

**GJENSIDIGE ADB**

Independent Auditor's Report,  
Annual Report and  
Financial Statements for the  
year ended 31 December 2019

Business name	ADB Gjensidige
Registry code	110057869
Address	Žalgirio str. 90, Vilnius, Lithuania
Telephone	1626
E-mail	info@gjensidige.lt
Web page	www.gjensidige.lt
Main field of activity	Non-life insurance services
General Manager	Marius Jundulas
Chief Accountant	Jolanta Markelienė
Chief Actuary	Jurgis Navikas
Beginning of financial year:	1 January 2019
End of financial year:	31 December 2019
Auditor	UAB Deloitte Lietuva

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gjensidige ADB:

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Gjensidige ADB (“the Company”) which comprise the statement of financial position of the Company as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and 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) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, 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, but we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit:
<b>Valuation of insurance liabilities</b>	
<p><i>Refer to pages 48-50 of the financial statements</i></p> <p>As disclosed in Note 9 to the financial statements, insurance liabilities amount to EUR 109,425 thousand as at 31 December 2019 and comprise unearned premiums technical reserve, technical reserve for outstanding claims and unexpired risk technical reserve.</p> <p>The valuation of actuarially determined insurance liabilities, which amount to 86% of the Entity's total liabilities, is complex as it involves high degree of judgement. The calculation of technical reserves</p>	<p>In auditing the insurance liabilities, we evaluated and tested the key controls around the claims handling process and evaluated the key controls around the case reserve setting process.</p> <p>To test accuracy of insurance liabilities we evaluated on a sample basis claims reserve cases by comparing the estimated amount of the case reserve to appropriate documentation. To test completeness of insurance liabilities we evaluated on a sample basis that claims paid after the end of the reporting period were appropriately recorded as insurance liability at the end of the reporting period.</p>

Key audit matter	How the matter was addressed in the audit:
<b>Valuation of insurance liabilities</b>	
<p>takes into account the claims experience, claims development, market conditions, as well as matters that are sensitive to the legal, economic and various other factors and uncertainties, in order to arrive at the estimation of the ultimate losses.</p> <p>We consider the valuation of insurance liabilities to be a key audit matter due to the size of liabilities balance and the significant assumptions and estimates involved in the valuation by the management.</p>	<p>We recalculated the unearned premium reserve based on the earning period on insurance contracts existing as of 31 December 2019.</p> <p>In addition, with the assistance of actuarial specialists, we:</p> <ul style="list-style-type: none"> <li>• Evaluated the actuarial report compiled by the Company and calculations underlying technical reserves, particularly the following areas: <ul style="list-style-type: none"> <li>- Appropriateness of the calculation methods and approaches (actuarial best practice);</li> <li>- Reliability of assumptions;</li> <li>- Consistency between valuation periods;</li> <li>- General application of financial and mathematical rules.</li> </ul> </li> <li>• Performed an independent analysis and recalculation of the technical balances of selected lines of business. We also compared our independent analysis to those performed by the management and obtained explanations of significant differences noted, if any;</li> <li>• Performed reconciliation of data used in actuarial report to financial data.</li> </ul>

#### Other Information

The other information comprises the information included in the annual 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 we do not express any form of assurance conclusion thereon, except as specified below.

In connection with our audit of financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with 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 report, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual 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 report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Company's annual report, has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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 the 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 International Standards on Auditing 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 to 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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**

In accordance with the decision made by Shareholders on 21 April 2017 we have been chosen for the first time to carry out the audit of Company's financial statements. Our appointment to carry out the audit of Company's financial statements in accordance with the decision made by Shareholders has been renewed annually and the period of total uninterrupted engagement is three years.

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

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 services provided to the Company in the course of audit and disclosed in the annual report, we have provided translation of the financial statements from English into Lithuanian language.

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

Deloitte Lietuva UAB  
Audit Company License No 001275



Mindaugas Jukna  
Lithuanian Certified Auditor  
License No 000580

Vilnius, Republic of Lithuania  
10 February 2020

### 1. Overview of the Company's Standing, Performance and Development

#### General overview

The Company's share capital as of 31 December 2019 and 2018 consisted of 6.402.217 ordinary registered shares with a nominal value of EUR 7,37 each.

99,97% of the Company's share capital is owned by Gjensidige Forsikring ASA, identification number (code) 995568217, registered address Schweigaards gate 21, 0191 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and the Shareholder), and 0,03% by a minority shareholder, an individual.

Shareholder	Number of shares, pcs.
Gjensidige Forsikring ASA	6.400.091
Private person	2.126
<b>Total</b>	<b>6.402.217</b>

The growth of Baltic's non-life insurance market was 6,8% (assessing three quarters of 2019 versus the same period of 2018). The Company had 8,2% of market in Baltics (8,3% in Q1-Q3 2018).

#### Key achievements in 2019:

- ✓ Strengthened sales especially in motor, health and travel product lines;
- ✓ Double digit sales growth in digital, call center and partnership channels in Lithuania;
- ✓ Implemented CRM system and further improved analytical tools;
- ✓ Improved digital and automated process leading to simplified automatic renewals, automated claims payment and reduction of paper documents in internal processes;
- ✓ Empowered sales team led to faster response time to brokers and partners;
- ✓ Investments in employee engagement, training and development led to higher employee engagement and productivity;
- ✓ Improved customer focus via "Gjensidige Experience".

As of 31 December 2019, the Company had 760 employees (230 of them in foreign branches), as of 31 December 2018 – 808 employees (233 in foreign branches).

#### The main types of risks

The main types of risk related to the Company's activities in 2019 were as follows:

- Insurance risk (high loss ratio, inadequacy of technical provisions);
- Market risk (price volatility, portfolio diversification, currency exchange risk);
- Credit risk (default of the issuers of financial instruments, reinsurers' default, default of other partners, delayed settlements);
- Liquidity risk (inability to meet the urgent need for cash);
- Operational risk (inappropriate procedures, human error factor, management risk, failure of systems and processes);
- Compliance risk (failure to comply with external and internal regulations).

#### The Management Board of the Company:

All members of the Management Board are employees of Gjensidige Forsikring ASA.

Kaare Steinar Østgaard (Chairman)	Executive Vice President, Technology and Infrastructure
Janne Merethe Flessum	Executive Vice President, Communication and Shared Services
Hans Georg Wettre Hanevold	Director for Development and mobilization
Anita Gundersen	Head of corporate and broker customers Norway
Mats Christian Gottschalk	Executive Vice President, Denmark



**2. Analysis of financial and non-financial performance, information related to matters of environmental protection and personnel**

Sales

The Company's gross insurance written premiums in 2019 amounted to EUR 119.662 thousand. Compared to the respective result of 2018, written premiums increased by 3,6%.

In 2019, the Company entered into 1.794 thousand insurance contracts (1.650 thousand in 2018). The number of contracts increased by 8,7% in 2019. The number of insurance contracts in force increased by 7,8% from 944 thousand at the end of year 2018 to 1.017 thousand at the end of 2019.

**The results of gross written premium by line of business were as follows (EUR thousand):**

Insurance group	2019 ADB Gjensidige Lithuania	2019 ADB Gjensidige branches	2018 ADB Gjensidige Lithuania	2018 ADB Gjensidige branches	Change, %
Obligatory motor third party liability	28.003	18.998	27.143	19.089	1,67
Property	10.519	7.667	10.563	7.807	(1,00)
Land vehicles other than railway transport	11.971	11.116	10.235	11.250	7,46
Personal accident and medical expenses	12.936	8.613	11.650	8.351	7,74
Third party liability	3.442	1.172	3.601	1.098	(1,81)
Bonds	1.037	773	1.017	653	8,38
Assistance	1.310	826	1.310	550	14,83
Financial losses	166	252	166	141	36,02
Goods in transit	548	158	617	144	(7,23)
Other	82	73	90	69	(2,52)
<b>Total</b>	<b>70.014</b>	<b>49.648</b>	<b>66.392</b>	<b>49.152</b>	<b>3,56</b>

Reinsurance

Reinsurance share in premiums written amounted to 2,8% in 2019 (in 2018 – 3,0%).

Claims expenses

Claims expenses amounted to EUR 75.741 thousand in 2019, an increase by 5,7% compared to claims expenses in 2018 (EUR 71.635 thousand).

In 2019, the total number of reported claims increased from 571.320 in 2018 to 633.347 in 2019. Number of insurance indemnities increased from 563.700 in 2018 to 651.979 in 2019.

The net loss ratio from insurance activities of the Company equalled to 66,2%, an increase of 2,4 percentage points compared to 2018.

Operating expenses

In 2019, the Company's operating expenses ratio decreased by 0,8 percentage points to 30,9%, compared to 2018 (31,7%). The net operating expenses including reinsurance commission totalled to EUR 35.304 thousand in 2019 (EUR 35.631 thousand in 2018). Operating expenses excluding reinsurance commission amounted to EUR 35.550 thousand in 2019, a reduction of 0,8% compared to 2018 (EUR 35.848 thousand).

Investment activities

Net result from investment activity was a profit of EUR 1.808 thousand in 2019 (in 2018 – a loss of EUR 278 thousand).

Net financial result

Financial result of the Company's activities in 2019 was positive – it earned a net profit of EUR 6.220 thousand (in 2018 - a net profit of EUR 6.186 thousand).

The actual combined ratio of the Company equalled to 97,1 per cent (in 2018 - 95,5%).

Information related to matters of environmental protection and personnel

Information related to environmental protection, personnel and other social responsibility matters is provided in the Social Responsibility Report available at the Company's website [www.gjensidige.lt](http://www.gjensidige.lt)

**3. References and additional explanations on the data in annual financial statements**

Additional explanations are not given herein. All additional information related to compilation of annual financial statements is given in the explanatory notes to the financial statements.

**4. Information about subsidiaries and associated companies**

In 2019, the Company did not control subsidiaries and associated companies.

**5. Information about acquired or transferred own shares**

In 2019, the Company neither acquired nor transferred any of its own shares.

**6. Information about acquired or transferred shares of other companies**

In 2019, the Company neither acquired nor transferred any share portfolio of other companies higher than 10 per cent of share capital.

**7. Information about branches of the Company**

As of 31 December 2019, the Company had 2 foreign branches – in Latvia (3 regions and 17 sales units) and in Estonia as well as 9 sales units in Lithuania (as of 31 December 2018 – 2 foreign branches, 2 regions and 11 sales units). The head office of the Company is located at Zalgirio str. 90, Vilnius.

**8. Key events of the Company after the end of the financial year 2019**

There were no events in the Company from 31 December 2019 until the date of issue of the financial statements that might have a significant impact on the financial statements.

**9. Main focus areas of the Company for 2020:**

- ✓ Grow business profitably and improve quality of service provided to our customers and partners;
- ✓ Optimize distribution channels to improve sales efficiency by leveraging analytical CRM solutions;
- ✓ Continue to improve Company's website and claims handling processes for increased customer satisfaction;
- ✓ Continue to invest in employee competence and leadership development.

Full name	Title	Signature	Date
Marius Jundulas	General Director		10.02.2020

STATEMENT OF COMPREHENSIVE INCOME

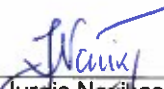
For the year ended 31 December:

EUR'000	Note	2019	2018
<b>Earned premiums</b>	13	<b>114.337</b>	<b>112.284</b>
Gross written premiums		119.662	115.544
Reinsurer's share in written premiums		(3.386)	(3.453)
Change in gross unearned premium technical reserves		(1.939)	264
Change in the unearned premium technical reserves, reinsurer's share		-	(71)
<b>Claims incurred, net</b>	13	<b>(75.740)</b>	<b>(71.636)</b>
Claims paid		(71.072)	(68.848)
Claims handling expenses	14	(10.666)	(10.390)
Recovered losses		4.015	3.634
Reinsurer's share in claims paid		2.464	4.243
Change in claim technical reserves		(1.526)	2.588
Change in claim technical reserves, reinsurer's share		1.045	(2.863)
<b>Change in unexpired risk technical reserves</b>		<b>254</b>	<b>1.247</b>
<b>Net operating expenses</b>		<b>(35.304)</b>	<b>(35.631)</b>
Client acquisition costs	16	(25.471)	(25.490)
Change in deferred client acquisition costs	16	(693)	(377)
Administrative expenses	17	(9.386)	(9.981)
Reinsurance commission income and profit share	13	246	217
Investment management expenses		(196)	(146)
Net interest income		231	317
Net gain/(losses) from financial assets classified at fair value through profit and loss		1.874	(413)
Realised investment result from investment activity		(114)	(57)
Property sale income		13	20
Foreign exchange revaluation loss		(40)	(30)
Other income	18	458	519
Other expenses	18	(211)	(140)
<b>Profit before corporate income tax</b>		<b>5.562</b>	<b>6.334</b>
Income tax	19	658	(148)
<b>Profit of the reporting year</b>		<b>6.220</b>	<b>6.186</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>6.220</b>	<b>6.186</b>

Notes on pages 16 to 56 are an integral part of these financial statements.

