

# ANNUAL REPORT 2011



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## INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Lietuvos Draudimas AB:

### Report on the Financial Statements

We have audited the accompanying set of the financial statements (hereinafter – “financial statements”) of Lietuvos draudimas AB (hereinafter – “the Company”), which comprise the balance sheet as at 31 December 2011, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13–78.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Republic of Lithuania Law on Accounting and Financial Reporting, Lithuanian Business Accounting Standards and the Lithuanian Insurance Supervisory Commission resolution No. 7 on the Financial Statements of Insurance Companies, dated 3 February 2004, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Republic of Lithuania Law on Accounting and Financial Reporting, Lithuanian Business Accounting Standards the Lithuanian Insurance Supervisory Commission resolution No. 7 on the Financial Statements of Insurance Companies, dated 3 February 2004.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report for the year ended 31 December 2011, set out on pages 4-12 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements for the year ended 31 December 2011.

Deloitte Lietuva, UAB  
Licence No. 001275

Sigitas Babarskas  
Lithuanian Certified Auditor  
Licence No. 000403

Vilnius, Republic of Lithuania  
5 March 2012



## OVERVIEW OF THE LITHUANIAN NON-LIFE INSURANCE MARKET

The start of 2011 was optimistic. According to the macroeconomic indicators Lithuania's economy showed the signs of recovery. The slowly declining unemployment rate raised the hopes of citizens for a better tomorrow, the purchases of new vehicles slightly increased, the property market started to recover and exports grew.

The increasingly positive background of the Lithuanian market and more favourable weather conditions without large losses contributed to the growth of the non-life insurance market. According to the data of the Insurance Supervisory Commission (hereinafter referred to as "ISC"), even in the second half of 2011, when the development trends of the Lithuanian economy changed due to the instability of the eurozone, the non-life insurance market (crop and credit insurance markets eliminated) managed to end the year on an optimistic note. During the year, it grew by 9,8% in terms of premiums written and by 3,6% in terms of contracts signed. In total, 4.8 million of contracts were signed and the amount of collected premiums totalled LTL 1,093 billion in the non-life insurance market in 2011.

According to the ISC, the growth of non-life insurance was mainly driven by motor insurance. As the number of vehicles had been increasing in the country, the insurers wrote the premiums in Motor Third Party Liability (MTPL) Insurance exceeding those of the previous year by almost 8% (LTL 28,4 million). The total amount of premiums almost reached LTL 400 million, whereas the number of contracts grew by 6% to LTL 2,47 million during the year. MTPL insurance remained the most popular type of insurance for several years and it occupied 35,7% of the market in 2011.

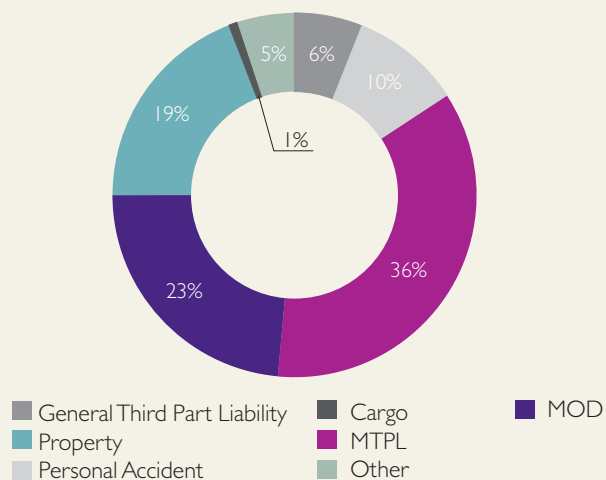
In 2011, the Motor Own Damage (MOD) insurance with the market share of 23,5% ranked second in terms of popularity in the

market. Following the recession in 2010, the amount of MOD insurance premiums written last year grew by almost 15% to LTL 256,3 million. Property insurance ranks third and its market share stood at 19,4% in 2011.

