Gjensidige

GJENSIDIGE ADB

Independent Auditor's Report,
Annual Report and
Financial Statements for the
year ended 31 December 2017

Gjensidige

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gjensidige ADB:

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Gjensidige ADB ("the Company") which comprise the statement of financial position of the Company as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	**How the matter was addressed in the audit**
Valuation of insurance liabilities	
Refer to pages 50-52 of the financial statements As disclosed in Note 9 to the financial statements, insurance liabilities amount to EUR 110,313 thousand as at 31 December 2017 and comprise unearned premiums technical reserve, technical reserve for outstanding claims and unexpired risk technical reserve. The valuation of actuarially determined insurance liabilities, which amount to 87% of the Entity's total liabilities, is complex as it involves high degree of judgement. The calculation of technical reserves takes into account the claims experience, claims	In auditing the insurance liabilities, we evaluated and tested the key controls around the claims handling process and evaluated the key controls around the case reserve setting process. To test accuracy of insurance liabilities we evaluated on a sample basis claims reserve cases by comparing the estimated amount of the case reserve to appropriate documentation. To test completeness of insurance liabilities we evaluated on a sample basis that claims paid after the end of the reporting period were appropriately recorded as insurance liability at the end of the reporting period.

Key audit matter	How the matter was addressed in the audit
Valuation of insurance liabilities	
development, market conditions, as well as matters that are sensitive to the legal, economic and various other factors and uncertainties, in order to arrive at the estimation of the ultimate losses. We consider the valuation of insurance liabilities to be a key audit matter due to the size of liabilities balance and the significant assumptions and estimates involved in the valuation by the management.	We recalculated the unearned premium reserve based on the earning period on insurance contracts existing as of 31 December 2017. In addition, with the assistance of actuarial specialists, we: • Evaluated the actuarial report compiled by the Company and calculations underlying technical reserves, particularly the following areas: - Appropriateness of the calculation methods and approaches (actuarial best practice); - Reliability of assumptions; - Consistency between valuation periods; - General application of financial and mathematical rules. • Performed an independent analysis and recalculation of the technical balances of selected lines of business. We also compared our independent analysis to those performed by the management and obtained explanations of significant differences noted, if any; • Performed reconciliation of data used in actuarial report to financial data.

Other Information

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated 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 separate and consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

In accordance with the decision made by Shareholders we have been chosen to carry out the audit of Company's financial statements. Our appointment to carry out the audit of Company's financial statements in accordance with the decision made by Shareholders has been renewed annually and the period of total uninterrupted engagement is one year.

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

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

In addition to services provided to the Company in the course of audit and disclosed in the annual report, we have provided translation of Financial Statements from English into Lithuanian language; memorandum of update on key risk areas for Group auditors.

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

Other matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 7 April 2017.

Deloitte Lietuva UAB
Audit Company License No 001275

Mindaugas Jukna
Lithuanian Certified Auditor
License No 000580

Vilnius, Republic of Lithuania
29 March 2018

ANNUAL REPORT

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

The most important events in 2017

The Company's share capital as of 31 December 2017 and 2016 consisted of 6.402.217 ordinary registered shares with a nominal value of EUR 7,37 each.

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

Shareholder	**Number of shares, pcs.**
Gjensidige Forsikring ASA	6.400.091
Private person	2.126
Total	**6.402.217**

The growth of Baltic's non-life insurance market was 17,5% (evaluated 4 quarters of 2017 versus same period of 2016). Company has 9,4% of market in Baltics .

Key achievements in 2017:

- ✓ Profitable from third quarter, break even achieved. This confirms that our actions to improve profitability is gaining traction.
- ✓ Improved cost ratio through Pan-Baltic IT system and departments optimisation, FTE reductions and commissions renegotiations
- ✓ Improved frequency loss ratio with tough price increases
- ✓ Competence to front initiative lead to faster response time
- ✓ Improved analytical tools
- ✓ Increased competence and efficiency compared to 2016
- ✓ Investments in employee engagement, training and development
- ✓ Improved Customer focus via "Gjensidige Experience"

As of 31 December 2017, the Company had 922 employees (250 of them in foreign branches), as of 31 December 2016 – 1.032 employees (266 in foreign branches).

The main types of risks

The main types of risk related to the Company's activities in 2017 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).

The Management Board of the company:

Kaare Steinar Østgaard	Chairman of the Bord
Monica Cecilie Torp	Member of the Board
Sigurd Ivar Austin	Member of the Board
Hans Georg Wettre Hanevold	Member of the Board
Aysegul Cin	Member of the Board
Mats Christian Gottschalk	Member of the Board
Marius Kongsgården	Member of the Board

Gjensidige

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

Sales

The Company's gross insurance written premiums in 2017 amounted to EUR 115.104 thousand. Compared to the respective result of 2016, written premiums increased by 52,19% (comparing legal entities).

In 2017, the Company entered into 1.663 thousand insurance contracts (1.238 thousand in 2016). The number of contracts grew by 34,33% in 2017.The number of insurance contracts in force decreased by 4,3% down to 910 thousand at end of year 2017 versus 2016.

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

Insurance group	2017 ADB Gjensidige Lithuania	2017 ADB Gjensidige branches	2016 ADB Gjensidige Lithuania	2016 ADB Gjensidige branches*	Change
Obligatory Motor Third Party Liability	27.691	16.681	24.211	2.251	67,68%
Property	12.485	7.492	14.722	1.272	24,90%
Land vehicles other than railway transport	10.937	10.645	12.777	1.718	48,89%
Personal accident and medical expenses	11.870	7.855	9.213	305	69,74%
TPL	3.804	1.096	3.096	212	48,13%
Bonds	911	763	1.156	91	34,24%
Assistance	972	100	3.108	92	-2,37%
Financial losses	657	309	659	51	36,25%
Goods in transit	477	144	504	19	18,74%
Other	157	58	134	44	21,47%
Total	69.961	45.143	69.580	6.055	52,19%

*Latvian and Estonian branches were merged from 31st of October 2016 to ADB "Gjensidige". Hence 2016 ADB Branches result reflects only 2 months of gross written premium.

Reinsurance

Reinsurance share in premiums written – 3,26%.

Claims expenses

Claims expenses amounted to EUR 79.702 thousands in 2017, i.e., it increased by 58,69% compared to claims expenses in 2016 (EUR 50.225 thousand).

In 2017, the total number of reported claims increased from 185.180 to 596.085. Number of insurance indemnities increased from 246.233 to 601.293 in 2017.

Operating expenses

In 2017, the Company's operating expenses ratio decreased by 9,0 percentage points to 34,42%, comparing to 2016 (43,42% in 2016). The net operating expenses including reinsurance commission totalled to EUR 39.612 thousand in 2017. Operating expenses without reinsurance commissions amounted to EUR 40.039 thousand in 2017, i.e. 37,52% more comparing to 2016.

Investment activities

Net financial investment result totalled to EUR 2.101 thousand of profit in 2017.

Financial result

Financial result of the Company's activities in 2017 was negative – it incurred a loss of EUR 786 thousand.

Loss ratios

In 2017, the net loss ratio of insurance business of the Company equals to 69,26%, i.e. it decreased by 8,85percentage points if compared to 2016.

Actual combined ratio at the Company equals to 103,7 per cent at the end of 2017.

Gjensidige

Information related to matters of environmental protection and personnel

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 2017, the Company did not control subsidiaries and associated companies.

5. Information about acquired or transferred own shares
In 2017, the Company neither acquired nor transferred any of its own shares.

6. Information about acquired or transferred shares of other companies
In 2017, the Company neither acquired nor transferred any share portfolio of other companies higher than 10 per cent of share capital.

7. Information about branches of the Company
As of 31 December 2017, the Company had 2 foreign branches – in Latvia (11 representative offices), in Estonia, 2 regions and 17 sales units in Lithuania (as of 31 December 2016 – 2 foreign branches, 3 regions and 20 sales units). The head office of the Company is located at Zalgirio str. 90, Vilnius.

8. Key events of the Company after the end of the financial year 2017
There were no events in the Company from 31 December 2017 until the date of issue of the financial statements that might have a significant impact on the financial statements.

