)	**(13 474)**
Net book value	**7 587**	**1 987***	**361**	**670**	**188**	**2 834**	**295**	**13 922**

*- since 1 January 2019 the Company started to apply IFRS 16 standard rules, i. e. to capitalize right-of-use assets. The biggest part of such assets as at 31 December 2019 is the rent of premises – EUR 1 728 thousand (Lithuania – EUR 592 thousand, Estonia – EUR 1 136 thousand), the remaining part comes from land lease in Lithuania – EUR 259 thousand. All assets are premises and land right-of-use assets, which the Company uses for insurance business purposes. Details of the IFRS 16 implementation are disclosed in Note 38.

(All amounts in thousands of euro unless otherwise stated)

18. INVESTMENT PROPERTY

Net book value at 31 December 2017	**1 422**
Change in fair value in 2018	78
Net book value at 31 December 2018	**1 500**
Change in fair value in 2019	-
Net book value at 31 December 2019	**1 500**

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

The Company assesses the fair value of investment property based on the opinion of independent property valuation agency that holds a recognised and relevant qualification. Fair value of property is determined using income approach. Fair value inputs are categorised as Level 3 in the fair value hierarchy defined in IFRS 13.

19. FINANCIAL INVESTMENTS

	31.12.2019		**31.12.2018**	
	Acquisition cost	**Fair value**	**Acquisition cost**	**Fair value**
Financial investments at fair value through other comprehensive income:				
Lithuania government debt securities	119 904	121 993	103 212	105 220
Poland government debt securities	40 246	40 434	40 247	40 380
Romania government debt securities	20 485	20 954	10 802	10 822
Croatia government debt securities	20 242	20 516	10 353	10 682
Bulgaria government debt securities	12 138	12 546	12 138	12 593
Hungary government debt securities	4 292	4 401	5 709	5 716
Latvia government debt securities	3 285	3 429	1 406	1 445
Spain government debt securities	2 414	2 455	2 414	2 434
Ireland government debt securities	1 744	1 708	1 744	1 748
Slovenia government debt securities	-	-	1 019	940
Corporate debt securities	8 623	8 895	8 264	8 326
Shares (irreversible option)	1 696	2 195	1 915	2 149
Total Financial investments at fair value through other comprehensive income:	**235 069**	**239 526**	**199 223**	**202 455**
Financial investments at fair value through profit or loss - mandatory:				
Collective investment undertakings	22 022	23 529	30 726	30 523
Total financial investments:	**257 091**	**263 055**	**229 949**	**232 978**

Financial investments at FVOCI in total of EUR 239 526 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 2019, the Company did not have unquoted financial investments measured at FVOCI.

Financial investments at FVTPL in total of EUR 1 600 thousand at fair value are quoted (Level 1 in the fair value hierarchy). Assets amounting to EUR 21 928 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.

(All amounts in thousands of euro unless otherwise stated)

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 2018	**(68)**	-	-	**(68)**
ECL measurements	8	-	-	8
New assets acquired	(22)	-	-	(22)
Financial assets derecognised	3	-	-	3
As at 31 December 2019	**(79)**	**-**	**-**	**(79)**

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

20. OTHER COMPREHENSIVE INCOME (OCI)

	2019	**2018**
Items that are or may be reclassified to profit or loss:		
Revaluation of debt securities measured at fair value through OCI	1 517	(1 363)
Realisation result reclassified to profit or loss	41	(27)
Items that will not be reclassified to profit or loss:		
Revaluation of equity instruments measured at fair value through OCI	265	(67)
	1 823	**(1 457)**

Amounts are presented net of deferred income tax.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2019	**31.12.2018**
Gross receivables from direct insurance operations	54 830	50 880
Impairment for receivables from direct insurance operations	(561)	(551)
	54 269	**50 329**

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

	Gross 31.12.2019	**Life-time ECL 31.12.2019**	**Gross 31.12.2018**	**Impairment 31.12.2018**
Current	53 045	(201)	47 583	(180)
Past due 0-30 days	1 374	(61)	2 667	(52)
Past due 31-60 days	100	(8)	269	(7)
Past due more than 60 days	311	(291)	361	(312)
	54 830	**(561)**	**50 880**	**(551)**