  
Marius Jundulas  
General Manager

  
Jolanta Markelėnė  
Chief Accountant

  
Jurgis Navikas  
Chief Actuary

10 February 2020

STATEMENT OF FINANCIAL POSITION


As at 31 December:

ASSETS EUR'000	Note	2019	2018
Property and equipment	1	1.352	1.713
Intangible assets	1	4.499	4.527
Right-of-use assets	22	5.547	-
<b>Total non-financial assets</b>		<b>11.398</b>	<b>6.240</b>
Financial assets designated at fair value through profit or loss	2	98.398	87.017
Held-to-maturity investments	3	21.359	25.774
<b>Total financial investments</b>		<b>119.757</b>	<b>112.791</b>
Term deposits with credit institutions	4	62	62
Direct insurance receivables from policy holders and intermediaries	5	14.410	14.294
Reinsurance receivables	5	946	980
Other receivables	5	1.490	1.562
<b>Loans and Receivables</b>		<b>16.908</b>	<b>16.898</b>
Deferred client acquisition costs		5.580	6.273
Other prepaid expenses and accrued income		1.042	2.869
<b>Total accrued income and deferred expenses</b>	7	<b>6.622</b>	<b>9.142</b>
Deferred tax asset	19	1.654	652
Corporate income tax asset		350	424
Advance payments		247	147
Reinsurer's share in technical reserves for unearned premium	9	289	290
Reinsurer's share in technical reserves for outstanding claims	9	10.682	9.636
<b>Total reinsurance assets</b>		<b>10.971</b>	<b>9.926</b>
<b>Cash and cash equivalents</b>	6	<b>13.993</b>	<b>14.350</b>
<b>TOTAL ASSETS</b>		<b>181.900</b>	<b>170.570</b>

Notes on pages 16 to 56 are an integral part of these financial statements.

  
Marius Jundulas  
General Manager

  
Jolanta Markellene  
Chief Accountant

  
Jurgis Navikas  
Chief Actuary

10 February 2020

STATEMENT OF FINANCIAL POSITION

As at 31 December:

LIABILITIES AND EQUITY EUR'000	Note	2019	2018
<b>Equity</b>			
Share capital	8	47.184	47.184
Share premium	8	12.454	12.454
Revaluation reserve	8	38	57
Retained earnings carried forward from previous years		(11.517)	(17.722)
Profit of the reporting year		6.220	6.186
<b>Total equity</b>		<b>54.379</b>	<b>48.159</b>
<b>Liabilities</b>			
<b>Insurance liabilities</b>			
Unearned premium technical reserve		50.291	48.352
Technical reserves for outstanding claims		56.596	55.070
Unexpired risk technical reserve		2.538	2.792
<b>Total insurance liabilities</b>	9	<b>109.425</b>	<b>106.214</b>
<b>Creditors</b>			
<b>Direct insurance liabilities</b>			
Policyholders		1.930	2.441
Intermediaries		-	49
Other insurance liabilities	10	3.671	6.536
Reinsurance liabilities		2	238
Corporate income tax liabilities		378	268
Taxes and social contributions	10	500	647
Other creditors	10	701	707
Lease liability	22	5.501	-
<b>Total creditors</b>		<b>12.683</b>	<b>10.886</b>
<b>Provisions</b>	11	283	275
<b>Accrued expenses and deferred income</b>	12	5.130	5.036
<b>Total liabilities</b>		<b>127.521</b>	<b>122.411</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>181.900</b>	<b>170.570</b>

Notes on pages 16 to 56 are an integral part of these financial statements.

  
Marius Jundulas  
General Manager

  
Jolanta Markellėnė  
Chief Accountant

  
Jurgis Navikas  
Chief Actuary

10 February 2020

STATEMENT OF CHANGES IN EQUITY

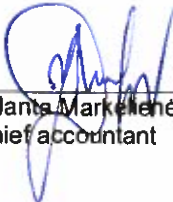
For the year ended 31 December:

EUR'000	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
<b>Balance as at 1 January 2018</b>	<b>47.184</b>	<b>12.454</b>	<b>63</b>	<b>(17.728)</b>	<b>41.973</b>
Comprehensive income for the year	-	-	-	6.186	6.186
Amortization of revalued assets	-	-	(6)	6	-
<b>Balance as at 31 December 2018</b>	<b>47.184</b>	<b>12.454</b>	<b>57</b>	<b>(11.536)</b>	<b>48.159</b>
Comprehensive income for the year	-	-	-	6.220	6.220
Write off of revalued assets	-	-	(13)	13	-
Amortization of revalued assets	-	-	(6)	6	-
<b>Balance as at 31 December 2019</b>	<b>47.184</b>	<b>12.454</b>	<b>38</b>	<b>(5.297)</b>	<b>54.379</b>

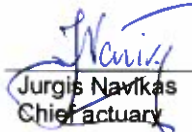
Notes on pages 16 to 56 are an integral part of these financial statements.



Marius Jundulas  
General manager



Jolanta Markelienė  
Chief accountant



Jurgis Navikas  
Chief actuary

10 February 2020


**STATEMENT OF CASH FLOWS**

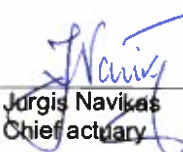
For year ended 31 December:

EUR'000	2019	2018
<b>Cash flows from operating activities</b>		
Premiums received in direct insurance	113.716	111.861
Claims paid in direct insurance	(69.340)	(66.222)
Payments received from reinsurers	1.902	3.263
Payments made to reinsurers	(3.004)	(3.436)
Paid Corporate income tax	(159)	(89)
Payments to employees	(11.985)	(11.377)
Payments to intermediaries	(7.388)	(7.816)
Paid operating taxes	(8.304)	(9.640)
Other payments made	(11.647)	(12.230)
Other payments received	3.597	2.900
<b>Net cash flows from operating activities</b>	<b>7.388</b>	<b>7.214</b>
<b>Cash flows from investing activities</b>		
<b>Acquisition of investments:</b>		
Debt securities and other fixed income securities	(43.945)	(38.596)
Term deposits with credit institutions	-	(4)
<b>Total acquisition of investments:</b>	<b>(43.945)</b>	<b>(38.600)</b>
<b>Investment loss:</b>		
Debt securities and other fixed income securities	-	(35)
<b>Total investment loss:</b>	<b>-</b>	<b>(35)</b>
<b>Acquisition of tangible assets</b>	<b>(991)</b>	<b>(1.554)</b>
<b>Disposal of investments:</b>		
Debt securities and other fixed income securities	38.964	35.621
Term deposits with credit institutions	-	-
<b>Total disposal of investments:</b>	<b>38.964</b>	<b>35.621</b>
<b>Investment management expenses and commission fee payments</b>	<b>(196)</b>	<b>(146)</b>
<b>Net cash flows (used in) investing activities</b>	<b>(6.168)</b>	<b>(4.714)</b>
<b>Financing activities</b>		
Other payments on financial activities	(130)	(108)
Payments to cover lease liabilities	(1.333)	-
Interest of the lease liabilities	(114)	-
<b>Net cash (used in) financing activities</b>	<b>(1.577)</b>	<b>(108)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(357)</b>	<b>2.392</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14.350</b>	<b>11.958</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>13.993</b>	<b>14.350</b>

Notes on pages 16 to 56 are an integral part of these financial statements.

  
Marius Jundulas  
General Manager

  
Jolanta Markelienė  
Chief accountant

  
Jurgis Navikas  
Chief actuary

10 February 2020

**EXPLANATORY NOTES**

**I. GENERAL INFORMATION**

**General information**

Gjensidige ADB (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 9 August 1993.

The Company is engaged in non-life insurance services. The licence for the insurance activity is No. 21.

As of 31 December 2019 and 2018, the Company's authorised share capital consisted of 6.402.217 ordinary registered shares with the par value of EUR 7,37 each.

99,97% of the Company's share capital is owned by Gjensidige Forsikring ASA, identification number (code) 995568217, registered address Schweigaards gate 21, 0191 Oslo, 0301 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and the Shareholder), and 0,03% by a minority shareholder, an individual.

Shareholder	Number of shares, pcs.
Gjensidige Forsikring ASA	6.400.091
Private person	2.126
<b>Total</b>	<b>6.402.217</b>

As of 31 December 2019, Gjensidige Forsikring ASA group in the Baltics owned the following companies:

- Gjensidige ADB with branches in Latvia and Estonia.

**Employees of the Company**

As of 31 December 2019, the Company employed 760 employees (as of 31 December 2018 – 808):

Country	31.12.2019	31.12.2018
Lithuania	530	575
Latvia	192	195
Estonia	38	38
<b>Total</b>	<b>760</b>	<b>808</b>

**Company's activities**

The Company has the license for the following groups of insurance or activities of voluntary insurance of separate risks:

- Land vehicles other than railway transport insurance;
- Land vehicles third party liability insurance;
- Aircraft third party liability insurance;
- Hull (sea and internal waters) third party liability insurance;
- Accident insurance;
- Aircraft insurance;
- CARGO insurance;
- Property insurance against other risks;
- General third party liability insurance;
- Illness insurance;
- Hull (sea and internal waters) insurance;
- Property insurance against fire and natural disasters;
- Guarantee insurance;
- Financial losses insurance;
- Assistance insurance;
- Railway rolling stock transport insurance.

The Company's license for the insurance activity enables to provide such types of obligatory insurance:

- Compulsory motor third party liability insurance;
- Compulsory liability insurance of construction projector;
- Compulsory insurance of building construction, reconstruction, repair, renovation (modernization), demolition or cultural heritage management, construction and civil liability
- Compulsory liability insurance of major researchers and contractors of biomedical researches;



- Compulsory liability insurance of railway companies (carriers) and companies using public railway infrastructure;
- Compulsory liability insurance of healthcare agencies for the harm inflicted on patients;
- Professional liability insurance of bankruptcy administrator in performing company bankruptcy procedures;
- Insurance of guarantee of performance of travel organiser's liabilities.

**Information about branches and agencies of the Company**

As of 31 December 2019, the Company had 2 foreign branches – in Latvia (3 regions and 17 sales units), in Estonia, and 9 sales units in Lithuania (as of 31 December 2018 – 2 foreign branches, 2 regions and 11 sales units). The head office of the Company is located at Zalgirio str. 90, Vilnius.

**Information about subsidiaries and associated companies of the Company**

As of 31 December 2019 and 2018, the Company had no subsidiaries and associated companies.

**Financial year**

The financial year of the Company starts on 1 January and ends on 31 December.

**II. SIGNIFICANT ACCOUNTING POLICIES**

**Basis for preparation of financial statements**

**Statement of compliance**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value: financial assets carried at fair value through profit or loss and buildings which are measured at revalued amount, being fair value at date of valuation less subsequent accumulated amortization.

The financial statements have been prepared on the assumption that the Company will be able to continue as a going concern in the foreseeable future.

**Functional and Presentation Currency**

The financial statements are presented in thousands of Euro (EUR), which is the Company's functional currency.

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

**New standards adopted**

**IFRS16 Leases** (adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)).

Gjensidige implemented IFRS16 at 1 January 2019 and there were significant implementation effects on the balance sheet. Please refer to note 22 for further details.

**Initial application of new amendments to the existing standards effective for the current reporting period**

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

**Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

**Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),

**Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),

**Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),

**IFRIC 23 “Uncertainty over Income Tax Treatments”** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Company’s financial statements

**IFRS 9 “Financial Instruments”:**

The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until 1 January 2021. The effect of such a deferral is that the entities concerned may continue to report under the existing standard, IAS 39 Financial Instruments. In addition, the insurance sector of a financial conglomerate is allowed to defer the application of IFRS 9 until 1 January 2021, where all of the following conditions are met:

- no financial instruments are transferred between the insurance sector and any other sector of the financial conglomerate other than financial instruments that are measured at fair value with changes in fair value recognised through the profit or loss account by both sectors involved in such transfers;
- the financial conglomerate states in the consolidated financial statements which insurance entities in the group are applying IAS 39;
- disclosures requested by IFRS 7 are provided separately for the insurance sector applying IAS 39 and for the rest of the group applying IFRS 9.

Gjensidige is a financial conglomerate that mainly has business within insurance, and has therefore decided to make use of this exception.

The adoption of these amendments to the existing standards has not led to any material changes in the Gjensidige ADB financial statements.

**Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of approval of these financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Company is currently assessing the impact of adoption of these new standards, amendments to the existing standards and new interpretations.

**More details about individual standards, amendments to existing standards and interpretations that can be used as appropriate:**

- **IFRS 9 “Financial Instruments”** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.
- **IFRS 17 “Insurance Contracts”** issued by IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 “Insurance Contracts” and related interpretations while applied.
- **Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement** issued by IASB on 7 February 2018. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** issued by IASB on 12 December 2017. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** issued by IASB on 7 June 2017. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

### **Significant accounting policies**

#### **Estimates**

Based on the International Financial Reporting Standards EU, the management, when preparing the financial statements, has to make certain estimates and assumptions that affect the disclosure of assets, liabilities, income, expenses and contingencies.

Estimates and key assumptions are reviewed on an ongoing basis and the effects of revisions are recognized in the period in which revised if the revision itself only affects that period, or also in the future periods if the revision affects both the current and future periods.

The estimates relate mainly to the definition of the useful lives of tangible and intangible assets, impairment of doubtful insurance debts and investments, technical provisions, receivable subrogations and recoveries and recognition of deferred tax asset, lease liability.

The result of changes in the mentioned estimates will be accounted for in the financial statements when determined.

#### Foreign currency

Foreign exchange transactions are translated into the functional currency of the country of operation in accordance with the exchange rate set by the European Central Bank on the date of the respective transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the European Central Bank on the last date of the reporting period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated at the exchange rate as at the date fair value was determined. Non-monetary items that measured in terms of historical cost or revalued amount in foreign currency are translated using the exchange rate at the date of transaction or the date of revaluation.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the statement of comprehensive income in the period in which the fluctuation occurs. Foreign exchange rates for the key currencies at the end of the reporting period were the following:

	31.12.2019	31.12.2018
PLN	4,2567	4,3028
USD	1,1189	1,1454

#### Intangible assets

Intangible assets comprise software, goodwill and other intangible assets acquired in business combination. Intangible assets are carried at acquisition cost, less accumulated amortisation and impairment losses, if any. Amortisation is calculated on a straight-line basis over the estimated useful life of the asset.

The amortisation rates of intangible assets are the following:

Intangible asset group	Useful life (in years)
Software	4 - 7
Other assets	5

#### Business acquisitions

Business acquisitions are accounted for using the purchase method. Paid amount in a business combination process is measured at fair value.