9. Main targets of the Company for 2018
Profitable growth and 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.

Full name	**Title**	**Signature**	**Date**
Marius Jundulas	General Director		2018.03.23

Gjensidige

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December:

EUR'000	Note	2017	2016 (Restated, Note 21)
Earned premiums	13	**115.082**	**64.301**
Gross written premiums		115.104	75.634
Reinsurer's share in written premiums		(3.758)	(2.694)
Changes in gross unearned premium technical reserves		3.887	(8.024)
Change in the unearned premium technical reserves, reinsurer's share		(151)	(615)
Claims incurred, net	13	**(79.702)**	**(50.225)**
Claims paid		(78.382)	(46.366)
Claims handling expenses	14	(9.967)	(5.855)
Recovered losses		5.512	3.040
Reinsurer's share in claims paid		1.077	2.184
Change in claim technical reserves		(132)	987
Change in claim technical reserves, reinsurer's share		2.190	(4.215)
Change in unexpired risk technical reserves		**1.308**	**(1.258)**
Net operating expenses		**(39.612)**	**(27.921)**
Client acquisition costs	16	(26.364)	(22.719)
Change in deferred client acquisition costs	16	(1.969)	1.774
Administrative expenses	17	(11.706)	(7.142)
Reinsurance commission income and profit share	13	427	166
Investment management expenses		(154)	(120)
Net interest income		1.529	1.208
Net gain/losses from financial assets classified at fair value through profit and loss		574	(476)
Realised investment result from investment activity		(147)	(527)
Property sale income		299	72
Foreign exchange revaluation loss		(20)	(65)
Other income	18	1.078	425
Other expenses	18	(107)	(150)
Profit before corporate income tax		**128**	**(14.736)**
Income tax	19	(914)	(224)
Profit/(loss) of the reporting year		**(786)**	**(14.960)**
Other comprehensive income for the year			
Total comprehensive income for the year		**(786)**	**(14.960)**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

23 March 2018

Gjensidige

STATEMENT OF FINANCIAL POSITION

As at 31 December:

ASSETS EUR'000	Note	2017	2016 (Restated, Note 21)
Property and equipment		1.780	2.457
Intangible assets		4.139	4.397
Total non-financial assets	1	**5.919**	**6.854**
Financial assets designated at fair value through profit or loss	2	69.969	58.568
Held-to-maturity investments	3	39.973	40.607
Total financial investments		**109.942**	**99.175**
Term deposits with credit institutions	4	59	15.185
Direct insurance receivables from policy holders and intermediaries	5	15.039	17.615
Reinsurance receivables	5	256	163
Other receivables	5	1.836	1.633
Loans and Receivables		**17.190**	**34.596**
Deferred client acquisition costs		6.650	8.619
Other prepaid expenses and accrued income		3.637	3.286
Total accrued income and deferred expenses	7	**10.287**	**11.905**
Deferred tax asset	19	400	1.314
Corporate income tax asset		485	584
Advance payments		129	219
Reinsurer's share in technical reserves for unearned premium	9	361	511
Reinsurer's share in technical reserves for outstanding claims	9	12.500	10.309
Total reinsurance assets		**12.861**	**10.820**
Cash and cash equivalents	6	**11.958**	**11.392**
TOTAL ASSETS		**169.171**	**176.859**

Marius Jundulas
General Manager

Jolanta Motukaite
Chief Accountant

Jurgis Navikas
Chief Actuary

23 March 2018

Gjensidige

STATEMENT OF FINANCIAL POSITION

As at 31 December:

LIABILITIES AND EQUITY EUR'000	Note	2017	2016 (Restated, Note 21)
Equity			
Share capital	8	47.184	47.184
Share premium	8	12.454	12.454
Revaluation reserve	8	63	69
Retained earnings carried forward from previous years		(16.942)	(1.988)
Profit (loss) of the reporting year		(786)	(14.960)
Total equity		**41.973**	**42.759**
Liabilities			
Insurance liabilities			
Unearned premium technical reserve		48.616	52.503
Technical reserves for outstanding claims		57.658	57.525
Unexpired risk technical reserve		4.039	5.347
Total insurance liabilities	9	**110.313**	**115.375**
Creditors			
Direct insurance liabilities			
Policyholders		1.553	1.935
Intermediaries		147	512
Other liabilities	10	8.645	5.274
Reinsurance liabilities		206	499
Taxes and social contributions	10	590	641
Other creditors	10	602	1.141
Total creditors		**11.743**	**10.002**
Provisions	11	491	1.643
Accrued expenses and deferred income	12	4.651	7.080
Total liabilities		**127.198**	**134.100**
TOTAL LIABILITIES AND EQUITY		**169.171**	**176.859**

Marius Jundulas
General Manager

Jolanta Motuikaitė
Chief Accountant

Jurgis Navikas
Chief Actuary

23 March 2018

Gjensidige

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December:

EUR'000	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
Balance as at 31 December 2015	**13.001**	**12.454**	**75**	**(5.124)**	**20.406**
Business combination (Note 25)	-	-	-	3.130	3.130
Comprehensive income for the year (Restated, Note 21)	-	-	-	(14.960)	(14.960)
Amortization of revaluated assets	-	-	(6)	6	-
Share capital increase (Note 8)	34.183				34.183
Balance as at 31 December 2016 (Restated, Note 21)	**47.184**	**12.454**	**69**	**(16.948)**	**42.759**
Comprehensive income for the year	-	-	-	(786)	(786)
Amortization of revaluated assets	-	-	(6)	6	-
Balance as at 31 December 2017	**47.184**	**12.454**	**63**	**(17.728)**	**41.973**

Marius Jundulas
General manager

Jolanta Motukaitė
Chief accountant

Jurgis Navikas
Chief actuary

23 March 2018

Gjensidige

STATEMENT OF CASH FLOWS

For year ended 31 December:

EUR'000	2017	2016 (Restated, Note 21)
Cash flows from operating activities		
Premiums received in direct insurance	120.600	70.144
Claims paid in direct insurance	(75.036)	(42.391)
Payments received from reinsurers	403	-
Payments made to reinsurers	(3.322)	(2.587)
Payments to employees	(11.793)	(6.643)
Payments to intermediaries	(10.176)	(9.647)
Operating taxes payment	(9.378)	(6.659)
Other payments made	(21.928)	(11.485)
Other payments received	5.891	5.079
Net cash flows used in operating activities	**(4.739)**	**(4.189)**
Cash flows from investing activities		
Acquisition of investments:		
Debt securities and other fixed income securities	(37.767)	(53.377)
Term deposits with credit institutions	-	(300)
Total acquisition of investments:	**(37.767)**	**(53.677)**
Disposal of investments:		
Debt securities and other fixed income securities	-	-
Term deposits with credit institutions	32	26
Total disposal of investments:	**32**	**26**
Acquisition of tangibles assets	**(826)**	**-**
Investment income:		
Debt securities and other fixed income securities	28.964	39.042
Term deposits with credit institutions	15.100	11.540
Total investment income:	**44.064**	**50.582**
Business combination (Note 25)	-	5.527
Investment management expenses and commission fee payments	(154)	(120)
Net cash flows from investing activities	**5.349**	**2.338**
Financing activities		
Tax paid on financial activities	(44)	-
Received money from financial activities (Note 8)	-	9.950
Net cash (used in)/from financing activities	**(44)**	**9.950**
Net increase in cash and cash equivalents	**566**	**8.099**
Impact of currency exchange rate fluctuations on cash and cash equivalents	-	4
Cash and cash equivalents at the beginning of the year	**11.392**	**3.289**
Cash and cash equivalents at the end of the year	**11.958**	**11.392**

Marius Jundulas
General Manager

Jolanta Motukaitė
Chief accountant

Jurgis Navikas
Chief actuary

23 March 2018

EXPLANATORY NOTES

I. GENERAL INFORMATION

General information

Gjensidige ADB (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 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 2017, 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 2016 the share capital of the Company consisted of 6 .402.217 ordinary registered shares with the par value of EUR 7,37 each.

