Gjensidige

GJENSIDIGE ADB

Financial statements for the period ended 31 December 2016

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Independent Auditor's Report

To the Shareholders of Gjensidige ADB

Opinion

We have audited the accompanying financial statements of Gjensidige ADB ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of 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.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
7 April 2017

ANNUAL REPORT

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

The most important events in 2016
The Company's share capital as of 31 December 2016 consisted of 6 402 217 ordinary registered shares with a nominal value of EUR 7.37 each and 1 764 067 ordinary registered shares as of 31 December 2015 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, 0301 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and Shareholder), and 0.03% to a minority shareholder, an individual.

Shareholder	Number of shares, pcs.
Gjensidige Forsikring ASA	6 400 091
Private person	2 126
Total	**6 402 217**

The growth of Lithuania's non-life insurance is 13.19% in 2016. After evaluation of written premiums, Gjensidige ADB takes 15% of Lithuania's insurance market and takes the second place between the largest insurance companies. The Company takes 7.3% of the Baltic insurance market together with Latvian and Estonian branches.

Key achievements in 2016:
- Successful completion of the legal merger of Gjensidige ADB and Gjensidige Baltic AAS;
- Restarted operations in Latvia and Estonia after the legal merger;
- Implemented common IT platforms in Lithuania, Estonia;
- Rebranding of Gjensidige logo across three Baltic countries;
- Regular customer service quality research "voice of the customer".

As of 31 December 2016, the Company had 1 032 employees (266 of them in foreign branches), as of 31 December 2015 – 555 employees (0 in foreign branches).

The main types of risks

The main types of risk related to the Company's activities in 2016 were as follows:
- Insurance risk (loss ratio, inadequacy of technical provisions);
- Investment risk (investment impairment risk, price risk, interest rate risk);
- Credit risk (the default of the issuers of financial instruments, reinsurers' default, default of other partners, delayed settlements);
- Market risk (price volatility, portfolio diversification, currency exchange risk);
- Liquidity risk (urgent need for cash);
- Operational risk (inappropriate procedures, practices or failure to comply, human error factor, management risk, insufficiency of tariffs, negligence).

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

Sales
The Company's insurance written premiums in 2016 amounted to EUR 75 635 thousand. Compared to the respective result of 2015, written premiums increased by 10.57%. According to the data published by the Bank of Lithuania, in 2016 the Company's non-life insurance market share amounted to 15 percent and the Company took the 2nd place in non-life insurance market in Lithuania.

In 2016, the Company entered into 1 238 thousand insurance contracts (934 thousand in 2015). The number of contracts grew by 32.6% in 2016. The number of insurance contracts in force as of 31 December 2016 increased by 35% up to 951 thousand (704 thousand in 2015).

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

Insurance group	2016 ADB Gjensidige	2016 ADB Gjensidige branches	2015	Change
Obligatory Motor Third Party Liability	24 211	2 251	18 789	40.84%
Property	14 722	1 272	16 329	-2.05%
Land vehicles other than railway transport	12 777	1 718	17 094	-15.20%
Personal accident and medical expenses	11 224	397	7 433	56.34%
TPL	3 096	212	4 393	-24.70%
Bonds	1 156	91	1 512	-17.51%
Assistance	1 098	0	725	51.44%
Financial losses	659	51	984	-27.97%
Goods in transit	504	19	742	-29.54%
Other	133	43	400	-55.72%
Total	**69 580**	**6 055**	**68 401**	**10.57%**

Reinsurance
Reinsurance share in premiums written – 2.41%.

Claims expenses
Claims expenses amounted to EUR 48 085 thousand in 2016, i.e., it increased by 2.7% compared to claims expenses in 2015 (EUR 46 830 thousand).

In 2016, the total number of reported claims increased from 116 948 to 185 180. The number of insurance indemnities increased from 115 101 to 246 233 in 2016.

Operating expenses
In 2016, the Company's operating expenses ratio increased by 4.59 percentage points to 45.04%, compared to 2015 (40.45% in 2015). The net operating expenses including reinsurance commissions totalled to EUR 28 948 thousand in 2016. Operating expenses without reinsurance commissions amounted to EUR 29 114 thousand in 2016, i.e. 4.08 percentage points more compared to 2015.

Investment activities
Net financial investment result totalled to EUR 158 thousand of profit in 2016.

Financial result
Financial result of the Company's activities in 2016 was negative – it incurred a loss of EUR 14 573 thousand.

Loss ratio
In 2016, the net loss ratio of insurance business of the Company equals to 74.78%, i.e. it increased by 3.55 percentage points if compared to 2015.

Actual combined ratio at the Company equals to 122.6 per cent at the end of 2016.

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 2016, the Company did not control subsidiaries and associated companies.

5. *Information about acquired or transferred own shares*

In 2016, the Company neither acquired nor transferred any of its own shares.

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

In 2016, the Company neither acquired not 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 2016, the Company had 2 foreign branches – in Latvia (12 representative offices), in Estonia, 3 regions and 20 sales units in Lithuania (as of 31 December 2015 – 2 foreign branches, 3 regions and 20 sales units). The head office of the Company is located at Zalgirio Str. 90, Vilnius. Starting from 31 October 2016, the Company resumed its operations in Latvia and Estonia.

8. *Key events of the Company after the end of the financial year 2016*

On 27 June 2016, a decision regarding the reorganisation of Gjensidige Baltic AAS was taken; the rules of reorganisation of Gjensidige ADB and Gjensidige Baltic AAS have been prepared.

On 31 October 2016, the legal merger of Gjensidige ADB and Gjensidige Baltic AAS was completed.

Gjensidige ADB and Gjensidige Baltic AAS were reorganised by way of merger. Gjensidige Baltic AAS was merged to Gjensidige ADB and ceased its activities following the reorganisation.

The head office of Gjensidige in the Baltic States is in Lithuania.

All assets, rights and liabilities of Gjensidige Baltic AAS were transferred to Gjensidige ADB.

9. *Main targets of the Company for 2017*

The market share growth – the Company's market share in 2017 is 14.9%;

Loss ratio net – 66.5%;

Profitability;

Continuous improvement of customer service quality.

The Company is focused on employee training and competence improvement. In close cooperation with the professionals of the parent company Gjensidige Forsikring ASA, as well as with other Lithuanian and foreign insurance and reinsurance companies, the Company is retaining good quality of insurance products and services provided.

Members of the Board

Full name	**Title**	**Signature**	**Date**
Kaare Steinar Øestgaard	Chairman of the Board		31 March 2017
Tor Erik Silset	Member of the Board		31 March 2017
Sigurd Ivar Austin	Member of the Board		31 March 2017
Hans-Georg Wettre Hanevold	Member of the Board		31 March 2017
Martin Danielsen	Member of the Board		31 March 2017
Mats Christian Gottschalk	Member of the Board		31 March 2017

STATEMENT OF FINANCIAL POSITION

As of 31 December 2016

ASSETS	Note	31/12/2016	31/12/2015	01/01/2015
Property and equipment	2	2 456 579	1 650 399	1 894 367
Intangible assets	1	4 396 711	1 060 125	11 009 533
Total non-financial assets		**6 853 290**	**2 710 524**	**12 903 900**
Financial assets designated at fair value through profit or loss	3	58 567 507	3 807 887	8 648 305
Held to maturity investments	4	40 606 881	39 186 219	51 076 325
Total financial investments		**99 174 388**	**42 994 106**	**59 724 630**
Term deposits with credit institutions	5	15 185 277	9 728 764	20 666 778
Direct insurance receivables from policy holders and intermediaries	6	17 615 336	8 327 107	19 153 532
Reinsurance receivables	6	163 428	228 745	251 429
Other receivables	6	1 633 883	1 103 591	1 032 886
Loans and receivables		**34 597 924**	**19 388 207**	**41 104 625**
Deferred client acquisition costs		8 386 907	3 902 057	7 738 015
Other prepaid expenses and accrued income		3 286 004	454 961	730 622
Total accrued income and deferred expenses	8	**11 672 911**	**4 357 018**	**8 468 637**
Deferred tax asset	21	1 313 733	395 466	399 085
Corporate income tax asset		583 615	14 696	-
Advance payments		218 640	144 287	138 299
Reinsurers' share in technical reserves for unearned premium		511 412	514 817	1 834 249
Reinsurers' share in technical reserves for outstanding claims		10 309 150	11 310 284	4 296 335
Total reinsurance assets	10	**10 820 562**	**11 825 101**	**6 130 584**
Cash and cash equivalents	7	**11 392 337**	**3 288 536**	**5 133 015**
TOTAL ASSETS		**176 627 400**	**85 117 941**	**134 002 775**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

31 March 2017

STATEMENT OF FINANCIAL POSITION

As of 31 December 2016

LIABILITIES AND EQUITY	Note	2016 12 31	2015 12 31	2015 01 01
Equity				
Share capital	9	47 184 339	13 001 174	51 087 380
Share premium	9	12 453 661	12 453 661	12 453 661
Reserve of revaluation		68 947	74 885	80 823
Retained earnings carried forward from previous years		(1 988 172)	3 761 933	(29 902 456)
Profit (loss) of the reporting period		(14 573 070)	(8 886 162)	(4 424 016)
Total equity		**43 145 705**	**20 405 491**	**29 295 392**
Financing (grants and subsidies)		**-**	**-**	**8 805 759**
Liabilities				
Insurance liabilities				
Unearned premium technical reserve		52 502 928	23 152 700	44 749 477
Technical reserves for outstanding claims		57 525 351	30 742 082	33 438 572
Unexpired risk technical reserve		5 347 115	4 088 992	3 211 077
Total insurance liabilities	10	**115 375 394**	**57 983 774**	**81 399 126**
Creditors				
Direct insurance liabilities				
Policyholders		1 934 683	776 347	3 491 091
Intermediaries		512 427	156 727	869 668
Other liabilities		5 273 846	1 144 467	2 071 892
Reinsurance liabilities		499 243	395 607	1 908 669
Corporate income tax liabilities		-	-	25 855
Taxes and social contributions		641 021	445 130	830 775
Other creditors		1 141 435	715 876	1 254 258
Total creditors	11	**10 002 655**	**3 634 154**	**10 452 208**
Provisions	12	**1 643 055**	**780 000**	**-**
Accrued expenses and deferred income	13	**6 460 591**	**2 314 522**	**4 050 290**
Total liabilities		**133 481 695**	**64 712 450**	**104 707 383**
TOTAL LIABILITIES AND EQUITY		**176 627 400**	**85 117 941**	**134 002 775**

Marius Jundulas
General Manager

Jolanta Motukaite
Chief Accountant

Jurgis Navikas
Chief Actuary

31 March 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016	2015
Earned premiums	14	**64 301 242**	**65 745 087**
Gross written premiums		75 634 267	68 401 312
Reinsurer's share in written premiums		(2 694 149)	(4 093 866)
Changes in gross unearned premium and unexpired risk technical reserves		(8 024 337)	1 839 375
Change in the unearned premium and unexpired risk technical reserves, reinsurer's share		(614 539)	(401 734)
Claims incurred, net	14	**(48 085 361)**	**(46 829 750)**
Claims paid		(46 366 102)	(46 096 418)
Claims handling expenses	15	(3 715 309)	(3 925 959)
Recovered losses		3 039 849	3 526 521
Reinsurer's share in claims paid		2 184 296	780 656
Change in claim technical reserves		986 580	(9 483 234)
Change in claim technical reserves, reinsurer's share		(4 214 675)	8 368 684
Change in unexpired risk technical reserves		**(1 258 123)**	**(2 150 100)**
Net operating expenses		**(28 947 951)**	**(26 593 710)**
Client acquisition costs	17	(22 099 603)	(17 221 887)
Change in deferred client acquisition costs	17	1 541 889	154 746
Administrative expenses	18	(8 556 639)	(9 864 920)
Reinsurance commission income and profit share		166 402	338 351
Investment management expenses	20	(119 746)	(243 432)
Net interest income	20	1 208 127	1 426 532
Net gain/losses from financial assets classified at fair value through profit and loss	20	(475 767)	426 545
Realised investment result from investment activity	20	(526 867)	(147 926)
Income of real estate	20	72 231	9 070
The result of transfer of foreign branch	20	-	289 000
Foreign exchange revaluation loss		(65 139)	(132 012)
Impairment		-	-
Other income	19	424 777	397 464
Other expenses	19	(876 245)	(1 079 310)
Profit before corporate income tax		**(14 348 822)**	**(8 882 542)**
Corporate income tax		-	-
Change in deferred income tax	21	(224 248)	(3 620)
Profit/(loss) of the reporting year		**(14 573 070)**	**(8 886 162)**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**(14 573 070)**	**(8 886 162)**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