#### Business combinations between companies under common control

Business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. The assets and liabilities of the acquiree are recognised at their previous carrying amounts. No adjustments are made to reflect fair values and no new assets and liabilities of the acquiree are recognised at the date of the business combination. No new goodwill is recognised and the difference between the acquired net assets and the consideration is recognised directly in equity.

#### Property and equipment

##### a) Property

Property is carried at revalued value less any subsequent accumulated depreciation and accumulated impairment losses, if any.

In case real estate comprises important components with different useful lives, they are carried as separate units of real estate.

In cases where the value of a revalued asset unit increases, such an increase is accounted for as the asset value increase and revaluation reserve. When the asset unit value after revaluation decreases, such a decrease is registered as an impairment loss and is recognized as an accounting period loss due to asset impairment loss, if the asset was not revaluated previously by increasing its value. In cases where the value of an asset being revaluated was increased and the asset impairment loss is identified during the accounting period, at first the remaining non-depreciated revaluation reserve is written off, and where its balance is not sufficient – the asset impairment loss expenses are registered. In cases where the value of any previously revaluated asset increases, the previous impairment loss is reversed, and the remaining portion goes to the revaluation reserve. At the end of the accounting period, the building's revaluated portion depreciation is

calculated, and the revaluation reserve is adjusted accordingly. Upon the sale or write-off of any revaluated asset, the respective non-depreciated balance of the revaluation reserve is reversed.

Depreciation is calculated on a straight-line basis over the estimated useful life of buildings. The estimated useful life of buildings is 15 to 40 years.

Subsequent repair works, which do not improve the useful features of the assets or do not extend the assets useful life period, are recognized as expenses immediately when incurred. Reconstruction costs and repair works, which extend the asset useful life period or which increase the useful features are included in the cost of the asset and are depreciated over the newly determined useful life.

Gain or loss arising on the disposal of real estate is determined as the difference between the proceeds received and the carrying amount of the sold property as well as all disposal related costs. Upon the disposal of real estate, the transaction result is reflected in profit or loss.

At the end of every year, the Company reviews the estimated useful life, carrying amount and depreciation method of its real estate and the changes in accounting estimates, if any, are recognized on a prospective basis.

b) Plant and equipment (hereinafter referred to as non-current tangible assets)

Non-current tangible assets are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses, if any. 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 tangible assets are as follows:

Groups of non-current tangible assets	Useful life (in years)
Other non-current tangible assets	4–10

In case non-current tangible assets comprise important components with different useful lives, they are carried as separate units of non-current tangible assets.

Subsequent repair costs are added to the carrying amount of non-current tangible assets if they prolong the useful life of the asset or improve its useful features. All other repairs and maintenance are charged to profit or loss in the period in which they are incurred.

The costs of repairs of assets that are leased and/or used under loan-for-use agreements are attributed to non-current tangible assets and recognized as expenses over the lease period, provided the repairs extend the useful life of the asset or improve its useful features.

The gain or loss arising on the disposal of an item of non-current tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset. Gain or loss from disposal of non-current tangible asset is recognized in profit or loss when incurred.

At the end of every year, the Company reviews the estimated useful life, carrying amount and depreciation method of the tangible assets and the changes in accounting estimates, if any, are recognized on a prospective basis.

Impairment losses, write-offs and depreciation expenses are allocated to operating expenses of the Company.

**Impairment of property, plant and equipment and intangible assets**

At each reporting date, the Company reviews the carrying amounts of its property, tangible 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 can be identified, the Company's 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 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.

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 recognized immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve (if any).

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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income

immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase of revaluation reserve.

#### Financial instruments

Financial instruments are classified in one of the following categories

- at fair value through profit or loss
- available for sale
- investments held to maturity
- financial derivatives
- financial liabilities at amortised cost

#### Recognition and derecognition

Financial assets and liabilities are recognized when Gjensidige becomes a party to the instrument's contractual terms. Initial recognition is at fair value. For instruments that are not derivatives or measured at fair value through profit or loss, transaction expenses that are directly attributable to the acquisition or issuance of the financial asset or the financial liability, are included. Normally initial recognition will be equal to the transaction price. Subsequent to initial recognition the instruments are measured as described below.

Financial assets are derecognized when the contractual rights to cash flows from the financial asset expire, or when the Company transfers the financial asset in a transaction where all or practically all the risk and rewards related to ownership of the assets are transferred.

#### At fair value through profit or loss

Financial assets and liabilities are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. All financial assets and liabilities can be designated at fair value through profit or loss if

- the classification reduces a mismatch in measurement or recognition that would have arisen otherwise as a result of different rules for the measurement of assets and liabilities,
- the financial assets are included in a portfolio that is measured and evaluated regularly at fair value.

Gjensidige holds an investment portfolio that is designated at fair value at initial recognition, and that is managed and evaluated regularly at fair value. This is according to the Board of Directors' approved risk management and investment strategy, and information based on fair value is provided regularly to the Company Management and the Board of Directors.

Transaction expenses are recognized in profit or loss when they incur. Financial assets at fair value through profit or loss are measured at fair value at the reporting date. Changes in fair value are recognized in profit or loss.

The category at fair value through profit or loss comprises the class shares and similar interests and bonds and other fixed income assets.

#### Available for sale

Financial assets available for sale are non-derivative financial assets that have been recognized initially in this category, or are not recognized initially in any other category. Subsequent to initial recognition financial assets in this category are measured at fair value, and gain or loss is recognized in other comprehensive income except for impairment losses, which are recognized in profit or loss.

The Company has no financial assets in this category.

#### Investments held to maturity

Investments held to maturity are non-derivative financial assets with payments that are fixed or which can be determined in addition to a fixed maturity date, in which a business has intentions and ability to hold to maturity with the exception of

- those that the business designates as at fair value through profit or loss at initial recognition,
- those that meet the definition of loans and receivables.

Investments held to maturity are measured at amortised cost using the effective interest method, less any impairment losses. The category investments held to maturity comprises the class bonds held to maturity.

#### Loans and Receivables

Receivables are non-derivative financial assets with payments that are fixed or determinable. Receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The category Receivables comprises, receivables related to direct operations and reinsurance, other receivables, prepaid expenses and earned, not received income and cash and cash equivalents and obligations classified as receivables.

**Cash and cash equivalents**

Cash comprises cash on hand and cash in banks. Cash equivalents are short-term (with a maturity less than three months from the date of acquisition) liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Investments in equities are not attributed to cash equivalents.

**Deposits in credit institutions**

All term deposits irrespective of the length of term are classified as term deposits in credit institutions (except for overnight deposits that are classified as cash at bank and on hand). Deposits in credit institutions are measured at amortised cost less impairment losses. Impairment loss is calculated as soon as it is determined that the deposit repayment is doubtful. Interest revenue is accrued applying the effective interest rate during the entire deposit term. The accrued deposit interest is stated together with the deposit's carrying value.

**Financial liabilities at amortised cost**

Financial liabilities are measured at amortised cost using the effective interest method. When the time horizon of the financial liability's due time is quite near in time the nominal interest rate is used when measuring amortised cost.

The category financial liabilities at amortised cost comprises the classes subordinated loan, deposits from and liabilities to customers, other liabilities, liabilities related to direct insurance and accrued expenses and deferred income.

**Definition of fair value**

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled to in an orderly transaction between market participants at the measurements date.

Different valuation techniques and methods are used to estimate fair value depending on the type of financial instruments and to which extent they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/liabilities is estimated based on valuation techniques which are based on non-observable market data.

**Definition of amortised cost**

Subsequent to initial recognition, investments held to maturity, loans and receivables and financial liabilities that are not measured at fair value are measured at amortised cost using the effective interest method. When calculating effective interest rate, future cash flows are estimated, and all contractual terms of the financial instrument are taken into consideration. Fees paid or received between the parties in the contract and transaction costs that are directly attributable to the transaction, are included as an integral component of determining the effective interest rate.

**Impairment of financial assets**

**Investments held to maturity and Loans and receivables**

For financial assets that are not measured at fair value, an assessment of whether there is objective evidence that there has been a reduction in the value of a financial asset or group of assets is made on each reporting date. Objective evidence might be information about credit report alerts, defaults, issuer or borrower suffering significant financial difficulties, bankruptcy or observable data indicating that there is a measurable reduction in future cash flows from a group of financial assets, even though the reduction cannot yet be linked to an individual asset.

An assessment is first made to whether objective evidence of impairment of financial assets that are individually significant exists. Financial assets that are not individually significant or that are assessed individually, but not impaired, are assessed in groups with respect to impairment. Assets with similar credit risk characteristics are grouped together.

If there is objective evidence that the asset is impaired, impairment loss are calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

## **Available for sale**

For financial assets available for sale, an assessment to whether the assets are impaired is carried out quarterly.

If a decline in fair value of an available-for-sale financial asset, compared to cost, is significant or has lasted longer than nine months, the cumulative loss, measured as the difference between the historical cost and current fair value, less impairment loss on that financial asset that previously has been recognized in profit or loss, is removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss are not reversed through profit or loss, but in other comprehensive income.

## **Share capital and reserves**

Share capital and reserves are accounted for at the nominal value thereof.

## **Legal reserve**

Pursuant to the Law on Companies of the Republic of Lithuania, legal reserve is formed from the distributable profit. Companies must transfer to the legal reserve 5% of their net profit, until the total amount of the reserve reaches 10% of the Company's share capital. The legal reserve may be used only for covering losses of the Company. The share of legal reserve in excess of 10% of the share capital may be distributed when distributing the profit for the succeeding financial year. It is not formed.

## **Revaluation reserve**

Revaluation reserve represents increase in value of Company's non-current tangible assets (real estate) resulting from revaluation. Revaluation reserve is reduced in line with write-downs on assets previously revalued upwards, when assets revalued is written off, depreciated or disposed to the ownership of other persons. The revaluation reserve in respect of revaluation of tangible assets might be used to increase share capital. Revaluation reserve cannot be decreased to cover losses.

## **Technical provisions**

Technical provisions are computed under IFRS EU with reference to the characteristics of the insurance risks assumed and the data available. The used assumptions are evaluated after prudent period of time since formation of provisions and may be subject to adjustment in case they are not reaffirmed.

a) The unearned premiums technical provision (hereinafter referred to as UPTP) is intended to cover insurance operating expenses according to all valid insurance risks. This provision is calculated as a part of premiums written attributable to income of the Company for future accounting periods. Unearned premiums technical provision is calculated separately for each insurance policy, proportionally allocating insurance premium written to the period of risk validity. For the calculation of unearned premiums technical provision the day method is used, when the period of insurance risk validity and the period of insurance risk validity until the end of policy is expressed in days.

b) Unexpired risk technical provision (hereinafter referred to as URTP) is intended to cover the insufficiency of technical provisions under valid insurance risks, for which technical provisions are concluded. The provision is calculated individually for every insurance group by subtracting from unearned premiums technical provision the forecasted claims according to the valid agreements, forecasted claims handling expenses related to these claims, deferred acquisition and administrative expenses and by adding the forecasted subrogation amounts to be recovered.

Forecasted claims are calculated as the product of the remaining annual risk assumed, annual risk frequency and average claim. The related forecasted claims handling expenses are calculated as a product of forecasted claims amount and the claims handling coefficient. The forecasted subrogation amounts are calculated as a product of forecasted claims amount and subrogation recovery coefficient. Annual claims frequency and the average claim are calculated individually for every insurance subgroup according to the Company's statistics.

c) Outstanding claims technical provision (hereinafter referred to as OCTP) is intended to cover all outstanding claims, including amounts required for claims handling according to all claims already occurred as well as claims occurred but not reported, and excluding the outstanding amounts receivable from subrogation or regress rights and outstanding amounts receivable for realised residual assets. The calculation base of outstanding claims technical provision (excluding provision for incurred but not reported claims) represents the individual evaluation of every claim reported considering all available information at the moment of formation of this provision.

The estimate of claims incurred but not reported for all insurance groups with insufficient statistical data is calculated using the "Loss ratio" method and for the insurance groups with sufficient statistical data using the "Bornhuetter-Ferguson" or "Chain-Ladder" method.



### **Corporate income tax**

Income tax expense comprises the expenses of the current income tax and deferred income tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2019 and 2018, the income tax applied to the Company is 15%.

The corporate income tax in Latvia is paid on the payment of dividends or other non-deductible expenses.

Corporate income tax in Estonia is calculated based on the legislation effective in Estonia. The corporate income tax is paid on the payment of dividends or other non-deductible expenses.

#### **Deferred income tax**

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from 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.

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 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.

#### **Current and deferred tax for the period**

Current and deferred tax are recognized as an expense in profit or loss, except when they relate to items credited or debited directly to Other comprehensive income (hereinafter referred to as OCI), in which case the tax is also recognized directly in OCI or if they emerged at the moment of initial recognition of a business combination.

#### **Other provisions**

Other provisions are recognized when the Company has a legal obligation as a result of the past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

#### **Employee benefits**

Short-term employee benefits, including remuneration and social insurance contributions, bonuses and holiday pay, are included on an accrual basis into operating expenses over the entire employment period. Over the entire period of employment, the Company, on behalf of its employees, pays social insurance contributions to the State Social Insurance Fund Board; these contributions are made following local legal acts; the Company is not obligated to pay additional pension contributions for the years of service of its employees at the Company.

#### **Leases**

IFRS 16 requires all contracts that qualify under its definition as a lease to be reported on a lessee's balance sheet as right of use assets and lease liabilities. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. A lessee shall recognise a right-of-use asset and a lease liability. The interest effect of discounting the lease liability shall be presented separately from the depreciation charge for the right-of-use asset. The depreciation expense will be presented with the group's other depreciations, whereas the interest effect of discounting will be presented as a financial item.

The cost of the right-of-use asset consists of:

- The amount of the initial measurement of lease liability;
- Any lease payments made at the before commencement date, less any lease incentives received;

- Incurred initial direct costs;
- The expenses incurred in relation to dismantling or removing the lease assets.