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

(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 2017	**609**
Additional allowances	583
Recovered debts	(497)
Written-off debts	(144)
As at 31 December 2018	**551**
ECL measurements	597
Debts recovered	(407)
Debts written-off	(180)
As at 31 December 2019	**561**

22. REINSURANCE RECEIVABLES

	31.12.2019	**31.12.2018**
Gross receivables from reinsurance operations	3 433	2 938
Impairment for receivables from reinsurance operations	(278)	(278)
	3 155	**2 660**

23. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2019	**31.12.2018**
Deferred Motor Bureau fee	871	904
Deferred information system maintenance fees	537	738
Other deferred expenses	576	452
	1 984	**2 094**

24. OTHER RECEIVABLES

	31.12.2019	**31.12.2018**
Receivables for subrogation transactions	1 768	2 109
Receivables from the Motor Bureau	671	906
Other receivables	564	250
Receivables from prepayments	365	276
Impairment of other receivables	(55)	(80)
Total other receivables	**3 313**	**3 461**

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 2017	**256**
ECL measurements	12
Debts recovered	(12)
Debts written-off	(176)
As at 31 December 2018	**80**
ECL measurements	12
Debts recovered	(15)
Debts written-off	(22)
As at 31 December 2019	**55**

(All amounts in thousands of euro unless otherwise stated)

25. CASH AND CASH EQUIVALENTS

	31.12.2019	31.12.2018
Cash in banks	7 685	5 567
	7 685	**5 567**

In 2019 and 2018, 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 2018 the number of ordinary shares was the same). The nominal value of one share as at 31 December 2019 is EUR 14.48 (as at 31 December 2018, 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 2019, is EUR 11 665 thousand (as at 31 December 2018 – 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 2019 was the same as at 31 December 2018 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 4 210 thousand at 31 December 2018 to EUR 5 992 thousand at 31 December 2019.

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 2019 is EUR 6.8 million. However, considering uncertainties related with COVID-19 pandemic development and its economic impact, and taking into account EIOPA statement No. 20-137 "EIOPA statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector" published on 17 March 2020, the Management Board of the Company recommends to distribute as dividends only 50% of the above mentioned amount, i.e. EUR 3.4 million, and the remainder of the net profit of 2019 to be transferred to the Company's Retained earnings. The final amount of dividends is subject to proposal of the Supervisory Board and the decision of the General Shareholders' Meeting.

27. TAXES

	31.12.2019	31.12.2018
Compulsory state social security contributions	232	219

(All amounts in thousands of euro unless otherwise stated)

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2019	31.12.2018
Accrued expenses		
Commissions	7 664	6 961
Operating expenses	4 500	3 894
Intermediary commissions	1 322	956
Additional sales bonuses	796	567
Audit expenses and related services	39	19
Total accrued expenses	**14 321**	**12 397**
Other accrued expenses and deferred income		
Not settled insurance prepayments	1 321	1 622
Other deferred income	66	208
Total accrued expenses and deferred income	**1 387**	**1 830**
	15 708	**14 227**

	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**

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

29. OTHER LIABILITIES

	31.12.2019	31.12.2019
Payable salaries, bonuses and other related payments	8 877	7 035
Financial liability by IFRS 16 (see Note 38)	2 018	-
Due to the Motor Insurers' Bureau	357	370
Other payables related to insurance activities	204	553
Other liabilities	2 780	3 754
	14 236	**11 712**

(All amounts in thousands of euro unless otherwise stated)

30. RESULT OF CEDED REINSURANCE

	2019	2018
Reinsurers' share in written premiums (see Note 4)	(8 322)	(7 960)
Reinsurers' share in changes in unearned premiums (see Note 5)	(664)	(159)
Reinsurance commission income (see Note 8)	568	406
Reinsurers' share in claims (see Note 6)	2 788	6 299
Reinsurers' share in changes in outstanding claims reserve (see Note 7)	5 469	(4 245)
Net result of ceded reinsurance activities:	**(161)**	**(5 659)**

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

	2019	2018
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Reinsurance premiums ceded	(6 834)	(6 643)
Change of reinsurance unearned premium reserve	(184)	164
Reinsurance claims	6 586	4 540
Change of reinsurance outstanding claims reserve	4 273	(3 547)
	3 841	**(5 486)**