99,97% of the Company's share capital is owned by Gjensidige Forsikring ASA, identification number (code) 995568217, registered address Schweigaards gate 21, 0191 Oslo, 0301 Oslo, Norway (hereinafter referred to as Gjensidige Forsikring ASA and 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**

As of 31 December 2017, 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 a way of merger. Gjensidige Baltic AAS was merged to Gjensidige ADB and ceased its activities following the reorganisation.

The head office of Gjensidige ADB 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 2017, the Company employed 922 employees (as of 31 December 2016 – 1.032):

Country	**31.12.2017**	**31.12.2016**
Lithuania	672	766
Latvia	209	219
Estonia	41	47
Total	**922**	**1.032**

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 2017, the Company had 2 foreign branches – in Latvia (11 representative offices), in Estonia, 2 regions and 17 sales units in Lithuania (as of 31 December 2016 – 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 2017 and 2016, the Company had no subsidiaries and associated companies.

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

II. SIGNIFICANT ACCOUNTING POLICIES

Basis for preparation of financial statements

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

Restatement of the previous year financial statements in accordance with IAS 8 has been done retrospectively (Note 21).

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

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

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

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

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

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

  Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

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

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

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

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

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

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

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

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

- **Classification and Measurement** - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held.

This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

- **Impairment - IFRS 9** has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

- **Hedge accounting - IFRS 9** introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

- **Own credit - IFRS 9** removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **IFRS 15 "Revenue** from Contracts with Customers" issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

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Significant accounting policies

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

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

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

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

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

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

	31.12.2017	31.12.2016
PLN	4,1770	4,4141
USD	1,1993	1,0453

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

The amortisation rates of intangible assets are the following:

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

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

Business combinations between companies under common control

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

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Property and equipment

a) Property

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

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

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

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

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

Gain or loss arising on the disposal of real estate is determined as the difference between the proceeds received and the carrying amount of the sold property as well as all disposal related costs. Upon the disposal of real estate, the transaction result is reflected in profit or loss.
At the end of every year, the Company reviews the estimated useful life, carrying amount and depreciation method of its real estate and the changes in accounting estimates, if any, are recognized on a prospective basis.

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

Non-current tangible assets are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses, if any. Calculation of depreciation is started from the month following the month of putting the asset into operation using the straight-line method over the estimated useful life of the tangible asset. Estimated useful lives of key groups of tangible assets are as follows:

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

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

Subsequent repair costs are added to the carrying amount of non-current tangible assets if they prolong the useful life of the asset or improve its useful features. All other repairs and maintenance are charged to profit or loss in the period in which they are incurred.
The costs of repairs of assets that are leased and/or used under loan-for-use agreements are attributed to non-current tangible assets and recognized as expenses over the lease period, provided the repairs extend the useful life of the asset or improve its useful features.

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

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

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

Impairment of property, plant and equipment and intangible assets
At each reporting date, the Company reviews the carrying amounts of its property, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Financial instruments
Financial instruments are classified in one of the following categories
- at fair value through profit or loss
- available for sale
- investments held to maturity
- financial derivatives
- financial liabilities at amortised cost

Recognition and derecognition

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

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

At fair value through profit or loss
Financial assets and liabilities are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. All financial assets and liabilities can be designated at fair value through profit or loss if
- the classification reduces a mismatch in measurement or recognition that would have arisen otherwise as a result of different rules for the measurement of assets and liabilities
- the financial assets are included in a portfolio that is measured and evaluated regularly at fair value.

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

Transaction expenses are recognized in profit or loss when they incur. Financial assets at fair value through profit or loss are measured at fair value at the reporting date. Changes in fair value are recognized in profit or loss.
The category at fair value through profit or loss comprises the class shares and similar interests and bonds and other fixed income assets.

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

The Company has no financial assets in this category.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The estimate of claims incurred but not reported for all insurance groups with insufficient statistical data is calculated using the "Loss ratio" method and for the insurance groups with sufficient statistical data using the "Bornhuetter-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 2017 and 2016, 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. In Latvia tax currently payable is based on taxable profit for the year till 31 December 2017. The corporate income tax law haschanged from 1 January 2018, and the corporate income tax will be paid on the payment of dividends. Corporate income tax in Estonia is calculated based on the legislation effective in Estonia. The corporate income tax is paid on the payment of dividends.

Deferred income tax

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

The carrying amount of deferred income tax assets is reviewed at each reporting date.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

Other provisions

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

Employee benefits

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

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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.

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

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

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

Investment activity income and expenses

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

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

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

Commission expenses related to future periods are accounted for in the statement of financial position as deferred acquisition expenses. Deferred acquisition expenses are calculated on a pro-rata basis in respect of each insurance policy. 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.
From administrative expenses to inderict claims handling expenses are reclassified by the approved instruction. Administrative expenses are accounted for on accrual basis.

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

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

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

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

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

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

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

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

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

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

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III. RISKS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Capital risk management

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

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

Pursuant to the Law on Insurance the authorised share capital of a joint stock company must be not less than EUR 1,000,000, and pursuant to the Lithuanian Law on Companies the shareholders' equity should not be lower than 50% of the company's registered share capital. As at 31 December 2017 and 2016 the Company complied with these requirements.

Insurance risks

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

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

The Company has an overall underwriting policy, approved by the Board, with more detailed underwriting guidelines for each of the product segments, supported by strictly defined authorisation rules. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

General insurance

Frequency and severity of claims

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

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

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

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

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

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

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

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

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

- Fire
- Natural disasters (storm, flood)
- 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 policy holder may not be able to fully restore the property using the claim proceeds. This has an indirect impact on the relationship between the Company and policy holders.

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

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

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

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

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

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

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

- road accident
- 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.

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

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

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

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

In view of the risk of inflation which impacts the amount of claims paid, the Company performs tariff analyses for this line of insurance and the assessment of the impact on the financial ratios on a regular basis.

Even if statistics reflect that previous claims have been notified promptly and can be settled without undue delay, Motor third party liability insurance is classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

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

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

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

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

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

The Company has two key methods in managing these risks.

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

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

Exposure to various business lines as at 31 December 2017	**Total insured amount EUR'000**	**Reinsurance amount EUR'000**	**Net retention (after reinsurance) EUR'000**
MTPL *)	-	-	-
Property insurance	21.445	(11.343)	10.102
CASCO	837	-	837
Health insurance	131	-	131
Other business lines	6.296	(3.418)	2.878
Total	**28.709**	**(14.761)**	**13.948**

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

Exposure to various business lines as at 31 December 2016	**Total insured amount EUR'000**	**Reinsurance amount EUR'000**	**Net retention (after reinsurance) EUR'000**
MTPL *)	-	-	-
Property insurance	13.919	(4.694)	9.225
CASCO	538	-	538
Health insurance	544	(68)	476
Other business lines	4.601	(2.654)	1.947
Total	**19.602**	**(7.416)**	**12.186**

*) gross insurance risk is unlimited. Losses in excess of EUR'000 400 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. However there are numerous products covering insurance accidents in Baltics and abroad. The risk concentration in motor and property insurance is in the largest cities of Lithuania, Latvia and Estonia. The risk concentration in motor insurance is increasing due to the growing number of vehicles and traffic intensity, resulting in an indirect impact on claim amounts in this line of insurance. Insurance regulations and methodology determines the necessary risk assessment for property, claim amount limits and reinsurance regulations which ensure risk management in the respective insurance lines.

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(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 is indicated in the enclosed table, may subsequently vary due to change in different factors.