The assets managed at the right of use are depreciated by the straight-line method throughout the entire period set by the lease obligation.

The assets managed according to the right of use are broken down into the following groups:

- Land and building;
- Vehicles;
- Office equipments.

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, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

To determine whether a contract contains a lease, it is considered whether the contract conveys the right to control the use of an identified asset. This is for Gjensidige considered to be the case for rental contracts, leases for cars and other assets.

The rental period is calculated based on the duration of the agreement plus any option periods if these with reasonable certainty will be exercised. Joint expenses etc. are not recognised in the lease liability for the rental contracts.

The discount rate for the rental contracts is determined by looking at observable borrowing rates in the bond market for regions in which Gjensidige operates. The interest rates are adapted to the actual lease contracts duration etc. The discount rate for the leasing cars is determined based on an assessment of which loan interest Gjensidige would achieve for financing cars from a financing company.

#### **Classification of insurance contracts**

##### *(i) Recognition and measurement of insurance contracts*

The insurance contract signed by the insurer is only recognised as an insurance contract if under such contract the policyholder transfers significant insurance risks to the insurer. All of the Company's insurance contracts are classified as insurance contracts and they do not include any items linked to investment units or other investment items.

The classification of insurance contracts is based on the transfer of insurance risk, for example:

- Personal accident insurance,
- Travel insurance,
- Property insurance against damage or theft,
- Vehicle insurance,
- Liability insurance.

##### *(ii) Insurance premiums written and outward reinsurance premiums*

Insurance premiums written comprise the premiums under the contracts signed during the accounting period which last for no longer than one year, the premiums under the contracts signed during the accounting period which last for more than one year and are allocated to one year of insurance, and the premiums under the contracts signed during the prior financial year which last for more than one year and allocated for the accounting year, deducting any premiums under cancelled or terminated insurance policies. Earned premiums comprise the premiums attributable to the accounting period – premiums written during the year adjusted by change in unearned premiums reserve for the relative period.

Outward reinsurance premiums represent the share of premiums written in the accounting period, which was subject to reinsurance and adjusted by the change in unearned premiums technical provision.

#### **Insurance claims**

Insurance claims incurred comprise claims attributable to the accounting period, i.e. claims paid, claim handling costs, subtracting subrogation receivables and the outstanding claims technical provision change during the accounting period.

Subrogation received comprises the actually received amounts during the accounting period from third parties in cash or upon sale of transferred property, and the amounts receivable after the end of the accounting period which are related to the damages compensated prior to the end of the accounting period, taking into consideration the likely period of payment of such amounts and the likelihood of receipt of such amounts.

Motor Bureau fee calculated in Lithuania, Latvia and Estonia is accounted for as claims handling expenses.

Claims handling costs comprise the claims handling centre costs and certain portions of the costs incurred by the Company's headquarters and branch offices assigned in accordance with the methodology approved by the Company.

From administrative expenses to inderict claims handling expenses are reclassified by the approved instruction.

The reinsurers' share of the claims incurred comprises the amounts paid by reinsurers under reinsurance contracts or the amounts receivable from reinsurers for the claims payments made by the Company during the accounting period, adjusted by the outstanding claims technical provision reinsurers' share change during the accounting period, and the retrospective and external claims handling costs expenditure assigned to the reinsurers.

#### **Investment activity income and expenses**

All investment income and expenses related to insurance and equity capital investment operations are attributed to investment income and expenses.

Interest income is included in the statement of comprehensive income for all cash generating financial instruments using the effective interest rate method. Interest income includes coupon payments earned on fixed-income securities, interest earned on investments in bank deposits and loans, current account balances and discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

#### **Acquisition expenses**

Acquisition expenses include expenses incurred concluding insurance contracts. Acquisition expenses represent commission payments to agents and intermediaries for the distribution of insurance policies, advertising and promotion expenses, operating expenses and employee payroll along with social security expenses of sales departments.

Commission expenses related to future periods are accounted for in the statement of financial position as deferred acquisition expenses. Deferred acquisition expenses are calculated on a pro-rata basis in respect of each insurance policy.

Commission charges are allocated directly to each insurance policy and respective type of insurance, whereas other acquisition expenses are allocated to respective types of insurance based on the number of agreements signed.

#### **Administrative expenses**

Administrative expenses include expenses that are not directly related to insurance contract conclusion, claims handling, and investment activity. These expenses are assigned to insurance groups in accordance with the methodology approved by the Company.

From administrative expenses to inderict claims handling expenses are reclassified by the approved instruction. Administrative expenses are accounted for on accrual basis.

#### **Other income and expenses**

Other income and respectively incurred expenses for the distribution of insurance products of other companies are reflected in other income and expenses right away, upon selling the relevant policy of another insurance company.

Other income includes income earned on services other than insurance services: interest not related to investments such as interest on cash in bank; income from foreign currency conversion and currency rate translation not related to investments; gain on revaluation of the items of the statement of financial position not related to investments, and other similar income not included in other items.

Other expenses include various expenses such as changes in foreign currency exchange rates of outstanding balances, loss on revaluation of the items of the statement of financial position not related to investments, fines and penalties for late payments, interest of the lease and other expenses not included into other items.

All other income and expenses are recognised on an accrual basis.

#### **Statement of cash flows**

The cash flow statement is prepared applying the direct method. Cash and cash equivalents comprise cash on hand and at banks. The received dividends are assigned in the cash flow statement to investment activities, and the paid dividends – to financial activities. The received interest is shown in investment activity.

**Offsetting**

While preparing the financial statements assets and liabilities, and income and expenses are not offset, except cases, when an individual international financial reporting standard requires such offset.

**Related parties**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, members of the supervisory council and management board, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company.

**Regulatory requirements**

The Company is subject to the regulatory requirements of the Bank of Lithuania. These requirements include minimum capital, minimum solvency, restricted investments, accounting and provision setting policies.

**Contingencies**

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits are probable.

**Events after the end of the reporting period**

Events after the end of the reporting period that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

### III. RISKS AND RISK MANAGEMENT

The Company's risk management is centralised at all Company's levels and includes the development, implementation and control of risk management activities related to the Company's goals. Given the level of competence and responsibility, risk management functions are distributed from the Company's Board to employees, defining them in the approved Company's Board's and the administration's work regulations, as well as in the job descriptions of employees.

The Company's risk management strategy is based on capital adequacy assessment principles, the aggregation of the types of risks faced into the overall assessment, and the assurance of solvency needs to cover them, in accordance with the principles of precaution, conservatism and prudence.

The main objectives of capital management strategy are to ensure continuous capital management and capital adequacy, timely response to the changes in capital size and assessment of the effect on capital of important decisions. The Company measures solvency capital requirement under Solvency II using a standard formula.

The Company, according to the requirements of the Solvency II Directive and overall risk management strategy of Gjensidige group, ensures the Company's risk management system on the implementation of the three level protection principles.

Risk is limited by the legislation regulating the operations of insurance companies and internal regulations, as well as by Solvency II Directive and its implementing documents. The Company's risk appetite and risk limits are approved by the Company's Board in order to determine the maximum level of the risk to be tolerated. When this limit is exceeded, the Company takes actions to prevent further increases in risks.

The Company applies risk management measures having assessed the significance of identified risks to achieving the Company's goals taking account of the costs and effectiveness of risk reduction measures:

1. Risk aversion – motivated decision not to take risky activities.
2. Risk mitigation – process whereby the Company applies internal controls to reduce the probability of the risk of the Company's processes and operations and/or their potential effect to the tolerated level.
3. Risk transfer – risk sharing/transfer to the third party.
4. Risk assuming – assuming of possible gains or losses from certain risks.

Detailed rules of management of specific risk types (identification, measurement, key indicators, monitoring, control, reporting and management measures) are set in the internal documents detailing the management of a specific risk type.

The Company considers insurance, market (investment), credit, concentration and operational risks significant and measures capital requirement. The Company assumes a different level of risk of each risk category and establishes risk assessment methodology individually for each risk category.

#### **Capital risk management**

The core function of insurance is the transfer of risk, and the Company is exposed to risk in both its insurance and investment operations. Identification, measurement and management of risk are essential parts of the operations. Risk and capital are, and must be interlinked. Any insurance company must adapt its risk exposure to its capital base. On the other hand, solvency capital, or equity, has a cost. A key objective of capital management is to balance these two aspects. Company's overall capital management objectives are firstly to ensure that the capitalization of the Company can sustain an adverse outcome without creating a financially distressed situation and secondly that the Company's capital is used in the most efficient way.

The Company defines capital as equity which is disclosed in the statement of financial position.

Pursuant to the Law on Insurance the authorised share capital of a joint stock company must be not less than EUR 1,000,000, and pursuant to the Lithuanian Law on Companies the shareholders' equity should not be lower than 50% of the company's registered share capital. As at 31 December 2019 and 2018 the Company complied with these requirements.

#### **Insurance risks**

The risk under any insurance contract is the probability that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and must therefore be estimated.

The Company operates in Lithuania, Latvia and Estonia. The core business of the Company is acceptance and management of insurance risks. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and/or severity of claims and benefits are greater than estimated.

Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level calculated using statistical techniques.

Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around 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 an overall underwriting policy, approved by the Board, with more detailed underwriting guidelines for each of the product segments, supported by strictly defined authorisation rules. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

## **General insurance**

### *Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The different factors will depend on the products, or lines of business (LOB) considered.

An increase in the frequency of claims can be due to seasonal effects and more sustainable effects. During the winter season snow and cold weather will cause an increase in the frequency of claims in Motor insurance. In Property insurance cold winter will cause an increase in the frequency of claims due to frozen water pipes and increased use of electrical power and open fire places for heating of the houses. More permanent shifts in the level of frequency of claims may occur due to e.g. change of customer behaviour and new types of claims. The effect on the profitability of a permanent change in the level of the frequency of claims will be significant.

The severity of claims is affected by several factors. In some LOBs, with relatively few claims, the severity may be heavily influenced by large claims. The number of incurred large claims during a year varies significantly from one year to another. This is typically for the commercial market. In most LOBs the underlying development of the severity of claims is influenced by inflation.

Growth in severity of claims may be driven by the development of consumer price index (CPI), salary increases, social inflation and the price for material and services purchased with claims settlement. In Property insurance the inflation will consist of CPI and an increase in building costs. For accident and health the insurance policies are divided into two main groups, one with fixed sum insured and another part where the compensation is adjusted by CPI in health care sector.

The Company manages these risks mainly through close supervision of the development for each LOB, underwriting guidelines and proactive claims handling. The monthly supervision of the results for each LOB contains an overview of both premium and loss development. If there is an adverse development of the profitability, sufficient measures will be put in place. This includes necessary premium increases to ensure that the profitability is within the accepted level. The analysis of the profitability can be tracked further to different groups of customers and portfolios. The underwriting guidelines attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and location of the risks. Underwriting limits are in place to enforce appropriate risk selection criteria and to ensure that accepted risks are within the limits of the reinsurance contracts.

Premiums, deductibles and elements in the conditions may be changed at the yearly renewal of policies. Insurance companies have the right to reject the payment of a fraudulent claim. The Company has the right not to renew individual policies in cases of insurance fraud, and in some instances legislation or policy conditions give the Company the right to terminate or not to renew individual policies in cases where special reasons indicate that such termination is reasonable. In cases where a claim has been paid, the Company is entitled to pursue any third parties liable for the damage, for payment of some or all costs (recourse claim).

The claims handling procedures also include a clear strategy and routines for purchasing material and services in an optimal manner. The routines are to use purchase agreements to ensure the quality of our benefits to our customers and to reduce the inflation risk.

### *(i) Basic product features*

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

#### *Property insurance*

This insurance covers losses incurred as a result of damage to the property of the insured if the cause is one of the following insured risks:

- Fire
- Natural disasters (storm, flood)
- Theft
- Water
- Other

The risk inherent under property insurance is the rapid increase in prices for construction and renovation, as a result of which the policy holder may not be able to fully restore the property using the claim proceeds. This has an indirect impact on the relationship between the Company and policy holders.

Risk management is carried out by precisely defined assessment of the insured property to determine which property should be insured, which should be insured on special terms and which should not be accepted for insurance at all in line with the authority of the underwriter in the respective line of insurance.

In terms of loss adjustment, the Company is exposed to the risk of unfair actions on the part of policy holders. In order to reduce this risk the Company has set claim settlement administration limits for separate units and introduced high requirements for review of claim supporting documents.

The claim will usually be notified promptly and can be settled in the short term. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

The key risks associated with this product are underwriting risk and claims experience risk.

Underwriting risk is the risk that the Company does not charge premiums appropriate for the insurance contracts. The pricing processes for the different insurance products involve estimates of future frequency and severity of claims, based on statistics from internal and external sources. Even if the underwriting criteria are adequate and the premium calculations are performed on a good statistical basis, the claims cost may deviate from the expected level, due to large claims, natural catastrophes etc. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

#### *Motor own damage insurance (CASCO)*

This insurance covers losses incurred as a result of damage to the vehicle if the cause is one of the following insured risks:

- road accident
- weather claims
- fire
- falling of various objects
- illegal activities of third parties
- theft and/or robbery

Various extensions of cover are possible.

Insurance premiums are set in line with applicable insurance methodology.

The largest losses are incurred in the event of complete destruction and theft of the vehicle, but such cases are infrequent.

In order to prevent unfair dealing of policy holders, the Company performs detailed review of claim supporting documents, and ask competent institutions to perform additional investigation if necessary.

The claim will usually be notified promptly and can be settled in the short term. Casco is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

#### *Motor compulsory third party liability (MTPL)*

Motor compulsory third party liability insures the vehicle owner's or authorised user's liability for damages caused to third parties as a result of a road accident. The objective of this line of insurance is to protect the interests of third parties who have suffered in road accidents and this line of insurance is regulated by the laws on motor third party liability compulsory insurance that regulate the legal relationship between vehicle owners, authorised users and insurers in relation to the compulsory insurance of third party liability of the vehicle owners and authorised users.