	2019	2018
Balta AAS (Group company):		
Master agreement's premiums	271	376
Reinsurance premiums ceded	(41)	(49)
Change of reinsurance unearned premium reserve	(9)	(11)
Reinsurance claims	13	31
Change of reinsurance outstanding claims reserve	8	(1)
	242	**346**

(All amounts in thousands of euro unless otherwise stated)

Other transactions

	2019	2018
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU) (shareholder):		
Dividends paid	(8 470)	(6 400)
Indemnity cost and handling fee	133	73
	(8 337)	**(6 327)**

	2019	2018
Other Group companies (Balta AAS, LINK4, PZU Lietuva Gyvybės Draudimas JSC, PZU TFI, PZU CENTRUM OPERACIJI S.A.):		
Indemnity cost and handling fee	10	(253)
Compensation of expenses	484	359
Other purchases	(36)	(23)
	458	**83**

Balances with related parties

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

	31.12.2019	31.12.2018
Reinsurers' share in unearned premium reserves with PZU	576	760
Reinsurers' share in outstanding claims reserves with PZU	8 498	4 225
Reinsurers' share in unearned premium reserves with Balta AAS	14	23
Reinsurers' share in outstanding claims reserves with Balta AAS	15	7
Reinsurance receivables from PZU	2 347	620
Reinsurance receivables from Balta AAS	13	34
Receivables from PZU	268	371
Receivables from Balta AAS	1	55
Receivables from other related parties	35	43
Reinsurance payables to PZU	(1 578)	(1 941)
Reinsurance payables to Balta AAS	(7)	(1)
Payables to other related parties	(4)	(3)
	10 178	**4 193**

32. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

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

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2019 there were EUR 2 956 thousand (31 December 2018: EUR 2 639 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 2019.

d) Operating lease

The Company does not have any non-cancellable operating leases as at 31 December 2019, other than the rent of premises that usually can be terminated at terms agreed in lease contracts. Total minimal commitment for rent payments as at 31 December 2019 amounts to EUR 131 thousand (EUR 128 thousand to be paid in one year and EUR 3 thousand to be paid later than in one year but not later than in five years). Total minimal commitment for rent payments as at 31 December 2018 amounted to EUR 941 thousand, including EUR 830 thousand which as at 1 January 2019 was recognised as right-of-use assets minimum liability (EUR 330 thousand to be paid in one year and EUR 500 thousand to be paid later than in one year but not later than in five years) and EUR 111 thousand liability of rent payments to be paid in one year.

e) Tax contingencies

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

33. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

Types of significant insurance contracts

Motor third party liability insurance

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

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

Accident insurance

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

Travel insurance

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

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

Motor own damage insurance

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

Property insurance, business interruption insurance and building risks insurance

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

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

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

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

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

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

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.

Sensitivity analysis for claims reserves at 31.12.2019:

	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	679	(663)	22	(22)
General liability insurance	124	(124)	9	(9)
Fire and other damage to property insurance	60	(59)	5	(5)
Miscellaneous financial loss	22	(18)	1	(1)
Medical expense insurance	19	(11)	1	(1)
Credit and suretyship insurance	14	(14)	-	-
Income protection insurance	13	(13)	1	(1)
Marine, aviation and transport insurance	7	(7)	1	(1)
Motor own damage insurance	6	(6)	4	(4)
Total	**944**	**(915)**	**44**	**(44)**

(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 2019	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	126 799	112 727	239 526
Financial asset at fair value through profit or loss	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)
Other financial liabilities	(829)	(232)	(1 061)
Total financial liabilities and outstanding claims reserves	**(64 215)**	**(53 679)**	**(117 894)**
Net position as at 31 December 2019	**122 808**	**102 115**	**224 923**

Year 2018	**Lithuania**	**OECD countries**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	109 177	93 278	202 455
Held-to-maturity financial investments	3 284	27 239	30 523
Insurance and reinsurance debtors	34 858	18 131	52 989
Reinsurers' share of outstanding claims reserves	1 070	4 802	5 872
Cash and cash equivalents	4 447	1 120	5 567
Other receivables	3 237	224	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**156 073**	**144 794**	**300 867**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(49 293)	(40 983)	(90 276)
Insurance and reinsurance creditors	(2 037)	(4 977)	(7 014)
Other financial liabilities	(1 577)	(143)	(1 720)
Total financial liabilities and outstanding claims reserves	**(52 907)**	**(46 103)**	**(99 010)**
Net position as at 31 December 2018	**103 166**	**98 691**	**201 857**

(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:

	2019	**2018**
Personal accident & Travel medical expense	102	96
Motor own damage	150	150
Motor vehicle third party liability	400	400
Cargo insurance	200	200
Hull, CMR Property	200	200
Property insurance	1 163	1 199
General TPL insurance	349	360
Debt securities and guarantees	465	240

Liability adequacy test

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

Unexpired risk reserve as at 31 December 2019 is EUR 3.1 million (31 December 2018: EUR 1.9 million).