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

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	Year of insured occurrence						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Cumulative incurred claims at the end of accident year	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
- one year later	27.819	28.897	34.936	34.635	48.586	85.723	
- two years later	25.787	27.027	37.714	34.803	47.907		
- three years later	25.054	26.368	36.020	34.081			
- four years later	24.874	25.977	36.121				
- five years later	25.266	25.472					
- six years later	24.549						
Cumulative payments to date	21.681	23.406	32.379	29.366	40.508	64.860	212.200
Outstanding claims reserve	2.868	2.066	3.743	4.715	7.399	20.862	41.653
Outstanding claims reserve for accidents before 2012							16.005
Total outstanding claim reserves as at 2017.12.31							**57.658**

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

(iii) Liability adequacy test

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

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

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

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

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

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

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

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

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

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

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

Financial risks and risk management

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

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

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

Market Risk

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

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

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

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

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

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

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

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

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

The tables below present the analysis of the Company's financial assets and liabilities based on currencies as of 31 December 2017 and 2016 (in brackets determined their category according to IAS39: FVTPL – at fair vaue through profit or loss; HTM – held to maturity; LnR – loans and receivables):

Company's currency portfolio as of 31 December 2017:

Financial assets EUR'000	**EUR**	**PLN**	**Other**	**Total**
Financial assets designated at fair value through profit or loss (FVTPL)	69.969	-	-	69.969
Held-to-maturity investments (HTM)	38.959	1.014	-	39.973
Term deposits in credit institutions (LnR)	59	-	-	59
Loans and Receivables (LnR)	17.131	-	-	17.131
Cash and cash equivalents (LnR)	11.928	-	30	11.958
Total	**138.046**	**1.014**	**30**	**139.090**
Financial liabilities				
Liabilities (at amortized cost)	11.153	-	-	11.153
Total	**11.153**	**-**	**-**	**11.153**
Open foreign exchange position	**126.893**	**1.014**	**30**	**127.937**

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Company's currency portfolio as of 31 December 2016:

Financial assets EUR'000	EUR	PLN	Other	Total
Financial assets designated at fair value through profit or loss (FVTPL)	58.568	-	-	58.568
Held-to-maturity investments (HTM)	39.130	1.477	-	40.607
Term deposits in credit institutions (LnR)	15.185	-	-	15.185
Loans and Receivables (LnR)	19.411	-	-	19.411
Cash and cash equivalents (LnR)	11.266	16	110	11.392
Total	**143.560**	**1.493**	**110**	**145.163**
Financial liabilities				
Liabilities (at amortized cost)	9.361	-	-	9.361
Total	**9.361**	**-**	**-**	**9.361**
Open foreign exchange position	**134.199**	**1.493**	**110**	**135.802**

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 2017 and 2016, a simplified scenario, expecting a 5% change in the price of all securities:

Item, EUR'000	Net revenue, 2017	Net revenue, 2016
Increase in price of securities by 5%	3.498	2.928
Decrease in price of securities by 5%	(3.498)	(2.928)

Credit risk

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

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(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 2017 (determined by S&P):

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
Latvia	A-	5.188	13.984	-
Lithuania	A-	30.651	17.345	-
Luxembourg	A-	22.886	-	-
Sweden	A+	215	-	-
Czech Republic	AA-	6.564	-	-
Latvia	AA-	-	-	59
Sweden	AA-	1.535	-	-
Croatia	BB	-	1.589	-
Poland	BB	-	600	-
Poland	BBB-	-	876	-
Poland	BBB+	2.930	5.579	
Total		**69.969**	**39.973**	**59**

The Company's investments by ratings as of 31 December 2016 (determined by S&P):

Country' EUR'000	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-	23.205	15.264	914
Latvia	A-	198	12.965	14.271
Poland	BBB+	5.116	10.738	-
Croatia	BB	-	1.640	-
Czech Republic	AA-	3.862	-	-
Finland	AA+	1.983	-	-
Luxembourg	A-	22.291	-	-
The Netherlands	AAA	1.913	-	-
Total		**58.568**	**40.607**	**15.185**

ii) Insurance amounts receivable from direct insurance activities
Credit risk related to client balances due to failure to pay insurance premiums only exists in relation to payment schedule set in insurance certificate when the certificate is paid or terminated.

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

Amounts receivable from direct insurance activities (debts of policyholders and intermediaries) as of 31 December 2017

EUR'000	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	313	2	(313)	-
Less than 3 months	3.077	5	(239)	2.838
Not overdue receivables	12.201	93	-	12.201
Total	**15.591**	**100**	**(552)**	**15.039**

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

EUR'000	Gross receivables	%	Allowance	Net receivables
Receivables, overdue:				
More than 3 months	1.168	6	(1.103)	65
Less than 3 months	3.017	16	(162)	2.855
Not overdue receivables	14.695	78	-	14.695
Total	**18.880**	**100**	**(1.265)**	**17.615**

(iii) Reinsurance

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

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

Reinsurers' share of the Company's insurance premiums written, technical provisions and receivables based on ratings as of 31 December 2017:

Rating, EUR'000	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of unpaid payments reserve	Reinsurers' share of unearned premiums provision	Recei-vables
AA	170	-	5.762	-	6
A	856	3.759	5.987	361	177
BBB	-	-	-	-	-
BB	6	-	118	-	-
B	-	-	-	-	-
Not rated	45	-	633	-	73
Total	**1.077**	**3.759**	**12.500**	**361**	**256**

Reinsurers' share of the Company's insurance premiums written, technical provisions and receivables based on ratings as of 31 December 2016:

Rating, EUR'000	Reinsurers' share of claims paid	Reinsurers' share of premiums written	Reinsurers' share of unpaid payments reserve	Reinsurers' share of unearned premiums provision	Recei-vables
AA	1.735	4	6.500	2	1
A	432	2.684	3.481	508	54
BBB	9	1	106	-	-
BB	-	-	76	-	-
B	-	-	33	-	-
Not rated	8	5	113	1	108
Total	**2.184**	**2.694**	**10.309**	**511**	**163**

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).

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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 2017 and 2016:

Maturity of the financial instruments as well as non-financial items as of 31 December 2017:

EUR'000	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	4.963	1.730	22.491	17.899	22.886	69.969
Held-to-maturity investments	21.539	-	4.277	14.157	-	39.973
Term deposits in credit institutions	-	-	-	59	-	59
Loans and Receivables	17.131	-	-	-	-	17.131
Cash and cash equivalents	11.958	-	-	-	-	11.958
Total financial assets	*55.591*	*1.730*	*26.768*	*32.115*	*22.886*	*139.090*
Non-financial assets	30.080					30.080
Financial liabilities	11.153	-	-	-	-	11.153
Technical reserves	70.255	22.815	10.213	7.030		110.313
Non-financial liabilities	5.731					5.731
Difference in maturities	**(1.468)**	**(21.085)**	**16.555**	**25.085**	**22.886**	**41.973**

The company is able to carry out its financial obligations, because its financial assets are holded till the maturity and whithout specific maturity.

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Maturity of the financial instruments as well as non-financial items as of 31 December 2016:

EUR'000	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	10.422	9.329	5.399	11.127	22.291	58.568
Held-to-maturity investments	3.110	2.699	21.442	13.356	-	40.607
Term deposits in credit institutions	15.126	-	-	59	-	15.185
Loans and Receivables	19.411	-	-	-	-	19.411
Cash and cash equivalents	11.392	-	-	-	-	11.392
Total financial assets	*59.461*	*12.028*	*26.841*	*24.542*	*22.291*	*145.163*
Non-financial assets	31.695					31.695
Financial liabilities	9.361	-	-	-	-	9.361
Technical reserves	72.880	23.249	10.365	8.881	-	115.375
Non-financial liabilities	9.363					9.363
Difference in maturities	**(448)**	**(11.221)**	**16.476**	**15.661**	**22.291**	**42.759**

The company is able to carry out its financial obligations, because its financial assets are holded till the maturity and whithout specific maturity.