In view of the risk of inflation which impacts the amount of claims paid, the Company performs tariff analyses for this line of insurance and the assessment of the impact on the financial ratios on a regular basis. Even if statistics reflect that previous claims have been notified promptly and can be settled without undue delay, Motor third party liability insurance is classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

#### *Health insurance*

Health insurance is developing into a stable line of business. The Company's identified risk in this line of business is the weak health care system and the obscure government policy in this area as well as changes in economic environment.

The Company monitors and reacts to changes in prices for medical services, monitors the claim ratios on employer's bases and adjust prices accordingly each year when renewal takes place.

Health insurance is short-tail business with regular short-term reporting delays.

#### *(ii) Concentration of insurance risks*

The concentration of insurance risks is one of the key risk factors in insurance which may have an adverse impact on the Company's liabilities under insurance contracts. The concentration of insurance risks may be caused by the occurrence of a single insurance event involving large liabilities or a number of separate insurance events which results in significant liabilities for the company towards the policy holders.

Since insurance risks will never be totally independent from each other, then irrespective of the portfolio size there is always a so-called non-diversified risk when the insurer generally pays more claims than planned. Non-diversified risk is related to changes in the external environmental factors such as stages of the country economic development which have a systematic impact on the frequency and amount of claims in certain lines of business. For example, the increase of the inflation rate will increase the amounts of claims in the majority of the portfolio while government amendments relating to one of the type of the compulsory insurance may suddenly increase the insurer's liabilities.

The Company has two key methods in managing these risks.

First, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed (refer to Insurance risk management).

Second, the residual risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its liability and property business. Management reviews the reinsurance program at least on an annual basis and determines the required changes. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

#### *Geographic and other type of concentration*

The Company's insured risks are mainly located in Lithuania, Latvia and Estonia except for travel policies being effective only outside the residence country of the insured. However there are numerous products covering insurance accidents in Baltics and abroad. The risk concentration in motor and property insurance is in the largest cities of Lithuania, Latvia and Estonia. The risk concentration in motor insurance is increasing due to the growing number of vehicles and traffic intensity, resulting in an indirect impact on claim amounts in this line of insurance. Insurance regulations and methodology determines the necessary risk assessment for property, claim amount limits and reinsurance regulations which ensure risk management in the respective insurance lines.

#### *(iii) Potential impact of catastrophic events*

A significant insurance risk that the Company believes is necessary to evaluate and include in insurance methodologies is the risk of nature or man-made catastrophes which creates the likelihood of the risk of large liabilities. The Baltic market is characterized by a low risk of catastrophes. The most common natural catastrophes are storms and storm ravage, snow pressure, flood and spring inundation. Storm and flood exposed territories include forests, sea shore lines and territories adjacent to rivers.

#### *(iv) Potential impact of individual events*

The biggest possible losses resulting from single events relate to motor third party liability insurance and property insurance. In order to limit possible losses resulting from single events the Company has bought non-proportional reinsurance cover.

### **Insurance risk management**

#### *(i) Underwriting policy*

The management of insurance risks is performed by the Company by underwriting risks in accordance with policy. In accordance with the underwriting policy, each line of insurance has a set methodology and rules



regulating the risk assessment methods to be applied, thus decreasing the likelihood of accepting liabilities with respect to risks that are in conflict with the Company's risk insurance policy and internal regulations.

The insurance methodology and rules define criteria and additional information for risk assessment by ensuring a systematic approach to risk assessment. As a result, the Company obtains consistent information in line with its requirements, for regular risk underwriting and introducing the required changes in the documents regulating risk underwriting.

The Company has set insurance limits based on operational experience, market requirements and risk assessment for each line of insurance.

Insurance tariffs are analysed and reviewed based on insurance events and claims paid on a regular basis, and changes are made to the tariffs using actuarial methods which help ensure the ability to meet liabilities. The reinsurance rules regulate the transfer of insurance risks to reinsurers. The Company's insurance type methodology and rules help insurance intermediaries and agents observe the Company's insurance guidelines on all insurance products offered on the Baltic market. The methodology for calculating technical reserves determines that appropriate reserves be created for incurred claims.

*(ii) Claims development*

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject to. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of corrections made during the prior years. The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to change in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past surpluses or deficits in respect to the balance of unpaid claims of the current period.

	Year of insured occurrence								Total EUR'000
	2012 EUR'000	2013 EUR'000	2014 EUR'000	2015 EUR'000	2016 EUR'000	2017 EUR'000	2018 EUR'000	2019 EUR'000	
Cumulative incurred claims at the end of accident year	27.819	28.897	34.936	34.635	48.615	85.723	74.923	80.629	
- one year later	25.787	27.027	37.714	34.831	47.907	85.619	74.060		
- two years later	25.054	26.368	36.054	34.081	46.538	85.896			
- three years later	24.874	25.991	36.121	34.364	45.654				
- four years later	25.248	25.472	35.978	34.147					
- five years later	24.549	25.297	35.653						
- six years later	23.778	25.001							
- seven years later	23.924								
Cumulative payments to date	22.094	23.723	33.453	30.504	42.393	81.025	67.907	59.963	
Outstanding claims reserve	1.830	1.278	2.200	3.643	3.261	4.871	6.153	20.666	43.902
Outstanding claims reserve for accidents before 2012									12.694
<b>Total outstanding claim reserves as at 2019.12.31</b>									<b>56.596</b>

Due to the companies legal merger the claims amounts has increased in 2016 and 2017.

## *(iii) Liability adequacy test*

The estimation of technical provisions for an insurance portfolio represents an approximation of future cash flows for the claims payments, and there will always be an element of uncertainty in such calculations. Provision risks relate to this kind of uncertainty. The uncertainty depends on the nature of the risk. Risk with a short duration is less exposed to changes that will affect the future payments. Inflation is an underlying risk in most insurance products. The effect will be different, depending on the characteristics of each product and the terms and conditions that apply for the claims settlement.

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

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

The test is performed on line of business basis in each country separately and test is applied to the gross amounts of provisions, i.e., the effect of reinsurance is not taken into account.

## *(iv) Sources of uncertainty in the estimation of future claims payments*

The Company is liable for insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, and claims are paid according to the policy conditions valid at the time of occurrence. As a result, claims are settled over a long period of time, and there is an element of the claims provision that relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from the insurance contracts. These variables mainly relate to the characteristics of the different types of risks covered and the applied risk management procedures. The compensation paid is according to the terms specified in the insurance contract. Compensation for claims with respect of bodily injuries are calculated as the present value of lost earnings, rehabilitation expenses and other expenses that the injured party will incur as a result of the accident or disease.

The estimated cost of claims includes expenses to be incurred in settling claims, net of the expected recourse amount and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liabilities established. The liabilities in the financial statements related to these contracts comprise a provision for IBNR, a provision for reported claims not yet paid (RBNS) and a provision for unearned premiums and unexpired risks at the reporting date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified (RBNS), where information about the claim is available. There may be cases where certain claims may not be apparent to the insured until many years after the event that gave rise to the claims.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters, claims handlers and information about the costs of settling claims with similar characteristics in previous periods. All claims are assessed on a case-by-case basis by a claims handler. Claims with potential for distortive effects of their development are handled separately and projected to their ultimate by an additional provision. Where possible, the Company adopts multiple techniques to estimate the required level of provision. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Insurance contracts are often classified as risks that are short-tail and risks that are long-tail. Short-tail risk is characterized by that the period between the occurrences, reporting and final settlement of claims is short. Long-tail risk is the opposite; the period between the occurrence, reporting and settlement of claims is long. In Property and Motor hull insurance the claims are reported soon after occurrence, while bodily injury claims may be reported several years after the occurrence and settled several years after they were reported. The provisions for IBNR for short-tail risks are relatively small, while for long-tail risks the provisions for IBNR may constitute a substantial part of the total loss provision.

### **Financial risks and risk management**

Financial risk is a collective term for various types of risk related to financial assets. The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, may be exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate, equity, property, currency, spread and concentration risk.
- *Counterparty (credit) risk*: loss arising from an issuer defaulting on its obligations or because of increased risk premiums for bonds with credit risk, and failure of a counterparty to meet contractual obligations;
- *Liquidity risk*: under certain adverse conditions, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

Below is a description of each of these financial risks and a summary of methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of business.

#### *Market Risk*

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios.

Market risks comprise:

- interest rate risk;
- foreign exchange risk;
- price risk.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

#### *i) Interest rate risk*

Interest rate risk is defined as the loss in value resulting from a change in interest rates and is viewed both from the asset-only perspective and in relation to the interest-rate sensitivity of the liabilities.

Measures for management of the interest rate risk in the Company are centralized and based on the assessment of the impact of the interest rate risk on the Company's financial indices.

The Company does not have significant interest bearing liabilities and the largest share of interest bearing assets are at a fixed interest rate, therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest re-pricing profile of the Company's interest bearing assets and liabilities.

The overall exposure to interest rate risk is being reduced by matching a portfolio of fixed income instruments to the overall duration and the payout pattern of the insurance liabilities. Since the insurance liabilities are generally not discounted in the balance sheet, this implies that from an accounting perspective insurance liabilities will be exposed to changes in inflation (but not directly to interest rates). An economic perspective, however, argues for hedging interest rate risk, because the present value of the provisions will be exposed to changes in the real interest rate. From an accounting perspective, the risk from choosing this hedging strategy is reduced, because a major part of the bond portfolio is classified as held to maturity (hereafter only referred to as the amortized cost portfolio).

ii) Foreign exchange risk

The Company holds assets and liabilities denominated in foreign currency. Foreign exchange risk is the risk of financial losses resulting from fluctuations in foreign exchange.

Part of insurance risks is denominated in foreign currencies. Based on the Company's policies, foreign exchange risk is limited to known or expected transactions in foreign currencies. The management of foreign exchange risk is based on investments into respective currencies. Therefore, profit and loss are most sensitive to fluctuations in PLN exchange rates which are considered insignificant. The Company is not engaged in any speculative transactions that may increase the foreign exchange risk.

The tables below present the analysis of the Company's financial assets and liabilities based on currencies as of 31 December 2019 and 2018 (in brackets determined their category according to IAS39: FVTPL – at fair value through profit or loss; HTM – held to maturity; LnR – loans and receivables):

**Company's currency portfolio as of 31 December 2019:**

<b>Financial assets EUR'000</b>	<b>EUR</b>	<b>PLN</b>	<b>Other</b>	<b>Total</b>
Financial assets designated at fair value through profit or loss (FVTPL)	98.398			98.398
Held-to-maturity investments (HTM)	20.353	1.006		21.359
Term deposits in credit institutions (LnR)	62			62
Loans and Receivables (LnR)	16.846			16.846
Cash and cash equivalents (LnR)	13.965	28		13.993
<b>Total</b>	<b>149.624</b>	<b>1.034</b>	<b>-</b>	<b>150.658</b>
<b>Financial liabilities</b>				
Liabilities (at amortized cost)	8.579		22	8.601
<b>Total</b>	<b>8.579</b>		<b>22</b>	<b>8.601</b>
<b>Open foreign exchange position</b>	<b>141.045</b>	<b>1.034</b>	<b>(22)</b>	<b>142.057</b>

**Company's currency portfolio as of 31 December 2018:**

<b>Financial assets EUR'000</b>	<b>EUR</b>	<b>PLN</b>	<b>Other</b>	<b>Total</b>
Financial assets designated at fair value through profit or loss (FVTPL)	87.017	-	-	87.017
Held-to-maturity investments (HTM)	24.784	990	-	25.774
Term deposits in credit institutions (LnR)	62	-	-	62
Loans and Receivables (LnR)	16.836	-	-	16.836
Cash and cash equivalents (LnR)	14.298	14	38	14.350
<b>Total</b>	<b>142.997</b>	<b>1.004</b>	<b>38</b>	<b>144.039</b>
<b>Financial liabilities</b>				
Liabilities (at amortized cost)	3.661	-	-	3.661
<b>Total</b>	<b>3.661</b>	<b>-</b>	<b>-</b>	<b>3.661</b>
<b>Open foreign exchange position</b>	<b>139.336</b>	<b>1.004</b>	<b>38</b>	<b>140.378</b>

iii) *Price risk*

Price risk refers to the risk of fluctuations in the value of financial instruments resulting from changes in market prices; the changes might impact the factors of an individual financial instrument or of all financial instruments traded on the market. The price risk occurs when the Company chooses a long-term or short-term position of a financial instrument.

A sensitivity analysis is presented below of the Company's annual revenue to the changes in the prices of securities based on positions as of 31 December 2019 and 2018, a simplified scenario, expecting a 5% change in the price of all securities:

Item, EUR'000	Net revenue, 2019	Net revenue, 2018
Increase in price of securities by 5%	4.920	4.351
Decrease in price of securities by 5%	(4.920)	(4.351)

**Credit risk**

*Credit risk* is the risk of losses or adverse changes in financial position resulting from changes in the standing of issuers of securities, business partners or debtors as a default of counter party or increase in credit margin. The credit risk is managed by imposing loan restrictions on one entity, a group of entities, a sector or a country, by diversification of assets and the portfolio of financial instruments, by reinsurance of the financial insurance portfolio and other measures.

(i) *Management of financial investments*

To manage its credit risk, the Company mostly invests in markets and investments having high ratings.