34. FINANCIAL RISK MANAGEMENT

Risk management framework:

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

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

34.1 Credit risk

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

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

(All amounts in thousands of euro unless otherwise stated)

a) Maximum credit exposure:

	31.12.2019	31.12.2018
Lithuania government debt securities	121 993	105 220
Poland government debt securities	40 434	40 380
Collective investment undertakings	23 529	30 523
Romania government debt securities	20 954	10 822
Croatia government debt securities	20 516	10 682
Bulgaria government debt securities	12 546	12 592
Corporate debt securities	8 895	8 326
Cash and cash equivalents	7 685	5 567
Hungary government debt securities	4 401	5 716
Latvia government debt securities	3 429	1 446
Spain government debt securities	2 455	2 434
Shares	2 195	2 149
Ireland government debt securities	1 708	1 748
Slovenia government debt securities	-	940
Credit risk	**270 740**	**238 545**
Receivables due from policyholders	52 293	48 475
Outstanding claims reserve, reinsurers' share	11 340	5 872
Other receivables	3 313	3 461
Reinsurance debtors	3 155	2 660
Receivables due from intermediaries	1 976	1 854
Reinsurers' share in unearned premium reserve	819	1 483
	72 896	**63 805**
Maximum credit exposure, total	**343 636**	**302 350**

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

Rated:	31.12.2019	31.12.2018
AA	1 920	1 890
A	12 488	6 681
Without rating	906	1 444
Assets related to reinsurance	**15 314**	**10 015**

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

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**

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

(All amounts in thousands of euro unless otherwise stated)

34.2 Liquidity risk

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

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

Year 2019	Up to 12 months	1 to 5 years	Over 5 years	Total
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)
Other financial liabilities	(1 061)	-	-	(1 061)
Total financial liabilities and outstanding claims reserves	**(65 865)**	**(29 188)**	**(22 841)**	**(117 894)**
Net position as at 31 December 2019	**33 904**	**137 371**	**53 648**	**224 923**

Year 2018	Up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of outstanding claims reserves				
Financial investments	8 591	138 818	85 569	232 978
Insurance and reinsurance debtors	51 472	1 460	57	52 989
Reinsurers' share of outstanding claims reserves	3 443	1 385	1 044	5 872
Cash and cash equivalents	5 567	-	-	5 567
Other receivables	3 461	-	-	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**72 534**	**141 663**	**86 670**	**300 867**
Financial liabilities and outstanding claims reserves				
Outstanding claims reserves	(48 216)	(23 634)	(18 426)	(90 276)
Insurance and reinsurance creditors	(7 014)	-	-	(7 014)
Other financial liabilities	(1 720)	-	-	(1 720)
Total financial liabilities and outstanding claims reserves	**(56 950)**	**(23 634)**	**(18 426)**	**(99 010)**
Net position as at 31 December 2018	**15 584**	**118 029**	**68 244**	**201 857**

(All amounts in thousands of euro unless otherwise stated)

34.3 Market risk

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

a) Exposure to interest rate risk

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

	2019	**2018**
Corporate debt securities	2.08%	2.21%
Government debt securities	1.00%	1.22%
Collective investment undertakings	0.21%	(1.55%)

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:

		201	**2018**
Market interest rate and impact on fair value	+0.5 percent point	(5 024)	(4 296)
	-0.5 percent point	5 024	4 296

b) Fair value determination

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

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

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

(All amounts in thousands of euro unless otherwise stated)

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 2019	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Financial assets at fair value through other comprehensive income	239 526	-	239 526
Financial asset at fair value through profit or loss	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)
Other financial liabilities	(1 061)	-	(1 061)
Total financial liabilities and outstanding claims reserves	**(114 168)**	**(3 726)**	**(117 894)**
Net position as at 31 December 2019	**228 478**	**(3 555)**	**224 923**

