ERGO Insurance SE

Annual Report 2021

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Core Business:	Non-life Insurance
Financial Year:	1.01.2021-31.12.2021
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Members of the Supervisory Board:	Adam Roman
	Christine Kaaz
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Auditor:	Ernst & Young Baltic AS
Accompanying documents:	Independent Auditors´ Report
	Profit Allocation Proposal
	Information on the Sole Shareholder
	List of Business Activities

Contents

Management report

Explanatory note to the management report

1. COMPANY OVERVIEW

1.1. Legal Structure

ERGO Insurance SE (hereinafter ERGO or Company) is one of the leading insurance companies in the Baltics, offering a comprehensive selection of property insurance solutions to both private and corporate clients.

ERGO is operating in the Baltic countries, with the headquarters in Estonia and branches in Latvia and Lithuania. ERGO is operated in the legal form of *societas Europaea*, a public company registered in accordance with the corporate law of the European Union.

ERGO Insurance SE is 100% owned by ERGO International AG, Germany, which is part of the ERGO Group AG (hereinafter ERGO Group or Group), Germany. ERGO Group is one of the major insurance groups in Germany and Europe.

The Group is represented in around 30 countries worldwide, focusing mainly on Europe and Asia. About 38,000 people worldwide work as salaried employees or sales agents for ERGO Group. It offers a comprehensive range of insurances, pensions, investments, and services. ERGO Group is part of Munich Re (Münchener Rückversicherungs-Gesellschaft AG, Munich) – one of the world's leading reinsurers and risk carriers.

Reliability is confirmed by the ratings given to ERGO Group's owner and parent: Munich Re's rating is AA3 or excellent (according to Moody's); ERGO Group's rating is AA – (according to Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list.

ERGO Group collaborates with the world's leading reinsurance risk carriers (Munich Re, Gen Re, Swiss Re, SCOR, and Hannover Re) and uses reinsurance to mitigate its risks and ensure smooth settlement of claims regardless of size.

ERGO Group AG consolidates four separate units: ERGO Deutschland AG, ERGO International AG, ERGO Digital Ventures AG and ERGO Technology & Services Management AG.

Munich Re Group Structure

1.2. Strategic vision

Our Mission: **Create Your World. We Manage the Risks.**

We believe that every individual can shape his or her world for the better with ERGO there to assess, calculate and cover current and future risks. This is the basis of our actions and our relationship with our customers: as an active companion at every stage in life, as an equal partner, and as a positive driving force for the future.

Our Brand Promise: **Protecting the Future is in our Nature**

We insure people and companies for the future. For us, looking ahead and acting sustainably is a matter of course. We make an active contribution to social projects and seek innovative solutions to the challenges posed by climate change.

Our Values: **Support, Simplify, Inspire**

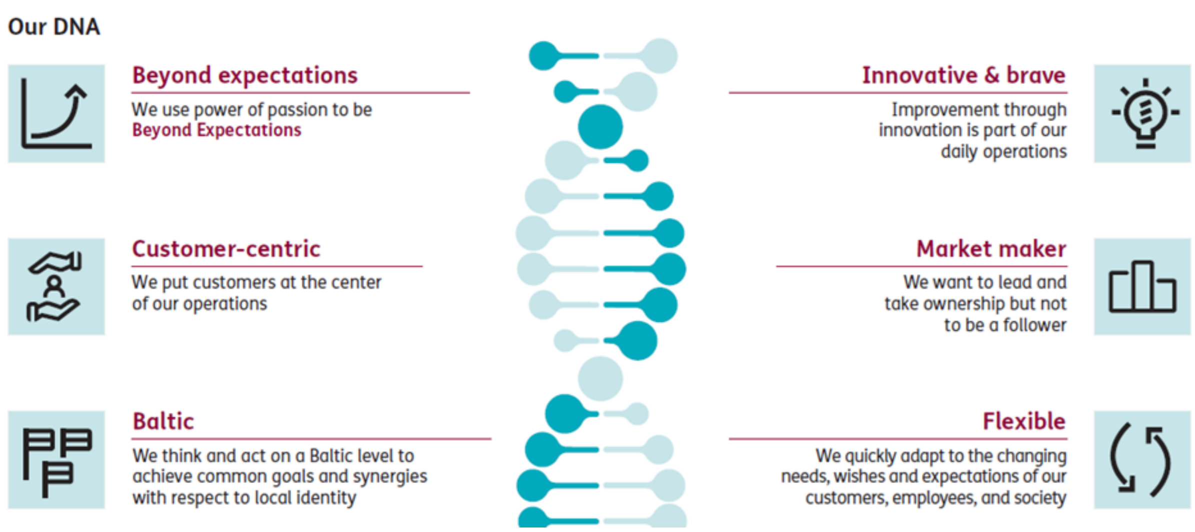
We intend on using all available resources to support our customers – as comprehensively as possible. We intend on making our customers' lives a little bit simpler every single day. We intend on freeing society and customers from risks and opening up new perspectives.

Our people, **our DNA**

On a daily bases we act to create a better world to our clients, create added value for the Group and for society and one of our major goals is to be also highly appreciated employer for our current employees and future candidates – all sharing our DNA. Our customer-centric approach is starting from our people, from their wellbeing and development - personal and professional.

Our Brand: According to a study by Brand Capital, the largest brand and lifestyle research company in the Baltics, ERGO is the most beloved, greenest, and most humane insurance brand in the Baltics. In the overall ranking, ERGO is ranked 62th in the Baltics among various brands.

Our engagement: ERGO international engagement survey was carried out in 2021 showed, that on Baltic level our employees' engagement is extremely high, reaching 91%. When compared to last survey conducted in 2019, we can see strong improvements in all areas.



The business activities of ERGO Insurance SE stem from the strategic framework of the ERGO Group with the main objective being customer satisfaction. The ERGO Group is strongly focused on innovation and digitisation. The focus still remains on providing a customer-centric approach, digital development and the transition to common systems and operations across the Baltics.

ERGO is continuing with the harmonisation of its processes in the Baltics, following the business model for the company. The objective of these changes is to take advantage of synergies and experiences in the Baltics while respecting the local specificities and making full use of local opportunities.

Changes in the structure and operating principles of ERGO have supported the company's way of thinking taking into consideration the needs of customers by providing them with clear added value. In the year 2021, the company continued with activities planned in the ERGO Baltic Strategy 2021-2023.

1.3. Main achievements / recognitions on company level 2021

Category	Award-winning performance	Country
Company / brand value	➢ Brand Capital Research: most loved, green, humane insurance brand	Baltic
	➢ Estonian Chamber of Commerce and Industry: 4th place Finance Sector; 14th place large Enterprise	Estonia
	➢ Nielsen IQ Brand Study, Total Awareness Nr1 (96%)	Baltic
Sustainability	➢ Annual Sustainability Index: Gold category	Latvia
	➢ Responsible Business Forum: Bronze category in CSR	Estonia
Client-centric	➢ Best Customer Service Lithuania (95,5%) based on Mystery Shopping.	Lithuania
	➢ Car sellers Association, Silver Level Award	Estonia
	➢ Internal NPS, yearly average progress (LT+4,2; EE +3,7%; LV+6,3%)	Baltic
Top Employer	➢ CV-online: Best Employer, 9th place on finance sector	Estonia
	➢ ERGO International Engagement Survey, Baltic Engagement Rate 91%	Baltic
Family Friendly	➢ Family friendly company: Silver level Latvia, Entry level Estonia	EE, LV
	➢ Smart work award 2021	Estonia

1.4. Year 2021 in figures

Main figures	Total Baltic 2021
Gross premium income	199.8 million euros
Total assets	330.6 million euros
Investments in financial instruments	210.2 million euros
Insurance contract provisions	202.2 million euros
Equity	77.5 million euros
Comprehensive income	-3.1 million euros
Return on equity	-3.9%
Insurance contracts in force	1 035 731
Number of ERGO offices	12 in Estonia, 19 in Latvia, 56 in Lithuania
Number of employees	902

2. Market and Macro Economical View

2.1. Economic environment

According to the estimates of the European Commission made in February 2022, European economy is anticipated start on weaker note in 2022 than previously forecasted. Following a strong recovery by 5.3% in 2021, the EU economy is projected to grow by 4.0% in 2022, and by 2.8% in 2023.

Compared to previous forecast from autumn 2021 inflation projections have been revised up, peaking in first quarter of 2022 and remain above 3% until the third quarter of the year. As the pressures from supply constraints and energy prices decrease, inflation is expected to decline markedly in last quarter of the year and settle at below 2% in 2023. In total, inflation in EU is forecasted to increase from 2.9% in 2021 to 3.9% in 2022, before declining to 1.9% in 2023.

Estonia

In Estonia GDP increased significantly by 8.3% in 2021 after dropping by 3% in 2020. Growth is expected to return to more moderate, but still solid rates of 3.1% in 2022 and 4.0% in 2023, supported by a recovery in employment, sustained wage growth and dynamic foreign demand. Inflation is set to upswing this year, driven by the transitory increases in imported energy prices gradually passing through to other goods and services. Consumer price growth accelerated into the second half of 2021 and is estimated to remain elevated for the following two quarters. Annual inflation was 4.6% in 2021 and is forecasted to be at the level of 6.1% in 2022, and 2.1% in 2023. The recent energy price jumps and global supply bottlenecks are bound to raise manufacturing, transport, and delivery costs, affecting price developments in a significant portion of the economy, fading away only gradually. By 2023, labour shortages, notably for skilled labour, are expected to translate into wage pressures in various domestic sectors, pushing core inflation up. The unemployment rate slightly declined from 2020 to 6.2% this year and further steadily drop is forecasted afterwards, to 5.2% in 2023. Wage dynamics have been largely unaffected by the crisis, with repeated increases in 2020 and 2021, particularly in the government sector. Wage growth picked up in 2021 and accelerated thereafter, as the labour market became tighter. Combining the employment and wage projections, compensations per employee are set to soften until 2022 and then speed up in 2023. As a result, unit labour costs are forecast to start rising again next year, although at a moderate pace. However, wage rises that were secured in recent months and wage contract renewals coming due in 2022 are bound to reflect the price increases, with persistent effects on core inflation throughout the forecast horizon.