31 March 2017

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Property revaluation reserve	Retained earnings	Total
Balance as of 1 January 2015	**51 087 380**	**12 453 661**	**80 823**	**(12 459 336)**	**51 162 528**
Accounting policy change (IFRS)	-	-	-	(21 867 136)	(21 867 136)
Recalculated balance as of 1 January 2015	**51 087 380**	**12 453 661**	**80 823**	**(34 326 472)**	**29 295 392**
Comprehensive income for the year	-	-	-	(8 886 162)	(8 886 162)
Share capital decrease	(38 086 206)	-	-	38 086 206	-
Amortisation of revaluation assets	-	-	(5 938)	5 938	-
Currency influence	-	-	-	(3 739)	(3 739)
Balance as of 31 December 2015	**13 001 174**	**12 453 661**	**74 885**	**(5 124 229)**	**20 405 491**
Comprehensive income for the year	-	-	-	(14 573 070)	(14 573 070)
Amortisation of revaluation assets	-	-	(5 938)	5 938	-
Share capital increase (Note 9)	34 183 165	-	-	-	34 183 165
Legal merger (Note 27)	-	-	-	3 130 119	3 130 119
Balance as of 31 December 2016	**47 184 339**	**12 453 661**	**68 947**	**(16 561 242)**	**43 145 705**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

31 March 2017

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016	2015
Cash flows from operating activities			
Premiums received in direct insurance		70 144 216	64 797 433
Claims paid in direct insurance		(42 391 122)	(46 495 856)
Payments received from reinsurers		-	473 586
Payments made to reinsurers		(2 586 986)	(4 437 112)
Corporate income tax		-	-
Payments to employees		(6 642 628)	(6 410 466)
Payments to intermediaries		(9 647 365)	(6 218 729)
Operating taxes payment		(6 659 188)	(6 269 340)
Other payments made		(11 484 661)	(8 425 620)
Other payments received		5 079 133	3 238 659
Net cash flows used in operating activities		**(4 188 601)**	**(9 747 445)**
Cash flows from investing activities			
Acquisition of investments:			
Debt securities and other fixed income securities		(53 377 480)	(31 942 262)
Term deposits with credit institutions		(300 000)	(18 900 000)
Total acquisition of investments:		**(53 677 480)**	**(50 842 262)**
Disposal of investments:			
Debt securities and other fixed income securities		39 041 847	49 543 719
Term deposits with credit institutions		11 540 000	29 827 080
Total disposal of investments:		**50 581 847**	**79 370 799**
Investment income:			
Debt securities and other fixed income securities		-	-
Term deposits with credit institutions		26 335	94 388
Total investment income:		**26 335**	**94 388**
Business combination (Note 27)		5 526 973	(11 172 446)
Investment management expenses and commission fee payments		(119 746)	(243 432)
Net cash flows from/ (used in) investing activities		**2 337 929**	**17 207 047**
Financing activities			
Tax paid on financing activities		-	(339 651)
Shareholders contribution		9 949 500	-
Repayment of the subordinated loan		-	(8 969 673)
Net cash from (used in) financing activities		**9 949 500**	**(9 309 324)**
Net increase/(decrease) of cash and cash equivalents		**8 098 828**	**(1 849 722)**
Impact of currency exchange rate fluctuations on cash and cash equivalents		4 973	5 243
Cash and cash equivalents at the beginning of the year		3 288 536	5 133 015
Cash and cash equivalents at the end of the year		11 392 337	3 288 536

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

31 March 2017

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 2 November 2004. The registration number of the certificate of the Company is 019084.

On 1 March 2016, the name of DK PZU Lietuva UAB was changed to Gjensidige ADB.

The Company is engaged in non-life insurance services. The licence for the insurance activity is No. 000021.

As of 31 December 2016, the Company's authorised share capital consisted of 6 402 217 ordinary registered shares with the par value of EUR 7.37 each and as of 31 December 2015 the share capital of the Company consisted of 1 764 067 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, 0301 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and Shareholder), and 0.03% to a minority shareholder, an individual.

Shareholder	Number of shares, pcs.
Gjensidige Forsikring ASA	6 400 091
Individual	2 126
Total	**6 402 217**

As of 31 December 2016, Gjensidige Forsikring ASA group in the Baltics owned the following companies:

- Gjensidige ADB with branches in Latvia and Estonia.

On 27 June 2016, a decision regarding the reorganisation of Gjensidige Baltic AAS was taken; the rules of reorganisation of Gjensidige ADB and Gjensidige Baltic AAS have been prepared.

On 31 October 2016, the legal merger of Gjensidige ADB and Gjensidige Baltic AAS was completed.

Gjensidige ADB and Gjensidige Baltic AAS were reorganised by way of merger. Gjensidige Baltic AAS was merged to Gjensidige ADB and ceased its activities following the reorganisation.

The head office of Gjensidige in the Baltic States is in Lithuania.

All assets, rights and liabilities of Gjensidige Baltic AAS were transferred to Gjensidige ADB.

Employees of the Company

As of 31 December 2016, the Company employed 1 032 employees (as of 31 December 2015 – 555):

Country	31/12/2016	31/12/2015
Lithuania	766	555
Latvia	219	-
Estonia	47	-
Total	**1 032**	**555**

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 liability insurance of contractor;
- 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 2016, the Company had 2 foreign branches – in Latvia (12 representative offices), in Estonia, 3 regions and 20 sales units in Lithuania (as of 31 December 2015 – 2 foreign branches, 3 regions and 20 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 2016 and 2015, 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, and legal regulations on accounting and financial reporting of the Republic of Lithuania. The financial statements have been prepared on the historical cost basis except 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 the fair value at date of valuation less subsequent accumulated depreciation value.

These are the first Company's financial statements prepared in accordance with IFRSs; therefore, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was applied.

During the transition to IFRSs, differences existed in recognition and classification of the amounts presented in the Company's financial statements prepared in accordance with Business Accounting Standards of the Republic of Lithuania (BAS) and the financial statements prepared in accordance with IFRSs; therefore, additional information on the transition to IFRSs is presented in Note 23.

Functional and Presentation Currency
The financial statements are presented in Euro (EUR), which is the Company's functional currency.

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

Standards and interpretations effective in the reporting period and changes in accounting policies
The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

(i) *IFRS 14 Regulatory Deferral Accounts;*
(ii) *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);*
(iii) *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);*
(iv) *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);*
(v) *Equity Method in Separate Financial Statements (Amendments to IAS 27);*
(vi) *Annual Improvements to IFRSs 2012-2017 Cycle – various standards;*
(vii) *Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);*
(viii) *Disclosure Initiative (Amendments to IAS 1).*

New Standards and Interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements.

(i) IFRS 9 Financial Instruments (2014) *(Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted).*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

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

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

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

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

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company's financial instruments are expected to change.

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 until 1 January 2021. The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the financial statements of the Company.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

(iii) Amendments to IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements of the Company. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Company acts as lessee.

The Company has operating lease agreements for cars and premises lease agreements. The Company has not yet prepared an analysis of the expected quantitative impact of the new Standard.

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not enter into share-based payment transactions.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(ix) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the financial statements.

(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

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

Significant accounting policies

Estimates
Based on the International Financial Reporting Standards, as adopted by the 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 property and equipment and intangible assets, impairment of doubtful insurance debts and investments, technical provisions, receivable subrogations and recoveries and recognition of deferred tax asset:

- Insurance liabilities – Note II Insurance risk management (iv),
- Reinsurance share in technical reserves – Note II Reinsurance contracts,
- Impairment of financial instruments – Note II Impairment,
- Impairment of intangible assets – Note II Intangible assets,
- Allowance for overdue debtors – Note II Classification of insurance contracts (ii), Note 6
- Deferred tax asset – Note II Deferred tax asset, Note 21.

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 are 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:

	31/12/2016	31/12/2015
PLN	4.4141	4.2400
USD	1.0453	1.0926

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	3–8
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.

Goodwill
Goodwill arising in a business acquisition process is accounted for at cost determined at business acquisition date less accumulated impairment losses, if any. Goodwill is recognised after acquisition of subsidiaries/branches at the amount by which the price paid exceeds the fair value of the net assets attributable to the Company.

Goodwill acquired in a business combination is not amortised, but is tested for impairment annually or more frequently, when indications of impairment losses exist.

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 revaluated 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 60 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)**
Vehicles	5–10
Office equipment	2–8
Other assets	4–6

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 are 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.

Investment property
Investment property constitutes real estate held in order to earn lease revenue and/or profit from property value increase, and is accounted for at fair value, and the depreciation thereof is not calculated. The fair value of investment property is reviewed at each reporting date, and any changes thereof are reflected in profit or loss.

Any repair works for the investment property reflected in financial statements at their fair value are recognized as costs of the period during which they were incurred.

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.

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 recognised 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 derecognised 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 Senior Group Management and the Board of Directors.

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

The category at fair value through profit or loss comprises the classes 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 recognised initially in this category, or are not recognised initially in any other category. Subsequent to initial recognition financial assets in this category are measured at fair value, and gain or loss is recognised in other comprehensive income except for impairment losses, which are recognised 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.

Interest-free loans are issued to finance fire alarm systems within agriculture for loss prevention purposes. These loans are repaid using the discount granted on the main policy when the alarm system is installed.

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, interest-bearing liabilities, other liabilities, liabilities related to direct insurance and accrued expenses and deferred income. Interest-bearing liabilities consist mainly of issued certificates and bonds, and buy-back of own issued bonds.

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
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 is 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 recognised.

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 was previously recognised in profit or loss, is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

Impairment losses recognised 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 the 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 are 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 calculated to cover the inadequacy of premiums by all valid insurance risks. 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 statistics of the two-three last calendar years.

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 occurred 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-Fergusson” 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 2016 and 2015, the income tax applied to the Company is 15%.

Income tax rate of 15% applicable in Latvia is calculated based on the legislation effective in Latvia. Corporate income tax in Estonia is calculated based on the legislation effective in Estonia.

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 recognised 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 recognised 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.

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 and considering the change of the doubtful premiums written. 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 likeliness of receipt of such amounts.

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.

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 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 amortisation 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 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. The portion of commission expenses representing premiums unclaimed at the end of the reporting period are accounted for in the statement of financial position as accrued commission charges. Accrued commission charges 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.

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 and other expenses not included into other items.

Amounts deducted from Motor Vehicle Third Party Liability insurance premiums written and paid to Motor Vehicle Insurers Bureau of the Republic of Lithuania are recognised as expenses during the period when related insurance premiums have been earned.

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

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, employees, 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 recognised 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 recognised 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 is 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 the overall risk management strategy of Gjensidige group, ensures the Company's risk management system on the implementation of the three level protection principle.

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. The 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.

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 developed its steering documents for insurance risk to diversify the types of insurance risks and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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 typical 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 materials and services purchased with claims settlement. In Property insurance, the inflation will consist of CPI and an increase in building costs, which in the past was slightly higher than the CPI. For accident and health the insurance policies are divided into two main groups, one with fixed sum insured and another part were the compensation is adjusted by the CPI in health care sector.

The Company manages these risks mainly through close supervision of the development for each LOB, underwriting guidelines and proactive claim 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 attempt 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 underwriting policy and guidelines are within the Company's approved risk appetite.

The claims handling procedures also include a clear strategy and routines for purchasing materials and services in an optimal manner. The routines are to use purchase agreements to ensure the quality of the Company's benefits to the Company's 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)
- Illegal activities of third parties

The risk inherent under property insurance is the rapid increase in prices for construction and renovation, as a result of which the policyholder 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 policyholders.

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 policyholders. 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 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, large numbers of properties with similar risk profiles are expected. 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
- deeds of nature
- fire
- falling of various objects
- illegal activities of third parties
- theft and/or robbery
- glass insurance

Various extensions of cover are possible.

Insurance premiums are set in line with applicable insurance methodology. Motor vehicles are divided into four risk groups with different insurance premiums. Motor insurance usually contains a component of self-borne risk.