Year 2018	**EUR**	**Other**	**Total**
Financial assets and reinsurers' share of outstanding claims reserves			
Available-for-sale financial investments	202 455	-	202 455
Held-to-maturity financial investments	30 523	-	30 523
Insurance and reinsurance debtors	52 989	-	52 989
Reinsurers' share of outstanding claims reserves	5 847	25	5 872
Cash and cash equivalents	5 542	25	5 567
Other receivables	3 461	-	3 461
Total financial assets and reinsurers' share of outstanding claims reserves	**300 817**	**50**	**300 867**
Financial liabilities and outstanding claims reserves			
Outstanding claims reserves	(87 848)	(2 428)	(90 276)
Insurance and reinsurance creditors	(7 014)	-	(7 014)
Other financial liabilities	(1 577)	(143)	(1 720)
Total financial liabilities and outstanding claim reserves	**(96 439)**	**(2 571)**	**(99 010)**
Net position as at 31 December 2018	**204 378**	**(2 521)**	**201 857**

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

(All amounts in thousands of euro unless otherwise stated)

35. CAPITAL RISK MANAGEMENT

As at 31 December 2019 the Company assessed facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

36. LOSS DEVELOPMENT TABLE

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

	2009 and prior	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Net outstanding claims reserves at the end of accident year and cumulative incurred claims in subsequent years												
At end of accident year						18 668	25 799	27 852	35 416	46 972	52 100	
1 year later					4 873	19 242	23 717	27 251	35 636	42 865		
2 years later				3 295	5 588	18 285	23 820	27 108	33 808			
3 years later			2 376	2 672	4 920	17 620	23 151	25 904				
4 years later		1 430	1 731	1 781	4 094	16 856	20 669					
5 years later	6 095	1 357	1 680	1 521	3 925	16 993						
6 years later	4 530	1 039	1 699	1 424	3 742							
7 years later	3 947	917	1 534	1 547								
8 years later	4 071	859	1 343									
9 years later	3 814	608										
10 years later	4 206											
Estonia Branch net outstanding claims reserves as at acquisition date, 31 May 2015												
	1	**(1)**	**82**	**383**	**1 247**	**2 660**	**4 165**	**-**	**-**	**-**		**8 537**
Net claims paid												
1 year later						11 966	15 819	16 600	22 384	25 871		
2 years later					852	1 062	1 138	3 118	1 467			
3 years later				108	361	471	651	725				
4 years later			330	48	263	579	192					
5 years later		173	315	62	281	26						
6 years later	65	42	11	(24)	46							
7 years later	(41)	71	5	(61)								
8 years later	137	(3)	8									
9 years later	29	24										
10 years later	(1)											
Cumulative net claims paid	**189**	**307**	**669**	**133**	**1 803**	**14 104**	**17 800**	**20 443**	**23 851**	**25 871**		**105 170**
CY (deficiency) excess	**(392)**	**251**	**191**	**(124)**	**183**	**(137)**	**2 481**	**1 204**	**1 828**	**4 109**		**9 594**

(All amounts in thousands of euro unless otherwise stated)

37. RECLASSIFICATION OF COMPARATIVE INFORMATION IN THE STATEMENT OF COMPREHENSIVE INCOME

Comparative information in the particular items of the statement of comprehensive income for prior year was reclassified in order to keep comparability with the current year's financial statements.

Starting from 1 January 2019 the allocation of expenses between items of the statement of comprehensive income has been changed in order to unify the rules for the disclosures of expenses in the financial statements for the Group of companies to which the Company belongs.

Items of the Statement of comprehensive income	31.12.2018 (before reclassification)	Reclassification effect	31.12.2018 (after reclassification)
Claims settlement expense	(10 622)	(37)	(10 659)
Net incurred claims	**(144 600)**	**(37)**	**(144 637)**
Acquisition costs	(58 322)	3 952	(54 370)
Administrative expense	(12 116)	(4 117)	(16 233)
Other expense related to insurance activities	(2 799)	465	(2 334)
Total insurance expense	**(73 237)**	**300**	**(72 937)**
Net result of insurance activities	**19 367**	**263**	**19 630**
Other income and expense	269	(263)	6
Profit / (loss) for the year	**17 547**	**-**	**17 547**

38. IMPLEMENTATION OF IFRS 16

As of 1 January 2019, the Company has applied IFRS 16 *Leases* and has recognized new assets and liabilities arising from operating leases of its land and premises. The nature of the costs relating to these leases has changed as the Company recognizes the depreciation of right-of-use assets and the interest expense on lease liabilities.