Latvia

Latvia's GDP grew by 4.8% in 2021 driven mainly by exports and investment. Consumption held up well due to sizeable government support measures. However, rapidly rising infection rates prompted a tightening of containment measures in October which is expected to set to slow down the economy in final quarter of 2021 and in the beginning of 2022. GDP growth for 2022 is forecasted at 4.4%. In 2023 the growth is projected to slow to 3.8%. Private consumption and services exports are expected to be the main growth drivers as they still have some way to go before, they reach their pre-pandemic levels. Investment is forecast to continue its solid march thanks to a pick-up in inflows of EU funds. Growth in goods exports is expected to continue benefitting from the EU recovery, although it is set to slow compared to 2021. Unemployment rate decreased to level of 7.5% in 2021. In 2022 and 2023, rapid growth in the services sectors is set to add to the demand coming from investment, lowering the unemployment rate to 6.6% in 2023, close to its pre-crisis low. At the same time, the tightening of the labour market is set to support rapid wage growth. Consumer price inflation reached 7.9% in 2021, driven by rapid energy price increases. The spike in energy prices in the second half of 2021 is set to carry over to next year, translating into 5.9% growth in the inflation in 2022. In 2023, inflation is forecast to slow to around 1% as energy prices reverse.

Lithuania

Lithuania's GDP is projected to grow by 4.8% in 2021, following a mild decline of just 0.1% in 2020. Lithuania's economy expanded rapidly in the first half of 2021, largely driven by an increase in exports, with an exceptionally strong performance of exports of pharmaceutical products related to COVID-19. Exports are forecast to continue contributing strongly to growth over the rest of the year.

GDP forecast for following years is expected to increase by 3.4% both in 2022 and in 2023. Economic growth is forecast to be supported by the good financial health of businesses, accumulated household savings and rising household income, though it might be constrained by re-emerging labour shortages and supply bottlenecks. Exports are set to contribute less to real GDP growth in 2022 and 2023, due to a slower rise of external demand and geopolitical tensions.

Unemployment rate is expected to decrease from 8.5% in 2020 to 6.0% in 2023. Shortages in the labour market have an impact on wage developments. The growth of wages is set to remain sizeable over the forecast period, though the pace is expected to weaken.

Inflation in Lithuania is expected to pick up in 2021, mainly driven by increasing prices

of energy and non-energy industrial goods, both influenced by developments in external markets. Inflation is forecasted to reach 4.6% in 2021, further picking up to 6.7% in 2022 and moderate to 2.2% in 2023.

2.2. Legal environment

The changes of the Traffic Act

The changes of the Traffic Act came into force from 1st January 2021. The law introduces a new category of vehicles - the personal light electric vehicle, which includes various electric vehicles designed to carry one person, such as electric scooters, electric skateboards, and other similar non-seated vehicles. According to the law, a light motorist may ride primarily in an environment intended for pedestrians and cyclists, as an exception also on the road. The maximum driving speed is set at 25 km/h for personal light electric vehicle, with a speed that does not endanger the pedestrian. In order to drive on the road with a light vehicle, a driver of a light vehicle aged 10-15 is required to drive a bicycle and a driver under the age of 16 must wear a helmet with a fastened belt. It also sets requirements for the power of light vehicles, the use of reflectors and lights, the maximum permissible width of light vehicles, requirements for stopping and parking, and sets the levels of fines for violating traffic requirements.

Financial Supervision Authority's (FSA's) Guidelines "Limitation of Payments during the COVID-19 Pandemic"

As from 08th of February 2021, FSA has implemented the recommended guidelines on "Limitation of Payments during the COVID-19 Pandemic". According to these guidelines it was expected that supervised entities must refrain from the following activities until 30.09.2021: (a) the payment of dividends or the making of an irrevocable commitment to pay dividends; (b) repurchases of ordinary shares; (c) the creation of an obligation to pay variable remuneration to specified employees (material risk taker), if the transaction reduces the volume or quality of own funds. The supervised entity may not comply with the obligation set out by FSA if for this purpose is a clear direct obligation arising from law, of which the Financial Supervision Authority has also been notified in advance.

The new provisions of the Fire Safety Act

The changes of the Fire Safety Act came into force as from 1st March 2021. The purpose of the law is to increase the number of fire-safe objects in Estonia, to make people aware of their own responsibility for meeting fire safety requirements, to reduce the number of people suffered in fires and to create more flexible opportunities for public-private cooperation. Local governments will have greater decision-making power regarding the procedure for building and use permits. Owners of industrial and warehouse buildings, office buildings and garages that meet certain criteria must carry out a fire safety inspection at their site instead of a self-inspection fire safety report. The interval for communication with the Rescue Board will also become longer - instead of submitting the current annual report, a fire safety inspection must be performed once every three years at the listed objects. The fire safety service provider must submit a notice of economic activity. In order to reduce soot poisoning and the resulting deaths, a soot gas sensor will become mandatory in the presence of solid fuel heating systems. The carbon monoxide sensor has been made mandatory to install in a building with a wood-burning stove, stove, or fireplace as soon as possible, but no later than 1 January 2022.

Guidelines on information and communication technology security and Governance

As from 7th of June 2021 the EIOPA based Guidelines on information and communication technology security and Governance came into force (established by FSA decision). Across the insurance sector, including both traditional and innovative business models, there is an increasing reliance on information and communication technology (ICT) in the provision of insurance services and in the

undertakings' normal operational functioning, e.g. digitalisation of the insurance sector as well as interconnectedness through tele-communications channels (internet, mobile and wireless connections, and wide area networks). This makes undertakings' operations vulnerable to security incidents including cyber-attacks. It is therefore important to ensure that undertakings are adequately prepared to manage their ICT and security risks. This is the main purpose of those guidelines – to assure that insurance companies are ready to assess adequately related risks in their daily activities and strategical planning.

2.3. Insurance Market

Non-life Insurance market volume in Estonia in 2021 grew by 3,2%, reaching 394 million euros. ERGO's market share slightly declined by 0,6 pp to 17,2% though maintaining third position. Compared to previous year Motor liability and Watercraft Insurance decreased the most (-4,0% and -13,7% respectively) while Guarantee and Liability lines had highest growths (29,9% and 18,1% respectively). ERGO improved market position in Property and Accident lines.

In Latvia non-life Insurance market volume increased by 4,6% to 321 million euros. ERGO's market share decreased by 0,7 pp to 10,8% while keeping the fourth position. Motor liability and Guarantee insurance markets declined by 11% and 10,3% respectively. ERGO improved market positions in Motor liability and Accident Insurance.

In 2021 Lithuania non-life Insurance market had highest growth in Baltics by 7,3% arriving at 666 million euros. ERGO's share slightly decreased by 0,4 pp to 14,8% with same, third market position as year before. Alike in other countries Motor liability market declined (-1,3%) while Motor own damage , Liability and Property Insurance markets grew by 9,5%, 19,7% and 15,4% respectively. ERGO improved market position in Liability Insurance.

3. Sustainability overview

3.1. Our dedication

The sustained protection of environment and the climate is an important part of our corporate governance as an investment into the future. We together with ERGO Group, set ourselves the objective of significantly reducing carbon emissions in our own business operations, our insurance business, and our investments as part of our “Climate Ambition 2025”. We aim to gradually move towards net-zero emissions across all sectors by 2050. In business operations net-zero emissions will be reached already in 2030.

In our social engagement, we aim to contribute to helping society adapt to climate change and mitigate its consequences. Together with Munich Re, we promote international afforestation projects and assist start-ups with innovative business ideas on climate protection.

ERGO has undertaken to follow the ten principles of the United Nations Global Compact. These principles include commitment to the preservation, promotion and implementation of fundamental values related to human rights, humane working conditions, environmental protection, and anti-corruption efforts in our sphere of influence. We comply with domestic and international environmental protection legislations as well as other binding obligations and self-commitment to environmental protection. We also stand by the Principles of Sustainable Insurance (PSI) and the Principles of Responsible Investments (PRI), as well as the goals of the Net-Zero Asset Owner Alliance (AOA).

For our employees, we create a work environment that promotes performance and increases motivation – for example with flexible working hours, development opportunities and a culture that appreciates their individual diversity. We aim to use automated processes and agile working methods to inspire them for the process of digital transformation.

We follow Munich Re and ERGO Groups ESG criteria, that stands for environmental, social and governance criteria, which describe sustainable targets and approach.

Environment: lowering carbon emissions, reducing resource consumption and preventing environmental damage.

Social sector: the upholding of human rights and labour rights, equality, health protection.

Governance: responsible corporate governance, dialogue with interest groups, transparent reporting.

3.2. Governance

3.2.1. Economical Liability

We in ERGO believe that good governance is an essential prerequisite for sustainable value creation. Our key principles and convictions apply for all our employees and form the framework for our sustainable actions. In everything that we do, we act on the basis of common values, respecting the rights of others and handling the data entrusted to us with care and attention.

We have supplemented the applicable laws and external regulations with in-house codes of conduct for employees and sales staff. These set out binding rules for what we believe constitutes ethical business conduct. All managers must declare their private interests before starting work.

External service providers are required to sign an anti-corruption agreement and observe the principles of the UN Global Compact. The ERGO Anti-fraud Management Guideline, includes principles and rules on preventing, uncovering, and investigating economic crimes.

In order to prevent money laundering, a Group Money Laundering Officer and a deputy were appointed for ERGO Group AG at the beginning of 2020 in line with the statutory requirements. Upon making donations, we do not accept any benefits or favours in return.

We grant possibilities for our employees and customers to give feedback on compliance breaches via our homepage; all claims are solved or given feedback about actions taken within 5 working days.

Employees and external third parties – such as customers and suppliers as well as other business partners – can additionally report suspected breaches on the ERGO international whistle-blowing portal. All employees and managers undergo regular training with the aim of preventing compliance breaches.

3.2.2. Digitalization and Data Protection

Driving forward the digital transformation is a key focus of our corporate strategy. We are counting on the opportunities presented by digitalisation to meet the expectations of our customers and ensure ERGO remains successful over the long term. Digital transformation is managed by ERGO Digital Ventures and, run locally based on strategic view and following – our Digital Strategy. During 2021 we included several robots in our processes in order to achieve quicker claims handling, smooth NPS process, pricing and controlling. And many of those were programmed by interns continuing their work life in ERGO also afterwards.

Protecting this data is a high priority at ERGO. We collect data in a transparent way, and only to the extent that is required for the particular purpose. In-house guidelines and voluntary commitments by the industry supplement the implementation of legal requirements. In order to ensure compliance with data protection requirements throughout, employees undergo regular training to raise their awareness of data protection issues.

COVID-19 pandemic work conditions - working remotely from home, also using private hardware - posed an additional challenge for IT security. External access to ERGO systems and data is always subject to high security standards to ensure that the systems are protected at all times.