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 policyholders, the Company performs detailed review of claim supporting documents, and asks 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 adjusts prices accordingly each year when renewal takes place.

Health insurance is a '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 result in significant liabilities for the Company towards the policyholders.

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's 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.

Exposure to various business lines as of 31 December 2016	Total insured amount EUR'000	Reinsurance amount EUR'000	Net retention (after reinsurance) EUR'000
MTPL *)	-	-	-
Property insurance	13 919 297	(4 694 166)	9 225 131
CASCO	537 996	-	537 996
Health insurance	543 421	(67 840)	475 581
Other business lines	4 600 552	(2 653 629)	1 946 923
Total	**19 601 266**	**(7 415 635)**	**12 185 631**

*) gross insurance risk is unlimited. Losses in excess of EUR 400 000 are covered by reinsurance.

Exposure to various business lines as of 31 December 2015	Total insured amount EUR'000	Reinsurance amount EUR'000	Net retention (after reinsurance) EUR'000
MTPL *)	-	-	-
Property insurance	10 594 322	(5 157 565)	5 436 757
CASCO	515 775	-	515 775
Health insurance	406 120	(53 400)	352 720
Other business lines	1 446 366	143 538	1 589 904
Total	**12 962 583**	**(5 067 427)**	**7 895 156**

*) gross insurance risk is unlimited. Losses in excess of EUR 400 000 are covered by reinsurance.

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 as well personal accident, CARGO, motor insurance policies covering insurance accidents in the 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 determine 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, 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.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk employing a substantial degree of experience and judgement. The level of such provisions has been set on the basis of information which is currently available.

(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 are 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 of the balance of unpaid claims of the current period.

	Year of insured event occurrence					
	2012 EUR'000	**2013 EUR'000**	**2014 EUR'000**	**2015 EUR'000**	**2016 EUR'000**	**Total EUR'000**
Estimate of cumulative claims at end of accident year	27 819	28 897	34 936	34 635	**58 754**	
- one year later	25 787	27 027	37 714	**38 799**		
- two years later	25 054	26 368	**38 693**			
- three years later	24 874	**28 235**				
- four years later	**27 492**					
Cumulative payments to date	**(23 900)**	**(25 382)**	**(34 277)**	**(31 812)**	**(36 363)**	**(151 734)**
Outstanding claim reserves for 2012-2016	3 592	2 853	4 416	6 986	22 393	40 240
Outstanding claim reserves for years before 2012						17 285
Total outstanding claim reserves as of 31/12/2016						**57 525**

Due to the legal merger of the companies the claim amounts increased in 2016.

(iii) Liability adequacy test

The estimation of technical provisions for an insurance portfolio represents an approximation of future cash flow for claim 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 recognised 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 the line of business basis in each country separately and the 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 claim 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 to bodily injuries is 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 claim 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, claim 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 claim 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, 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 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 statement of financial position, 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 the major part of the bond portfolio is classified as held to maturity (hereafter only referred to as the amortised cost portfolio).

ii) Foreign exchange risk

The Company holds assets and liabilities denominated in foreign currencies. 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 USD 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 2016 and 2015:

Company's currency portfolio as of 31 December 2016

Financial assets	**EUR**	**PLN**	**Other**	**Total**
Financial assets designated at fair value through profit or loss	58 567 507	-	-	58 567 507
Held to maturity investments	39 129 401	1 477 480	-	40 606 881
Term deposits in credit institutions	15 185 277	-	-	15 185 277
Loans and receivables	19 412 647	-	-	19 412 647
Cash and cash equivalents	11 266 360	16 008	109 969	11 392 337
Total	**143 561 192**	**1 493 488**	**109 969**	**145 164 649**
Financial liabilities				
Liabilities	9 361 634	-	-	9 361 634
Total	**9 361 634**	**-**	**-**	**9 361 634**
Open foreign exchange position	**134 199 558**	**1 493 488**	**109 969**	**135 803 015**

Company's currency portfolio as of 31 December 2015:

Financial assets	**EUR**	**PLN**	**Other**	**Total**
Financial assets designated at fair value through profit or loss	912 504	2 895 383	-	3 807 887
Held to maturity investments	39 186 219	-	-	39 186 219
Term deposits in credit institutions	9 728 764	-	-	9 728 764
Loans and receivables	9 659 443	-	-	9 659 443
Cash and cash equivalents	3 283 583	2	4 951	3 288 536
Total	**62 770 513**	**2 895 385**	**4 951**	**65 670 849**
Financial liabilities				
Liabilities	3 189 024	-	-	3 189 024
Total	**3 189 024**	**-**	**-**	**3 189 024**
Open foreign exchange position	**59 581 489**	**2 895 385**	**4 951**	**62 481 825**

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 2016 and 2015, a simplified scenario, expecting a 5% change in the price of all securities:

Item	Net revenue, 2016	Net revenue, 2015
Increase in price of securities by 5%	2 928 375	190 394
Decrease in price of securities by 5%	(2 928 375)	(190 394)

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 contrahents 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 2016

Country	Rating	Financial instruments at fair value through profit or loss	Held to maturity debt securities issued or guaranteed by the central government or municipalities	Term deposits in credit institutions
Lithuania	A-	23 203 962	15 264 307	913 745
Latvia	A-	198 060	12 965 028	14 271 532
Poland	BBB+	5 116 089	10 737 704	-
Croatia	BB	-	1 639 842	-
Czech Republic	AA-	3 862 103	-	-
Finland	AA+	1 983 181	-	-
Luxembourg	A-	22 290 770	-	-
The Netherlands	AAA	1 913 342	-	-
Total		**58 567 507**	**40 606 881**	**15 185 277**

The Company's investments by ratings as of 31 December 2015

Country	Rating	Financial instruments at fair value through profit or loss	Held to maturity debt securities issued or guaranteed by the central government or municipalities	Term deposits in credit institutions
Lithuania	A-	876 098	11 235 374	9 728 764
Poland	BBB+	2 895 383	11 432 361	-
Hungary	BB-	36 406	3 410 111	-
Croatia	BB	-	1 690 262	-
Romania	BBB-	-	5 255 285	-
Slovenia	A-	-	2 091 384	-
Sweden	BB	-	4 071 442	-
Total		**3 807 887**	**39 186 219**	**9 728 764**

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 the insurance methodology.

Amounts receivable from direct insurance activities (debts of policyholders and intermediaries) as of 31 December 2016

EUR	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	1 167 821	6	1 102 563	65 258
Less than 3 months	3 016 758	16	161 962	2 854 796
Not overdue receivables	14 695 282	78	-	14 695 282
Total insurance premiums receivable from policyholders and intermediaries	**18 879 861**	**100**	**1 264 525**	**17 615 336**

Amounts receivable from direct insurance activities (debts of policyholders and intermediaries) as of 31 December 2015

EUR	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	560 652	6	558 291	2 361
Less than 3 months	915 868	10	77 781	838 087
Not overdue receivables	7 486 659	84	-	7 486 659
Total insurance premiums receivable from policyholders and intermediaries	**8 963 179**	**100**	**636 072**	**8 327 107**

(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, 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 2016:

Rating	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of reserve for claims outstanding	Reinsurers' share of unearned premiums provision	Recei-vables
AA	1 734 916	3 914	6 499 934	1 525	1 103
A	431 814	2 684 347	3 481 302	508 436	53 994
BBB	8 684	939	105 806	-	-
BB	867	-	76 103	-	-
B	371	-	32 615	-	-
Not rated	7 644	4 949	113 390	1 451	108 331
Total	**2 184 296**	**2 694 149**	**10 309 150**	**511 412**	**163 428**

Reinsurers' share of the Company's insurance premiums written, technical provisions and receivables based on ratings as of 31 December 2015:

Rating	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of reserve for claims outstanding	Reinsurers' share of unearned premiums provision	Recei-vables
AA	96 907	494 358	3 823 398	145 166	64 343
A	684 863	3 595 575	7 147 465	367 369	161 872
BBB	(1 114)	3 933	339 421	2 282	2 530
BB	-	-	-	-	-
B	-	-	-	-	-
Not rated	-	-	-	-	-
Total	**780 656**	**4 093 866**	**11 310 284**	**514 817**	**228 745**

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 2016 and 2015:

Maturity of the financial instruments as of 31 December 2016

EUR	Within 6 months	6–12 months	1–2 years	2–5 years	Without specific maturity	Total
Financial assets						
Financial assets designated at fair value through profit or loss	10 421 864	9 328 616	5 399 385	11 126 872	22 290 770	58 567 507
Held to maturity investments	3 109 567	2 698 919	21 442 011	13 356 384	-	40 606 881
Term deposits in credit institutions	15 126 489	-	-	58 788	-	15 185 277
Loans and receivables	19 412 647	-	-	-	-	19 412 647
Cash and cash equivalents	-	-	-	-	11 392 337	11 392 337
Total	**48 070 567**	**12 027 535**	**26 841 396**	**24 542 044**	**33 683 107**	**145 164 649**
Financial liabilities						
Liabilities	9 361 634					9 361 634
Total	**9 361 634**					**9 361 634**
Difference in maturities	**38 708 933**	**12 027 535**	**26 841 396**	**24 542 044**	**33 683 107**	**135 803 015**

Maturity of the financial instruments as of 31 December 2015

EUR	Within 6 months	6–12 months	1–2 years	2–5 years	Without specific maturity	Total
Financial assets						
Financial assets designated at fair value through profit or loss	-	36 406	-	-	3 771 481	3 807 887
Held to maturity investments	19 626 606	7 839 246	1 506 771	10 213 596	-	39 186 219
Term deposits in credit institutions	8 728 764	-	1 000 000	-	-	9 728 764
Loans and receivables	9 659 443	-	-	-	-	9 659 443
Cash and cash equivalents	-	-	-	-	3 288 536	3 288 536
Total	**38 014 813**	**7 875 652**	**2 506 771**	**10 213 596**	**7 060 017**	**65 670 849**
Financial liabilities						
Creditors	3 189 024	-	-	-	-	3 189 024
Total	**3 189 024**	**-**	**-**	**-**	**-**	**3 189 024**
Difference in maturities	**34 825 789**	**7 875 652**	**2 506 771**	**10 213 596**	**7 060 017**	**62 481 825**

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.

IV. EXPLANATORY NOTES

1. Intangible assets

The movement of intangible assets for the year ended 31 December 2016, was:

Items	Asset category				Total
	Other intangible assets	Software	Prepayments	Goodwill	
Acquisition cost					
At the beginning of the accounting period	*115 848*	*3 987 255*	*45 535*	*-*	*4 148 638*
Assets acquired		1 989 794			1 989 794
Business combination (Note 27)	130 362	2 667 603			2 797 965
Assets disposed (-)					
Assets written off (-)					
Transfers between captions +/(-)		45 535	(45 535)		
At the end of the accounting period	*246 210*	*8 690 187*	*-*	*-*	*8 936 397*
Accumulated amortisation					
At the beginning of the accounting period	*115 848*	*2 972 665*	*-*	*-*	*3 088 513*
Charge for the year		728 547			728 547
Business combination (Note 27)	130 362	592 264			722 626
Reversed amortisation after write-off of assets (-)					
Written off amortisation after disposal of assets (-)					
Written off amortisation after write-off of assets (-)					
Transfers between captions +/(-)					
At the end of the accounting period	*246 210*	*4 293 476*	*-*	*-*	*4 539 686*
Net book value					
At the beginning of the accounting period	*-*	*1 014 590*	*45 535*	*-*	*1 060 125*
At the end of the accounting period	*-*	*4 396 711*	*-*	*-*	*4 396 711*

The amortisation charge of the Company's intangible assets for the year 2016 amounting to EUR 681 833 was included into administrative expenses, EUR 32 136 into claim handling expenses, EUR 4 578 – into acquisition expenses, EUR 10 000 – into other expenses (in 2015 – EUR 644 836, EUR 93 572, EUR 39 149, EUR 14 521 and EUR 6 158 respectively).

Business combination: please see more detail in Note 27.