The business sector reacted faster to the improvement of the economic situation. In 2011 commercial insurance grew by 13% in terms of written premiums. Meanwhile, the pace of personal insurance lines was slower by nearly half and stood at 6,6%.

The year 2011 was distinguished for sharper levels of competition in the non-life insurance market. The new player – the Lithuanian Branch of Swedbank P&C Insurance AS – entered the market in October. Seeking to maintain the existing customers and to attract new ones, the majority of the market players upheld the lower price strategy, which had a negative impact on the profitability.

Lithuanian non-life insurance products in 2011



Šaltinis: Draudimo priežiūros komisijos (DPK) skelbiami duomenys

## OPERATING RESULTS

The adequate risk management and improvement of the efficiency of internal processes enabled AB Lietuvos Draudimas (hereinafter referred to as the "Company") to sustain profitable growth in 2011. Last year, the Company wrote 3,8% more non-life insurance premiums, which increased from LTL 340 million to LTL 353 million during the year.

With the market share of 32,5%, AB Lietuvos Draudimas remained the holder of the largest non-life insurance portfolio in Lithuania. In 2011, the Company placed a major focus on the maintenance of profitable activities. Despite the lost market share of 1,6%, AB Lietuvos Draudimas earned LTL 10 million audited net profit.

In 2011, the Company's financial standing remained stable and its solvency margin totalling LTL 149 million exceeded the required solvency margin, which amounted to LTL 60 million, by 2,5 times.

Last year the Company paid to its customers a total LTL 197,8 million non-life insurance indemnities, a similar amount was allocated for the same purpose in 2010, when the claims paid amounted to LTL 199,7 million.

AB Lietuvos Draudimas remains the leader of Private Lines (PL) insurance market with 39% share. During the reporting year, the

most rapid pace of growth was recorded in PL property insurance – 4,2% more premiums were written and the Company enjoyed 61,1% of this market. The market share of PL Motor Own Damage insurance accounted for 40,9%, whereas the share held in the PL MTPL insurance market equalled 31%.

In 2011, the Company held the largest share of Commercial Lines (CL) insurance market with 26,3% of this market. During the year, the Company wrote 12,8% more CL insurance premiums, and this growth was similar to that of the market, which grew by 13% in terms of written premiums. During the year, AB Lietuvos Draudimas grew by 7,5% in terms of the number of signed contracts, and this growth was more rapid than that of the market, which increased by 4,7% within the year. AB Lietuvos Draudimas has the strongest position in CL Motor Own Damage insurance market by holding 47,1% of this market. The share held in CL property insurance market accounts for 32,6%.

The achieved results show the secured and financially stable operations of AB Lietuvos Draudimas, which will be further continued in 2012 by planning the ambitious pace of growth but not reducing its former priorities – the orientation towards the customer, reliability, and attention to the modernisation of its activities.



## INTERNATIONALLY OWNED COMPANY

The whole 99,977% controlling stake of AB Lietuvos Draudimas held by the Danish company Codan A/S was transferred under a transaction within the RSA Group. On 2 November 2011 it was taken over by Royal & Sun Alliance Insurance plc, part of RSA Group.

The ownership change transaction was implemented after having obtained all the required permits from the Lithuanian Insurance Supervisory Commission. This transaction had no impact whatsoever on the Company's activities, liabilities and strategy. RSA, one of the world's oldest and largest insurance groups, has been informally managing AB Lietuvos Draudimas since 2006, when it acquired the Danish company; therefore, this transaction is considered to be only a formal change of shareholders within the Group.

## ATTENTION TO THE CUSTOMER AND INNOVATIVE INSURANCE PRODUCTS

In 2011, the Company kept its focus on top-quality client service. Having the widest network of consultants in Lithuania, the Company placed a major focus on the strengthening of their knowledge and ability to clearly explain to customers all the insurance terms and conditions by informing them not only about insured events but also by explaining when and in what cases their claims are not going to be paid.