3.2.3. Human Rights

Protecting human rights is a natural part of our value-based corporate governance. This commitment is expressed in the Munich Re Policy Statement on Human Rights, which also applies for ERGO.

We are committed to the safeguarding of human rights, as set out in the UN Principles on Business and Human Rights, the International Human Rights Charter, the UN Global Compact, and the International Labour Organisation

Declaration on Fundamental Principles and Rights at Work. These principles include commitment to the preservation, promotion and implementation of fundamental values related to human rights, humane working conditions, environmental protection, and anti-corruption efforts in our sphere of influence.

3.3. Social responsibility

3.3.1. Customer orientated services and products

Customer- centric approach is in our DNA and has a special place in our strategy. We support our customers in every phase of life. In doing so, our role is to estimate and assess present and potential future risks, and, most importantly, to protect against them. Our range of insurance solutions addresses the needs of our customers and offers responses to changes and developments in society.

We contribute our expertise to find solutions for social challenges. For example, in 2021 we launched a new product in Estonia - cancer insurance, that is aimed to help people on their recovery journey and, also to raise awareness. On the launch of the product we started a charity project with Cancer Union.

ERGO products and services are focused on prevention, which helps to reduce environmental problems as every loss event is a burden on the environment. Therefore, big part of our job is to carry out damage prevention risk assessment visits intended to prevent possible damage at client’s property.

We promote environment friendly solutions during our claims handling process – for 3 years we have been carrying out a campaign for our clients to promote bicycling. During a claim handling process, we offer innovative spot repair possibility for vehicles body work, if collision caused only minor defects.

Customers’ feedback is our guiding map, and it has been constantly monitored pan Baltic by NPS score. During 2021 all three Baltic countries made big steps to improve our promoters´ score. Also, we constantly valuate our customer care processes by carrying out mystery shopping research. Based on the company Dive Group results we were No1 insurer on meeting the quality standards set.

We implemented digital monitoring system to handle customers claims and to ensure efficient and quick feedback when solving problems and reviewing our processes if needed.

3.3.2. Sponsorships / social responsibility actions 2021

As part of our strategy, ERGO focuses on three global challenges that are closely associated with our core business: mitigating the effects of climate change, improving access to healthcare / promoting healthy lifestyle, and enhancing risk awareness. The projects are carried out locally, but group-wide reporting on activities and expenditure ensures transparency and lays the foundations for our social commitment reporting.

We prefer projects that go together with our own business activities, that support them, and that help to offer additional value to ERGO's employees and clients.

We are members of the Responsible Business Forum, Estonian Motor Insurance Bureau, Estonian Insurance Association, German-Baltic Chamber of Commerce in Estonia, Latvia, Lithuania, PARE and many more that in help with partners promote community and social cohesion.

To celebrate ERGO 30th anniversary in Lithuania, we initiated environment targeted project „A Thousand reasons to walk with ERGO" and invited people to take part in the walking challenge. For the collected steps, we promised to plant a grove of 1000 oaks. Munich Re also made a significant contribution to the initiative, so its support allowed a 3.5-fold increase in the number of trees planted. And 50 of our colleagues from all over Lithuania contributed by planting trees.

More than 10 thousand people who joined the challenge expressed a desire to grow as big of a forest as possible, thus illustrating that the environment in which they live really matters to them, and together we have overcome 5.8 billion steps. Final result: ERGO 30th anniversary gift to Lithuania and nature – 5000 planted trees.

ERGO Lithuania 30th birthday event- planting oaks.

For the sixth year in a row, ERGO Estonia gave scholarship to young athletes in amount of 25 000 EUR. The fact that our scholarship is not only inspiring young people, but also helps athletes reach the highest level, was confirmed by the number of our scholarship holders who redeemed their Olympic tickets. Namely, 7 young athletes supported by this project represented Estonia in Tokyo Olympic Games, and also one gold was bought home by one of them - Erika Kirpu.

ERGO Estonia also supported an active lifestyle and environmental sustainability with a traditional bicycle campaign that lasted through the summer, in the framework of which customers could choose a bicycle, instead of a replacement car during the cars body work under casco insurance. As part of the cycling campaign, we also encouraged our employees and larger audience to cycle more and promoted safe driving.

As a main sponsor, ERGO Estonia supported Global Sustainability Hackathon Climathon for the second time. Climathon is an international movement, orchestrated by EIT Climate-KIC, to engage cities and citizens in climate action. It lays the foundations for tangible projects, impact-driven start-ups, and long-lasting conversations with decision-makers around city plans and policies.

ERGO Estonia- main sponsorships/ activities in 2021

ERGO Estonia has cooperated closely with the Rescue Board over the years. The focus is on prevention and voluntary work. In addition to ERGOs support by offering insurance to their vehicles fleet, we also support each other on communication- sharing educational videos and drawing attention to loss events statistics to rise overall awareness / avoidance of accidents.

In Lithuania, we supported the environmental festival "Let's do it by the sea", in which, in addition to ERGO's financial contribution, ERGO employees and their children also physically participated in the protection of sea dunes. Also, we took part in a social campaign launched by Delfi which promoted the idea of avoiding mobile phone usage while driving.

In Latvia, we continued to support beach volleyball and also held the ERGO Open Championships to promote sporty and healthy lifestyle. ERGO employees also participated in the Riga Marathon. This year we also paid more attention to road safety and in cooperation with the driving school, completed an instructional video to explain the principles of safe driving.

3.3.3. People Management

Ensuring that employees can strike a balance between personal and work-related commitments has traditionally been a natural part of ERGO’s organisation culture.

We use numerous tools to support our employees with work-life balance approach and initiatives. We have created inspiring working environment where everybody has possibilities to grow as a person and at the same time not forgetting challenges our employees meet outside the working hours. Flexibility in terms of workload, remote work and working time has given to our employees better possibilities to combine career and private life.

ERGO Estonia has also been participating in the family- and employee-friendly employer programme launched by the Ministry of Social Affairs in 2020. ERGO was given a starting label, which indicates that ERGO is seen as having potential and that we have a supportive action plan for participating in the programme. ERGO's goal is to be nominated as family- and employee-friendly company by 2022.

ERGO has been recognized as a Family-Friendly Company in Latvia since 2018. Last year, in 2021, the Society Integration Foundation launched a new initiative "Family-Friendly Workplace", within which the implementers of the most family-friendly practices among employers in Latvia were honoured. 50 Latvian companies received the status, including ERGO.

During November 2021 ERGO Group held international employees engagement survey and we are proud to announce, that in ERGO Baltics, the engagement rate was increased from high 86% (in 2019) up to excellent 91% with participation rate 91% as well.

HR statistics are monitored on an ongoing basis (staff turnover, training hours, internal applicants to fill positions, ratio of men/women, age composition, etc.) to ensure data based decisions in areas impacting employees and human resources. Highly qualified and motivated employees and leaders are the foundation for our corporate success. Compensation schemes are established, implemented, and applied in line with the company's business and risk management strategy

In order to make the best possible use of their expertise, commitment, and enthusiasm for innovation, ERGO invests in further training and talent development on an ongoing basis. In 2021 one employee received as high as 28 hours of online and other training during the year and total time of trainings reached 36 201 hours. Important portion of the training activities compile IDD and mandatory trainings in order to ensure compliance of law requirements as well as ensure high awareness of governance topics

At the same time, we promote diversity and equal opportunities, while also safeguarding health and occupational safety. Our company benefits from the different experiences, ways of thinking and varied qualifications of our staff. This is why we develop our employees' individual strengths, are working to increase the proportion of women in management positions and integrate people with disabilities on equal terms. We are targeted on long term employer partnership - an average tenure in ERGO Baltics is as high as 8,3 years.

We are especially proud, that on different management level, there are 78,8% women. Also, statistics by age groups show, that we are valued employer for all age groups. Health and safety of our employees are very important for us, therefore we run risk assessments and action plans based on this. We provide to our employees' health insurance / sports compensation, also there are several possibilities for physical trainings – in ERGOs main office gym or gym machines in larger sales offices. Due to pandemic and long-term remote work we pay raising attention to mental health and general wellbeing with different trainings, initiatives as well as feedback culture.

3.3.4. Diversity / Main HR Statistics

ERGO HR & Diversity statistics	Total Baltic 2021		
Total number of staff		1242	
Gender balance	Male	263	21,2%
	Female	979	78,2%
Managers on Level 1-3	Male	59	33,5%
	Female	117	66,5%
Average age (years)	Male	42	
	Female	43	
Average tenure (years)		8	
Training hours per employee		28	
Employees on maternity leave		77	

3.4. Environmental responsibility

"Protecting the future is in our nature" – with this statement we dedicate ourselves for creating a better tomorrow and especially environment - making an effort to ensure minimal impact on our ecological footprint and to become totally climate-neutral by 2050 (business operations, investments, insurance).

As a financial services provider, our direct impact on the environment is limited since our business model is not energy- or resource-intensive. We become involved in areas where we can have a tangible and beneficial influence and make every effort to keep energy and resource consumption, and carbon emissions, as low as possible.

We raise awareness of environmentally friendly behaviour among our employees and customers alike. We are committed to moving our business operations across the Group to net-zero emissions by 2030.

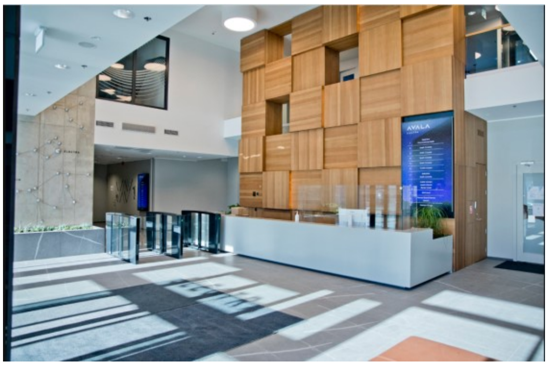
We will achieve this by focusing on the main factors driving our emissions – energy consumption and business travel. We calculate our carbon emissions from energy, paper and water consumption, business trips and waste generation on an annual basis. In this way, we determine our ecological footprint in accordance with internationally recognised methods and conversion factors, such as the GHG protocol.

Each individual employee is asked to help to reduce the consumption of resources within the company and also at home offices. For example, this year we concentrated on saving paper by reducing the printers in all offices in Estonia and Lithuania.

We raise awareness about digital waste and encourage people to delete data that is no longer required, with the aim of sensitising employees to the fact that data storage uses electricity and creates carbon emissions. Also, we promote climate-neutral travel by preferring bicycles – running social campaigns for clients and employees.