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

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

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

IV. EXPLANATORY NOTES

1. Property and equipment, Intangible assets

The movement of intangible assets, property and equipment for the period ended 31 December 2017, was:

Items, EUR'000	Intangible assets	Property	Other fixed assets	Total
Acquisition cost				
Balance as at 1 January 2016	4.149	1.834	1.129	7.112
Assets acquired	1.990	20	677	2.687
Business combination (Note 25)	2.798	27	2.241	5.066
Assets disposed (-)	-	(121)	(278)	(399)
Balance as at 31 December 2016	8.937	1.760	3.769	14.466
Assets acquired	1.265	5	761	2.031
Assets disposed (-)	(20)	(1.190)	(921)	(2.131)
Balance as at 31 December 2017	**10.182**	**575**	**3.609**	**14.366**
Revaluation				
Balance as at 1 January 2016	-	(48)	-	(48)
Business combination (Note 25)	-	2	-	2
Decrease in value (-)	-	(3)	-	(3)
Change in revaluation result on disposals +/(-)	-	26	-	26
Balance as at 31 December 2016	-	(23)	-	(23)
Decrease in value (-)	-	(7)	-	(7)
Change in revaluation result on disposals +/(-)	-	133	-	133
Balance as at 31 December 2017	**-**	**103**	**-**	**103**
Impairment				
Balance as at 1 January 2016	-	-	-	-
Impairment recognized	-	-	-	-
Balance as at 31 December 2016	-	-	-	-
Impairment recognized	-	-	-	-
Reclassifications	462	-	-	462
Balance as at 31 December 2017	**462**	**-**	**-**	**462**
Accumulated depreciation				
Balance as at 1 January 2016	3.089	569	695	4.353
Charge for the year	729	35	299	1.063
Business combination (Note 25)	722	20	1.649	2.391
Reversals of depreciation after write-off (-)	-	(43)	(175)	(218)
Balance as at 31 December 2016	4.540	581	2.468	7.589
Charge for the year	1.146	16	661	1.823
Reversals of depreciation after write-off (-)	(105)	(401)	(819)	(1.324)
Balance as at 31 December 2017	**5.581**	**197**	**2.310**	**8.088**
Net book value				
Balance as at 31 December 2016	**4.397**	**1.156**	**1.301**	**6.854**
Balance as at 31 December 2017	**4.139**	**481**	**1.299**	**5.919**

The amortization/depreciation charge of the Company's intangible/tangible assets for the year 2017 amounting to EUR 1.285 thousand was included into administrative expenses, EUR 395 thousand into claim handling expenses, EUR 61 thousand – into acquisition expenses, the intangible assets amortization expenses of EUR 82 thousand netted off with decrease in provision, which is formed for impaired intangible asset (in 2016 – EUR 790 thousand, EUR 218 thousand, EUR 47 thousand, EUR 8 thousand, respectively).
Impairement of the intangible assets is formed for GINS system.

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

EUR'000	Fair value, 31.12.2017	Cost, 31.12.2017	Fair value, 31.12.2016	Cost, 31.12.2016
Government bonds of Lithuania	30.652	30.729	23.205	23.339
Corporate bonds of Sweden	1.750	1.751	-	-
Government bonds of Latvia	5.188	5.214	198	200
Government bonds of Poland	2.929	2.998	5.116	5.069
Government bonds of Czech Republic	6.564	6.765	3.862	3.878
Government bonds of Finland	-	-	1.983	2.015
Luxembourg funds	22.886	22.442	22.291	21.736
Government bonds of the Netherlands	-	-	1.913	1.918
Total	**69.969**	**69.899**	**58.568**	**58.155**

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

Movement of assets in 2017 and 2016:

Items	Amounts, EUR'000
Balance at 01 January 2016	**3.808**
Assets acquired	42.476
Assets disposed	(3.309)
Increase/decrease Value	(476)
Business combination (Note 25)	16.069
Balance at 31 December 2016	**58.568**
Assets acquired	32.556
Assets disposed	(21.712)
Increase/decrease Value	574
Reclassification	(17)
Balance at 31 December 2017	**69.969**

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

EUR'000	Amortised cost, 31.12.2017	Fair value, 31.12.2017	Amortised cost, 31.12.2016	Fair value, 31.12.2016
Government bonds of Lithuania	17.345	17.382	15.264	14.485
Government bonds of Latvia	13.984	14.096	12.965	12.234
Corporate and Government bonds of Poland	7.055	7.231	10.738	10.725
Government bonds of Croatia	1.589	1.609	1.640	1.648
Total	**39.973**	**40.318**	**40.607**	**39.092**

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

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Movement of assets in 2017 and 2016:

Items	Amounts, EUR'000
Balance at 01 January 2016	**39.186**
Assets acquired	10.957
Assets matured	(35.733)
Accrued interest	664
Business combination (Note 25)	25.533
Balance at 31 December 2016	**40.607**
Assets acquired	5.211
Assets matured	(7.252)
Accrued interest	1.390
Reclasification	17
Balance at 31 December 2017	**39.973**

4. Term deposits in credit institutions

Country, EUR'000	Carrying amount, 31.12.2017	Fair value, 31.12.2017	Carrying amount, 31.12.2016	Fair value, 31.12.2016
Lithuania	-	-	914	914
Latvia	59	59	14.271	14.272
Total	**59**	**59**	**15.185**	**15.186**

As of 31 December 2017, gross maximum credit risk equalled the Company's net maximum credit risk and amounted to EUR 59 thousand (2016: EUR 15.185 thousand).

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

Movement of assets in 2017 and 2016:

Items	Amounts, EUR'000
Balance at 01 January 2016	**9.729**
Assets acquired	300
Assets disposed	(11.571)
Increase/decrease Value	17
Business combination (Note 25)	16.710
Balance at 31 December 2016	**15.185**
Assets acquired	-
Assets matured	(15.132)
Increase/decrease Value	6
Balance at 31 December 2017	**59**

5. Amounts receivable

As of 31 December 2017 amounts receivable comprised:

Amounts receivable, EUR'000	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	15.591	(552)	15.039
from policyholders	12.690	(479)	12.211
from intermediaries	2.901	(73)	2.828
Receivables from reinsurance operations	504	(248)	256
Other receivables	275	(62)	213
Receivable subrogations and recoveries	1.623	-	1.623
Total	**17.993**	**(862)**	**17.131**

As of 31 December 2017, other receivables consist of receivables for claims paid amounting to EUR134 thousands and other amounts receivable in the amount of EUR79 thousands.
Receivable subrogations and recoveries are estimated based on historical amounts of recovered payment statistics for Lithuanian MOD and MTPL business.

Expected cumulative receivable payment pattern are 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 on the 31st of December, 2017, and the prudence coefficient of 75% (precautionary principle) were applied.

As of 31 December 2016 amounts receivable comprised:

Amounts receivable, EUR'000	Total amount	Doubtful amounts receivable	Carrying amount
Receivables from insurance operations:	18.880	(1.265)	17.615
from policyholders	17.155	(834)	16.321
from intermediaries	1.725	(431)	1.294
Receivables from reinsurance operations	361	(198)	163
Other receivables	463	(2)	461
Receivable subrogations and recoveries	1.172	-	1.172
Total	**20.876**	**(1.465)**	**19.411**

As of 31 December 2016, other receivables consist of receivables for claims paid amounting to EUR354 thousands and other amounts receivable in the amount of EUR107 thousands.

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

Expected cumulative receivable payment pattern are 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 on the 31st of December, 2016, and the prudence coefficient of 75% (precautionary principle) were applied.

Doubtful amounts	EUR'000
Allowance as at 31 December 2015	**(641)**
Decrease of allowance	215
Bussines combination (Note 25)	(1.039)
Allowance as at 31 December 2016	**(1.465)**
Decrease of allowance	646
Allowance as at 31 December 2017	**(819)**

6. Current accounts and cash on hand

Items, EUR'000	31.12.2017	31.12.2016
Current accounts at banks	11.528	10.580
Money in transit	430	812
Total	**11.958**	**11.392**

As of 31 December 2017 and 2016, the Company had no term deposits with maturity less than 3 months.

As of 31 December 2017, cash deposited in SEB bank AB for issued guarantees amounted to EUR 30 thousand (as of 31 December 2016 – EUR 61 thousand); no other restrictions were imposed on bank accounts.