Last year, the Accident and Motor Own Damage Insurance Regulations were updated by making them clearer, more reader-friendly and adapted to better meet customers' expectations. Now Accident insurance has an even broader coverage and is also applicable to going in for non-professional sports such as playing basketball after work, or skiing in the mountains in one's free-time, etc.

Furthermore, the procedure for compensation of damages related to various scars was improved, and miscarriage due to an accident, eye socket and hip socket fractures, and rabies were added to the insured events. In the Motor Own Damage Insurance Regulations, the technical assistance package was improved, and the list of offered transportation services was expanded by supplementing it with compensations for forced hotel stay or travelling to the planned destination provided in case the car may not be repaired in one day.

While improving customer service and developing customer-friendly insurance products, AB Lietuvos Draudimas further developed the variety of sales channels in 2011 by expanding the service of insurance provided by telephone and upgrading the online insurance system.

The consistently strengthened quality of customer service was observed and appreciated by the Company's customers. Every seventh customer recommends AB Lietuvos Draudimas without any reservations to others as a reliable insurance partner providing pleasant and professional service and ensuring high-quality and efficient claim settlement.









## SPECIAL ATTENTION TO CLAIM SETTLEMENT

While improving the quality of customer service, AB Lietuvos Draudimas implemented the project “Promise” in 2011 and was the first in the Lithuanian market to undertake an obligation to clearly notify its customers when precisely their claim will be settled and reimburse it no later than by the declared date.

The survey conducted among the insurance customers revealed that the question when precisely the claim by a particular person will be settled is usually asked during the first conversation – not how many days it “usually” or “on average” it takes to do this, when damage is “planned” to be settled, or what is the period that this must be done “according to the law” but on which day precisely the money will reach the account of the insured person.

By being the first to implement the novelties in the insurance market, AB Lietuvos Draudimas has justified the name of the leader on several occasions already. In 2006 the Company was the first to introduce the short number 1828. During the call the customers can not only register their claim but also to agree on the amount of the claim. If a claim is complicated, the operator of Claims Call Centre gives a promise to the customer and specifies the number of days, during which his/her property will be examined by experts, and when the claim settlement process will be completed. At present, 40% of the total registered claims are settled immediately during the first call. Another 20% of claims are regulated upon the arrival of the customer to the Claims Expertise Centre. In total, AB Lietuvos Draudimas settles 60% of the total claims according to the principle “here and now”. Thus, the time of customers is saved and their expectations regarding speedy claim reimbursement are met.

During the implementation of the project “Promise”, AB Lietuvos Draudimas improved the claim registration and settlement proc-

esses. From now on, each claim is served on the basis of “one stop shop” principle, i.e. every claim has one appointed expert who is responsible for all communication with the customer during claim settlement process.

The past several years of the insurance market have been marked by the significant growth in the number of claims. If we compared the year 2010 with 2009, we could see that the number of recorded claims grew by 30%, and this growth was mainly related to the more intensified natural disasters. In 2011, the quantity of paid claims remained similar to that of 2010 and amounted to LTL 197,8 million.

With a view to ensure more efficient management of the claim settlement process, AB Lietuvos Draudimas strengthened the activities of its Claims Call Centre. Since 2011 the Centre is ready to regroup its employees and efficiently handle larger flow of claims notifications. In case the flow of calls has suddenly grown several times, the Company has technical possibilities to direct part of the flow toward the call centres of its external partners operating around the clock.

The new system will be particularly helpful in dealing with the increased flow of calls after the damage caused by storms, floods, snowstorms, black ice or other natural disasters. Usually, the experts of Lietuvos Draudimas register about 800 customer calls regarding the suffered damage per day, after the storm or after the long weekends, the flow of calls increases up to 1.400.

The Lithuanian Broker Association immediately noted the changes made by AB Lietuvos Draudimas in the field of claim settlement and the Company received the award “For the Proper Claim Payment” in 2011.