**The Company's investments by ratings as of 31 December 2019 (determined by S&P):**

Country	Rating	Financial instruments at fair value through profit or loss	Held-to-maturity securities issued or guaranteed by the central government or municipalities	Term deposits in credit institutions
Czech Republic	AA-	969	-	-
Estonia	BBB	1.273	-	-
Finland	BBB	1.064	-	-
Latvia	A	9.434	7.260	62
Lithuania	A	55.499	7.908	-
Luxembourg	BBB+	24.154	-	-
Norway	A-	3.149	-	-
Poland	A-	-	4.442	-
Poland	BBB	-	871	-
Poland	BBB-	-	878	-
Sweden	A+	208	-	-
Sweden	AA-	1.521	-	-
Sweden	BBB+	1.127	-	-
<b>Total</b>		<b>98.398</b>	<b>21.359</b>	<b>62</b>

The Company's investments by ratings as of 31 December 2018 (determined by S&P):

Country	Rating	Financial instruments at fair value through profit or loss	Held-to-maturity securities issued or guaranteed by the central government or municipalities	debt issued by the government or municipalities	Term deposits in credit institutions
Czech Republic	AA-	999	-	-	-
Finland	BBB	1.058	-	-	-
Latvia	A	5.000	-	7.263	-
Latvia	AA-	-	-	-	62
Lithuania	A	51.347	-	12.208	-
Luxembourg	A-	22.511	-	-	-
Norway	A	2.190	-	-	-
Norway	A-	991	-	-	-
Poland	A-	-	-	4.555	-
Poland	BBB-	-	-	877	-
Poland	BBB+	-	-	871	-
Sweden	A+	211	-	-	-
Sweden	AA-	1.524	-	-	-
Sweden	BBB+	1.186	-	-	-
<b>Total</b>		<b>87.017</b>		<b>25.774</b>	<b>62</b>

*ii) Insurance amounts receivable from direct insurance activities*

Credit risk related to client balances due to failure to pay insurance premiums only exists in relation to payment schedule set in insurance certificate when the certificate is paid or terminated.

The rules and conditions for insurance cover are presented in insurance methodology.

**Amounts receivable from direct insurance activities (debts of policyholders and intermediaries) as of 31 December 2019**

EUR'000	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	84	1	(84)	-
Less than 3 months	861	6	(93)	768
Not overdue receivables	13.642	93	-	13.642
<b>Total</b>	<b>14.587</b>	<b>100</b>	<b>(177)</b>	<b>14.410</b>

**Amounts receivable from direct insurance activities (debts of policyholders and intermediaries) as of 31 December 2018:**

EUR'000	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	122	1	(122)	-
Less than 3 months	1.126	8	(106)	1.021
Not overdue receivables	13.274	91	-	13.273
<b>Total</b>	<b>14.522</b>	<b>100</b>	<b>(228)</b>	<b>14.294</b>

The Company treats overdue but not impaired receivables those which are less than 60 days past due; those that are overdue more than 60 days are impaired 100%.

(iii) Reinsurance

The Company acquires reinsurance in order to secure the Company's share capital; therefore, reinsurance is to be considered as a tool for both risk and capital management. The same models and methodology are used to analyse and acquire reinsurance as to the assessment of internal capital allocation based on risks.

In order to manage risks, the Company has approved the reinsurance programme which determines the reinsurance principles and the selection criteria of reinsurers. At least once a year the reinsurance programme is reviewed by the administration which also makes the necessary changes. The Company's reinsurance programme firstly comprises non-proportional reinsurance. The decisions on the reinsurance programme are taken based on the analysis of position, payments archive, and possibility to implement the model and the Company's capitalisation. The Company cooperates with the leading reinsurance companies as well as its parent company Gjensidige Forsikring.

**Reinsurers' share of the Company's insurance premiums written, technical provisions and receivables based on ratings as of 31 December 2019:**

Rating, EUR'000	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of unpaid payments reserve	Reinsurers' share of unearned premiums provision	Receivables
AA	424	334	3.701	93	276
A	1.924	3.052	6.518	196	436
BBB	-	-	65	-	-
BB	-	-	-	-	-
B	-	-	91	-	-
Not rated	116	-	307	-	234
<b>Total</b>	<b>2.464</b>	<b>3.386</b>	<b>10.682</b>	<b>289</b>	<b>946</b>

**Reinsurers' share of the Company's insurance premiums written, technical provisions and receivables based on ratings as of 31 December 2018:**

Rating, EUR'000	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of unpaid payments reserve	Reinsurers' share of unearned premiums provision	Receivables
AA	627	285	4.501	74	439
A	3.536	3.168	4.650	216	390
BBB	2	-	95	-	-
BB	-	-	-	-	-
B	2	-	54	-	-
Not rated	79	-	336	-	151
<b>Total</b>	<b>4.246</b>	<b>3.453</b>	<b>9.636</b>	<b>290</b>	<b>980</b>

*Concentration risk* is the pooling of risks which might lead to losses threatening the Company's solvency and financial position, the possibility of major losses due to excessive positions exceeding the limits set by the Company. Concentration risk is considered a composite of main risk and as a separate risk category is managed within the main risk types (insurance, market and credit).

Liquidity risk is the risk that the Company will be unable to meet its financial obligations on time and/or that it may be forced to sell financial assets in order to fulfil its obligations and will suffer a loss due to a lack of liquidity in the market. In managing liquidity risk, the Company seeks to ensure the timely execution of the Company's financial liabilities and the effective use of liquid funds. For managing liquidity risk, the Company uses the cash flows method, which is reasoned by planning and forecasting the cash flows.

Allocation of the Company's financial assets and financial liabilities based on the maturity and time remaining from the date of the financial statements until maturity as of 31 December 2019 and 2018:

**Maturity of the financial instruments as well as non-financial items as of 31 December 2019:**

EUR'000	Within 6 months	6-12 months	1-2 years	2-5 years	Without specific maturity	Total
<b>Financial assets</b>						
Financial assets designated at fair value through profit or loss	12.650	-	14.920	46.674	24.154	98.398
Held-to-maturity investments	3.436	3.342	8.629	5.952	-	21.359
Term deposits in credit institutions	-	-	62	-	-	62
Loans and Receivables	16.846	-	-	-	-	16.846
Cash and cash equivalents	13.993	-	-	-	-	13.993
Total financial assets	46.925	3.342	23.611	52.626	24.154	150.658
Non-financial assets	31.242	-	-	-	-	31.242
Financial liabilities	3.682	582	984	3.353	-	8.601
Technical reserves	62.499	19.038	7.359	20.529	-	109.425
Non-financial liabilities	9.495	-	-	-	-	9.495
<b>Difference in maturities</b>	<b>2.491</b>	<b>(16.278)</b>	<b>15.268</b>	<b>28.744</b>	<b>24.154</b>	<b>54.379</b>

The Company is able to carry out its financial obligations, because its financial assets are held till the maturity and without specific maturity.

**Maturity of the financial instruments as well as non-financial items as of 31 December 2018:**

EUR'000	Within 6 months	6-12 months	1-2 years	2-5 years	Without specific maturity	Total
<b>Financial assets</b>						
Financial assets designated at fair value through profit or loss	30.631	3.336	12.673	17.866	22.511	87.017
Held-to-maturity investments	3.273	970	6.950	14.581	-	25.774
Term deposits in credit institutions	-	-	-	62	-	62
Loans and Receivables	16.836	-	-	-	-	16.836
Cash and cash equivalents	14.350	-	-	-	-	14.350
Total financial assets	65.090	4.306	19.623	32.509	22.511	144.039
Non-financial assets	26.531	-	-	-	-	26.531
Financial liabilities	3.661	-	-	-	-	3.661
Technical reserves	58.445	18.652	7.616	21.501	-	106.214
Non-financial liabilities	12.538	-	-	-	-	12.538
<b>Difference in maturities</b>	<b>16.977</b>	<b>(14.346)</b>	<b>12.007</b>	<b>11.008</b>	<b>22.511</b>	<b>48.157</b>



The Company is able to carry out its financial obligations, because its financial assets are held till the maturity and without specific maturity.

*Operational risk* is the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems, technologies, employees' actions or external factors. Operational risk management is a continuous process for operational risk management, which is typical to all Company's products, operations, processes and systems, which are important to the Company, including such areas as transfer of essential or important Company's functions or operations to a service provider based on a contract, implementation of new product of service, and functioning of the Company's IT systems. The Company, managing its operational risk, considers both internal and external factors which might lead to operational risks. The Company's measures of operational risk management focus on the risk aversion, mitigation, transfer and/or assuming considering their effect on the achievement of the Company's goals, business continuity, considering the costs of risk mitigating measures and their effectiveness. The main goal of operational risk management is improvement of the Company's processes seeking to minimise the possible effect of operational risk to the tolerated level. The Company applies the following measures to mitigate the operational risk: implementation of control procedures, limitation of authorizations, four-eye principle, segregation of functions/duties, automation and other organisational and technical measures.

Operational risk events are registered in the IT system *Service Desk* when the Company's employee notices such an event.

The effectiveness of risk management system is regularly assessed by an independent Internal Audit Service, which performs an audit of the effectiveness of risk management system.

**1. Property and equipment, Intangible assets**

The movement of intangible assets, property and equipment for the period ended 31 December 2019, was:

Items, EUR'000	Intangible assets	Property	Other fixed assets	Total
<b>Acquisition cost</b>				
<b>Balance as at 1 January 2018</b>	<b>10.182</b>	<b>575</b>	<b>3.609</b>	<b>14.366</b>
Assets acquired	1.274	-	609	1.883
Assets disposed (-)	(171)	(168)	(669)	(1.008)
<b>Balance as at 31 December 2018</b>	<b>11.285</b>	<b>407</b>	<b>3.549</b>	<b>15.241</b>
Assets acquired	996	-	283	1.279
Assets disposed (-)	(62)	(131)	(185)	(378)
<b>Balance as at 31 December 2019</b>	<b>12.219</b>	<b>276</b>	<b>3.647</b>	<b>16.142</b>
<b>Revaluation</b>				
<b>Balance as at 1 January 2018</b>	-	<b>103</b>	-	<b>103</b>
Decrease in value (-)	-	(7)	-	(7)
Change in revaluation result on disposals +/-	-	(24)	-	(24)
<b>Balance as at 31 December 2018</b>	-	<b>72</b>	-	<b>72</b>
Decrease in value (-)	-	(6)	-	(6)
Change in revaluation result on disposals +/-	-	(43)	-	(43)
<b>Balance as at 31 December 2019</b>	-	<b>23</b>	-	<b>23</b>
<b>Impairment</b>				
<b>Balance as at 1 January 2018</b>	<b>462</b>	-	-	<b>462</b>
Reclassifications	(106)	-	-	(106)
<b>Balance as at 31 December 2018</b>	<b>356</b>	-	-	<b>356</b>
Impairment recognized (released)	(106)	-	-	(106)
<b>Balance as at 31 December 2019</b>	<b>250</b>	-	-	<b>250</b>
<b>Accumulated depreciation</b>				
<b>Balance as at 1 January 2018</b>	<b>5.581</b>	<b>197</b>	<b>2.310</b>	<b>8.088</b>
Charge for the year	991	14	517	1.522
Reversals of depreciation after write-off (-)	(170)	(59)	(664)	(893)
<b>Balance as at 31 December 2018</b>	<b>6.402</b>	<b>152</b>	<b>2.163</b>	<b>8.717</b>
Charge for the year	1.125	10	497	1.632
Reversals of depreciation after write-off (-)	(57)	(43)	(185)	(285)
<b>Balance as at 31 December 2019</b>	<b>7.470</b>	<b>119</b>	<b>2.475</b>	<b>10.064</b>
<b>Net book value</b>				
<b>Balance as at 31 December 2018</b>	<b>4.527</b>	<b>327</b>	<b>1.386</b>	<b>6.240</b>
<b>Balance as at 31 December 2019</b>	<b>4.499</b>	<b>180</b>	<b>1.172</b>	<b>5.851</b>

The amortization/depreciation charge of the Company's intangible/tangible assets for the year 2019 amounting to EUR 1.013 thousand was included into administrative expenses, EUR 466 thousand into claim handling expenses, EUR 53 thousand – into acquisition expenses, the intangible assets amortization expenses of EUR 106 thousand netted off with the release of impairment, which is formed for impaired intangible asset (in 2018 – EUR 960 thousand, EUR 405 thousand, 395 thousand, EUR 53 thousand, EUR 106 thousand, respectively).

Impairment of the intangible assets is formed for GINS system.

## 2. Securities and other fixed income securities at fair value through profit or loss

EUR'000	Fair value, 31.12.2019	Cost, 31.12.2019	Fair value, 31.12.2018	Cost, 31.12.2018
Government bonds of Lithuania	55.499	55.538	51.348	51.514
Corporate bonds of Sweden	2.856	2.877	2.919	2.877
Government bonds of Latvia	9.434	9.376	5.000	4.994
Government bonds of Estonia	1.273	1.252	-	-
Government bonds of Czech Republic	969	1.012	999	1.012
Corporate bonds of Finland	1.064	1.056	1.058	1.056
Luxembourg funds	24.154	24.179	22.511	22.499
Corporate bonds of Norway	3.149	3.172	3.182	3.172
<b>Total</b>	<b>98.398</b>	<b>98.462</b>	<b>87.017</b>	<b>87.124</b>

All securities are attributed to Level 1 of fair value hierarchy. Maximum exposure to credit risk is total amount of securities, except for Luxembourg funds.

### Movement of assets in 2019 and 2018:

Items	Amounts, EUR'000
<b>Balance at 01 January 2018</b>	<b>69.969</b>
Assets acquired	30.406
Assets disposed	(12.945)
Increase(decrease) Value	(413)
<b>Balance at 31 December 2018</b>	<b>87.017</b>
Assets acquired	43.945
Assets disposed	(34.438)
Increase(decrease) Value	1.874
<b>Balance at 31 December 2019</b>	<b>98.398</b>

## 3. Debt securities and other fixed-income securities classified as held-to-maturity

EUR'000	Amortised cost, 31.12.2019	Fair value, 31.12.2019	Amortised cost, 31.12.2018	Fair value, 31.12.2018
Government bonds of Lithuania	7.908	7.917	12.209	12.196
Government bonds of Latvia	7.260	7.315	7.263	7.236
Corporate and Government bonds of Poland	6.191	6.275	6.302	6.402
<b>Total</b>	<b>21.359</b>	<b>21.507</b>	<b>25.774</b>	<b>25.834</b>

All securities are attributed to Level 1 of fair value hierarchy. Maximum exposure to credit risk is total amount of securities.