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

The Company uses a modified retrospective approach to IFRS 16, comparative information is not restated. Transactions that were treated as operating leases in prior periods under IAS 17 have been measured, in accordance with IFRS 16, at the discounted value of the remaining lease payments in the Company's statement of financial position.

This note in the financial statements discloses the principles of recognizing a right-of-use asset and the impact of the adoption of IFRS 16 on the statement of comprehensive income, financial position and cash flows.

Recognition of right-of-use assets

The Company applies the following criteria for the recognition of a right-of-use asset.

A contract is a lease if lessee has the right to control the use of an identified assets for a period of time in exchange for consideration (including to obtain substantially all of the economic benefits from the use).

An identified lease asset is:

- explicitly specified in a contract or implicitly specified,
- physically distinct,
- there is no substantial right to substitute the asset.

At inception of a contract, the Company assesses whether the contract is a lease. To do this, the Company should assess whether contract meets all conditions mentioned:

- a right-of-use asset has been identified;
- consideration for using the asset has been set;
- contract conveys the right to control the use of the asset and the right to obtain all of the economic benefits from use of the assets for a period of time.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company shall assess whether, throughout the period of use, the customer has both of the following:

- the right to obtain substantially all of the economic benefits from use of the identified asset and
- the right to direct the use of the identified asset.

When assessing the right to obtain substantially all of the economic benefits from use of an asset, the Company shall consider the economic benefits that result from use of the asset within the conditions defined in the contract, both directly and indirectly, such as by using, holding or sub-leasing the asset.

If the rights to obtain economic benefits are limited, the Company should assess whether other party has the right to obtain the economic benefits from use of an asset and whether they are material.

The economic benefits from use of an asset include:

- its primary output and by-products (including potential cash flows derived from these items), and
- other economic benefits from using the asset that could be realized from a commercial transaction with a third party.

The Company has the right to direct the use of an identified asset throughout the period of use only if either:

- the Company has the right to direct how and for what purpose the asset is used throughout the period of use; or
- the relevant decisions about how and for what purpose the asset is used are predetermined and:
  - the Company has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
  - the Company designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

Lease when Company is a lessee

In assessing the lease contract, the Company shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

Value of lease and non-lease components shall be determined on the basis of the contract conditions or additional information delivered by a lessor. If information is not included in the contract or is not given by lessor, the Company should estimate the value based on information available.

The lease term begins at the commencement date of use of an asset and contains the period for which the Company has the right to use together with both:

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

The Company reassess the lease term upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

The Company shall revise the lease term if there is a change in the non-cancellable period of a lease or reassess lease term in case of change of contract, if the change is not recognized as separate lease.

Lease term is non-cancellable if a lessee and lessor has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

In order to measure the initial right-of-use asset value the Company should identify and collect the following information concerning, in particular:

- lease payments;
- fixed and variable lease payments identification;
- frequency and means of index;
- translation of rent in foreign currency;
- timing of payments (advanced or in arrears);
- lease term;
- discount rate or in case of lack the defined rate in the contract - lessee's incremental borrowing rate;
- commencement date.

At the commencement date, a lessee shall measure the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

A lessee shall measure the right-of-use asset at cost determined at the commencement date:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability reflecting a lease modification that is not accounted for as a separate lease.

(All amounts in thousands of euro unless otherwise stated)

A lessee shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

When the contract lacks interest rate implicit in the lease the Company sets lessee's incremental borrowing. Lessee's incremental borrowing rate is settled based on average interest rates for loans of similar characteristics as lease liabilities. The Company for recalculation of assets and liabilities on 1 January 2019 applied a weighted average incremental borrowing rate of 3.27% for initial recognition in Lithuania and 2.30% for an Estonian branch. 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.

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. Short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. Low-value of underlying asset means net value which equals to or is lower than EUR 5 000.