The implementation of our environmental and climate protection strategy has been monitored, documented, and evaluated via a uniform Group-wide environmental management system since 2012.

In organising tenders and making decisions, we make an effort to ensure minimal impact on our ecological footprint.



Future ERGO Estonia main office / Avala centre, credit for pictures Kaamos Group OÜ

In ERGO Baltic we implemented Environmental Management System in October 2021. It was a milestone in our fulfilment of ERGO Group strategy Climate Ambition 2025 with the main goal to reduce current CO2 emissions by a 12% per employee by 2025. In Lithuania Environmental Management System was audited in January 2022 and we received ISO 14001:2015 certificate.

We have decided that the head office of ERGO Estonia will move to more eco-friendly premises in 2022. Our future office Avala buildings bearing the marking of an environmentally friendly building – LEED GOLD – draw energy from the largest solar park in Tallinn, which helps to cover one-third of the energy needs of the entire commercial quarter. Innovative roofs are covered with an environmentally friendly membrane IKO Carrara the unique air-purifying surface of which can neutralise the annual emission of 3,750 cars over its lifetime.

3.4.1. Direct Environmental Aspects

Electricity and heating

Our electricity consumption is determined by our business activities and related office area infrastructure. It is related to such electricity consumption areas as lighting, cooling systems, IT equipment and other office support facilities. We currently evaluate and, in the future, we plan to use electricity only from renewable sources which will allow to significantly reduce our CO2 emissions amount in next years. All ERGO offices are supplied with district heating, but we are paying attention to heating system adjustment principles based on our employees working hours. During 2022, the main office in Estonia will be moved into one of the most environmentally friendly buildings in Tallinn, that is using additionally solar energy.

Fuel

We use two types of transport fuel – diesel and petrol. Fuel consumption is related to company's business activities, significant part of which comes from customer visits.

In order to reduce our CO_2 emissions amount in the future, we are focusing on further transport usage optimization and investment in low carbon consuming vehicles.

Business travels

This environmental impact category is related to our employee's business trips which are done via air flights or bus trips. As a result of Covid-19 impact and company's started digitalization activities we plan to significantly reduce business travels amount and subsequent CO_2 emissions consumption.

Waste

We are strongly focusing on reduction of various waste materials. Due to our digitalization process we significantly reduced used paper amount and expect further reduction in the future. In addition, we systematically focus on usage of recyclable materials and IT equipment and constant reduction of various material consumption.

Water

As insurance services provider which does not produce physical products, we generate minimal amount of wastewater and it is discharged into local sewer network. Drinking water is provided to employees in accordance with and amounts defined by work safety regulations.

3.4.2. Indirect Environmental Aspects

Office technical infrastructure

We require that office technical infrastructure systems be maintained carefully and by qualified service providers. Still we recognize that incidents in such areas as energy supply, air conditioning and cooling equipment, water and wastewater supply can have serious environmental impact.

Supplier and service provider management

We are making sure, that our service providers and suppliers selection process is in compliance with defined social and environmental standards. We evaluate whether during evaluation process of service providers and suppliers' environmental aspects can be considered as part of our selection criteria. We inform our new suppliers and service providers about our environmental policy, guidelines, and related activities.

3.4.3. Overview of carbon emissions

According to our Climate Ambition 2025 we have a goal to reduce carbon emission by 12% till 2025 with 2019 as a base year.

To make it happen we implemented methodology to measure our „carbon footprint", monitor it and find ways to reduce it. In frames of CSR strategic initiative, we decided to implement Environmental Management System (EMS) in ERGO Baltic.

Many tasks were done in order to implement new system at ERGO: e.g. our water, electricity, heating, waste and travels data are tracked and converted to CO_2 emissions and action plans will be developed to reduce CO_2 emissions in order to reach the 12% reduction, environmental risks in our organization were identified and monitored. In Lithuania Environmental Management System was already audited and certified, so we can see our progress in carbon emission reduction.

Carbon emissions in kilograms **(CO_2)**	2021	2020	2019 (base)
Carbon emission in kg (CO_2)	398 429	433 264	604 524
Direct carbon emissions from primary energy consumption – Scope 1[1]	319 283	339 901	418 205
Indirect carbon emissions from procured energy – Scope 2[2]	43 788	45 604	114 632
Other indirect carbon emissions – Scope 3[3]	35 358[4]	47 759	71 687
Carbon emissions per employee	499	555	806
Carbon savings per employee since 2019	38%	31%	

[1] Direct emissions from primary energy consumption (natural gas, heating oil, emergency diesel power, fuel for company cars).
[2] Indirect emissions from procured energy (purchase of electricity, district heating, and district cooling).
[3] Other indirect emissions (business trips, consumption of paper and water, waste).
[4] Pandemic-related decrease in 2020 due to high home-office rates

Key environmental figures for ERGO Lithuania.

3.4.4. Projects completed before or during 2021

- Electronic document system / digital contract signing for external partners
- Waste sorting in the office
- Plastic disposables changed with reusable
- Renewal of parking terms to lower CO_2 emissions
- Use of communication technology to reduce physical meetings / travel
- Bicycles for customers as replacement for cars– ongoing project
- Installation of LED lighting

4. Main activities and actions

4.1. Marketing, communication, brand image

Last year's marketing and communication focus was set on supporting our products and brand - especially on its sustainable side and also introducing to the larger audience our new, fresh, and younger brand look. On promotional side we are constantly moving towards digital solutions and of course there were several attractive sales campaigns launched, taking into consideration our target groups - their needs and expectations.

In communication and PR, we have set ourselves a goal to talk about insurance and prevention as clear as possible - bringing to surface a lot of examples, statistics and potential risks to meet our promise - making the world a safer place. Our value – simplify - is also met in internal communication and client's sales materials / homepage etc. On external communication we were really active and therefore enjoyed good positions in Share of Voice (No1 in Estonia by BMMG/ Station). By Baltic Brand Study ERGO is the most beloved, greenest, and most humane insurance brand in the Baltics in 2021 as it was also a year before.

Also, by Nielsen IQ Brand Study our brand image is strong. In Estonia ERGO image has been associated most with such attributes as «good customer support», «easy to submit claim notification, and «company is environmentally and socially responsible». In Latvia people are associating ERGO more with attributes such as «insurance company that has been recommended» and «easy to submit claim notification» and in Lithuania ERGO has stronger associations with «convenient to get to the client centres/branches».

During 2021 we also continued with our brand campaign "Protecting the future is in our nature" as separate image campaign / TVC and additionally integrated into our home insurance campaign in Estonia.

On brand communication we relied a lot on our socially responsible projects / sponsorships and in Estonia we launched also a separate campaign including our employees' children promoting sporty lifestyle - supporting actively ERGO scholars competing in Olympic Games in Tokyo.

In addition to strong social media presence, we also used direct communication with our clients. Due to pandemic situation a lot of planned BTL actions, especially event marketing was postponed.

Strong PR and social media campaigns were used during our traditional bicycle campaign and ERGO Lithuania anniversary tree planting campaign.

In Latvia "Active Today" campaign was launched, that aims to raise awareness of the benefits of an accident insurance product and the health of children through an active daily lifestyle. Also, several marketing actions were done to find new employees – starting from new design of job ads and producing video material for internal and external needs.

Main sales support campaigns were launched in all Baltic countries for casco products (focus on new flexible covers), private property / home insurance and civil liability insurance products.

4.2. People Management, Internal Communication

In 2021, the pandemic situation in all 3 countries proceeded and therefore internal communication and support for all ERGO employees were taken to the next level. From 2020 we could take with us better IT-skills, as majority of staff was teleworking since March 2020 already. Still, as face to face meetings-team building and group training possibilities were not possible for more than a year already, it was challenging to secure our peoples welfare, motivation, and even mental health.

To support our employees, we implemented systematic approach based on "Family Friendly" project guidelines and best practices. In total 10 work streams were established to make a step ahead with different areas as internal communication, onboarding, flexible work arrangement, employee training and development, health support etc. These groups are meeting on a regular basis and involve people from different management levels, up to top management and followed by real actions.

We constantly look over our motivation package and in addition to pan Baltic harmonized motivation package, there are also country specific advantages – for example in Estonia gym compensation is offered.

After challenging time, we are proud to announce, that based on ERGO international employee engagement survey carried out in November 2021, we were not only able to support our employees on expected level, but even raise the engagement up to 91% (Baltic). Big step ahead was made in all measured segments, for example, best results were achieved in management quality, perceptible image of the company, customer focus and evaluation of mutual cooperation.

Baltic overall motivation package, that was updated during 2021.

In December, we also carried out a survey to evaluate our internal communication efficiency in Estonia. The results showed that 93,6% of people are satisfied or very satisfied with internal information flow and 83,9% of people agreed that internal communication has improved compared to the previous year. Our employees highly rated our monthly information hour, monthly issued magazine ERGO Ekspress, internal Facebook group for employees and daily news, that are shared via intranet.

During the summer, the pandemic situation was eased, so small group team meetings were carried out in outside premises. If possible, these events were also combined with “Value workshops” – seminar/workshop symbiosis to decipher our values, analysed situations on co-workers and customers perspective. During the year we carried out unprecedented amount of online trainings- to share knowledge, rise motivation and also offer sense of unity. Since 2021, ERGO has also launched an in-house trainers' club.

In the third quarter of 2021 the corona situation in the Baltics eased and this gave ERGO the opportunity to start implementing a hybrid work model. During September special actions were made to welcome people back in ERGO offices. As hybrid work is new normality for ERGO, we also continued making our home and work offices as comfortable and ergonomic as possible – we expanded the list of work equipment to be reimbursed in the home office and offered work desk with adjustable legs in ERGO offices.

In our culture there is a special value on acknowledgment. In addition to the best leadership culture, including one-to-one meetings, digital recognition solution, our large scale nominations are traditionally given out during ERGO Galas. Due to the coronavirus pandemic ERGO Galas were held in the digitalized manner and therefore on the lower scale. Still all our best people got their share of appreciation and the events once again showcased our innovation and sustainable thinking.