### Movement of assets in 2019 and 2018:

Items	Amounts, EUR'000
<b>Balance at 01 January 2018</b>	<b>39.973</b>
Assets acquired	8.190
Assets matured	(22.677)
Accrued interest	288
<b>Balance at 31 December 2018</b>	<b>25.774</b>
Assets acquired	-
Assets matured	(4.525)
Accrued interest	110
<b>Balance at 31 December 2019</b>	<b>21.359</b>

#### 4. Term deposits with credit institutions

Country, EUR'000	Carrying amount, 31.12.2019	Fair value, 31.12.2019	Carrying amount, 31.12.2018	Fair value, 31.12.2018
Latvia	62	62	62	62
<b>Total</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>

As of 31 December 2019, gross maximum credit risk equalled the Company's net maximum credit risk and amounted to EUR 62 thousand (2018: EUR 62 thousand).

Due to low interest rates, the environment and the fact that the term of most term deposits in credit institutions is up to 6 months, any difference in the fair value of carrying amount is considered insignificant.

#### Movement of assets in 2019 and 2018

Items	Amounts, EUR'000
<b>Balance at 01 January 2018</b>	<b>59</b>
Assets acquired	3
Assets disposed	-
Increase/decrease Value	-
<b>Balance at 31 December 2018</b>	<b>62</b>
Assets acquired	-
Assets matured	-
Increase/decrease Value	-
<b>Balance at 31 December 2019</b>	<b>62</b>

#### 5. Amounts receivable

As of 31 December 2019 amounts receivable comprised:

Amounts receivable, EUR'000	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	14.587	(177)	14.410
from policyholders	12.836	(165)	12.671
from intermediaries	1.751	(12)	1.739
Receivables from reinsurance operations	1.148	(202)	946
Other receivables	489	(43)	446
Receivable subrogations and recoveries	1.044	-	1.044
<b>Total</b>	<b>17.268</b>	<b>(422)</b>	<b>16.846</b>

As of 31 December 2019, other receivables consisted of receivables for claims paid amounting to EUR 110 thousand and other amounts receivable in the amount of EUR 335 thousand.

Receivable subrogations and recoveries are estimated based on historical amounts of recovered payment statistics for Lithuanian MOD and MTPL business.

Expected cumulative receivable payment pattern was estimated from recoveries triangles based on the Company's 6 years empirical data. Recovery factors calculated from these triangles were used to estimate receivable amounts.

For present value calculation the risk free interest rate by EIOPA on the 30<sup>st</sup> of November, 2019, and the prudence coefficient of 75% (precautionary principle) were applied.

As of 31 December 2018 amounts receivable comprised:

Amounts receivable, EUR'000	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	14.522	(228)	14.294
from policyholders	12.524	(201)	12.323
from intermediaries	1.998	(27)	1.971
Receivables from reinsurance operations	1.184	(204)	980
Other receivables	482	(63)	419
Receivable subrogations and recoveries	1.143	-	1.143
<b>Total</b>	<b>17.331</b>	<b>(495)</b>	<b>16.836</b>

As of 31 December 2018, other receivables consisted of receivables for claims paid amounting to EUR 107 thousand and other amounts receivable in the amount of EUR 312 thousand.

Receivable subrogations and recoveries are estimated based on historical amounts of recovered payment statistics for Lithuanian MOD and MTPL business.

Expected cumulative receivable payment pattern was estimated from recoveries triangles based on the Company's 6 years empirical data. Recovery factors calculated from these triangles were used to estimate receivable amounts.

For present value calculation the risk free interest rate by EIOPA on the 31<sup>st</sup> of December, 2018, and the prudence coefficient of 75% (precautionary principle) were applied.

Doubtful amounts	EUR'000
<b>Allowance as at 1 January 2018</b>	<b>(862)</b>
Decrease of allowance	367
<b>Allowance as at 31 December 2018</b>	<b>(495)</b>
Decrease of allowance	73
<b>Allowance as at 31 December 2019</b>	<b>(422)</b>

#### 6. Current accounts and cash on hand

Items, EUR'000	31.12.2019	31.12.2018
Current accounts at banks	13.993	14.350
<b>Total</b>	<b>13.993</b>	<b>14.350</b>

As of 31 December 2019 and 2018, the Company had no term deposits with maturity less than 3 months.

As of 31 December 2019, cash deposited in SEB bank AB for issued guarantees amounted to EUR 24 thousand (as of 31 December 2018 – EUR 0 thousand).

7. Accrued income and deferred expenses

Items, EUR'000	31.12.2019	31.12.2018
Deferred client acquisition costs:		
Commissions of direct insurance	5.580	6.273
<b>Total deferred client acquisition costs</b>	<b>5.580</b>	<b>6.273</b>
Other prepaid expenses and accrued income:		
Deferred expenses of admission fee to Motor Insurers' Bureau of the Republic of Lithuania	199	211
Deferred commission	568	2.191
Other deferred expenses	275	467
<b>Total other prepaid expenses and accrued income</b>	<b>1.042</b>	<b>2.869</b>
<b>Total accrued income and deferred expenses</b>	<b>6.622</b>	<b>9.142</b>

Deferred commissions consist of advance paid commissions from the warranty extension insurance contracts, which were not valid at the end of the financial period, however, they had been paid.

Movement of deferred client acquisition costs:

Items	EUR'000
<b>Balance at 31 December 2017</b>	<b>6.650</b>
Written commissions (note 16)	15.459
Amortisation of deferred client acquisition costs	(15.836)
<b>Balance at 31 December 2018</b>	<b>6.273</b>
Written commissions (note 16)	13.766
Amortisation of deferred acquisition costs	(14.459)
<b>Balance at 31 December 2019</b>	<b>5.580</b>

As of 31 December 2019 and 2018, deferred acquisition expenses by the types of insurance comprise:

Insurance groups, EUR'000	31.12.2019	31.12.2018
1. Medical expenses insurance	497	547
2. Income protection insurance	221	242
3. Working accident insurance	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	1.324	1.405
5. Other vehicle insurance	1.557	1.514
6. Marine, air and land vehicle insurance	28	30
7. Insurance against fire and other damage to property	1.527	2.090
8. General liability insurance	228	258
9. Credit and suretyship insurance	87	87
10. Legal expenses insurance	-	-
11. Assistance insurance	88	73
12. Financial losses insurance	23	27
<b>Total</b>	<b>5.580</b>	<b>6.273</b>

## 8. Share capital and reserves

### Share capital

As of 31 December 2019 the share capital of the Company amounted to EUR 47.184 thousand (31 December 2018: EUR 47.184 thousand). The share capital of the Company is divided into 6.402.217 ordinary registered shares with the par value of EUR 7,37. All shares were fully paid as of 31 December 2019 and 2018.

	31.12.2019		31.12.2018	
	Amount	EUR'000	Amount	EUR'000
Ordinary shares with voting rights	6.402.217	47.184	6.402.217	47.184

Each share carries a right to vote at shareholder's meetings, a rights to receive dividends as declared from time to time and a right to residual assets.

Company's shareholders	31.12.2019		31.12.2018	
	Number of shares	% of share capital	Number of shares	% of share capital
Gjensidige Forsikring	6.400.091	99,97	6.400.091	99,97
Private persons	2.126	0,03	2.126	0,03
<b>Total</b>	<b>6.402.217</b>	<b>100</b>	<b>6.402.217</b>	<b>100</b>

According to the Law on Insurance of the Republic of Lithuania, the share capital of an insurance company should be not less than EUR 1 million. As of 31 December 2019 and 2018, the Company complied with this requirement.

### Share premium

In 2014, after the increase of the Company's share capital by 860.000 shares, share premiums were formed, which comprise the amount of the par value surplus of the issued shares. The nominal value was EUR 28,96 per share, the issue price was EUR 43,44 per share. There were no changes in the amount of share premium in 2019.

### Revaluation reserve

Revaluation reserve represents increase in value of Company's non-current tangible assets (real estate) resulting from revaluation. Revaluation reserve is reduced in line with write-downs on assets previously revalued upwards, when assets revalued is written off, depreciated or disposed to the ownership of other persons. The revaluation reserve in respect of revaluation of tangible assets might be used to increase share capital. Revaluation reserve cannot be decreased to cover losses.

## 9. Technical provisions

### 9.1. Unearned premium technical provision

The unearned premium technical provision as at 31 December is as follows:

Items, EUR'000	2019			2018		
	Gross	Reinsu- rance share	Net	Gross	Reinsu- rance share	Net
<b>Balance at 31 December 2018</b>	<b>48.352</b>	<b>(290)</b>	<b>48.063</b>	<b>48.616</b>	<b>(361)</b>	<b>48.255</b>
Change in provision for unearned premiums	1.939	1	1.939	(264)	71	(193)
<b>Balance at 31 December 2019</b>	<b>50.291</b>	<b>(289)</b>	<b>50.002</b>	<b>48.352</b>	<b>(290)</b>	<b>48.063</b>

The analysis of unearned premiums technical provision by line of business as at 31 December is as follows:

Insurance groups, EUR'000	2019			2018		
	Gross	Reinsu- rance share	Net	Gross	Reinsu- rance share	Net
1. Medical expenses insurance	5.679	-	5.679	5.384	-	5.384
2. Income protection insurance	1.667	-	1.667	1.471	-	1.471
3. Workers compensation insurance	-	-	-	-	-	-
4. Motor vehicle liability insurance	18.730	-	18.730	17.579	-	17.579
5. Other Motor insurance	11.987	-	11.987	11.264	-	11.264
6. Marine, Aviation and Transport insurance	209	-	209	217	-	217
7. Fire and other property damage	8.893	-	8.893	9.454	-	9.454
8. General liability insurance	1.560	-	1.560	1.605	-	1.605
9. Credit and suretyship insurance	713	(289)	424	741	(290)	451
10. Legal expenses insurance	-	-	-	-	-	-
11. Assistance insurance	684	-	684	502	-	502
12. Financial losses insurance	169	-	169	135	-	135
<b>Total</b>	<b>50.291</b>	<b>(289)</b>	<b>50.002</b>	<b>48.352</b>	<b>(290)</b>	<b>48.063</b>



## 9.2. Outstanding claim technical provisions

The outstanding claim technical provision as at 31 December is as follows:

Items, EUR'000	2019			2018		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
<b>Balance at 31 December 2018</b>	<b>55.070</b>	<b>(9.636)</b>	<b>45.433</b>	<b>57.658</b>	<b>(12.500)</b>	<b>45.158</b>
Change in outstanding claims provision	1.526	(1.045)	481	(2.588)	2.864	276
<b>Balance at 31 December 2019</b>	<b>56.596</b>	<b>(10.682)</b>	<b>45.914</b>	<b>55.070</b>	<b>(9.636)</b>	<b>45.433</b>

The analysis of outstanding claims technical provision by line of business as at 31 December is as follows:

Insurance groups, EUR'000	2019			2018		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
1. Medical expenses insurance	1.440	-	1.440	1.570	-	1.570
2. Income protection insurance	238	-	238	313	-	313
3. Workers compensation insurance	-	-	-	-	-	-
4. Motor vehicle liability insurance	41.920	(9.158)	32.762	39.887	(8.264)	31.623
5. Other Motor insurance	3.671	0	3.671	2.618	-	2.618
6. Marine, Aviation and Transport insurance	171	0	171	677	(214)	463
7. Fire and other property damage	3.931	(466)	3.465	4.621	(141)	4.480
8. General liability insurance	2.787	(221)	2.566	3.326	(563)	2.763
9. Credit and suretyship insurance	1.851	(437)	1.414	1.908	(454)	1.454
11. Assistance insurance	126	0	126	133	-	133
12. Financial losses insurance	461	(400)	61	17	-	17
<b>Total</b>	<b>56.596</b>	<b>(10.682)</b>	<b>45.914</b>	<b>55.070</b>	<b>(9.636)</b>	<b>45.433</b>

As of 31 December, the structure of non-life insurance outstanding claims technical provision comprised:

Components of outstanding claims provision, EUR'000	2019	2018
Reported but not settled claims	42.023	41.842
Incurred but not reported claims	13.773	12.660
Claims handling expenses	3.301	3.135
Estimated subrogation receivable	(2.502)	(2.566)
Reinsurance share within reported not settled claims	(10.644)	(9.671)
Reinsurance share within incurred not reported claims	(198)	(108)
Reinsurance share within claims handling expenses	(249)	(277)
Reinsurance share within estimated subrogation receivable	410	419
<b>Total</b>	<b>45.914</b>	<b>45.433</b>

### 9.3. Unexpired risk technical provision

The amount of unexpired risk technical provision as at 31 December is as follows:

Items, EUR'000	31.12.2019	31.12.2018
Insurance	2.538	2.792
Reinsurance	-	-
<b>Total</b>	<b>2.538</b>	<b>2.792</b>

The specification of unexpired risk technical provision by insurance groups as at 31 December is as follows:

Insurance groups, EUR'000	31.12.2019	31.12.2018
1. Medical expenses insurance	295	475
2. Income protection insurance	-	19
3. Workers compensation insurance	-	-
4. Motor vehicle liability insurance	936	532
5. Other Motor insurance	583	445
6. Marine, Aviation and Transport insurance	110	118
7. Fire and other property damage	521	1.103
8. General liability insurance	44	35
9. Credit and suretyship insurance	10	45
11. Assistance insurance	33	14
12. Financial losses insurance	6	6
<b>Total</b>	<b>2.538</b>	<b>2.792</b>

### 10. Other liabilities

Items, EUR'000	31.12.2019	31.12.2018
<i>Other liabilities:</i>	3.671	6.536
Advance payments for future policies	3.205	6.310
Overpayments	-	-
Other payments	466	226
<i>Taxes, social security contributions and other liabilities:</i>	1.201	1.354
Taxes	125	161
Social security contributions	374	486
Salaries	86	96
Other	616	611
<b>Total</b>	<b>4.872</b>	<b>7.890</b>

### 11. Provisions

Items, EUR'000	Restructuring	Total
<b>Balance 31 December 2017</b>	<b>491</b>	<b>491</b>
New provisions	470	470
Provisions used during the year	(686)	(686)
<b>Balance at 31 December 2018</b>	<b>275</b>	<b>275</b>
New provisions	500	500
Provisions used during the year	(492)	(492)
<b>Balance at 31 December 2019</b>	<b>283</b>	<b>283</b>

#### *Restructuring reserve*

During 2019, the Company committed to a plan to restructure the Company's activities to improve the efficiency. Following the announcement of the plan, the Company recognised a provision of EUR 500 thousand for expected restructuring costs, including employees' termination benefits. Estimated costs were based on the terms of the relevant contracts. The provision of EUR 492 thousand was used during the year. The restructuring is expected to be completed by December 2020.