## BEST PLACE TO WORK

As leader on the country's non-life insurance market, AB Lietuvos Draudimas seeks to "be everyone's first choice" in every way. Our goal is becoming the "first choice" according to the "preferred employer" criterion among others, so the Company takes extra care of its employees' wellbeing. The team working at AB Lietuvos Draudimas enjoys a common staff development, incentive and motivation system including everything from induction for new staff to maintaining efficient relations with the Company's retired employees.

At the end of 2011, the Company had 1.192 people.

Our primary focus is developing engaged staff. Such employees are satisfied with their workplace, tasks and duties, know what is expected of them at work and have every opportunity to develop and to feel appreciated for the job done. According to research findings, the most engaged companies enjoy a 12% higher customer satisfaction, a 18% better productivity and a 15% lower staff turnover. Staff engagement is measured based on international standards and is performed using the same methodology as in companies round the globe.

In 2011, the Company enhanced the engagement of its staff from 4,42 (2010 result) to 4,55 points (findings from 2011 staff Engagement Survey) and ranked in the top quartile of the world's companies. The highest quartile of world companies means 25% of companies worldwide with the highest staff engagement index.

In 2011, the Company's employees assigned 4,70 points (out of 5 points) to the statement "I am proud to say that I work for this company", whereas the statement "I would recommend my company as a very good employer" scored 4,55 points (out of 5

points). In 2011, this survey involved 97% of employees from the top level managers to insurance consultants.

To enhance employee self development opportunities and their knowledge of what expected from them at work, in 2011 the Company launched an online learning tool Learning Zone. It provides employees with opportunity to review their capabilities, develop them and plan future career. All employees may spend one hour per week for their individual learning under personal development plans, connect to e-learning courses, and read specific online professional literature. This tool also is used for timely communication on novelties at work or other necessary information.

Good performance of our staff is also appreciated at the annual Platinum Club election of the RSA Group. This award is handed out to professionals who are perfect performers, exceed expectations and are consistent in following the Company's values. Every year Company employees select and evaluate the Best Employee of the Year from each department and the Dream Team of the Year.

In 2011, the long-term efforts of the Company to enhance employee engagement, to improve their working conditions and to create possibilities for professional development were recognised in the annual Business Merit competition organised by the Ministry of Economy, where AB Lietuvos Draudimas received the award "The Best Place To Work".

## OUR SOCIAL RESPONSIBILITY ACTIONS

As a responsible member of society and an employer, AB Lietuvos Draudimas contributes to the welfare of residents through development of its business and care for its employees, as well as proactive education of society on insurance and financial matters, participation in support programmes and initiation of social projects.

The best known and most popular initiative of the Company is a road safety campaign "Protect Me" intended to draw the attention of society to the child road safety. In 2011, this campaign was organised in the whole country, where, in September, the crossings close to schools were marked by the yellow campaign sign and AB Lietuvos Draudimas provided accident insurance to schoolchildren for the entire month. During the campaign that was held for the twelfth time already, attempts were made to stress the impact of the speed on the braking distance. During the campaign, this dependence was demonstrated by the Ambassador of the Campaign Racer Darius Jonušis.

In 2011, the Company further continued another initiative launched in 2010 intended for the training of disciplined drivers. In cooperation with the Vilnius City Road Police and Internet portal DELFI, the National Road Traffic Regulations Examination was organised. The aforesaid examination was expanded to cover the whole of Lithuania and was simultaneously held in Vilnius, Kaunas, Panevėžys, and Klaipėda. The drivers could also test their knowledge on the Internet as well.

In 2011, AB Lietuvos Draudimas further continued its long-term partnership with Junior Achievement of Lithuania, which provides economic education to schoolchildren. The Company's employees participated in the Young Colleague project and acquainted schoolchildren with the activities of the Company during the implementation of this project. The voluntary activities and assistance of the Company's employees to this organisation

was recognised by the RSA Group as well. Mr. Kęstutis Gadeikis, Chief Actuary of AB Lietuvos Draudimas and a JAL volunteer, was recognised as the "Volunteer of the Year" for his assistance as well as active participation in youth innovation and business camps, for the organised Christmas insurance competition for schoolchildren and won the financial support for JAL amounting to 5,000 pounds, which will be used for other youth education projects.