4.3. Sales & service, customer experience

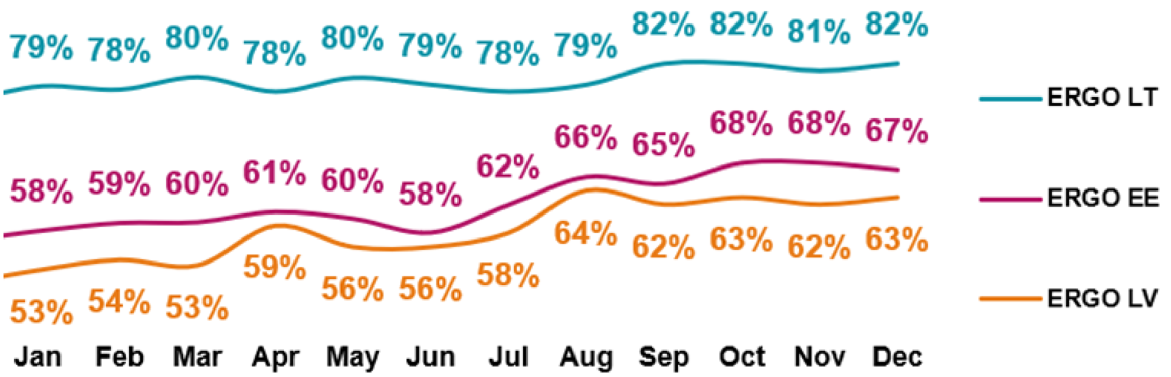
2021 was challenging for many sectors - including insurance business and Covid pandemic affected both - our life and non-life sectors. Due to the changed market situation the average price levels on the market were decreased by all competitors - especially for motor third party liability insurance (MTPL) and motor own damage (MOD) products, which were driven mostly by decreased traffic frequency. Addition to that, negative impact was generated by increased energy prices, that summed up at +12% inflation rate growth by the end of the year. For ERGO it meant direct impact on claims handling costs - higher car repairment and construction / repair prices.

Based on above described developments, our main challenge in 2021 was to restore profitability. The current market situation was reviewed and to remain competitive, including consideration for the dynamic change in the market, the pricing logic was adjusted for motor vehicle liability insurance and home insurance. On product side we continued with upgrade of MOD product in all sales channels. Constant improvements were made in corporate sales pipeline. We also continued with our strategic vision in corporate sales - moving from product- based approach to partnership - risk prevention and consultation business.

On retail side we continued offering customer centric and Covid-safe service process in our sales offices. In addition to that we continued with pop-up sales points in various shopping centres all over Estonia. In e-channel, we chose not to make any big changes as ERGO is on its way of implementing totally new digital strategy – including developments in all our digital channels.

One of our strategic goals is to be the most customer centric insurer in Baltics. We are glad to acknowledge, that based on several research, we have been able to meet our customers' expectations and raise satisfaction also during this challenging year.

Our internal and pan Baltic NPS, that is set as one of the most important KPIs for all our employees, continued to grow – in all three countries, both for sales and claims handling. Our NPS process is harmonized on Baltic level since the beginning of 2020. It is closely monitored, constantly communicated, and based on the feedback we update our processes constantly. We are glad to have received a lot of positive feedback from our clients, as this is used in our acknowledgement culture.

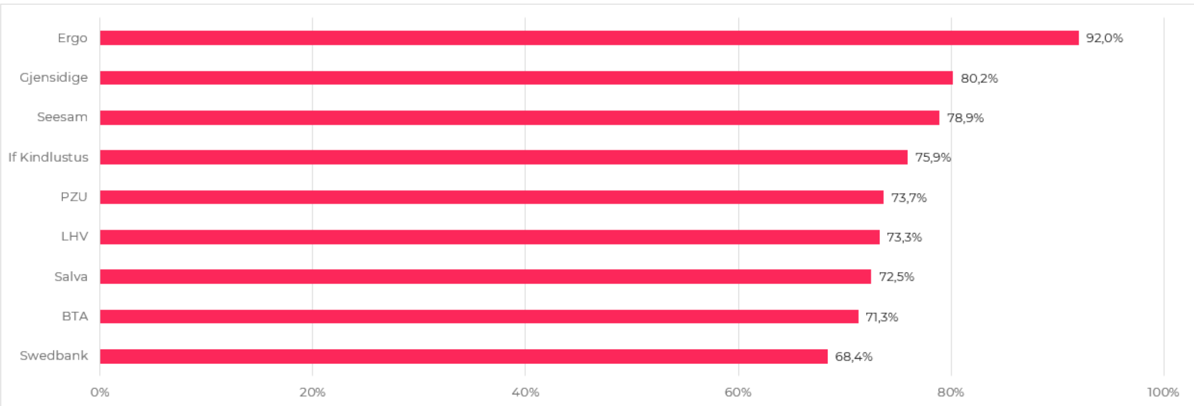


Net Promoters Score 2021, ERGO Baltic

In Estonia, Kantar Emor conducted the NPS Benchmark survey of service companies in 2021. According to the results, ERGO kept its position and received second place among insurance companies after Swedbank P&C Insurance. The average NPS in the insurance business sector is 15%, ERGO’s result was 18,37%.

To improve our service processes in all channels, we also use mystery shopping methodology and if possible, we also participate on surveys conducted on country level. For the last years benchmark there was a survey carried out for telephone service in Estonia. By these results we received good feedback and our service was valuated with high 90,0%. Only 0,2% is missing from the top position.

Our quarterly survey / reports by Dive Group show, that our service is very stable in all service channels and our quarterly average results keep even exceeding 90% level. For the last quarter of 2021, we also purchased additional survey from Dive Group to measure our service level on all channels. Based on the results received, ERGO’s position was exceeding others more than 11,8% (ERGO 92%).



Mystery Shopping 2021 Q4, overall service by Dive Group

We are truly proud of results received in Lithuania. ERGO non-life insurance customer service has been chosen to be the best in Lithuania for the second year in a row. ERGO received a score of 95.5% keeping first place by significantly improving their score. For three years, ERGO in Lithuania has been implementing a continuous customer service improvement program - the main goal of which is not only to meet customer expectations but to exceed them.

We are valuated co-operation partner - ERGO had excellent results in a survey commissioned by the Union of Estonian Car Sales and Service Enterprises (AMTEL), the aim of which was to assess the quality of bodywork and painting companies and insurance companies who are a member of AMTEL. This earned us a silver medal for the second year in a row.

5. Financial performance

5.1. Overview

ERGO Insurance SE's gross premium income for 2021 was 199.8 million euros. In terms of premium income, ERGO Insurance SE holds the third position in the Estonian market and in the Baltic non-life insurance market. Claims and benefits incurred totalled 149.1 million euros, accounting for 74.6% of gross premium income. The net expense ratio was 29.8% (2020: 29.5%) and the net loss ratio was 71.3% (2020: 63.1%). The net combined ratio for 2021 was 101,2% (2020: 92.6%). Technical result was negatively impacted by claims development in Watercraft and Legal persons' property insurance. Variation in investment result is mainly due to larger extraordinary profit in 2020. ERGO Insurance SE ended 2021 with total comprehensive loss of 3.1 million euros (2020: profit 13.6 million euros). The insurance result was a loss of 2.2 million euros, net investment income amounted to -0.3 million euros and other activities generated a profit of 0.08 million euros. Income tax expense amounted to 0.7 million euros. The comprehensive result was also influenced by a 0.01-million-euro increase in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 330.6 million euros (2020: 306.8 million euros). Investments in financial instruments amounted to 210.2 million euros (2020: 209.5 million euros), debt securities accounting for 97.6% (2020: 99.98%), loans for 0.0% (2020: 0.0%) and equities and fund units for 2.4% (2020: 0.02%) of the total. Altogether, investments in financial instruments accounted for 63.6% (2020: 68.3%) of total assets. Insurance provisions totalled 202.2 million euros (2020:186.3 million euros), accounting for 79.9% (2020: 82.4%) of total liabilities and 61.2% (2020: 60.7%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 36.7 million euros (2020: 49.1 million euros), providing the company with an adequate liquidity buffer.

5.2. Gross premiums

Gross premium income by line of business

In euros	2021		2020		Change in	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %
Motor liability insurance	65 878 352	33,0%	67 568 910	34,8%	-1 690 558	-29,8%
Accident insurance	9 126 799	4,6%	8 151 388	4,2%	975 411	17,2%
Travel insurance	1 874 738	0,9%	3 091 896	1,6%	-1 217 158	-21,5%
Technical risks insurance	8 040 565	4,0%	7 071 035	3,6%	969 530	17,1%
Individuals' property insurance	16 559 758	8,3%	14 747 361	7,6%	1 812 397	32,0%
Legal persons' property insurance	11 549 941	5,8%	12 119 353	6,2%	-569 412	-10,0%
Agricultural risks insurance	1 690 065	0,9%	2 065 584	1,1%	-375 519	-6,6%
Motor own damage insurance	49 848 132	25,0%	48 710 656	25,1%	1 137 476	20,1%
Liability insurance	9 956 713	5,0%	9 001 484	4,6%	955 229	16,9%
Goods in transit insurance	2 126 760	1,1%	1 739 418	0,9%	387 342	6,8%
Carrier's liability insurance	2 923 796	1,5%	2 661 063	1,4%	262 733	4,6%
Watercraft insurance and watercraft owner's liability insurance	9 626 024	4,8%	6 285 432	3,2%	3 340 592	59,0%
Guarantee insurance	5 266 745	2,6%	5 509 647	2,8%	-242 902	-4,3%
Railway rolling stock insurance	111 061	0,1%	145 091	0,1%	-34 030	-0,6%
Assistance insurance	2 120 255	1,1%	2 519 549	1,3%	-399 294	-7,0%
Financial risks insurance	847 224	0,4%	689 285	0,4%	157 939	2,8%

Loss of employment insurance	377 127	0,2%	394 490	0,2%	-17 363	-0,3%
Legal expenses insurance	1 533 554	0,8%	1 561 633	0,8%	-28 079	-0,5%
Total from insurance activities	**199 457 609**	**99,8%**	**194 033 275**	**99,9%**	**5 424 334**	**95,7%**
Legal persons' property insurance	323 090	0,2%	62 959	0,0%	260 131	4,6%
Liability insurance	27 000	0,0%	45 000	0,0%	-18 000	-0,3%
Total from reinsurance activities	**350 090**	**0,2%**	**107 959**	**0,1%**	**242 131**	**4,3%**
Total	**199 807 699**	**100,0%**	**194 141 234**	**100,0%**	**5 666 465**	**100,0%**

In 2021, ERGO Insurance SE generated premium income of 199.8 million euros, a 2.9% increase on 2020. The largest classes were motor liability insurance and motor own damage insurance, which generated premium income of 65.9 million euros and 49.8 million euros, accounting for 33.0% and 25.0% of the total portfolio, respectively. Individuals' property insurance contributed 16.6 million euros, i.e. 8.3% and legal persons' property insurance 11.5 million euros, i.e. 5.8%. Premiums written in liability insurance, watercraft insurance and watercraft owner's liability insurance, and accident insurance totalled 10.0 million euros, 9.6 million euros and 9.1 million euros, respectively, and their respective contributions were 5.0%, 4.8% and 4.6%. The total contribution of other insurance classes, which each accounted for less than 4.0%, was 27.3 million euros, i.e. 13.5%.