The movement of intangible assets for the year ended 31 December 2015, was:

Items	Asset category				Total
	Rights acquired	Software	Prepay-ments	Goodwill	
Acquisition cost					
At the beginning of the accounting period	*569 033*	*5 780 009*	*61 125*	*7 565 000*	*13 975 167*
Assets acquired		475 473	100 666		576 139
Business disposal (Note 27)	(310 333)	(2 178 787)	(99 392)		(2 588 512)
Assets disposed (-)		(42 027)			(42 027)
Assets written off (-)*	(142 852)	(64 277)		(7 565 000)	(7 772 129)
Transfers between captions +/(-)		16 864	(16 864)		
At the end of the accounting period	*115 848*	*3 987 255*	*45 535*	-	*4 148 638*
Accumulated amortisation					
At the beginning of the accounting period	*205 654*	*2 759 980*	-	-	*2 965 634*
Charge for the year	93 572	704 664			798 236
Business disposal (Note 27)	(114 332)	(455 468)			(569 800)
Reversed amortisation after write-off of assets (-)	(69 046)	(36 511)			(105 557)
Transfers between captions +/(-)					
At the end of the accounting period	115 848	2 972 665	-	-	*3 088 513*
Net book value					
At the beginning of the accounting period	*363 379*	*3 020 029*	*61 125*	*7 565 000*	*11 009 533*
At the end of the accounting period	-	*1 014 590*	*45 535*	-	*1 060 125*

The amortisation charge of the Company's intangible assets for the year 2015 amounting to EUR 644 836 was included into administrative expenses, EUR 93 572 – into other technical expenses, EUR 39 149 – into claim handling expenses, EUR 14 521 – into acquisition expenses, and EUR 6 158 – into expenses from investing activities (in 2014 – EUR 456 274, EUR 61 237, EUR 46 693, EUR 5 139 and EUR 5 641 respectively).

Goodwill was restated in accordance with the IFRS requirements. The adjustment was made as of 1 January 2015. The negative result of restatement comprises EUR 21 867 136 (Note 23 for more information).

Goodwill is related to the acquisition of Codan Forsikring A/S Estonian branch in 2014. The goodwill was recognised in the amount of EUR 29 432 136 as of 31 December 2014. On 31 May 2015, after the disposal of the Estonian branch, part of goodwill was written off. Goodwill is measured in accordance with the IFRSs requirements and accounting adjustments are made applying IFRS 1. Goodwill impairment must be reflected to the equity in amount of EUR 21 867 136 in 2014. The price of disposal of the Estonian branch was estimated at the beginning of 2015 by the report. The price was set in amount of EUR 7.6 million. Goodwill impairment shall be reflected for 2014.

As the Estonian branch was disposed in 2015, in accordance with BAS goodwill was amortised in amount of EUR 826 745 in 2015. Goodwill is not amortised in accordance with IFRS. The Company reversed the amortisation expenses in the amount of EUR 826 745. It has a positive effect on the result for 2015.

The investment negative result is reversed in the amount of EUR 21 040 391. It is related to goodwill impairment in 2014.

2. Property and equipment

The movement of non-current assets, except for investment, for the year ended 31 December 2016, was:

Items	Asset category				Total
	Office equipment	Vehicles	Other assets	Property	
Acquisition cost					
At the beginning of the accounting period	*983 935*	*-*	*145 168*	*1 833 593*	*2 962 696*
Assets acquired	404 441		272 063	20 122	696 626
Business combination (Note 27)	1 205 569	826 044	209 337	26 726	2 267 676
Assets disposed (-)		(75 712)	(16 543)	(120 862)	(213 117)
Assets written off (-)	(129 637)		(56 336)		(185 973)
Transfers between captions +/(-)					
At the end of the accounting period	*2 464 308*	*750 332*	*553 689*	*1 759 579*	*5 527 908*
Revaluation					
At the beginning of the accounting period				*(48 251)*	*(48 251)*
Increase in value					
Business combination (Note 27)				1 565	1 565
Decrease in value (-)				(3 032)	(3 032)
Change in revaluation result on disposals +/(-)				27 156	27 156
At the end of the accounting period				*(22 562)*	*(22 562)*
Accumulated depreciation					
At the beginning of the accounting period	*579 660*	*-*	*115 793*	*568 593*	*1 264 046*
Charge of the year	238 027	1 611	59 508	35 164	334 310
Business combination (Note 27)	780 833	781 277	86 524	20 506	1 669 140
Reversals of depreciation after disposals (+)		(44 183)	(16 541)	(42 871)	(103 595)
Reversals of depreciation after write-off (+)	(112 934)		(2 200)		(115 134)
Transfers between captions +/(-)					
At the end of the accounting period	*1 485 586*	*738 705*	*243 084*	*581 392*	*3 048 767*
Net book value					
At the beginning of the accounting period	*404 275*	*-*	*29 375*	*1 216 749*	*1 650 399*
At the end of the accounting period	*978 722*	*11 627*	*310 605*	*1 155 625*	*2 456 579*

As of 31 December 2016 and 2015, the Company had no assets acquired under finance lease agreements.

The depreciation charge of the Company's non-current tangible assets for the year 2016 amounting to EUR 270 477 was included into administrative expenses, EUR 23 876 – into acquisition expenses, EUR 4 793 – into claim handling expenses, EUR 81 – into expenses from investing activities (in 2015 – EUR 207 029, EUR 37 035, EUR 10 728 and EUR 81, respectively).

The depreciation charge of the Company's real estate, including the depreciation of revalued share of buildings, for the year 2016 was included: EUR 19 934 – into acquisition expenses, EUR 17 935 – into administrative expenses, EUR 1 320 – into claim handling expenses (in 2015 – EUR 18 211, EUR 17 746 and EUR 1 320, respectively).

Business combination: more detailed information in Note 27.

The movement of non-current assets, except for investment, for the year ended 31 December 2015, was:

Items	Asset category			Total
	Office equipment	Other assets	Property	
Acquisition cost				
At the beginning of the accounting period	*1 365 296*	*487 341*	*1 803 872*	*3 656 509*
Assets acquired	306 771	25 089	29 721	361 581
Business disposal (Note 27)	(182 255)	(56 119)		(238 374)
Assets disposed (-)				
Assets written off (-)	(505 877)	(311 143)		(817 020)
Transfers between captions +/(-)				
At the end of the accounting period	*983 935*	*145 168*	*1 833 593*	*2 962 696*
Revaluation				
At the beginning of the accounting period	-	-	*(45 396)*	*(45 396)*
Increase in value				
Decrease in value (-)			(2 855)	(2 855)
Change in revaluation result on disposals +/(-)				
At the end of the accounting period	-	-	*(48 251)*	*(48 251)*
Accumulated depreciation				
At the beginning of the accounting period	*825 845*	*356 730*	*534 171*	*1 716 746*
Charge of the year	207 649	47 224	34 422	289 295
Business disposal (Note 27)	(66 004)	(28 299)		(94 303)
Reversals of depreciation after disposals (+)				
Reversals of depreciation after write-off (+)	(387 830)	(259 862)		(647 692)
Transfers between captions +/(-)				
At the end of the accounting period	*579 660*	*115 793*	*568 593*	*1 264 046*
Net book value				
At the beginning of the accounting period	*539 451*	*130 611*	*1 224 305*	*1 894 367*
At the end of the accounting period	*404 275*	*29 375*	*1 216 749*	*1 650 399*

As of 31 December 2015 and 2014, the Company had no assets acquired under finance lease agreements.

The depreciation charge of the Company's non-current tangible assets for the year 2015 amounting to EUR 207 029 was included into administrative expenses, EUR 37 035 – into acquisition expenses, EUR 10 728 – into claim handling expenses, EUR 81 – into expenses from investing activities (in 2014 – EUR 157 055, EUR 50 652, EUR 12 250 and EUR 139, respectively).

The depreciation charge of the Company's real estate, including the depreciation of revalued share of buildings, for the year 2015 was included: EUR 18 211 – into acquisition expenses, EUR 17 746 – into administrative expenses, EUR 1 320 – into claim handling expenses (in 2014 – EUR 18 115, EUR 18 047 and EUR 1 273, respectively).

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

EUR	Fair value, 31/12/2016	Cost, 31/12/2016	Fair value, 31/12/2015	Cost, 31/12/2015
Government bonds of Lithuania	23 203 962	23 338 521	-	-
Equity securities of Lithuania	-	-	876 098	514 297
Government bonds of Latvia	198 060	200 017	-	-
Government bonds of Poland	5 116 089	5 068 664	-	-
Equity securities of Poland	-	-	2 895 383	3 496 275
Government bonds of Czech Republic	3 862 103	3 877 791	-	-
Government bonds of Finland	1 983 181	2 015 396	-	-
Luxembourg funds	22 290 770	21 736 015	-	-
Government bonds of the Netherlands	1 913 342	1 918 361	-	-
Bonds of Hungary	-	-	36 406	23 245
Total	**58 567 507**	**58 154 765**	**3 807 887**	**4 033 817**

EUR	Fair value, 01/01/2015	Cost, 01/01/2015
Equity securities of Lithuania	900 909	514 297
Investment fund of Lithuania	393 315	401 367
Government bonds of Latvia	-	-
Government bonds of Poland	2 939 072	3 110 073
Equity securities of Poland	921 300	489 323
Investment fund of United Kingdom	3 456 613	3 562 646
Bonds of Hungary	37 096	23 245
Total	**8 648 305**	**8 100 951**

All securities are attributed to Level 1 of the fair value hierarchy except for Luxembourg funds which are attributed to Level 2.

Movement of assets in 2016 and 2015:

Items	Amounts, EUR
Balance as of 1 January 2015	**8 648 305**
Assets acquired	18 450 525
Assets disposed	(23 717 488)
Increase/decrease in value	426 545
Balance as of 31 December 2015	**3 807 887**
Assets acquired	42 526 743
Assets disposed	(3 308 839)
Increase/decrease in value	(526 867)
Business combination (Note 27)	16 068 583
Balance as of 31 December 2016	**58 567 507**

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

EUR	Amortised cost, 31/12/2016	Fair value, 31/12/2016	Amortised cost, 31/12/2015	Fair value, 31/12/2015
Government bonds of Lithuania	15 264 307	14 485 167	11 235 374	10 946 580
Government bonds of Latvia	12 965 028	12 233 526	-	-
Corporate and Government bonds of Poland	10 737 704	10 725 026	11 432 361	11 310 769
Government bonds of Croatia	1 639 842	1 647 508	1 690 262	1 700 777
Government bonds of Romania	-	-	5 255 285	5 249 481
Government bonds of Slovenia	-	-	2 091 384	2 121 686
Sweden corporate bonds	-	-	4 071 442	3 967 346
Government bonds of Hungary	-	-	3 410 111	3 103 710
Total	**40 606 881**	**39 091 227**	**39 186 219**	**38 400 349**

EUR	Amortised cost, 01/01/2015	Fair value, 01/01/2015
Government bonds of Lithuania	24 889 022	24 082 340
Government bonds of Poland	8 887 368	8 703 557
Government bonds of Croatia	5 226 455	5 039 117
Government bonds of Romania	3 260 862	3 185 290
Government bonds of Slovenia	2 460 656	2 353 867
Sweden corporate bonds	2 967 011	2 845 608
Government bonds of Hungary	3 384 951	3 103 710
Total	**51 076 325**	**49 313 489**

All securities are attributed to Level 1 of the fair value hierarchy except for Luxembourg funds which are attributed to Level 2.

Movement of assets in 2016 and 2015:

Items	Amounts, EUR
Balance as of 1 January 2015	**51 076 325**
Assets acquired	11 622 399
Assets disposed	(24 719 333)
Increase/decrease in value	1 206 828
Balance as of 31 December 2015	**39 186 219**
Assets acquired	10 956 500
Assets disposed	(35 733 008)
Increase/decrease Value	664 434
Business combination (Note 27)	25 532 736
Balance as of 31 December 2016	**40 606 881**

5. Term deposits in credit institutions

Country	Carrying amount, 31/12/2016	Fair value, 31/12/2016	Carrying amount, 31/12/2015	Fair value, 31/12/2015
Lithuania	913 745	913 745	9 728 764	9 728 764
Latvia	14 271 532	14 271 532	-	-
Total	**15 185 277**	**15 185 277**	**9 728 764**	**9 728 764**

Country	Carrying amount, 01/01/2015	Fair value, 01/01/2015
Lithuania	20 666 778	20 666 778
Latvia	-	-
Total	**20 666 778**	**20 666 778**

As of 31 December 2016, gross maximum credit risk equalled the Company's net maximum credit risk and amounted to EUR 15 185 277 (2015: EUR 9 728 764).