The RSA Group, to which the Company belongs, actively encourages its employees to voluntarily participate in various projects and initiates them itself as well. In 2011, around 300 employees of the Company together with their colleagues from other RSA companies participated in the "Arctic Challenge" project aimed at drawing the attention of society to climate change. The employees divided into teams competed between themselves who will make more steps, proposed various green ideas and collected money for the long-term partner of RSA – the World Wildlife Fund (WWF). One of the Lithuanian teams, which crossed the whole Lithuania on foot, was only slightly overtaken by the leaders and ranked third in the whole RSA Group.

The environmental efforts were related to the daily operations of the Company as well. In 2011, the Company assumed an obligation to purchase and consume green electricity produced from renewable energy sources and was the first in the country to receive the certificate "Powered by Green".

In 2011, the Company's employees joined the global initiative "Earth Hour" and turned off their non-essential lighting for an hour. This campaign is aimed at reducing pollution at least for a short time and thus draws attention to ecological problems.

The Company further continued its other sponsorship commitments as well. AB Lietuvos Draudimas allocates over LTL 50,000 to different social initiatives every year.

## A RELIABLE PARTNER TO CUSTOMERS

AB Lietuvos draudimas has around 500.000 residential and business clients. We believe that our top-quality customer service and added benefits from services for the clients are the success factors for our leadership in the insurance market.

In 2010, the Company launched a special Voice of the Customer system, which enables to identify customer expectations and their opinion on the work of the Company and, having regard to the obtained results, measures aimed at improving the targeted indicators are applied. The Voice of the Customer is obtained using international system and it is measured on the basis of the Net Promoter Score (NPS) indicating the customer loyalty rate.

In 2011, a total of 11.622 customers were interviewed and their NPS were regularly measured and studied. The obtained results helped the Company remain a reliable partner to its customers. In 2011, the NPS stood at 57%. Compared to 2010, it grew by 7 points (50% in 2010), and this indicates the steadily growing weight of customer feedback on the Company and the level of recommendation.

Since 2011, the departments which received the highest NPS index are awarded by transitional "Voice of the Customer" award.

In 2012, the Company will strive to remain a reliable partner to its customers, improve its activities and make its business processes more transparent, convenient and acceptable to customers.

Based on the requirements approved with Resolution No. IK-3 of the Securities Commission of the Republic of Lithuania of 23 February 2007 "Rules for preparing and submitting periodic and additional information", additional information is provided in the



supplement to AB Lietuvos Draudimas annual report for the year ended on 31 December 2011.

Risk management of the Company is described in note 2 to the financial statements.

A handwritten signature in black ink, which appears to read "K. Šerpytis".

Kęstutis Šerpytis  
Chief executive officer, Lietuvos draudimas AB  
5 March 2012







## HOW WE ACT

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### MISSION

We are a reliable insurance partner, ensuring security and freedom to act.

### VISION

“Lietuvos draudimas” is everyone's first choice:

- Most modern and most effective in the market;
- Most acceptable for the clients;
- Most attractive to employees.

### VALUES

#### EXCELLENT SERVICE

- We stay close to our customers.
- We believe that every person is valuable.
- We look for and find mutually beneficial solutions.
- We strive to achieve the common goal by sharing knowledge and experience.

#### FULLY COMPLETED TASKS

- We are not afraid to assume obligations and firmly adhere to our promises.
- We admit our mistakes, learn the lessons and never repeat them again.
- We trust and win the trust of the others.

#### WISE ACTIONS

- We find best solutions based on our knowledge and experience.
- We know well what we are doing and actively seek to learn even more.
- We set ambitious goals and achieve them.