Compared to 2020, the share of watercraft insurance and watercraft owner's liability insurance increased by 1.6 percentage points and its premium income grew by 3.3 million euros, i.e. 153.1%. In addition to that, good growth was achieved in individuals' property insurance where premium income grew by 112.3%, i.e. 1.8 million euros year on year.

5.3. Claims

Claims and benefits paid by line of business

In euros	**2021**		**2020**		**Change in**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %
Motor liability insurance	42 771 805	31,6%	43 523 046	38,6%	-751 241	-3,3%
Accident insurance	4 646 460	3,4%	3 713 809	3,3%	932 651	4,1%
Travel insurance	847 520	0,6%	1 720 512	1,5%	-872 992	-3,8%
Technical risks insurance	4 928 553	3,6%	3 804 392	3,4%	1 124 161	4,9%
Individuals' property insurance	11 133 513	8,2%	7 970 381	7,1%	3 163 132	13,9%
Legal persons' property insurance	13 756 226	10,2%	7 732 679	6,9%	6 023 547	26,4%
Agricultural risks insurance	1 212 208	0,9%	1 549 186	1,4%	-336 978	-1,5%
Motor own damage insurance	34 791 704	25,7%	31 397 138	27,9%	3 394 566	14,9%
Liability insurance	3 856 907	2,8%	2 879 684	2,6%	977 223	4,3%
Goods in transit insurance	623 678	0,5%	320 238	0,3%	303 440	1,3%
Carrier's liability insurance	1 779 431	1,3%	1 329 857	1,2%	449 574	2,0%
Watercraft insurance and watercraft owner's liability insurance	10 116 351	7,5%	1 570 712	1,4%	8 545 639	37,5%
Guarantee insurance	1 168 563	0,9%	1 595 138	1,4%	-426 575	-1,9%
Railway rolling stock insurance	107 541	0,1%	152 670	0,1%	-45 129	-0,2%
Assistance insurance	1 439 042	1,1%	1 789 653	1,6%	-350 611	-1,5%
Financial risks insurance	1 751 391	1,3%	979 324	0,9%	772 067	3,4%
Loss of employment insurance	114 834	0,1%	80 614	0,1%	34 220	0,2%
Legal expenses insurance	366 762	0,3%	529 750	0,5%	-162 988	-0,7%

Total	**135 412 489**	**100,0%**	**112 638 783**	**100,0%**	**22 773 706**	**100,0%**

Claims and benefits paid in 2021 totalled 135.4 million euros (2020: 112.6 million euros). There were few significant increases in claims and benefits paid in 2021. Compared to 2020 watercraft insurance and watercraft owner's liability insurance claims grew by 8.5 million euros, i.e. 644.1%, legal persons' property insurance claims grew by 6.0 million euros, i.e. 177.9% and individuals' property insurance claims grew by 3.2 million euros, i.e. 139.7%. The largest share of claims was settled in motor liability insurance: 42.8 million euros, i.e. 31.6% of claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 34.8 million euros, i.e. 25.7%.

5.4. Investments

Strategic investment management is the responsibility of the company's asset and liability management team, which includes specialists from Estonia and Germany. In line with the investment management system, tactical investment management has been outsourced to an external service provider. Since 1st of October 2020, immediate contact for company in all investment related matters is GIM –Group Investment Management department of Munich RE, which delivers the service in accordance with the strategic investment management plan and risk profile approved by the management board of ERGO Insurance SE.

In 2021, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 41,8% (2020: 63%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) credit rating, 20,7% (2020: 18,5%) were rated AA or Aa, 14,8% (2020: 7,8%) had an A rating, 22,1% (2020: 10,6%) had a BBB or Baa rating, and 0,5% (2020: 0%) were rated BB or Ba.

At the year-end, investments consisted of investments in associates and subsidiaries of 0.05 million euros (2020: 0.05 million euros), debt securities of 205,2 million euros (2020:209,5 million euros), loans of 0 million euros (2020: 0 million euros), and equities and fund units of 5 million euros (2020: 0.04 million euros). There were no investments in term deposits.

Income on assets with interest rate risk amounted to negative 0,37 million euros (2020: -0,07 million euros). Realisation of debt securities produced a gain of 0,39 million euros (2020: 0,8 million euros). Dividend income amounted to 0.03 million euros (2020: 0.03 million euros). The fair value reserve increased by 0.001 million euros (2020: increased by 0.5 million euros). Thus, the overall yield of the investment portfolio was negative 0,12% (2020: 0.47%). Investment management expenses accounted for 0.15% of the carrying value of managed investments (2020: 0.16%).

Key financial indicators

In thousands of euros, except for ratios *As at 31 December or for the year*	**2021**	**2020**
For the year		
Gross written premiums	**199 808**	**194 141**
Gross earned premiums	**197 619**	**192 759**
Gross claims and benefits incurred	**149 113**	**125 664**
Gross expenses	**57 023**	**54 907**
Gross loss ratio	**75,5%**	**65,2%**
Net loss ratio	**71,3%**	**63,1%**
Gross expense ratio	**28,9%**	**28,5%**
Net expense ratio	**29,8%**	**29,5%**
Gross combined ratio	**104,3%**	**93,7%**
Net combined ratio	**101,2%**	**92,6%**
Claims handling ratio	**8,5%**	**9,9%**
Claims paid ratio	**67,8%**	**58,0%**
As at the year-end		
Total assets	**330 601**	**306 757**
Ratio of investments to total assets	**63,6%**	**68,3%**
Ratio of equity to total assets	**23,5%**	**26,3%**
Ratio of insurance provisions to total assets	**61,2%**	**60,7%**
Profitability indicators		
Insurance result (technical result)	**-2 180**	**13 375**
Investment result	**-262**	**958**
Profit for the financial year	**-3 074**	**13 042**
ROE	**-3,9%**	**17,7%**
ROA	**-1,0%**	**4,5%**
ROI	**-0,1%**	**0,5%**

Explanation of figures and ratios

Gross earned premiums	gross written premiums + change in provision for unearned premiums
Gross claims and benefits incurred	claims and benefits incurred + change in provision for claims outstanding + change in provision for unexpired risks
Gross loss ratio	gross claims and benefits incurred / gross earned premiums
Net loss ratio	net claims and benefits incurred / net earned premiums
Gross expense ratio	(acquisition costs + administrative expenses + membership fee to Traffic Insurance Fund) / gross earned premiums
Net expense ratio	(acquisition costs + administrative expenses – reinsurance commission income + membership fee to Traffic Insurance Fund) / net earned premiums
Gross combined ratio	gross loss ratio + gross expense ratio
Net combined ratio	net loss ratio + net expense ratio
Claims handling ratio	claims handling costs / claims and benefits incurred
Claims paid ratio	claims paid / gross written premiums
Gross expenses	acquisition costs + administrative expenses + membership fee to Traffic Insurance Fund
Insurance result (technical result)	net earned premiums + reinsurance commissions − net claims and benefits incurred – gross expenses
Investment result	investment income and expenses + change in the fair value reserve in equity
Return on equity (ROE)	profit / period’s average equity
Return on assets (ROA)	profit / period’s average assets
Return on investments (ROI)	investment result / period’s average investments

Conclusion

The management board of ERGO Insurance SE is pleased to report that in 2021 the company developed in line with the insurance market and achieved its main business goals and targets.

Bogdan Benczak

Chairman of the Management Board

/signed digitally/

Financial statements

Income statement

In euros	Note	2021	2020
Income			
Gross written premiums	3	199 807 699	194 141 234
Written premiums ceded to reinsurers	3	-11 262 904	-11 630 794
Change in gross provision for unearned premiums	21	-1 849 973	-1 337 511
Reinsurers' share of change in provision for unearned premiums	15	242 280	745 381
Net earned premiums		**186 937 102**	**181 918 310**
Reinsurance commission income	4	1 342 111	1 218 680
Investment income, net	5	42 389	767 887
Other income	6	2 147 477	1 946 039
Total income		**190 469 079**	**185 850 916**
Expenses			
Claims and benefits incurred	7	149 112 620	125 663 513
Reinsurers' share of claims and benefits incurred	7	-16 015 151	-10 853 496
Net policyholder claims and benefits incurred		**133 097 469**	**114 810 017**
Change in other technical provisions		338 829	45 170
Acquisition costs	8	45 752 624	44 239 980
Administrative expenses	8	9 564 952	8 795 082
Other operating expenses	8	1 705 493	1 871 510
Investment expenses	8	315 537	325 602
Other expenses	8	2 065 668	1 897 324
Total expenses		**192 840 572**	**171 984 685**
Operating profit/loss		**-2 371 493**	**13 866 231**
Profit/loss before income tax		**-2 371 493**	**13 866 231**
Income tax expense	27	**-702 099**	**-823 780**
Profit/loss for the year		**-3 073 592**	**13 042 451**

Statement of comprehensive income

In euros	Note	2021	2020
Profit/loss for the year		**-3 073 592**	**13 042 451**
Change in the value of available-for-sale financial assets	20	11 000	515 507
Other comprehensive income/expense for the year		**11 000**	**515 507**
Total comprehensive income/expense for the year		**-3 062 592**	**13 557 958**

The notes on pages 36 to 101 are an integral part of these financial statements.

Statement of financial position

In euros

As at 31 December	Note	31.12.2021	31.12.2020
Assets			
Deferred tax assets	27	150 622	264 664
Property and equipment	10	11 173 565	11 155 878
Intangible assets			
Deferred acquisition costs	11	8 565 201	8 834 520
Other intangible assets	12	20 561 329	14 081 639
Investments in associates	13	50 000	50 000
Investments in financial instruments			
Equities and fund units	14	5 020 584	43 443
Debt securities	14	205 205 711	209 459 763
Total investments in financial instruments		210 226 295	209 503 206
Reinsurance assets	15	28 681 148	25 888 510
Insurance and other receivables	16	35 252 112	26 024 103
Cash and cash equivalents	17	15 940 539	10 954 250
Total assets		**330 600 811**	**306 756 770**
Equity and liabilities			
As at 31 December	**Note**	**31.12.2021**	**31.12.2020**
Equity			
Share capital	18	6 391 391	6 391 391
Capital reserve	19	3 072 304	3 072 304
Fair value reserve	20	1 408 708	1 397 708
Retained earnings (prior years)		69 749 799	56 707 348
Profit/loss for the year		-3 073 592	13 042 451
Total equity		**77 548 610**	**80 611 202**
Liabilities			
Insurance contract provisions	21	202 220 790	186 331 857
Reinsurance payables	22	4 251 455	4 278 709
Insurance payables	23	18 499 915	15 999 366
Other payables and accrued expenses	24	16 069 502	13 529 458
Allocated loans	28	12 010 539	6 006 178
Total liabilities		**253 052 201**	**226 145 568**
Total equity and liabilities		**330 600 811**	**306 756 770**

[1] in connection with the application of IFRS 16, right-of-use assets are recognised within *Property and equipment* and lease liabilities are recognised within *Other payables and accrued expenses*.