7. Accrued income and deferred expenses

Items, EUR'000	31.12.2017	31.12.2016 (Restated, Note 21)
Deferred client acquisition costs:		
Commissions of direct insurance	6.650	8.619
Total deferred client acquisition costs	6.650	8.619
Other prepaid expenses and accrued income:		
Deferred expenses of admission fee to Motor Insurers' Bureau of the Republic of Lithuania	220	314
Deferred commission	3.223	2.728
Other deferred expenses	194	244
Total other prepaid expenses and accrued income	3.637	3.286
Total accrued income and deferred expenses	**10.287**	**11.905**

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

Movement of deferred client acquisition costs:

Items	EUR'000
31 December 2015	**3.902**
Written commissions	14.163
Amortisation of deferred client acquisition costs	(12.389)
Business combination (Note 25)	2.943
31 December 2016 (Restated, Note 21)	**8.619**
Written commissions	16.046
Amortisation of deferred acquisition costs	(18.015)
31 December 2017	**6.650**

As of 31 December 2017 and 2016, deferred acquisition expenses according to the types of insurance comprise:

Insurance groups, EUR'000	31.12.2017	31.12.2016 (Restated, Note 21)
1. Medical expenses insurance	490	620
2. Income protection insurance	306	412
3. Working accident insurance	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	1.745	1.840
5. Other vehicle insurance	1.541	1.974
6. Marine, air and land vehicle incurance	31	36
7. Insurance against fire and other damage to property	2.050	3.189
8. General liability insurance	284	297
9. Credit and suretyship insurance	98	134
10. Legal expenses insurance	-	-
11. Assistance insurance	88	102
12. Financial losses insurance	17	15
Total	**6.650**	**8.619**

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8. Share capital and reserves

Share capital
As of 31 December 2017 the share capital of the Company amounted to EUR47.184 thousand (31 December 2016: EUR 47.184 thousand). The share capital of the Company is divided into 6.402.217 ordinary registered shares with the par value of EUR 7,37. All shares were fully paid as of 31 December 2017 and 2016.

	31.12.2017		31.12.2016	
	Amount	**EUR'000**	**Amount**	**EUR'000**
Ordinary shares with voting rights	6.402.217	47.184	6.402.217	47.184

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

Company's shareholders	**31.12.2017**		**31.12.2016**	
	Number of shares	% of share capital	Number of shares	% of share capital
Gjensidige Forsikring	6.400.091	99,97	6.400.091	99,97
Private persons	2.126	0,03	2.126	0,03
Total	**6.402.217**	**100**	**6.402.217**	**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 nominal value of EUR 7,37 each. The amount of the increase is EUR 9.950 thousand.

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 nominal value of EUR 7,.37 each. The capital increased by EUR 24.234 thousand.

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 balance sheet. 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. The nominal value is EUR 28,96 per share, the issue price is EUR 43,44 per share. There were no changes in the amount of share premium in 2017.

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.

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9. Technical provisions

9.1. Unearned premium technical provision

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

Captions, EUR'000	2017 Gross	2017 Reinsurance share	2017 Net	2016 Gross	2016 Reinsurance share	2016 Net
Balance at the beginning	52.503	(511)	51.992	23.153	(515)	22.638
Change in provision for unearned premiums	(3.887)	150	(3.737)	8.024	615	8.639
Business combination (Note 25)	-	-	-	21.326	(611)	20.715
Balance at the end	**48.616**	**(361)**	**48.255**	**52.503**	**(511)**	**51.992**

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

Insurance groups, EUR'000	2017 Gross	2017 Reinsurance share	2017 Net	2016 Gross	2016 Reinsurance share	2016 Net
1. Medical expenses insurance	5.023	-	5.023	5.849	-	5.849
2. Income protection insurance	1.529	-	1.529	1.742	-	1.742
3. Workers compensation insurance	-	-	-	-	-	-
4. Motor vehicle liability insurance	17.682	-	17.682	15.551	-	15.551
5. Other Motor insurance	11.255	-	11.255	12.585	-	12.585
6. Marine, Aviation and Transport insurance	221	-	221	254	-	254
7. Fire and other property damage	9.551	-	9.551	12.800	-	12.800
8. General liability insurance	1.814	-	1.814	1.793	(1)	1.792
9. Credit and suretyship insurance	873	(361)	512	1.225	(510)	715
10. Legal expenses insurance	-	-	-	-	-	-
11. Assistance insurance	577	-	577	620	-	620
12. Financial losses insurance	91	-	91	84	-	84
Total	**48.616**	**(361)**	**48.255**	**52.503**	**(511)**	**51.992**

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9.2. Outstanding claim technical provisions

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

Captions	2017 Gross	2017 Reinsurance share	2017 Net	2016 Gross	2016 Reinsurance share	2016 Net
At the beginning of the accounting period	57.525	(10.309)	47.216	30.742	(11.310)	19.432
Change in outstanding claims provision	133	(2.191)	(2.058)	(987)	4.215	3.228
Business combination (Note 25)	-	-	-	27.770	(3.214)	24.556
At the end of the accounting period	**57.658**	**(12.500)**	**45.158**	**57.525**	**(10.309)**	**47.216**

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

Insurance groups, EUR'000	2017 Gross	2017 Reinsurance share	2017 Net	2016 Gross	2016 Reinsurance share	2016 Net
1. Medical expenses insurance	1.538	-	1.538	1.295	-	1.295
2. Income protection insurance	488	-	488	633	-	633
3. Workers compensation insurance	-	-	-	-	-	-
4. Motor vehicle liability insurance	42.958	(10.931)	32.027	42.095	(9.453)	32.642
5. Other Motor insurance	2.612	-	2.612	3.426	-	3.426
6. Marine, Aviation and Transport insurance	270	-	270	485	-	485
7. Fire and other property damage	3.384	(321)	3.063	4.302	(65)	4.237
8. General liability insurance	3.946	(601)	3.345	3.526	(478)	3.048
9. Credit and suretyship insurance	2.317	(647)	1.670	1.627	(313)	1.314
11. Assistance insurance	131	-	131	105	-	105
12. Financial losses insurance	14	-	14	31	-	32
Total	**57.658**	**(12.500)**	**45.158**	**57.525**	**(10.309)**	**47.216**

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

Components of outstanding claims provision, EUR'000	2017	2016
Reported but not settled claims	42.282	42.725
Incurred but not reported claims	13.334	13.620
Claims handling expenses	4.585	3.810
Estimated subrogation receivable	(2.544)	(2.630)
Reinsurance share within reported not settled claims	(12.141)	(10.366)
Reinsurance share within incurred not reported claims	(112)	(7)
Reinsurance share within claims handling expenses	(583)	(158)
Reinsurance share within estimated subrogation receivable	337	222
Total	**45.158**	**47.216**

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9.3. Unexpired risk technical provision

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

Items, EUR'000	2017	2016
Insurance	4.039	5.347
Reinsurance	-	-
Total	**4.039**	**5.347**

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

Insurance groups, EUR'000	2017	2016
1. Medical expenses insurance	295	248
2. Income protection insurance	1	1
3. Workers compensation insurance	-	-
4. Motor vehicle liability insurance	952	2.431
5. Other Motor insurance	678	1.328
6. Marine, Aviation and Transport insurance	126	5
7. Fire and other property damage	1.881	1.326
8. General liability insurance	9	8
9. Credit and suretyship insurance	80	-
11. Assistance insurance	11	-
12. Financial losses insurance	6	-
Total	**4.039**	**5.347**

9.4. Movement of non-life insurance technical provisions

Movement of non-life insurance technical provisions in 2017 and 2016 is as follows:

Items, EUR'000	Unearned premium provision	Outstanding claims provision	Provision for unexpired risk	Total
Gross amount				
31 December 2015	23.153	30.742	4.089	57.984
Change over the period	8.024	(987)	1.258	8.295
Business combination (Note 25)	21.326	27.770	-	49.096
31 December 2016	52.503	57.525	5.347	115.375
Change over the period	(3.887)	133	(1.308)	(5.062)
31 December 2017	48.616	57.658	4.039	110.313
Reinsurance share				
31 December 2015	(515)	(11.310)	-	(11.825)
Change over the period	615	4.215	-	4.830
Business combination (Note 25)	(611)	(3.214)	-	(3.825)
31 December 2016	(511)	(10.309)	-	(10.820)
Change over the period	150	(2.191)	-	(2.041)
31 December 2017	(361)	(12.500)	-	(12.861)
Net amount				
31 December 2016	**51.992**	**47.216**	**5.347**	**104.555**
31 December 2017	**48.255**	**45.158**	**4.039**	**97.452**