During 2018, the Company committed to a plan to restructure the Company's activities to improve the efficiency. Following the announcement of the plan, the Company recognised a provision of EUR 470

thousand for expected restructuring costs, including employees' termination benefits. Estimated costs were based on the terms of the relevant contracts. The provision of EUR 686 thousand was used during the year.

## 12. Accrued expenses and deferred income

Items, EUR'000	31.12.2019	31.12.2018
Accrued commissions expenses	2.228	2.200
Accrued expenses for invoices not received	643	739
Vacation reserve	1.041	980
Annual bonus for employees	880	782
Annual bonus for intermediaries	240	238
Accrued reinsurance commission	98	97
<b>Total</b>	<b>5.130</b>	<b>5.036</b>

## 13. Results of non-life insurance activities

Country, where insurance agreement was concluded	Gross written premiums, EUR'000	
	2019	2018
Republic of Lithuania	70.014	66.392
Other EU countries	49.648	49.152
<b>Total</b>	<b>119.662</b>	<b>115.544</b>

The detailed results of non-life insurance activity in 2019 are presented below:

Items, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
Direct insurance	119.662	117.723	(79.249)	(35.550)	369
<b>Total</b>	<b>119.662</b>	<b>117.723</b>	<b>(79.249)</b>	<b>(35.550)</b>	<b>369</b>

The non-life insurance results in 2019 by groups of insurance are as follows:

Types of insurance, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
1. Medical expenses insurance	17.955	17.660	(13.328)	(4.281)	(26)
2. Income protection insurance	3.594	3.398	(1.337)	(1.370)	(12)
3. Workers compensation insurance	-	-	-	-	-
4. Motor vehicle liability insurance	47.993	46.842	(33.721)	(10.985)	935
5. Other Motor insurance	23.104	22.381	(17.149)	(6.873)	(474)
6. Marine, Aviation and Transport insurance	843	851	(31)	(416)	(169)
7. Fire and other property damage	18.186	18.747	(10.662)	(8.191)	584
8. General liability insurance	3.622	3.667	(1.306)	(1.814)	(374)
9. Credit and suretyship insurance	1.810	1.838	(229)	(753)	(554)
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	2.136	1.954	(916)	(692)	(28)
12. Financial losses insurance	419	385	(570)	(175)	487
<b>Total</b>	<b>119.662</b>	<b>117.723</b>	<b>(79.249)</b>	<b>(35.550)</b>	<b>369</b>

The detailed results of non-life insurance activity in 2018 are presented below:

Items, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
Direct insurance	115.544	115.808	(73.016)	(35.848)	(1.927)
<b>Total</b>	<b>115.544</b>	<b>115.808</b>	<b>(73.016)</b>	<b>(35.848)</b>	<b>(1.927)</b>

The non-life insurance results in 2018 by groups of insurance are as follows:

Types of insurance, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
1. Medical expenses insurance	16.760	16.400	(12.477)	(4.151)	(25)
2. Income protection insurance	3.241	3.299	(1.225)	(1.469)	(10)
3. Workers compensation insurance	-	-	-	-	-
4. Motor vehicle liability insurance	47.162	47.265	(31.191)	(11.393)	(330)
5. Other Motor insurance	21.505	21.496	(15.766)	(6.695)	(478)
6. Marine, Aviation and Transport insurance	900	903	(467)	(418)	137
7. Fire and other property damage	18.370	18.467	(10.117)	(8.215)	(713)
8. General liability insurance	3.770	3.978	(650)	(1.838)	(96)
9. Credit and suretyship insurance	1.668	1.799	(313)	(836)	(376)
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	1.860	1.936	(794)	(718)	(28)
12. Financial losses insurance	308	265	(16)	(115)	(8)
<b>Total</b>	<b>115.544</b>	<b>115.808</b>	<b>(73.016)</b>	<b>(35.848)</b>	<b>(1.927)</b>

#### 14. Claim handling expenses

Types of expenses, EUR'000	2019	2018
Wages, salaries and social security	4.878	4.925
Services of experts, lawyers and other specialists	2.025	1.943
Repair and maintenance of premises	108	416
Taxes	107	120
Information technologies expenses	566	481
Maintenance of vehicles	64	73
Communication expenses (post, telephone, internet)	244	260
Depreciation and amortisation	466	405
Amortization costs by ""Right-of-use"" of underlying asset"	242	-
Trainings and business trips	111	120
Professional service expenses	145	158
Expenses for stationery and office maintenance	22	25
Motor Bureau fee	1.273	1.279
Other	415	185
<b>Total</b>	<b>10.666</b>	<b>10.390</b>

#### 15. Remuneration expenses

The remuneration expenses for employees and agents including social security expenses in 2019 and 2018 are presented below:

Items, EUR'000	2019	2018
Management	1.450	1.256
Other employees	16.417	17.929
<b>Total</b>	<b>17.867</b>	<b>19.185</b>

As of 31 December 2019, the management consisted of the General Director and 8 second level managers (as of 31 December 2018: General Director and 8 second level managers).

#### 16. Acquisition expenses

Types of expenses, EUR'000	2019	2018
Commission to organisations	12.080	12.833
Wages, salaries and social security	8.203	6.214
Commission to agents and employees	1.686	2.626
Advertising and marketing expenses	1.230	1.382
Repair and maintenance of premises	528	1.183
Purchase of blanks and other expenses related to contracts	152	198
Maintenance of vehicles	203	262
Representative expenses	141	185
Taxes and fees, including bank fees	183	108
Communication expenses (post, telephone, internet)	68	87
Trainings and business trips	37	42
Depreciation and amortisation of non-current assets	53	56
Amortization costs by ""Right-of-use"" of underlying asset"	592	-
Information technologies expenses	12	14
Expenses for stationery and office maintenance	27	28
Professional service expenses	82	61
Other	194	211
<b>Total acquisition expenses</b>	<b>25.471</b>	<b>25.490</b>
Change in deferred acquisition expenses	693	377
<b>Acquisition expenses including the change of deferred acquisition expenses</b>	<b>26.164</b>	<b>25.867</b>

### 17. Administrative expenses

Types of expenses, EUR'000	2019	2018
Wages, salaries and social security	4.786	5.420
Depreciation and amortisation of non-current assets	1.013	960
Amortization costs by "Right-of-use" of underlying asset"	551	-
Information technologies expenses	1.066	1.134
Communication expenses (post, telephone, internet)	438	555
Repair and maintenance of premises	252	820
Representative expenses	171	167
Taxes	26	25
Member fees and fee for Insurance Supervisory Commission	187	206
Maintenance of vehicles	93	124
Expenses for stationery and office maintenance	45	56
Trainings and business trips	214	239
Audit expenses	55	35
Professional service expenses	201	240
Other administrative expenses	288	-
<b>Total</b>	<b>9.386</b>	<b>9.981</b>

### 18. Other income and expenses

Items, EUR'000	2019	2018
<b>Other income</b>		
Commission fee for mediation	87	126
Income from insurance contracts termination	268	282
Other income	103	111
<b>Total</b>	<b>458</b>	<b>519</b>
<b>Other expenses</b>		
Bank fees	(90)	(137)
Interest of lease liability	(114)	-
Other expenses	(7)	(3)
<b>Total</b>	<b>(211)</b>	<b>(140)</b>

### 19. Income tax and deferred income tax

In 2019, the Company accounted for deferred tax assets of EUR 1.654 thousand, which was calculated on accumulated tax losses and temporary differences provisions.

Items, EUR'000	2019	2018
Current year income tax	(344)	(400)
Change in deferred taxes	1.002	252
<b>Total</b>	<b>658</b>	<b>(148)</b>

Deferred income tax asset and liability are attributable to the following items:

Items, EUR'000	31.12.2019	31.12.2018
Effect from different provisions	288	276
Tax losses carried forward	1.366	376
<b>Deferred tax asset, net</b>	<b>1.654</b>	<b>652</b>
<b>Attributable to, EUR'000:</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Lithuania	1.654	652
<b>Total deferred tax at the end of the year</b>	<b>1.654</b>	<b>652</b>

According to the financial forecast approved by the management, the Company expects to earn taxable profit in 2020 and further years with consistently growing sales. Based on this plan, it is expected to have sufficient profits required to utilise the recognised deferred tax asset. The planned GWP growth is 7,5%, LR – 65%, COR – 92.5% on average during the next 3 years.

The deferred tax asset estimated as at 31 December 2019 was calculated as 70% of planned net profits in Lithuania in the next 3 years based on the management assumption that the deferred tax asset will be utilized during the next 3 years.

Deferred tax asset is measured at the tax rates that are expected to apply in the period, in which the asset is 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 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.

Items, EUR'000	31.12.2019	31.12.2018
Profit before income tax	5.562	6.334
Non-taxable income	(3.760)	(4.555)
Non-deductible expenses	5.770	6.589
Result of investments	-	695
Utilization of taxable loss	(5.285)	(6.405)
Taxable profit for the financial year	2.287	2.658
<b>Income tax for the accounting period in profit or loss</b>	<b>344</b>	<b>400</b>

## 20. Transactions with related parties

Related parties are defined as shareholder of the Company, members of the Board and Council, their close relatives and companies in which they have a significant influence or control.

The transactions with related parties during 2019 and 2018 are as follows:

Items, EUR'000	31.12.2019	31.12.2018
Reinsurance premiums written to Gjensidige Forsikring ASA	(2.509)	(2.640)
Reinsurance claims paid by Gjensidige Forsikring ASA	1.620	2.594
Investment expenses paid to Gjensidige Forsikring ASA	(11)	(11)
Amount payable to Gjensidige Forsikring ASA (reinsurance)	-	221
Amount receivable from Gjensidige Forsikring ASA (reinsurance)	203	-
Amount payable to Gjensidige Forsikring ASA (other)	-	183
Other income – Gjensidige Forsikring ASA	620	208
Other expenses – Gjensidige Forsikring ASA	(20)	(224)
Other	-	(183)
Amount receivable from Gjensidige Forsikring ASA	62	-

Related parties:

Gjensidige Forsikring ASA

## 21. Compliance with legal regulations

At the reporting date, the Company complied with the legal requirements of the Republic of Lithuania that are applied to the insurance companies for investment structure.

As of 31 December 2019 and 2018, the Company complied with solvency requirements to insurance companies.

## 22. Operating lease

IFRS 16 requires all contracts that qualify under its definition as a lease to be reported on a lessee's balance sheet as right of use assets and lease liabilities. Earlier classification of leases as either operating leases or finance leases are removed. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. A lessee shall recognise a right-of-use asset and a lease liability. The interest effect of discounting the lease liability shall be presented separately from the depreciation charge for the right-of-use asset. The depreciation expenses are presented with Gjensidige's other depreciations, whereas

the interest effect of discounting are presented as a financial item. IFRS 16 is effective 1 January 2019. The standard has an effect on Gjensidige's financial statements, significantly increasing Gjensidige's recognised assets and liabilities.

Gjensidige has chosen to recognise its lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application, as well as the recognition of related right-of-use assets to an amount corresponding to the lease liability.

#### Right-of-use assets

EUR'000	Land and buildings	Vehicles	Office equipment	Total
Estimation at 1 January 2019	7.297	62	8	7.367
New contracts	711	-	-	711
Changes contracts conditions(+/-)	(1.146)	-	-	(1.146)
Depreciation expenses	(1.345)	(36)	(4)	(1.385)
<b>Balance at 31 December 2019</b>	<b>5.517</b>	<b>26</b>	<b>4</b>	<b>5.547</b>

#### Lease liability

EUR'000	Land and buildings	Vehicles	Office equipment	Total
Estimation at 1 January 2019	7.297	62	8	7.367
New contracts	613	-	-	613
Changes contracts conditions(+/-)	(1.146)	-	-	(1.146)
Payments	(1.406)	(37)	(4)	(1.447)
Interests expenses	111	3	-	114
<b>Balance at 31 December 2019</b>	<b>5.469</b>	<b>28</b>	<b>4</b>	<b>5.501</b>

The future undiscounted lease payments agreements are as follows:

	2019	2018
Less than one year	1.182	1.451
Between one and five years	3.497	3.736
More than five years	906	2.145
<b>Total</b>	<b>5.585</b>	<b>7.332</b>

#### 23. Contingencies and commitments

**Legal disputes** – as of 31 December 2019 and 2018 the Company did not participate in any legal dispute cases that, in the opinion of the management, would have significant impact on the financial statements.

#### 24. Events after the date of the statement of financial position

There were no events in the Company from 31 December 2019 until the date of issue of the financial statements that might have a significant impact on the financial statements.

Financial statements were signed on behalf of the Company's management on 10 February 2020.

General manager

Marius Jundulas

Chief Accountant

Jolanta Markelienė

Chief Actuary

Jurgis Navikas