The notes on pages 36 to 101 are an integral part of these financial statements.

Statement of cash flows

In euros

(Inflow + , outflow –)	Note	2021	2020
Cash flows from operating activities		**5 348 820**	**8 595 550**
Insurance premiums received	3	194 611 327	176 853 563
Claims, benefits and handling costs paid	7	-130 712 678	-108 098 144
Settlements with reinsurers		-2 456 668	-7 244 010
Settlements with holders of reinsurance policies		-8 701	41 732
Paid in operating expenses	8	-59 966 329	-56 258 997
Other income and expenses	6	5 385 335	18 146 715
Acquisition of equities and fund units	14.1	-9 923 844	0
Disposal of equities and fund units	14.1	0	28 014 173
Acquisition of debt and other fixed income securities	14.2	-101 106 084	-228 975 419
Disposal of debt and other fixed income securities	14.2	107 980 231	182 244 209
Interest received	5	2 540 434	4 408 129
Dividends received	5	36 683	91 656
Corporate income tax paid		-801 539	-473 890
Paid in investment expenses	7	-229 347	-154 167
Cash flows used in investing activities		**-4 612 193**	**-8 161 747**
Participation disposal		0	590 488
Acquisition of property and equipment and intangible assets	10, 12	-4 617 005	-8 766 168
Proceeds from sale of property and equipment and intangible assets	10, 12	4 812	13 933
Cash flows used in financing activities		**4 249 662**	**-1 168 789**
Received subordinated loan	28	6 000 000	0
Payments for the principal portion of lease liabilities	26	-1 750 338	-1 168 789
Net cash outflow/ inflow		**4 986 289**	**-734 986**
Cash and cash equivalents at beginning of year	17	**10 954 250**	**11 689 236**
Decrease/ increase in cash and cash equivalents		4 986 289	-734 986
Cash and cash equivalents at end of year	17	**15 940 539**	**10 954 250**

[1] the company has classified interest paid and lease payments made for short-term leases and leases of low-value assets as cash flows from operating activities. Information under IFRS 16, which also includes payments made for the principal portion of lease liabilities, were recognised in the same item *Paid in operating expenses*.

The notes on pages 36 to 101 are an integral part of these financial statements.

Statement of changes in equity

In euros	Note	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2019		**6 391 391**	**3 072 304**	**882 201**	**56 707 348**	**67 053 244**
Profit for the year	27	0	0	0	13 042 451	13 042 451
Other comprehensive income	20	0	0	515 507	0	515 507
Total comprehensive income for the year		**0**	**0**	**515 507**	**13 042 451**	**13 557 958**
Balance at 31 December 2020		**6 391 391**	**3 072 304**	**1 397 708**	**69 749 799**	**80 611 202**
Profit for the year	27	0	0	0	-3 073 592	-3 073 592
Other comprehensive income	20	0	0	11 000	0	11 000
Total comprehensive income for the year		**0**	**0**	**11 000**	**-3 073 592**	**-3 062 592**
Balance at 31 December 2021		**6 391 391**	**3 072 304**	**1 408 708**	**66 676 207**	**77 548 610**

The notes on pages 36 to 101 are an integral part of these financial statements.

Notes to the financial statements

Note 1. Significant accounting policies

ERGO Insurance SE is a non-life insurance company incorporated and domiciled in Estonia. The company's legal address is A. H. Tammsaare tee 47, 11316 Tallinn. The company's main business lines are comprehensive motor vehicle (motor hull, hereafter 'motor own damage') insurance, motor third party liability insurance (hereafter 'motor liability insurance'), and individuals' and legal persons' property insurance.

The financial statements of ERGO Insurance SE for 2021 comprise the financial information of ERGO Insurance SE's head office in Estonia and its Latvian and Lithuanian branches.

The company has not consolidated the financial information of the subsidiary DEAX Õigusbüroo OÜ because the subsidiary's revenue and assets account for an immaterial share of the company's respective figures.

These financial statements were authorised for issue by the management board on 01 April 2022. Under the Estonian Commercial Code, the annual report including the financial statements that has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report and may demand that a new annual report be prepared.

Going concern

The Management Board has considered the Company's financial position and sources of liquidity along with the various risks and uncertainties involved in operating a business, including global economic conditions caused by the COVID-19 pandemic and geopolitical situation, as part of its assessment of the Company's ability to continue as a going concern.

Based on the previous assessment, when approving the financial statements, the Board reasonably expected that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, the Board agrees that the Company continues to adopt the going concern basis of accounting in preparing the financial statements.

(a) Statement of compliance

The financial statements of ERGO Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Commission to be effective for the year 2021.

(b) Basis of preparation

The company's functional and presentation currency is the euro.

The financial statements are prepared on the historical cost basis except the available-for sale financial assets.

Use of significant estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Although the estimates are based on management's best judgement and facts, actual results may differ from those estimates.

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

The most significant estimates in the financial statements are related to insurance provisions. The company employs a responsible actuary. Estimation and recognition of insurance provisions and deferred acquisition costs are described in this note, in policies (f) and (k) *(i)* respectively.

Estimates are also used in determining the fair value of financial assets (see accounting policies (k) and (l)).

Information about the main estimation criteria that affect the amounts recognised in the financial statements is presented in the following notes:

- Note 12 Other intangible assets
- Note 14 Investments in financial instruments
- Note 15 Reinsurance assets
- Note 21 Insurance contract provisions

The risks and estimation uncertainties related to insurance contracts and financial instruments are described in note 2.

(c) Branches

A branch is an economic entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of a branch. The accounts of foreign branches are maintained separately. Branches prepare their financial information for the same periods and using the same accounting policies. Any balances, income and expenses and gains and losses arising from intra-company transactions are eliminated in full.

(d) Associates

Associates are entities over which the company has significant influence but not control. Significant influence is presumed to exist when the company holds directly or indirectly through subsidiaries 20-50% of an entity's voting power.

Investments in associates are accounted for using the equity method. Upon initial recognition, investments in associates are measured at cost. The cost of an investment includes directly attributable transaction charges. The financial statements include the company's share of an associate's profit or loss from the date the significant influence commences to the date the significant influence ceases to exist.

(e) Classification of insurance contracts

Non-life insurance

Contracts under which the company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. All contracts issued by the company constitute insurance contracts. The company does not issue investment contracts. Non-life insurance contracts have generally a term of one year. Exceptions include open-ended motor liability insurance contracts under which policies are issued for a maximum term of one year, and travel insurance contracts covering one trip whose term is generally less than one year.

Incoming reinsurance

Reinsurance contracts are contracts under which the reinsurer undertakes to assume the insurance risks of another insurer (the ceding insurer) and to pay that ceding insurer compensation of an agreed amount for losses incurred in connection with an insured event specified in an insurance contract entered into between the ceding insurer and a policyholder. Reinsurance contracts are entered into for a period of one year. Reinsurance contracts fall into two main categories – obligatory non-proportional and obligatory proportional. Risks that exceed the limits of obligatory reinsurance contracts or fall outside their scope are reinsured under facultative reinsurance contracts. Facultative reinsurance contracts are entered into for covering a particular (single) risk. In its activities as a reinsurer, the company's main objective is to use its capital optimally and disperse its risks by diversifying the locations of the insured property. Reinsurance contracts are entered into with the insurance companies of ERGO Group only.

(f) Recognition and measurement of insurance contracts

Insurance premiums

Premium income

At the Estonian entity, the first instalment of a premium payment is recognised at the date of inception of the insurance contract. The following instalment payments are recognised at the earlier of their due date and settlement date. Accordingly, premium income includes both income from contracts concluded in the current financial year and the previous financial year.

At the Latvian and Lithuanian entities, all premiums receivable (the entire premium income) under a contract are recognised immediately regardless of whether the instalment payments relate to the reporting period in part or in full.

Premiums are recognised as income in their gross amount without deducting brokerage fees. Premiums are considered earned when the insurance cover expires. Premiums earned are recognised on a daily basis.

Provision for unearned premiums

The unearned premiums provision is established for covering the costs of insured events of active contracts that occur after the reporting date and for related contract administration expenses. The unearned premiums provision is calculated in all lines of business under the 365-day *pro rata temporis* method. Calculations are made separately for each individual contract. The provision for a contract makes up the same percentage of gross written premiums under the contract as the post-reporting date term of the contract makes up of the entire term of the contract.

The reinsurers' share of the unearned premiums provision is calculated only for those contracts that fall in the scope of a proportional reinsurance contract. Reinsurers' share of the provision for unearned premiums makes up the same percentage of the provision for unearned premiums for contracts with proportionate reinsurance cover as ceded reinsurance premiums make up of relevant gross written premiums.

Claims and provisions for claims outstanding and unexpired risks

Claims and benefits incurred

Claims and benefits incurred from insurance activities consist of claims paid in the financial year, associated claims handling costs and changes in the provision for claims outstanding. Claims paid include claims that have been settled and their handling costs, less salvage and subrogation recoveries.

Subrogation revenue is recognised upon its collection and revenue from salvage recoveries is recognised on the transfer of the asset. The amount recognised as revenue from a salvage recovery is a conservative estimate of probable sales revenue less the costs incurred in connection with the transaction.

Provision for claims outstanding

The provision for claims outstanding is established for covering claims incurred but not settled by the reporting date and corresponding claims handling costs. The provision for claims outstanding includes the provision for claims incurred but not yet reported.

The provision for claims outstanding comprises of the following components:

- claims reported but not completely handled and settled (RBNS);
- claims incurred but not reported (IBNR);
- indirect claims handling costs.