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 2016 and 2015:

Items	Amounts, EUR
Balance as of 1 January 2015	**20 666 778**
Assets acquired	18 900 000
Assets disposed	(29 909 792)
Increase/decrease in value	71 778
Balance as of 31 December 2015	**9 728 764**
Assets acquired	300 000
Assets disposed	(11 571 442)
Increase/decrease in value	16 826
Business combination (Note 27)	16 711 129
Balance as of 31 December 2016	**15 185 277**

6. Amounts receivable

As of 31 December 2016 amounts receivable comprised:

Amounts receivable	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	18 879 860	(1 264 524)	17 615 336
from policyholders	17 154 891	(834 001)	16 320 890
from intermediaries	1 724 969	(430 523)	1 294 446
Receivables from reinsurance operations:	361 873	(198 445)	163 428
from reinsurers	361 873	(198 445)	163 428
Other receivables	1 636 221	(2 338)	1 633 883
Total	**20 877 954**	**(1 465 307)**	**19 412 647**

As of 31 December 2016, other amounts receivable consist of receivables for claims paid amounting to EUR 354 646 and other amounts receivable in the amount of EUR 107 354.

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

Expected cumulative receivable payment pattern is estimated from recoveries triangles based on the Company's 5 years empirical data. Recovery factors calculated from these triangles are used to estimate receivable amounts.

For present value calculation, the risk free interest rate by EIOPA as of 31 December 2016 and the prudence coefficient of 75% (precautionary principle) were applied.

	Gross, EUR
Allowance as of 31 December 2014	**(616 154)**
Increase of allowance	(25 028)
Allowance as of 31 December 2015	**(641 182)**
Decrease of allowance	214 564
Business combination (Note 27)	(1 038 689)
Allowance as of 31 December 2016	**(1 465 307)**

As of 31 December 2015 amounts receivable comprised:

Amounts receivable	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	8 963 180	(636 073)	8 327 107
from policyholders	8 689 414	(613 170)	8 076 244
from intermediaries	273 766	(22 903)	250 863
Receivables from reinsurance operations:	228 745	-	228 745
from reinsurers	228 745	-	228 745
Other receivables	1 108 700	(5 109)	1 103 591
Total	**10 300 625**	**(641 182)**	**9 659 443**

As of 31 December 2015, other amounts receivable consist of receivables for claims paid amounting to EUR 36 825 and other amounts receivable in the amount of EUR 415.

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

Expected cumulative receivable payment pattern is estimated from recoveries triangles based on the Company's 5 years empirical data. Recovery factors calculated from these triangles are used to estimate receivable amounts.

For present value calculation, maximum technical interest rate of 0.86% (established by the Bank of Lithuania) as of 31 December 2015 and the prudence coefficient of 75% (precautionary principle) were applied.

As of 1 January 2015 amounts receivable comprised:

Amounts receivable	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	19 734 642	(581 110)	19 153 532
from policyholders	17 623 959	(551 097)	17 072 862
from intermediaries	2 110 683	(30 013)	2 080 670
from other	782 966	-	782 966
Receivables from reinsurance operations:	251 429	-	251 429
from reinsurers	251 429	-	251 429
Other receivables	1 067 930	(35 044)	1 032 886
Total	**21 054 001**	**(616 154)**	**20 437 847**

As of 1 January 2015, other amounts receivable consisted of receivables for claims paid amounting to EUR 218 947, commissions for intermediation receivable of EUR 10 528 and other amounts receivable in the amount of EUR 20 445.

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

Expected cumulative receivable payment pattern is estimated from recoveries triangles based on the Company's 5 years empirical data. Recovery factors calculated from these triangles are used to estimate receivable amounts.

Receivable subrogations and recoveries were presented as other receivables from insurance activity. To calculate these amounts, the discount rate of 1.53% and the prudence coefficient of 75% were applied.

7. Current accounts and cash on hand

Items	31/12/2016	31/12/2015	01/01/2015
Current accounts at banks	11 392 337	3 288 536	5 133 015
Total	**11 392 337**	**3 288 536**	**5 133 015**

As of 31 December 2016 and 2015, the Company had no term deposits with maturity less than 3 months.

As of 31 December 2016, cash deposited in SEB bank AB for issued guarantees amounted to EUR 60 773 (as of 31 December 2015 – EUR 65 949); no other restrictions were imposed on bank accounts.

8. Accrued income and deferred expenses

Items	31/12/2016	31/12/2015	01/01/2015
Deferred acquisition costs of non-life insurance:			
Commissions of direct insurance	8 386 907	3 902 057	7 738 015
Total non-life insurance deferred acquisition costs	8 386 907	3 902 057	7 738 015
Deferred expenses:			
Deferred expenses of admission fee to Motor Insurers' Bureau of the Republic of Lithuania	313 887	185 194	267 488
Deferred commission	2 727 778	153 682	273 367
Other deferred expenses	244 339	116 085	189 766
Total deferred expenses	3 286 004	454 961	730 621
Total accrued income and deferred expenses	**11 672 911**	**4 357 018**	**8 468 636**

Deferred commissions consist of in the advance paid commissions by the warranties period extension insurance contracts, which will not be valid at the end of the financial period; however, they are paid. The Company took over the amount of deferred commissions from Gjensidige Baltic AAS in the amount of EUR 2 053 606 by the legal merger.

Movement of deferred acquisition costs:

Items	Deferred acquisition costs
31 December 2014	**7 738 015**
Business disposal (Note 27)	(3 990 495)
Written commissions (Note 17)	11 512 100
Amortisation of deferred acquisition costs	(11 357 563)
31 December 2015	**3 902 057**
Written commissions (Note 17)	13 931 408
Amortisation of deferred acquisition costs	(12 389 519)
Business combination (Note 27)	2 942 961
31 December 2016	**8 386 907**

As of 31 December 2016 and 2015, deferred acquisition costs according to the types of insurance comprise:

Insurance groups	31/12/2016	31/12/2015	01/01/2015
1. Medical expenses insurance	609 759	195 936	211 394
2. Income protection insurance	413 743	284 452	299 244
3. Working accident insurance	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	1 698 028	781 915	1 589 384
5. Other vehicle insurance	1 838 425	892 904	2 519 048
6. Maritime, air and land vehicle insurance	35 869	37 861	44 107
7. Insurance against fire and other damage to property	3 245 042	1 429 161	2 550 873
8. General liability insurance	293 358	151 790	260 106
9. Credit and suretyship insurance	135 264	46 254	113 978
10. Legal expenses insurance	-	-	-
11. Assistance insurance	100 545	60 581	28 842
12. Financial losses insurance	16 874	21 203	121 039
Total	**8 386 907**	**3 902 057**	**7 738 015**

9. Share capital and reserves

Share capital

As of 31 December 2016 the share capital of the Company amounted to EUR 47 184 339 (31 December 2015: EUR 13 001 174 and 31 December 2014: EUR 51 087 380). 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 2016 and 2015.

	31/12/2016		31/12/2015	
	Amount	**EUR**	**Amount**	**EUR**
Ordinary shares with voting rights	6 402 217	47 184 339	1 764 067	13 001 174

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

Company's shareholders	31/12/2016		31/12/2015	
	Number of shares	**% of share capital**	**Number of shares**	**% of share capital**
Gjensidige Forsikring	6 400 091	99.97	1 761 941	99.88
Private persons	2 126	0.03	2 126	0.12
Total	**6 402 217**	**100**	**1 764 067**	**100**

In March 2016, based on the decision of the General Shareholders Meeting, the share capital was increased by issuing 1 350 000 new ordinary registered shares with the par value of EUR 7.37 each. The amount of the increase is EUR 9 949 500.

On 31 October 2016, the authorised share capital was increased by exchanging 225 000 ordinary shares of Gjensidige Baltic AAS for 3 288 150 ordinary shares of Gjensidige ADB with the par value of EUR 7.37 each. The capital increased by EUR 24 233 665.

On 29 October 2015, based on the decision of the General Shareholders Meeting, the share capital was reduced to eliminate the losses recorded in the Company's statement of financial position. The par value per share was reduced from EUR 28.96 to EUR 7.37.

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 2016 and 2015, 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 surpluses of the issued shares. There were no changes in the amount of share premium in 2016.

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.

10. Technical provisions

10.1. Unearned premium technical provision

The change of unearned premium technical provisions in 2016 and 2015 is as follows:

Captions	31/12/2016			31/12/2015		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Balance at the beginning of the period	*23 152 700*	*(514 817)*	*22 637 883*	*44 749 477*	*(1 834 249)*	*42 915 228*
Change in provision for unearned premiums	8 024 337	614 539	8 638 876	(1 839 375)	401 734	(1 437 641)
Business combination (Note 27)	21 325 891	(611 134)	20 714 757	(19 757 402)	917 698	(18 839 704)
Balance at the end of the period	*52 502 928*	*(511 412)*	*51 991 516*	*23 152 700*	*(514 817)*	*22 637 883*

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

Insurance groups	31/12/2016			31/12/2015		
	Gross	Reinsu-rance share	Net	Gross	Reinsu-rance share	Net
1. Medical expenses insurance	5 849 329	-	5 849 329	1 224 846	-	1 224 846
2. Income protection insurance	1 741 622	-	1 741 622	1 119 535	-	1 119 535
3. Working accident insurance	-	-	-	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	15 551 117	-	15 551 117	6 513 122	-	6 513 122
5. Other vehicle insurance	12 584 706	-	12 584 706	5 789 180	(3 849)	5 785 331
6. Maritime, air and land vehicle insurance	254 046	-	254 046	286 792	-	286 792
7. Insurance against fire and other damage to property	12 799 727	-	12 799 727	6 047 589	(100 667)	5 946 922
8. General liability insurance	1 793 486	(1 451)	1 792 035	1 208 471	(283 535)	924 936
9. Credit and suretyship insurance	1 224 911	(509 961)	714 950	422 709	(126 766)	295 943
10. Legal expenses insurance	-	-	-	-	-	-
11. Assistance insurance	619 942	-	619 942	399 000	-	399 000
12. Financial losses insurance	84 042	-	84 042	141 456	-	141 456
Total	**52 502 928**	**(511 412)**	**51 991 516**	**23 152 700**	**(514 817)**	**22 637 883**

Insurance groups	01/01/2015		
	Gross	Reinsurance share	Net
1. Medical expenses insurance	1 307 994	-	1 307 994
2. Income protection insurance	1 207 043	-	1 207 043
3. Working accident insurance	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	11 914 547	(25 708)	11 888 839
5. Other vehicle insurance	14 550 420	(143 844)	14 406 576
6. Maritime, air and land vehicle insurance	323 609	(82)	323 527
7. Insurance against fire and other damage to property	11 605 946	(552 365)	11 053 581
8. General liability insurance	1 973 154	(493 592)	1 479 562
9. Credit and suretyship insurance	943 920	(282 780)	661 140
10. Legal expenses insurance	-	-	-
11. Assistance insurance	194 367	-	194 367
12. Financial losses insurance	728 477	(335 878)	392 599
Total	**44 749 477**	**(1 834 249)**	**42 915 228**

The increase of the Company's formed technical provisions as of 31 December 2016 compared to 31 December 2015 appeared due to the merger of Gjensidige Baltic AAS (EUR 20 714 757) to Gjensidige ADB. See Note 27 for more information.