Impact of adoption of IFRS 16 on the statement of comprehensive income when the Company is a lessee:

	2019 IFRS 16	**2018 IAS 17**
Depreciation of right-of-use assets:	**(583)**	**-**
- Land lease	(4)	-
- Premises lease	(579)	-
Right-of-use assets interest	(58)	-
Expenses relating to short-term leases and low value assets	(516)	-
Lease expense IAS 17	-	(862)
Total lease expense	**(1 157)**	**(862)**

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".

On 1 January 2019 the Company recognized EUR 2 092 thousand right-of-use asset which is included in the statement of financial position, item "Property, plant and equipment", and EUR 2 092 thousand of lease liabilities included in the statement of financial position "Other liabilities".

The effect of recognition of right-of-use assets lease liabilities on the statement of financial position is presented below.

	Lease liability
Balance at 31 December 2018	**-**
Balance at 1 January 2019	**2 092**
New agreements and changes to agreements	478
Paid lease liability	(610)
Interest on lease liability	58
Balance at 31 December 2019	**2 018**
Short-term	545
Long-term	1 473

(All amounts in thousands of euro unless otherwise stated)

Breakdown of current and non-current lease liabilities:

	Lease liability
Short-term (payable up to 1 year)	**545**
Up to 3 months	144
From 3 months to 1 year	401
Long-term (payable after 1 year)	**1 473**
From 1 to 2 years	417
From 2 to 3 years	251
From 3 to 4 years	223
From 4 to 5 years	219
More than 5 years	363
Total lease liability	**2 018**

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

Leases where the Company is a lessee

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.

	2019	**2018**
Premises lease income	164	213

The table below provides an analysis of the off-balance sheet receivables for undue operating lease payments as at 31 December 2019. Undiscounted amounts receivable after the reporting period from operating leases are disclosed.

	Receivable amounts
Up to 1 year	195
From 1 to 2 years	117
From 2 to 3 years	115
From 3 to 4 years	115
From 4 to 5 years	52
More than 5 years	-
Total	**594**

39. SUBSEQUENT EVENTS

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic, and the Lithuanian government announced nation-wide quarantine since 16 March 2020. Responding to a potentially serious threat the COVID–19 presents to public health, the Lithuanian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-border movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, airlines and railways limited international transport of people, schools, universities, restaurants, cinemas, theatres and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. In addition, certain major manufacturers in the automotive industry decided to shut-down their operations in European countries. Some businesses in Lithuania have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

— Disruption to business operations and economic activity in Lithuania with a cascading impact on both upstream and downstream supply chains;
— Significant disruption to businesses in certain sectors, both within Lithuania and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include, among others: trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, education and the financial sector;
— Notable temporary decrease in demand for non-essential goods and services;
— An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

On 16 March 2020, the Lithuanian government announced a State aid program to counter the negative effects of the outbreak of COVID-19 on the economy. The details of the programme and its eligibility criteria are yet to be clarified.

The Company operates in an insurance sector that has not been significantly affected by the outbreak of COVID–19 and over the last few weeks the Company experienced a moderate effect on sales while its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were authorized for issue, Management considered several severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Company and economic environment in which the Company operates, including measures already taken by the Lithuanian government and governments in other countries, where the Company's major business partners and customers are located. Within those scenarios, Management considered a number of operating risks that may adversely affect the Company, including likely recession in the Lithuanian economy that would significantly reduce the purchasing power of consumers resulting in a reduction of the Company's business volumes.

In order to mitigate the risks resulting from potential adverse scenarios, Management started to implement the measures, which notably include preventive actions to ensure staff safety and uninterrupted customer service by successful implementation of work from home programme on a rotational basis for a significant group of administrative employees as well as employees in sales and claims departments.

The Management is of the view that the liquid investment portfolio as disclosed in Note 34 of the financial statements, and the capital position, which as at 31 December 2019 was notably above the regulatory requirement, should serve as a basis to potential future negative impacts from the ongoing developments affecting Lithuania and the wider region.

In summary, based on currently publicly available information, the Company's current KPI's and in view of the actions initiated by management, we do not anticipate a direct immediate and significant adverse impact of the COVID–19 outbreak on the Company, its operations, financial position and operating results. We cannot however preclude the possibility that extended 'lock-down' periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Company, and its financial position and operating results, in the medium and longer term. We continue to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

In spite of possible effects of the outbreak of the COVID-19 pandemic as mentioned above, 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 the going concern basis of accounting is appropriate.