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10. Other liabilities

Items, EUR'000	31.12.2017	31.12.2016
Other liabilities:	*8.645*	*5.274*
Advance payments for future policies	8.119	5.143
Overpayments	346	131
Other payments	180	-
Taxes, social security contributions and other liabilities:	*1.192*	*1.782*
Taxes	111	168
Social security contributions	479	473
Salaries	121	201
Other	481	940
Total	**9.837**	**7.056**

11. Provisions

Items, EUR'000	Relocation	Restructuring	Total
At the end of the accounting period at 31 December 2015	**780**	**-**	**780**
Business combination (Note 25)	350	850	1.200
New provisions	-	438	438
Provisions used during the year	(428)	(347)	(775)
At the end of the accounting period at 31 December 2016	**702**	**941**	**1.643**
New provisions	-	700	700
Provisions used during the year	(689)	(906)	(1.595)
Reclasification to provisions	(13)	218	205
Reclassification from provisions	-	(462)	(462)
At the end of the accounting period at 31 December 2017	**-**	**491**	**491**

Relocation reserve

During 2015, the Company set to a plan to relocate to the new premises due to the companies' legal merger. Following the announcement of the plan, the Company recognised a provision of EUR 780 thousand 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 thousand of the provision was used during the year and has been included in 'administration expenses. During 2016, a provision for relocation of EUR 350 thousand was taken over from AAS Gjensidige Baltic. During 2017, the relocation was completed.

Restructuring reserve

During 2017, the Company committed to a plan to restructure the company's activities to improve the efficiency. Following the announcement of the plan, the Company recognised a provision of EUR 700 thousand for expected restructuring costs, including contract termination costs, consulting fees, employees termination benefits, and software changes. Estimated costs were based on the terms of the relevant contracts. The provision of EUR 906 thousand was used during the year (including part described below). The restructuring is expected to be completed by December 2018.

During 2016, the Company committed to a plan to restructure the company's activities following the merger. Following the announcement of the plan, the Company recognised a provision of EUR 438 thousand for expected restructuring costs, including contract termination costs, consulting fees, employees termination benefits, and software changes. Estimated costs were based on the terms of the relevant contracts. The provision of EUR 347 thousand was used during the year. During 2016, a provision for restructuring of EUR 850 thousand was taken over from AAS Gjensidige Baltic.

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12. Accrued expenses and deferred income

Items, EUR'000	31.12.2017	31.12.2016 (Restated, Note 21)
Accrued commissions expenses	2.138	3.277
Accrued expenses for invoices not received	668	697
Vacation reserve	885	1.070
Annual bonus for employees	591	585
Annual bonus for intermediaries	250	503
Accrued reinsurance commission	119	50
Deferred income	-	898
Total	**4.651**	**7.080**

13. Results of non-life insurance activities

Country, where insurance agreement was concluded	Gross written premiums, EUR'000	
	2017	**2016**
Republic of Lithuania	69.961	69.580
Other EU countries	45.143	6.054
Total	**115.104**	**75.634**

The detailed results of non-life insurance activity in 2017 are presented below:

Items, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
Direct insurance	115.104	118.991	(82.970)	(40.039)	(214)
Inward reinsurance	-	-	-	-	-
Total	**115.104**	**118.991**	**(82.970)**	**(40.039)**	**(214)**

The non-life insurance results in 2017 by groups of insurance are as follows:

Types of insurance, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
1. Medical expenses insurance	16.175	17.002	(13.010)	(4.450)	(28)
2. Income protection insurance	3.550	3.762	(1.457)	(1.760)	(10)
3. Workers compensation insurance	-	-	-	-	-
4. Motor vehicle liability insurance	45.381	43.250	(33.253)	(12.009)	601
5. Other Motor insurance	21.603	22.933	(17.709)	(7.435)	(555)
6. Marine, Aviation and Transport insurance	816	849	(714)	(420)	241
7. Fire and other property damage	19.977	23.226	(12.761)	(10.070)	(621)
8. General liability insurance	3.891	3.871	(1.571)	(1.872)	79
9. Credit and suretyship insurance	1.685	2.037	(1.581)	(1.228)	119
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	1.773	1.823	(913)	(690)	(32)
12. Financial losses insurance	253	238	(1)	(105)	(8)
Total	**115.104**	**118.991**	**(82.970)**	**(40.039)**	**(214)**

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

Items, EUR'000	Premiums written	Premiums earned	Claims expenses	Operating expenses	Result of reinsurance activities
Direct insurance	75.634	67.609	(48.194)	(28.087)	(5.174)
Inward reinsurance	-	1	-	-	-
Total	**75.634**	**67.610**	**(48.194)**	**(28.087)**	**(5.174)**

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

Types of insurance, EUR'000	Premiums written	Premiums earned	Claims expenses*	Operating expenses*	Result of reinsurance activities
1. Medical expenses insurance	8.263	7.226	(4.351)	(3.285)	(9)
2. Income protection insurance	3.267	2.896	(956)	(1.533)	(23)
3. Working accident insurance	-	-	-	-	-
4. Insurance against civil liability in respect of the use of motor vehicles	27.314	22.989	(20.569)	(9.070)	(1.204)
5. Other vehicle insurance	14.512	13.579	(11.431)	(5.727)	(431)
6. Maritime, air and land vehicle insurance	679	792	(371)	(301)	(79)
7. Insurance against fire and other damage to property	16.022	14.320	(7.669)	(7.275)	(2.648)
8. General liability insurance	2.458	2.704	(214)	(1.037)	(255)
9. Credit and suretyship insurance	1.247	1.373	328	(520)	(477)
10. Legal expenses insurance	-	-	-	-	-
11. Assistance insurance	1.192	985	(585)	(424)	(38)
12. Financial losses insurance	680	746	(236)	(330)	(10)
Total	**75.634**	**67.610**	**(46.054)**	**(29.502)**	**(5.174)**

*According to the group of insurance, expenses are not recalculated by the new claims handling allocation instruction.

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14. Claim handling expenses

Types of expenses, EUR'000	2017	2016 reclassified	2016 as previously reported
Wages, salaries and social security	4.428	2.216	1.534
Services of experts, lawyers and other specialists	1.991	1.458	1.458
Repair and maintenance of premises	342	286	155
Taxes	190	127	127
Information technologies expenses	420	322	126
Maintenance of vehicles	100	75	74
Communication expenses (post, telephone, internet)	218	167	51
Depreciation and amortisation	395	218	38
Provisions	-	-	34
Trainings and business trips	142	46	25
Professional service expenses	73	15	15
Expenses for stationery and office maintenance	24	29	6
Motor Bureau fee	1.366	725	-
Other	278	171	72
Total	**9.967**	**5.855**	**3.715**

In 2017 the company has changed presentation in respect of allocation of claims handling expenses in order to provide more reliable information about the classification of expenses. As the result part of expenses previously reported as admininistrative and other expenses were presented as claims handling expenses.

15. Remuneration expenses

The remuneration expenses for employees and agents including social security expenses in 2017 and 2016 are presented below:

Items, EUR'000	2017	2016
Management	1.211	846
Other employees	17.854	10.021
Total	**19.065**	**10.867**

As of 31 December 2017, the management consisted of the General Director and 8 second level managers (as of 31 December 2016: General Director and 9 second level managers).