10.2. Outstanding claims technical provisions

The changes of the outstanding claims technical provision in 2016 and 2015:

Captions	31/12/2016			31/12/2015		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
At the beginning of the accounting period	*30 742 082*	*(11 310 284)*	*19 431 798*	*33 438 572*	*(4 296 335)*	*29 142 237*
Change in outstanding claims provision	(986 580)	4 214 675	3 228 095	9 483 234	(8 368 684)	1 114 550
Business combination (Note 27)	27 769 849	(3 213 541)	24 556 308	(12 179 724)	1 354 735	(10 824 989)
At the end of the accounting period	*57 525 351*	*(10 309 150)*	*47 216 201*	*30 742 082*	*(11 310 284)*	*19 431 798*

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

Insurance groups	31/12/2016			31/12/2015		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
1. Medical expenses insurance	1 294 682	-	1 294 682	519 764	-	519 764
2. Income protection insurance	633 313	-	633 313	339 865	-	339 865
4. Insurance against civil liability in respect of the use of motor vehicles	42 094 817	(9 452 587)	32 642 230	17 801 397	(6 965 590)	10 835 807
5. Other vehicle insurance	3 425 610	-	3 425 610	1 570 385	-	1 570 385
6. Maritime, air and land vehicle insurance	484 552	-	484 552	367 864	-	367 864
7. Insurance against fire and other damage to property	4 302 259	(64 934)	4 237 325	6 036 331	(3 581 573)	2 454 758
8. General liability insurance	3 526 166	(477 896)	3 048 270	2 588 496	(358 450)	2 230 046
9. Credit and suretyship insurance	1 627 344	(313 733)	1 313 611	1 416 896	(404 671)	1 012 225
11. Assistance insurance	104 980	-	104 980	52 545	-	52 545
12. Financial losses insurance	31 628	-	31 628	48 539	-	48 539
Total	**57 525 351**	**(10 309 150)**	**47 216 201**	**30 742 082**	**(11 310 284)**	**19 431 798**

Insurance groups	01/01/2015		
	Gross	Reinsurance share	Net
1. Medical expenses insurance	535 966	-	535 966
2. Income protection insurance	603 579	-	603 579
3. Working accident insurance	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	19 357 035	(2 980 013)	16 377 022
5. Other vehicle insurance	3 274 687	(34 090)	3 240 597
6. Maritime, air and land vehicle insurance	709 696	-	709 696
7. Insurance against fire and other damage to property	5 292 055	(391 683)	4 900 372
8. General liability insurance	2 325 305	(509 740)	1 815 565
9. Credit and suretyship insurance	1 112 723	(317 566)	795 157
11. Assistance insurance	16 207	-	16 207
12. Financial losses insurance	211 319	(63 243)	148 076
Total	**33 438 572**	**(4 296 335)**	**29 142 237**

As of 31 December 2016 and 2015, the structure of non-life insurance outstanding claims technical provision comprised:

Components of outstanding claims provision	31/12/2016	31/12/2015	01/01/2015
Reported but not settled claims	42 724 990	25 168 879	25 384 053
Incurred but not reported claims	13 620 270	5 101 694	6 976 558
Claims handling expenses	3 809 837	1 619 531	2 229 730
Estimated subrogation receivable	(2 629 746)	(1 148 022)	(1 151 769)
Reinsurance share within reported not settled claims	(10 366 221)	(11 376 472)	(3 668 013)
Reinsurance share within incurred not reported	(6 648)	(17 697)	(696 798)
Reinsurance share within claims handling expenses	(157 668)	(183 169)	(149 753)
Reinsurance share within estimated subrogation	221 387	267 054	218 229
Total	**47 216 201**	**19 431 798**	**29 142 237**

10.3. Unexpired risk technical provision

The amounts of unexpired risk technical provision (hereinafter – "URTP") in 2016 and 2015:

Items	URTP		
	31/12/2016	31/12/2015	01/01/2015
Insurance	5 347 115	4 088 992	3 211 077
Reinsurance	-	-	-
Total	**5 347 115**	**4 088 992**	**3 211 077**

The specification of URTP by insurance groups is provided in the table below:

Insurance groups	URTP		
	31/12/2016	31/12/2015	01/01/2015
1. Medical expenses insurance	248 410	109 219	153 580
2. Income protection insurance	549	31 080	-
3. Working accident insurance	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	2 431 356	1 645 493	1 336 773
5. Other vehicle insurance	1 328 436	1 080 284	1 110 486
6. Maritime, air and land vehicle insurance	4 586	38 302	-
7. Insurance against fire and other damage to property	1 325 434	1 184 614	591 487
8. General liability insurance	8 344	-	914
12. Financial losses insurance	-	-	17 837
Total	**5 347 115**	**4 088 992**	**3 211 077**

10.4. Movement of non-life insurance technical provisions

Movement of non-life insurance technical provisions in 2016 and 2015:

Items	Unearned premium provision	Outstanding claims provision	Provision for unexpired risk	Bonuses and rebates provision	Total
Gross amount					
31 December 2014	*44 749 477*	*33 438 572*	*3 211 077*	-	*81 399 126*
Change over the period	(1 839 375)	9 483 234	2 150 100	-	9 793 959
Business disposal (Note 27)	(19 757 402)	(12 179 724)	(1 272 185)	-	(33 209 311)
31 December 2015	*23 152 700*	*30 742 082*	*4 088 992*	-	*57 983 774*
Change over the period	8 024 338	(986 581)	1 258 123	-	8 295 880
Business combination (Note 27)	21 325 890	27 769 850	-	-	49 095 740
31 December 2016	***52 502 928***	***57 525 351***	***5 347 115***	-	***115 375 394***
Reinsurance share					
31 December 2014	*(1 834 249)*	*(4 296 335)*	-	-	*(6 130 584)*
Change over the period	401 734	(8 368 684)	-	-	(7 966 950)
Business disposal (Note 27)	917 698	1 354 735	-	-	2 272 433
31 December 2015	*(514 817)*	*(11 310 284)*	-	-	*(11 825 101)*
Change over the period	614 539	4 214 675	-	-	4 829 215
Business combination (Note 27)	(611 134)	(3 213 541)	-	-	(3 824 675)
31 December 2016	***(511 412)***	***(10 309 150)***	-	-	***(10 820 562)***
Net amount					
31 December 2015	***22 637 883***	***19 431 798***	***4 088 992***	-	***46 158 673***
31 December 2016	***51 991 516***	***47 216 201***	***5 347 115***	-	***104 554 833***

11. Other liabilities

Captions	31/12/2016	31/12/2015	01/01/2015
Liabilities arising out from direct insurance operations:	7 720 956	2 077 541	6 432 651
Liabilities to policyholders	1 934 683	776 347	3 491 091
Liabilities to intermediaries	512 427	156 727	869 668
Other creditors arising out from direct insurance operations	5 273 846	1 144 467	2 071 892
Liabilities arising out from reinsurance operations	499 243	395 607	1 908 669
Liabilities to reinsurers	499 243	395 607	1 908 669
Liabilities to intermediaries	-	-	-
Taxes, social security contributions and other liabilities:	1 782 456	1 161 006	2 110 888
Taxes	167 556	183 023	383 782
Social security contributions	473 465	262 107	472 848
Salaries	200 884	111 428	306 523
Other	940 551	604 448	947 735
Total	**10 002 655**	**3 634 154**	**10 452 208**

As a result of taking over of liabilities amounting to EUR 6 119 648 from Gjensidige Baltic AAS on 31 October 2016, other liabilities increased if compared to 2015. For more information see Note 27.

As a result of transferred liabilities amounting to EUR 3 118 193 to Balta AAS and Lietuvos draudimas AB on 31 May 2015, other liabilities decreased if compared to 1 January 2015. For more information see Note 27.

On 25 September 2014 the Company received a subordinated loan of EUR 46 000 000 from PZU S.A. The loan balance as of 31 December 2014 was EUR 8 766 453, payable interest – EUR 39 306. The loan interest rate was 3-month EURIBOR plus margin. The part of the loan amounting to EUR 37 million was offset with the price of new shares emission. The loan was repaid together with accrued interest on 15 July 2015.

12. Provisions

Items	Relocation	Restructuring	Total
At the beginning of the accounting period as of 1 January 2015	-	-	-
New provisions	780 000	-	**780 000**
At the end of the accounting period as of 31 December 2015	**780 000**	-	**780 000**
Business combination (Note 27)	350 000	850 000	1 200 000
New provisions	-	438 456	438 456
Provisions used during the year	(428 000)	(347 401)	(775 401)
Provisions reversed during the year	-	-	-
At the end of the accounting period as of 31 December 2016	**702 000**	**941 055**	**1 643 055**

As a result of taking over of provisions amounting to EUR 1 200 000 from Gjensidige Baltic AAS on 31 October 2016, provisions increased if compared to 2015. For more information see Note 27.

Relocation reserve

During 2015, the Company set to a plan to relocate to the new premises due to companies legal merger. Following the announcement of the plan, the Company recognised a provision of EUR 780 000 for expected relocation costs, including contract termination costs, consulting. Estimated costs were based on the terms of the relevant contracts. The relocation was completed in 2016, and EUR 428 000 of the provision was reversed during the year and was included into administrative expenses. The relocation reserve is expected to be completed by December 2017.

During 2016, a provision of EUR 350 000 was taken over from Gjensidige Baltic AAS. The relocation reserve is expected to be completed by January 2017.

Restructuring reserve

During 2016, the Company committed to a plan to restructure the Company's activities due to companies merge achieving the best result. Following the announcement of the plan, the Company recognised a provision of EUR 438 456 for expected restructuring costs, including contract termination costs, consulting fees and employee termination benefits, software changes. Estimated costs were based on the terms of the relevant contracts. The provision of EUR 347 401 was used during the year. During 2016, a provision of EUR 850 000 was taken over from Gjensidige Baltic AAS. The restructuring is expected to be completed by December 2017.

13. Accrued expenses and deferred income

Items	31/12/2016	31/12/2015	01/01/2015
Accrued commissions expenses	3 387 845	1 820 553	2 831 964
Other accrued expenses	3 023 090	449 601	1 082 876
Accrued reinsurance commission	49 656	44 368	135 450
Total	**6 460 591**	**2 314 522**	**4 050 290**

As a result of taking over of liabilities amounting to EUR 2 687 587 from Gjensidige Baltic AAS on 31 October 2016, accrued expenses increased if compared to 2015. For more information see Note 27.

As a result of transferred liabilities amounting to EUR 2 458 874 to Balta AAS and Lietuvos draudimas AB on 31 May 2015, other liabilities decreased if compared to 1 January 2015. For more information see Note 27.

Other accrued expenses consist of the unused vacation reserve – EUR 1 069 602 (EUR 387 724 in 2015), the annual bonus of employees – EUR 825 223 (EUR 0 in 2015), not received invoices of suppliers – EUR 959 794 (EUR 61 877 in 2015), other expenses – EUR 168 471.

14. Results of non-life insurance activities

Country, where insurance agreement was concluded	Premiums written	
	2016	2015
Republic of Lithuania	69 579 564	52 345 514
Other EU countries	6 054 703	16 055 798
Other foreign countries	-	-
Total	**75 634 267**	**68 401 312**

The detailed results of non-life insurance activity in 2016 are presented below:

Items	Premiums written	Premiums earned	Claims paid expenses	Operating expenses	Result of reinsurance activities
Direct insurance	75 634 216	67 608 994	(46 055 451)	(29 114 218)	(5 172 665)
Inward reinsurance	51	936	469	(135)	-
Total	**75 634 267**	**67 609 930**	**(46 054 982)**	**(29 114 353)**	**(5 172 665)**

The non-life insurance results in 2016 by groups of insurance are as follows:

Types of insurance	Premiums written	Premiums earned	Claims paid expenses	Operating expenses	Result of reinsur-ance activities
1. Medical expenses insurance	8 263 282	7 226 116	(4 351 042)	(3 254 026)	(8 826)
2. Income protection insurance	3 267 186	2 896 087	(956 347)	(1 540 007)	(23 210)
3. Working accident insurance	-	-	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	27 314 427	22 988 975	(20 568 500)	(8 913 735)	(1 204 065)
5. Other vehicle insurance	14 511 671	13 579 286	(11 431 062)	(5 649 181)	(430 879)
6. Maritime, air and land vehicle insurance	679 154	792 329	(371 497)	(301 316)	(78 869)
7. Insurance against fire and other damage to property	16 021 881	14 319 565	(7 668 622)	(7 160 753)	(2 647 794)
8. General liability insurance	2 458 403	2 703 874	(213 639)	(1 038 575)	(254 758)
9. Credit and suretyship insurance	1 247 053	1 373 240	327 887	(503 525)	(476 905)
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	1 191 994	984 583	(584 537)	(424 031)	(38 185)
12. Financial losses insurance	679 216	745 875	(237 623)	(329 204)	(9 174)
Total	**75 634 267**	**67 609 930**	**(46 054 982)**	**(29 114 353)**	**(5 172 665)**

The details of non-life insurance results in 2015 are as follows.:

Items	Premiums written	Premiums earned	Claims paid expenses	Operating expenses	Result of reinsur-ance activities
Direct insurance	68 399 332	70 230 329	(55 979 075)	(26 930 600)	4 992 110
Inward reinsurance	1 980	10 358	(15)	(1 461)	(19)
Total	**68 401 312**	**70 240 687**	**(55 979 090)**	**(26 932 061)**	**4 992 091**