#### GREAT IDEAS

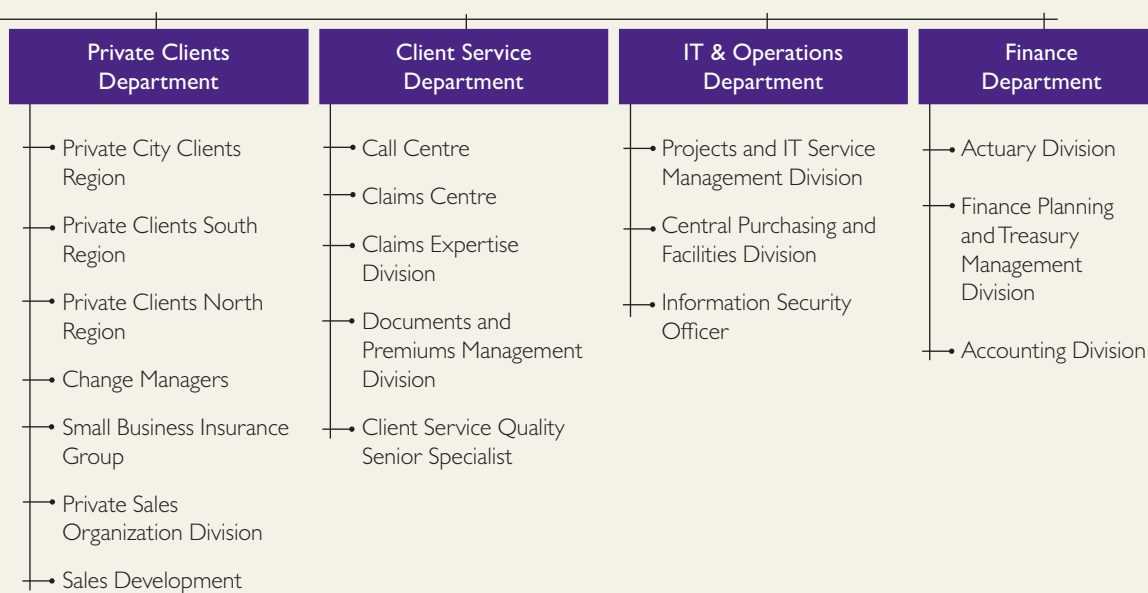
- We eagerly embrace novelties – unconventional solutions open new possibilities for us.
- We strive to set an example for others.

#### POSITIVE ATTITUDE

- We achieve important victories by winning small daily battles.
- We win because we are strong and not because the others are weak.
- We are happy about our colleagues' victories just as we are with our own achievements.

## THE STRUCTURE OF THE COMPANY





## SHAREHOLDERS

AB "Lietuvos draudimas" belongs to RSA, one of the largest insurance groups in the world. The company "Codan" belonging to the group, holds 99,9 % of its shares.

"Lietuvos draudimas" shares. RSA finished 2010 earning 474 million pounds of profit before taxes and wrote 7,455 billion pounds of premium, i.e., 11 % more than in 2009.

## SUPERVISORY COUNCIL

Andrew John Burke  
Chairman of Supervisory Council, RSA,  
UK

Kaido Kepp  
„Codan Forsikring“, Estonia

Helle Meineche  
„Codan“, Denmark

Tara Kneafsey  
„Balta“, Latvia

Miriam Connoles  
RSA, UK

## VALDYBA



**Kęstutis Šerpytis**

Chairman of the Board of Directors and  
Chief Executive Officer,  
AB Lietuvos Draudimas



**Vygantas Reifonas**

Finance Department Director,  
AB Lietuvos Draudimas



**Julius Kondratas**

Director of Claims and Risk Department,  
AB Lietuvos Draudimas



**Virginija Mikutaitė**  
Human Resources Department  
Director,  
AB Lietuvos Draudimas



**Artūras Juodeikis**  
Client Service Department Director,  
AB Lietuvos Draudimas



**Raimondas Geleževičius**  
Director of Private Sales  
Department,  
AB Lietuvos Draudimas



**Darius Nedzinskas**  
Director of Commercial Sales Department,  
AB Lietuvos Draudimas



**Aurelija Kazlauskienė**  
Director of Strategy, Customer and  
Marketing Department,  
AB Lietuvos Draudimas