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16. Acquisition expenses

Types of expenses, EUR'000	2017	2016 (Restated, Note 21)
Commission to organisations	13.472	12.138
Wages, salaries and social security	6.160	4.509
Commission to agents and employees	2.854	2.412
Advertising and marketing expenses	1.321	1.422
Repair and maintenance of premises	1.117	743
Purchase of blanks and other expenses related to contracts	239	236
Maintenance of vehicles	279	232
Representative expenses	279	214
Taxes and fees, including bank fees	130	177
Provisions	0	160
Communication expenses (post, telephone, internet)	94	84
Trainings and business trips	113	73
Depreciation and amortisation of non-current assets	61	47
Information technologies expenses	13	33
Expenses for stationery and office maintenance	26	30
Professional service expenses	56	14
Other	150	195
Total acquisition expenses	**26.364**	**22.719**
Change in deferred acquisition expenses	1.969	(1.774)
Acquisition expenses including the change of deferred acquisition expenses	**28.333**	**20.945**

17. Administrative expenses

Types of expenses, EUR'000	2017	2016 reclassified	2016 as previously reported
Wages, salaries and social security	5.623	3.271	3.952
Depreciation and amortisation of non-current assets	1.285	790	970
Information technologies expenses	1.239	780	976
Communication expenses (post, telephone, internet)	617	423	539
Repair and maintenance of premises	981	388	519
Representative expenses	187	296	300
Taxes	233	177	177
Member fees and fee for Insurance Supervisory Commission	231	162	166
Maintenance of vehicles	150	165	165
Expenses for stationery and office maintenance	75	125	149
Trainings and business trips	377	106	128
Audit expenses	34	79	95
Charity and support	63	85	85
Provisions	-	79	79
Professional service expenses	115	69	69
Other	496	147	187
Total	**11.706**	**7.142**	**8.556**

The details of reclassification are disclosed in note 14.

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18. Other income and expenses

Items, EUR'000	2017	2016 reclassified	2016 as previously reported
Other income			
Commission fee for mediation	174	131	131
Income from insurance contracts termination	299	184	184
Other income	605	110	110
Total	**1.078**	**425**	**425**
Other expenses			
Motor bureau charge	-	-	(725)
Bank fees	(102)	(54)	(54)
Other expenses	(5)	(96)	(97)
Total	**(107)**	**(150)**	**(876)**

The details of reclassification are disclosed in note 14.

19. Income tax and deferred income tax

In 2017, the Company accounted for deferred tax assets of EUR 400 thousand, which was calculated on taxable loss.

Items, EUR'000	2017	2016
Current year income tax	-	-
Change in deferred taxes	(914)	(224)
Total	**(914)**	**(224)**

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

Items, EUR'000	31.12.2017	31.12.2016
Effect from different provisions	(46)	409
Tax losses carried forward	446	905
Deferred tax asset, net	**400**	**1.314**

Attributable to, EUR'000:	31.12.2017	31.12.2016
Lithuania	400	707
Latvia	-	607
Total deferred tax at the end of the year	**400**	**1.314**

According to the financial forecast approved by the management, the Company expects to earn taxable profit in 2018 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.

The deferred tax asset is estimated as at 31 December 2017 from the future 3 years positive results in Lithuania. The deferred tax asset is calculated 30% from the future 3 years of the planned profit. The management estimated that the deferred tax asset will be utilized during the next 3 years.

As at 31 December 2017 in Latvia: deferred tax asset is written off, whereas the new corporate income tax legislation will be valid from 1 January 2018 and the income tax will be paid from divideds paid only.
Deferred tax asset is measured at the tax rates that are expected to apply in the period, in which the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets.

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Items, EUR'000	31.12.2017	31.12.2016
Profit (loss) before income tax	128	(14.736)
Non-taxable income	(2.158)	539
Non-deductible expenses	3.612	3.789
Result of investments	1.022	-
Utilization of taxable loss	(2.604)	-
Taxable (loss) profit for the financial year	-	(10.408)
Income tax for the accounting period in profit or loss	-	-

20. Transactions with related parties

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

The transactions with related parties during 2017 and 2016 are as follows:

Items, EUR'000	31.12.2017	31.12.2016
Reinsurance premiums written to Gjensidige Forsikring ASA	(3.748)	(2.639)
Reinsurance claims paid by Gjensidige Forsikring ASA	805	3
Income from the commissions for the outward reinsurance from Gjensidige Forsikring ASA	321	144
Claims paid to Gjensidige group companies	(232)	(293)
Claim handling expenses – Gjensidige group companies	(34)	(309)
Investment expenses paid to Gjensidige Forsikring ASA	(13)	(13)
Amount payable to Gjensidige Forsikring ASA (reinsurance)	(188)	(488)
Receivable from Gjensidige Forsikring ASA (reinsurance)	-	45
Other income – Gjensidige Forsikring ASA	193	-
Other expenses – Gjensidige Forsikring ASA	(67)	(26)
Commissions expenses to Gjensidige Baltic AAS	-	(1.273)
Revenue from rent and services agreements with Gjensidige Baltic AAS	-	72
Amount receivable from Gjensidige Forsikring ASA	21	2

Related parties:
Gjensidige Forskring ASA
Gjensidige Baltic AAS until 31.10.2016

21. Restatements and reclassifications

During the year 2017 the Management of the Company identified certain misstatement in the Statement of Financial Position and Statement of Comprehensive income for the year ended 31 December 2016.

Carrying out additional control procedures for commissions calculation, it was identified that acquisition expenses (commissions for written policies) and deferred acquisition costs were calculated incorrectly.

The effect of adjustment made to the statement of financial position and statement of comprehensive income for the year ended 31 December 2016 is as follows:

EUR'000	As previously reported	Effect of adjustment	As restated
STATEMENT OF FINANCIAL POSITION			
Deferred client acquisition costs	8.387	232	8.619
Profit (loss) of the reporting period	(14.573)	(387)	(14.960)
Accrued expenses and deferred income	6.461	619	7.080
STATEMENT OF COMPREHENSIVE INCOME			
Client acquisition costs	(22.100)	(619)	(22.719)
Change in deferred client acquisition costs	1.542	232	1.774
Total comprehensive income for the year	**(14.573)**	**(387)**	**(14.960)**

The adjustments had no effect on the opening statement of financial position as of 1 January 2016, and therefore the third statement of financial position has not been presented.

22. 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 2017 and 2016, the Company complied with solvency requirements to insurance companies.

23. Operating lease

Operating lease – in 2017 the Company's lease expenses amounted to EUR 1.757 thousand (in 2016: EUR 1.311 thousand).

Vehicles, premises and IT equipment were used under operating lease agreements by the Company in 2017 and 2016. Lease agreements for vehicles are signed with Swedbank lizingas UAB. Lease agreements for IT equipment are signed with Baltnetos komunikacijos UAB in respect of servers lease. The Company leases premises for pursuing insurance activity under agreements with legal and private individuals.

The future minimum lease payments agreements are as follows:

	2017	2016
Less than one year	1.634	1.262
Between one and five years	3.916	4.333
More than five years	-	575
Total	**5.550**	**6.170**

24. Contingencies and commitments

Legal disputes – as of 31 December 2017 and 2016 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.

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25. Business combination

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:	**EUR'000**
Intangible assets	2.075
Investment	58.313
Amounts receivable	10.025
Bad debts reserve	(1.039)
Deferred income tax and income tax paid in advance	1.804
Cash at bank	5.527
Property and equipment	600
Other assets	54
Deferred acquisition expenses	2.943
Deffered commissions	2.054
Accrued income and deferred expenses	286
Total assets:	**82.642**
Liabilities taken over:	
Unearned premium technical reserve	21.326
Reinsurer's share in technical reserves for unearned premium	(611)
Technical reserves for outstanding claims	27.770
Reinsurer's share in technical reserves for outstanding claims	(3.214)
Other provisions	1.200
Other liabilities	6.120
Accrued expenses and deferred income	2.687
Total liabilities:	**55.278**
Transferred net assets	**27.364**

Transferred capital	**31.10.2016**
Share capital of AAS Gjensidige Baltic	31.950
Reserves AAS Gjensidige Baltic	841
Retained earnings carried forward from previous years	618
Profit (loss) of the reporting period	(6.045
Total equity	**27.364**
Share capital increasing of ADB Gjensidige	24.234
Surplus of net assets	**3.130**

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.

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For the two months ended 31 December 2016, AAS Gjensidige Baltic contributed revenue of EUR 6.830 thousand and loss of EUR 3.099 thousand to the company's results. If the legal merge had occurred on 1 January 2016, management estimates that earned premiums would have been EUR 111.546 thousand, and result for the year would have been EUR 12.287 thousand loss..

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

There were no events in the Company from 31 December 2017 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 23 March 2018.

General manager	Marius Jundulas
Chief Accountant	Jolanta Motukaitė
Chief Actuary	Jurgis Navikas