The non-life insurance results in 2015 by groups of insurance are as follows:

Types of insurance	Premiums written	Premiums earned	Claims paid expenses	Operating expenses	Result of reinsur-ance activities
1. Medical expenses insurance	4 646 740	4 653 198	(3 365 034)	(2 003 224)	(14 097)
2. Income protection insurance	885 552	848 070	(503 360)	(285 769)	(77 445)
3. Working accident insurance	-	-	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	18 788 977	19 707 147	(20 016 299)	(6 578 353)	4 588 229
5. Other vehicle insurance	17 124 250	17 611 308	(14 352 794)	(6 654 542)	(32 899)
6. Maritime, air and land vehicle insurance	1 111 596	1 057 979	(459 404)	(398 920)	(97 005)
7. Insurance against fire and other damage to property	19 836 605	20 104 597	(14 822 519)	(8 371 737)	1 329 148
8. General liability insurance	1 511 627	1 825 458	(455 953)	(606 238)	(386 348)
9. Credit and suretyship insurance	2 786 558	2 705 769	(1 372 777)	(1 378 417)	(24 892)
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	725 059	508 442	(274 096)	(222 112)	-
12. Financial losses insurance	984 348	1 218 719	(356 854)	(432 749)	(292 600)
Total	**68 401 312**	**70 240 687**	**(55 979 090)**	**(26 932 061)**	**4 992 091**

15. Claim handling expenses

Types of expenses	2016	2015
Wages, salaries and social security	1 534 437	1 790 245
Services of experts, lawyers and other specialists	1 458 232	1 489 671
Repair and maintenance of premises	155 093	132 657
Taxes	127 040	97 616
Information technologies expenses	126 098	138 783
Maintenance of vehicles	74 203	83 370
Communication expenses (post, telephone, internet)	50 528	32 697
Depreciation and amortisation	38 251	51 198
Provisions	34 073	53 280
Trainings and business trips	24 804	19 586
Professional service expenses	14 845	10 790
Expenses for stationery and office maintenance	5 701	16 138
Other	72 004	9 928
Total	**3 715 309**	**3 925 959**

16. Remuneration expenses

The remuneration expenses for employees and agents including social security expenses in 2016 and 2015 are presented below:

Items	2016	2015
Management	845 973	1 325 714
Other employees	9 149 410	11 636 761
Total	**9 995 383**	**12 962 475**

As of 31 December 2016, management consisted of the General Director and 9 second level managers (31 December 2015: General Director and 7 second level managers).

17. Acquisition costs

Types of costs	2016	2015
Commission to organisations	11 519 012	9 098 955
Wages, salaries and social security	4 508 652	3 554 595
Commission to agents and employees	2 412 396	2 413 145
Advertising and marketing expenses	1 421 773	307 178
Repair and maintenance of premises	742 825	729 481
Purchase of blanks and other expenses related to contracts	235 875	130 843
Maintenance of vehicles	231 892	177 856
Representative expenses	214 044	167 772
Taxes and fees, including bank fees	176 967	133 613
Provisions	160 465	17 006
Communication expenses (post, telephone, internet)	84 356	73 443
Trainings and business trips	72 593	52 517
Depreciation and amortisation of non-current assets	47 394	69 766
Information technologies expenses	32 532	139 954
Expenses for stationery and office maintenance	29 690	76 473
Professional service expenses	14 307	45 686
Other	194 830	33 604
Total acquisition costs	**22 099 603**	**17 221 887**
Change in deferred acquisition costs	(1 541 889)	(154 746)
Acquisition costs including the change of deferred acquisition costs	**20 557 714**	**17 067 141**

18. Administrative expenses

Types of commissions	2016	2015
Wages, salaries and social security	3 952 292	5 114 350
Depreciation and amortisation of non-current assets	970 245	869 611
Information technologies expenses	975 585	689 358
Communication expenses (post, telephone, internet)	539 324	370 552
Repair and maintenance of premises	519 291	319 018
Representative expenses	300 111	144 300
Taxes	176 808	29 201
Member fees and fee for Insurance Supervisory Commission	165 797	182 944
Maintenance of vehicles	165 187	209 131
Expenses for stationery and office maintenance	148 749	89 514
Trainings and business trips	127 768	136 747
Audit expenses	95 091	32 845
Charity and support	85 256	79 872
Provisions	79 234	837 436
Professional service expenses	68 946	550 247
Other	186 955	209 794
Total	**8 556 639**	**9 864 920**

19. Other income and expenses

Items	2016	2015
Other income		
Commission fee for mediation	130 833	192 638
Income from insurance contracts termination	184 279	146 711
Commission fee of agent activity	-	31 493
Other income	109 665	26 622
Total	**424 777**	**397 464**
Other expenses		
Motor bureau charge	(725 146)	(678 776)
Subordinated loan interest	-	(163 914)
Bank fees	(53 818)	(38 482)
Other expenses	(97 281)	(198 138)
Total	**(876 245)**	**(1 079 310)**

Obligatory Motor Third Party Liability bureau charges:

Countries	2016	2015
Lithuania	597 633	534 674
Estonia	51 877	118 599
Latvia	75 636	25 503
Total	**725 146**	**678 776**

20. Investment activity income (expenses)

Investment activity results for the years 2016 and 2015:

Items	2016	2015
Investment management expenses	(119 746)	(243 432)
Net interest income	1 208 127	1 426 532
Net gain/losses from financial assets classified at fair value through profit and loss	(475 767)	426 545
Realised investment result from investment activity	(526 867)	(147 926)
Income of real estate	72 231	9 070
The result of transfer of foreign branch	-	289 000
Total	**157 978**	**1 759 789**

21. Income tax and deferred income tax

In 2016, the Company accounted for deferred tax assets of EUR 1 313 733, which was calculated on taxable loss. The Company took over deferred tax assets amounting to EUR 1 142 517 from Gjensidige Baltic AAS.

Items	2016	2015
Current year income tax	-	-
Change in deferred taxes	(224 248)	(3 620)
Total	**(224 248)**	**(3 620)**

Deferred income tax assets and liabilities are attributable to the following items:

Items	31/12/2016	31/12/2015	01/01/2015
Effect from different provisions	408 987	104 658	79 783
Tax losses carried forward	904 746	290 808	319 302
Deferred tax assets, net	**1 313 733**	**395 466**	**399 085**

Attributable to:	31/12/2016	31/12/2015	01/01/2015
Lithuania	706 712	395 466	399 085
Latvia	607 021	-	-
Total deferred tax at the end of the year	**1 313 733**	**395 466**	**399 085**

According to the financial forecast approved by the management, the Company expects to earn taxable profit in 2017 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%, , LR – 64.8%, COR – 96.2% average during the next 3 years.

Estimating the deferred tax assets as of 31 December 2016 from the next 3 years positive results in Lithuania. Deferred tax asset is calculated 30% from the next 3 years of the planned profit. The management estimated that the deferred tax assets will be utilised during the next 3 years.

Estimating the deferred tax assets at 31 December 2016 from the next 3 years positive results in Latvia. Deferred tax asset is calculated 50% from the loss of the tax. The management estimated that the deferred tax assets will be utilised during next 3 years.

Deferred tax assets are 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 flow 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.

Calculation of income tax based on the Company's tax expenses applying the income tax rate set by the legislation:

Items	31/12/2016	31/12/2015
Profit (loss) before income tax	(14 348 822)	(8 882 542)
Non-taxable income	539 155	(2 588 379)
Non-deductible expenses	3 789 284	7 305 449
Taxable (loss) profit for the financial year	(10 020 383)	(4 165 472)
Income tax for the accounting period in profit or loss	-	-

22. Transactions with related parties

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

The transactions with related parties during 2016 and 2015 are as follows:

Items	31/12/2016	31/12/2015
Reinsurance premiums written, Gjensidige Forsikring ASA	2 638 579	358 695
Income from commissions for the outward reinsurance from Gjensidige Forsikring ASA	143 877	19 578
Claims paid expenses paid to Gjensidige group companies	292 776	165 391
Claim handling expenses – Gjensidige group companies	308 664	17 034
Investment expenses paid to Gjensidige Forsikring ASA	12 779	-
Amount payable to Gjensidige Forsikring ASA (reinsurance)	488 050	50 937
Receivable from Gjensidige Forsikring ASA (reinsurance)	45 177	-
Other expenses – Gjensidige Baltic AAS	26 184	-
Commissions expenses to Gjensidige Baltic AAS	1 272 621	-
Revenue from rent and services agreements with Gjensidige Baltic AAS	72 231	-
Amount receivable from Gjensidige Forsikring ASA	2 273	-
Board members expenses and etc.	-	-

Related parties:
Gjensidige Forsikring ASA
Gjensidige Baltic AAS until 31 October 2016

Amounts receivable from the Company's management and related parties as of 31 December 2016 comprised:

Amounts receivable	Total amount	Doubtful amounts receivable	Carrying amount
Amounts receivable from the Company's management	-	-	-
Amounts receivable from other related parties	45 177	-	45 177
Total	**45 177**	**-**	**45 177**

Liabilities to related parties as of 31 December 2016 and 2015 are presented below:

Creditors	Amounts	
	2016	2015
Liabilities to subsidiaries and associates	-	-
Liabilities to the management	-	-
Liabilities to other related parties	488 050	50 937
Total	**488 050**	**50 937**

23. Transition to IFRS

23.1. STATEMENT OF FINANCIAL POSITION

ASSETS	01/01/2015 (Local GAAP)	Error correction	Effect of transition to IFRS	01/01/2015 (IFRS)	31/12/2015 (Local GAAP)	Effect of transition to IFRS	31/12/2015 (IFRS)
Property and equipment	1 894 367	-	-	1 894 367	1 650 399	-	1 650 399
Intangible assets	32 876 669	(21 040 391)	(826 745)	11 009 533	1 060 125		1 060 125
Total non-financial assets	**34 771 036**	**(21 040 391)**	**826 745**	**12 903 900**	**2 710 524**	**-**	**2 710 524**
Total financial investments	**80 391 408**	**-**	**-**	**80 391 408**	**52 722 870**	**-**	**52 722 870**
Total loans and receivables	**20 437 847**	**-**	**-**	**20 437 847**	**9 659 443**	**-**	**9 659 443**
Total accrued income and deferred expenses	**8 468 637**	**-**	**-**	**8 468 637**	**4 357 018**	**-**	**4 357 018**
Deferred tax asset	399 085	-	-	399 085	395 466	-	395 466
Corporate income tax asset	-	-	-	-	14 696	-	14 696
Advance payments	138 299	-	-	138 299	144 287	-	144 287
Total reinsurance assets	**6 130 584**	**-**	**-**	**6 130 584**	**11 825 101**	**-**	**11 825 101**
Cash and cash equivalents	**5 133 015**	**-**	**-**	**5 133 015**	**3 288 536**	**-**	**3 288 536**
TOTAL ASSETS	**155 869 911**	**(21 040 391)**	**826 745**	**134 002 775**	**85 117 941**	**-**	**85 117 941**

STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY	01/01/2015 (Local GAAP)	Error correction	Influence of IFRS	01/01/2015 (IFRS)	31/12/2015 (Local GAAP)	Error correction	Influence of IFRS	31/12/2015 (IFRS)
Equity								
Share capital	51 087 380	-	-	51 087 380	13 001 174	-	-	13 001 174
Share premium	12 453 661	-	-	12 453 661	12 453 661	-	-	12 453 661
Reserve of revaluation	80 823	-	-	80 823	74 885	-	-	74 885
Retained earnings carried forward from previous years	(8 035 320)	(21 040 391)	-	(29 075 711)	25 629 069	(21 867 136)	-	3 761 933
Profit (loss) of the reporting period	(4 424 016)	-	(826 745)	(5 250 761)	(30 753 298)	21 867 136	-	(8 886 162)
Total equity	**51 162 528**	**-**	**-**	**29 295 392**	**20 405 491**	**-**	**-**	**20 405 491**
Financing (grants and subsidies)	**8 805 759**	**-**	**-**	**8 805 759**	**-**	**-**	**-**	**-**
Total insurance liabilities	**81 399 126**	**-**	**-**	**81 399 126**	**57 983 774**	**-**	**-**	**57 983 774**
Total creditors	**10 452 208**	**-**	**-**	**10 452 208**	**3 634 154**	**-**	**-**	**3 634 154**
Provisions	**-**	**-**	**-**	**-**	**780 000**	**-**	**-**	**780 000**
Accrued expenses and deferred income	**4 050 290**	**-**	**-**	**4 050 290**	**2 314 522**	**-**	**-**	**2 314 522**
Total liabilities	**104 707 383**	**-**	**-**	**104 707 383**	**64 712 450**	**-**	**-**	**64 712 450**
TOTAL LIABILITIES AND EQUITY	**155 869 911**	**-**	**826 745**	**134 002 775**	**85 117 941**	**-**	**-**	**85 117 941**

23.2. STATEMENT OF COMPREHENSIVE INCOME

	2015 (Local GAAP)	Error correction	Influence of IFRS	2015 (IFRS)
Earned premiums	**65 745 087**	**-**	**-**	**65 745 087**
Claims incurred, net	**(46 829 750)**	**-**	**-**	**(46 829 750)**
Bonuses and rebates, net of reinsurance	**-**	**-**	**-**	**-**
Change in unexpired risk technical reserves	**(2 150 100)**	**-**	**-**	**(2 150 100)**
Net operating expenses	**(26 593 710)**	**-**	**-**	**(26 593 710)**
Client acquisition costs	(17 221 887)	-	-	(17 221 887)
Change in deferred client acquisition costs	154 746	-	-	154 746
Administrative expenses	(9 864 920)	-	-	(9 864 920)
Reinsurance commission income and profit share	338 351	-	-	338 351
Investment management expenses	(243 432)	-	-	(243 432)
Net interest income	1 426 532	-	-	1 426 532
Net gain/losses from financial assets classified at fair value through profit and loss	426 545	-	-	426 545
Realised investment result from investment activity	(147 926)	-	-	(147 926)
Income of real estate	9 070	-	-	9 070
The result of transfer of foreign branch	(20 751 391)	21 040 391	-	289 000
Foreign exchange revaluation loss	(132 012)	-	-	(132 012)
Impairment	-	-	-	-
Other income	397 464	-	-	397 464
Other expenses	(1 906 055)	-	826 745	(1 079 310)
Profit before corporate income tax	**(30 749 678)**	**21 867 136**	**826 745**	**(8 882 542)**
Corporate income tax	-	-	-	-
Change in deferred income tax	(3 620)	-	-	(3 620)
Profit/(loss) of the reporting year	**(30 753 298)**	**21 867 136**	**826 745**	**(8 886 162)**

Having assessed the differences between Lithuanian Business Accounting Standards and IFRSs EU, goodwill amortisation was adjusted respectively. According to Lithuanian accounting standards, goodwill is amortised, as to IFRS, no amortisation costs are allowed.

Additionally, as of 1 January 2015 the local GAAP statement of financial position of the Company included goodwill amounting to EUR 29 million which was recognised in 2014 as a result of the acquisition of Codan Forsikring A/S Estonia branch. Codan Forsikring A/S Estonia branch was subsequently sold in 2015 to Lietuvos draudimas AB, an entity under common control of the Company's parent, resulting in the recognition of a loss of EUR 22 million in the Company's local GAAP income statement for the year ended 31 December 2015. Taking in mind the fact that the Codan acquisition as part of a much larger regional acquisition undertaken by the Company's parent, the result of the transaction and time period between acquisition of the branch in Estonia and disposal to the PZU Group company, the management of the Company has concluded that the amount paid to acquire Codan exceeded the fair value of the entity at the date of the acquisition and that the excess paid (EUR 21 million) represented an in substance equity transfer to the Company's parent, who was acting in its capacity as a shareholder. As a result, it was determined that goodwill and equity reported in the statement of financial position at 31 December 2014, as previously issued, were each overstated by EUR 21 million and that the related loss of EUR 21 million should not have been recognised through the statement of comprehensive income for the year ended 31 December 2015. Respectively, profit (loss) for the year 2015, was accordingly corrected.

23.3. Investment income and expenses

2015 (Local GAAP), Items	EUR	2015 (IFRS), Items	EUR
Not realised investment result from investment activity	**(1 170 438)**		
From bonds	(476 618)	Net interest income	(476 618)
From equities	(405 900)	Net gain/losses from financial assets classified at fair value through profit or loss	(405 900)
From unit trust units	(287 920)	Net gain/losses from financial assets classified at fair value through profit or loss	(287 920)
Realised investment result from investment activity	**1 112 165**		
From bonds	(147 926)	Realised investment result from investment activity	(147 926)
From equities	138 673	Net gain/losses from financial assets classified at fair value through profit or loss	138 673
From unit trust units	832 418	Net gain/losses from financial assets classified at fair value through profit or loss	832 418
Result from disposal of foreign branches	289 000	The result of transfer of foreign branch	289 000
Interest and similar income	**2 061 494**		
From bonds	1 821 609	Net interest income	1 821 609
From deposits	81 541	Net interest income	81 541
From equities	149 274	Net gain/losses from financial assets classified at fair value through profit or loss	149 274
From real estate	9 070	Income of real estate	9 070
Investment management expenses	**(243 432)**	Investment management expenses	**(243 432)**
Total	**1 759 789**		**1 759 789**

According to the IFRS requirements net investment income shall be disclose:

Net gain/losses from financial assets classified at fair value through profit or loss
Net interest income
Realised investment result from investment activity
Investment management expenses

According to BAS, the investment income and expenses disclosure was done differently. The difference of disclosure of net investment income is shown in the table above.

24. 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 2016 and 2015, the Company complied with solvency requirements to insurance companies.

25. Operating lease

Operating lease – in 2016 the Company's lease expenses amounted to EUR 1 310 763 (in 2015 – EUR 1 300 619).

Vehicles, premises and IT equipment were used under operating lease agreements by the Company in 2016 and 2015. Lease agreements for vehicles are signed with Swedbank lizingas UAB and the Company's employees. Lease agreements for IT equipment are signed with Baltnetos komunikacijos UAB in respect of servers lease and with Audatex Baltics UAB in respect of software lease. The Company leases premises for pursuing insurance activity under agreements with legal and private individuals.

The future minimum lease payments under non-cancellable lease agreements are as follows:

	2016	2015
Less than one year	1 261 677	556 066
Between one and five years	4 333 180	1 294 488
More than five years	575 364	-

26. Contingencies and commitments

Legal disputes – as of 31 December 2016 and 2015 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.

27. Business combination

27.1. Legal merger of Gjensidige Baltic AAS and Gjensidige ADB

On 27 June 2016, a decision regarding the reorganisation of Gjensidige Baltic AAS was taken; the rules of reorganisation of Gjensidige ADB and Gjensidige Baltic AAS have been prepared.

On 31 October 2016, the legal merger of Gjensidige ADB and Gjensidige Baltic AAS was completed.

Gjensidige ADB and Gjensidige Baltic AAS were reorganised by way of merger. Gjensidige Baltic AAS was merged to Gjensidige ADB and ceased its activities following the reorganisation.

The head office of Gjensidige in the Baltic States is in Lithuania.

All assets, rights and liabilities of Gjensidige Baltic AAS were transferred to Gjensidige ADB.

The transferred assets and liabilities of foreign branches as well as consideration received are presented below:

Assets taken over:	
Intangible assets	2 075 339
Investment	58 312 448
Amounts receivable	10 024 980
Bad debts reserve	(1 038 689)
Deferred income tax and income tax paid in advance	1 804 020
Cash at bank	5 526 973
Property and equipment	600 101
Other assets	53 884
Deferred acquisition costs	2 942 961
Deferred commissions	2 053 606
Accrued income and deferred expenses	284 462
Total assets:	**82 642 085**
Liabilities taken over:	
Unearned premium technical reserve	21 325 890
Reinsurers' share in technical reserves for unearned premiums	(611 134)
Technical reserves for outstanding claims	27 769 850
Reinsurers' share in technical reserves for outstanding claims	(3 213 541)
Other provisions	1 200 000
Other liabilities	6 119 648
Accrued expenses and deferred income	2 687 587
Total liabilities:	**55 278 300**
Transferred net assets	**27 363 785**

Transferred capital	**31 10 2016**
Share capital of Gjensidige Baltic AAS	31 950 000
Reserves of Gjensidige Baltic AAS	841 014
Retained earnings carried forward from previous years	618 140
Profit (loss) of the reporting period	(6 045 369)
Total equity	**27 363 785**
Share capital increase of Gjensidige ADB	24 233 666
Surplus of net assets	**3 130 119**

The companies were merged under the common control approach. This approach was based on the view that the business simply has been transferred from one part of the group to another. The assets and liabilities of the acquiree were recognised at their previous carrying amounts. No adjustments were made to reflect fair values and no new assets and liabilities of the acquiree were recognised at the date of the business combination. No new goodwill was recognised and the difference between the acquired net assets and the consideration was recognised directly in equity.

For the two months ended 31 December 2016, Gjensidige ADB contributed revenue of EUR 6 830 thousand and loss of EUR 3 099 thousand to the Company's results. If the legal merger had occurred on 1 January 2016, management estimates that revenue would have been EUR 111 546 thousand, and result for the year would have been EUR 12 287 thousand loss. In determining these amounts, management assumed that the assets and liabilities, that arose on the date of legal merger, would have been the same had the legal merge occurred on 1 January 2016.

27.2. Disposal of part of business

Based on the insurance contracts, on 31 May 2015 the Company transferred the rights and obligations of the Latvian branch to Balta ASS under the business transfer agreement dated 26 February 2015, signed by the parties.

Based on the insurance contracts, on 31 May 2015 the Company transferred the rights and obligations of the Estonian branch to Lietuvos Draudimas AB under the business transfer agreement dated 20 May 2015, signed by the parties.

The transferred assets and liabilities of foreign branches as well as consideration received are presented below:

Consideration received	7 854 000
Transferred assets:	
Intangible assets	2 018 712
Investment	16 235 756
Amounts receivable	11 666 190
Cash at bank	2 183 731
Property and equipment	144 071
Other assets	31 419
Deferred acquisition costs	3 990 495
Accrued income and deferred expenses	243 571
Total assets:	**36 513 945**
Transferred liabilities:	
Unearned premium technical reserve	19 757 402
Reinsurers' share in technical reserves for unearned premiums	(917 698)
Technical reserves for outstanding claims	12 179 724
Reinsurers' share in technical reserves for outstanding claims	(1 354 735)
Unexpired risk technical reserve	1 272 185
Other liabilities	3 118 193
Accrued expenses and deferred income	2 458 874
Total liabilities:	**36 513 945**
Non-amortised goodwill as of the date of transfer	7 565 000
Result from transfer	**289 000**
Transferred investments covering technical provisions	**8 988 715**

The distribution of the Company's results between the main company and foreign branches is specified below:

	31/12/2014		31/12/2015		
EUR	**Gjensidige ADB excluding branches**	**Branches**	**Gjensidige ADB excluding branches**	**Branches**	**Other adjustments related to separation**
Earned premiums	48 272 118	13 001 771	48 656 681	17 088 406	-
Other technical income	565 406	30 926	377 027	18 511	-
Insurance claims expenses	(30 439 643)	(10 777 032)	(34 070 883)	(12 758 867)	-
Changes in other technical provisions, not shown under other headings	(1 524 470)	-	(877 915)	(1 272 185)	-
Bonuses and rebates	(298)	-	-	-	-
Net operating expenses	(18 525 178)	(5 358 930)	(20 944 604)	(5 649 106)	-
Other technical expenses	(1 154 856)	(281 669)	(1 386 239)	(309 666)	-
Investment income	4 493 554	-	5 881 495	-	289 000
Investment charges	(2 808 517)	-	(4 410 706)	-	-
Other income	12 971	1 237	99 888	558	-
Other charges	(294 449)	(9 887)	(428 633)	(12 050)	-
Income tax	373 230	-	(3 620)	-	-
NET PROFIT (LOSS) FOR THE ACCOUNTING PERIOD	**(1 030 432)**	**(3 393 584)**	**(7 107 509)**	**(2 894 399)**	**(289 000)**

28. Events after the date of the statement of financial position

There were no events in the Company from 31 December 2016 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 31 March 2017.

General manager — Marius Jundulas

Chief Accountant — Jolanta Motukaitė

Chief Actuary — Jurgis Navikas