Claims handling experts estimate the outstanding amount of incurred and reported claims separately for each case, considering all available information at the date of estimation and estimates of future changes in the claim. A provision for an outstanding claim is recognised immediately when the claim has been reported, the claim file has been opened and preliminary calculations of the loss have been made. Settlements made are deducted and when the last settlement has been made and the file has been closed, the provision is reduced to zero.

Future direct claims handling costs, including the costs of expert opinions and legal assistance, related claims, etc. are also estimated case-by-case.

If an incurred claim is settled in periodic disbursements, a pension annuity provision is established in the provision for claims outstanding.

In calculating the provision for claims outstanding, discounting is applied only to pensions arising from the motor insurance legislation. In other cases, discounting is not applied.

The IBNR component is estimated using various statistical methods. For each year of loss incurrence, the ultimate loss is estimated. The ultimate loss estimate is reduced by claims paid and individual case-based provisions established as at the reporting date. The difference is the basis for determining IBNR.

For covering the costs of future indirect claims handling costs of claims incurred, a provision for indirect claims handling costs is made in the provision for claims outstanding.

Reinsurers’ share of the case-based provision for claims outstanding is calculated according to reinsurance contracts precisely. Reinsurers’ share of the estimated portions of the claims outstanding provision is determined for only those classes and underwriting years that fall within the scope of a proportional reinsurance contract in force. In the latter case it is assumed that the corresponding part of the provision is split between the reinsurer and the ceding insurer in the same way as the whole liability of the line of business in the underwriting year in question.

Provision for unexpired risks

The provision for unexpired risks is recognised when estimates indicate that the provision for unearned premiums is not sufficient for covering the claims incurred after the reporting date in respect of insurance contracts that entered into force before the reporting date and corresponding contract administration expenses.

Outgoing reinsurance

The company cedes reinsurance in the normal course of business in order to limit its net loss potential by diversifying its risks. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the income statement and statement of financial position on a gross basis. Reinsurance assets comprise of debit balances due from reinsurers for ceded insurance liabilities. Amounts recoverable from reinsurers are measured on the basis of the provision for claims outstanding or the settled claims of policies falling within the scope of a reinsurance contract.

Reinsurance contracts are concluded for a term of one year. The main forms of contract are the obligatory non-proportional and the obligatory proportional reinsurance contract. Risks exceeding the limits of obligatory reinsurance contracts or falling outside their scope are reinsured on a facultative basis. All reinsurance contracts are used to transfer a significant portion of insurance risk. The company does not use financial reinsurance. The deferral calculations of prepaid reinsurance commissions are performed separately for each line of business. The basis for the calculations is relevant data (reinsurance premiums and commissions) for the past six months.

Prepaid reinsurance commissions make up the same proportion of reinsurance commissions as the reinsurers' share of the unearned premiums provision makes up of total reinsurance premiums.

Indemnities receivable under reinsurance contracts are assessed for impairment at reach reporting date. Relevant assets are impaired if, as a result of an event that occurred after their initial recognition, there is objective evidence indicating that the company may not be able to recover all amounts that are due and that the event has had a reliably measurable impact on the amounts the company can recover from the reinsurer.

Liability adequacy test

The insurance portfolio is assessed with the liability adequacy test by estimating the future cash flows under insurance contracts and comparing them against the carrying amounts of liabilities after the deduction of deferred acquisition costs. Liability adequacy is assessed separately for liabilities related to unexpired risks (insurance contracts in force) and liabilities related to expired risks (claims incurred but not yet settled). Liability adequacy is tested by considering all cash flows from insurance activities including estimated future claims, claims handling costs and fixed costs.

The liabilities arising from unexpired risks and cash outflows from future claims are estimated by forecasting the number of claims outstanding for each year of loss incurrence using various mathematical methods. The results are used to find the expected loss ratio, which is used to estimate future cash flows. Expected cash outflows from claims handling activities are estimated by determining the proportion of actual claims handling costs in the number of claims paid in the previous calendar year and by applying the ratio to the estimated number of future claims.

Future cash outflows that are necessary for the company's operation are estimated on the basis of the fixed cost ratio for the past calendar year.

Cash inflows comprise estimated future investment income.

Where the liability adequacy test shows a deficiency in the carrying amount of insurance liabilities, first the deferred acquisition costs are reduced. If this does not suffice, an additional unexpired risks provision is recognised. The liability adequacy test is applied to the gross amounts of provisions, i.e. the effect of reinsurance is not considered.

(g) Other income

An income derived not from insurance activity such as gain on disposal of fixed assets; fees, commissions and charges received; income from currency revaluation is recognized as other income.

(h) Income tax

Under the Income Tax Act, in Estonia and Latvia income tax is not levied on corporate profit but on dividends distributed. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared irrespective of the period for which the dividends are declared or the period in which they are distributed.

In 2021, the tax rate for dividends distributed in Estonia and Latvia was 20% and the amount of tax payable was calculated as 20/80 of the amount distributed as the net dividend.

In Estonia, a reduced tax rate of 14% is applied for regularly paid dividends. The reduced rate applies to that part of the profit, which is less than or equal to the average of the dividends paid in the previous three years.

The maximum income tax liability that could arise on a dividend distribution is disclosed in note 27.

In Lithuania corporate profit is subject to income tax. Before taxation, profit is adjusted for permanent and temporary differences as permitted by local tax laws. In the reporting period, the corporate income tax rate in Lithuania was 15% (the same as in the previous year).

At the Lithuanian entity, deferred tax is recognised using the liability method whereby the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position.

According to paragraph 39 of IAS 12, an entity is required to recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates.

Deferred tax liability is recognized only in the consolidated financial statements level due to the IFRIC agenda decision.

As in Lithuania, corporate profit is still subject to income tax; respective deferred tax liability can be recognized only for the ERGO Insurance SE Lithuanian branch.

At each reporting date, the company must assess the availability of retained earnings for foreseeable dividends and recognize deferred tax liability if profit originated in the Latvian branch will be distributed.

(i) Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates of the European Central Bank at the dates of the transactions. At the reporting date, assets and liabilities denominated in a foreign currency are retranslated using the exchange rates of the European Central Bank ruling at that date.

Exchange gains and losses are recognised in profit or loss in the period in which they arise.

(j) Property and equipment

(i) Owned assets

Items of property and equipment are carried at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (p)). Property that is being constructed or developed for future use as investment property is classified as property and equipment and measured using the cost model until construction or development is complete, at which time it is reclassified to investment property.

Where major identifiable parts of an item of property and equipment have different useful lives, they are accounted for separately.

Assets are recognised as property and equipment if their useful life extends beyond one year.

(ii) Leased assets

IFRS 16 *Leases* took effect on 1 January 2019 and the company has applied it as from that date.

A contract is, or contains, a lease if it conveys the right to control the use of an asset for a period of time in exchange for consideration.

A contract contains a lease if the following conditions are met:

- there is an identified asset which the lessee has the right to use;
- the lessee obtains substantially all of the economic benefits arising from the use of the asset;
- the lessee has the right to direct the use of the asset;
- the lessor has no substantive right to substitute the asset.

The company as lessor

Assets subject to operating leases are presented in the statement of financial position according to the nature of the asset. Operating lease payments are recognised as income on a straight-line basis over the lease term.

The company as a lessee

The lessee recognises all significant leases on the statement of financial position under a single lease accounting model. The discounted cash flows from the lease are recognised in the statement of financial position as right-of-use assets and the corresponding lease liabilities are recognised as liabilities. Depreciation on the assets and interest on the lease liability are recognised in profit or loss. Depreciation is calculated on a straight-line basis.

The lessee accounting model is not applied to short-term leases (leases with a term of 12 months or less) and leases of low-value assets (leases where the value of the underlying asset is below 5,000 euros). Lease payments for short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The lease commencement date is the date when the lessor makes an underlying asset available for use by the lessee. The expected expiry date of the lease is estimated by persons responsible for the area, based on current business needs and the company's development plans.

The company adopted the standard using the modified retrospective approach and comparative information was not restated. On transition to IFRS 16, the leases previously recognised under IAS 17 were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of transition. The weighted average incremental borrowing rate applied to lease liabilities at initial adoption was 0.68%.

Lease liabilities are subsequently measured at amortised cost using the effective interest method. The lease liability is remeasured to reflect any reassessment or lease modification; a remeasurement is recognised as an adjustment to the carrying amount of the right-of-use asset.

Detailed information about leases is disclosed in note 26 Leases.

(iii) *Subsequent costs*

The company recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that future economic benefits embodied within the part will flow to the company and the cost of the part can be measured reliably. All other costs are recognised as an expense as incurred.

(iv) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Computer equipment	3–5 years
Cars, office, and communication equipment	5 years
Furniture	5–7 years
Buildings	50 years

Depreciation is charged on the difference between cost and residual value. If residual value cannot be estimated reliably or is insignificant, it is presumed to be equal to zero.

(k) Intangible assets

(i) Deferred acquisition costs – insurance contracts

Deferred acquisition costs include all direct costs incurred in acquiring insurance contracts. Deferred acquisition costs represent the proportion of direct acquisition costs that corresponds to the proportion of gross written premiums that is unearned at the reporting date. Deferred acquisition cost are direct costs such as agents' fees, brokerage fees, relevant stationery and printed matter costs, the costs of making photos of insured assets and other costs directly attributable to the acquisition of insurance contracts.

The deferral calculations for acquisition costs are performed separately for each line of business. Deferred acquisition costs are recalculated at each reporting date. Deferred acquisition costs are released under the 365-day *pro rata temporis* method. Calculations are made separately for each individual contract and follow the unearned premiums provision developments.

(ii) Other intangible assets

Other acquired intangible assets are measured at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (p)). Other intangible assets comprise acquired software and licences which are amortised on a straight-line basis over their estimated useful lives. The estimated useful life of other intangible assets is 3-5 years. As an exception, the useful life assigned to insurance software ALICE is 10 years. Intangible assets are amortised on the assumption that their residual value is zero. Internally generated goodwill and the costs attributable to the development of brands are recognised as an expense as incurred.

For internally generated IT projects, the Management Board assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions over the asset's useful life. The respective business plan is prepared and approved before the development phase is started.

Research expenses (or expenses on the research phase of an internal project) are recognised as a cost when incurred.

Development expenses comprise all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. The company reflects as development expenses the IT services and amortisation of patents and licences used to generate the intangible asset. Expenses for training the staff to operate the asset and general overhead expenses unless those could be directly attributed to preparing the asset for use are not recognised as the cost of an internally generated intangible asset. Development expenses are not amortised until the asset is available for use.

An impairment test is performed if exists evidence of the occurrence of triggering events (indications for impairment) or after year-end regardless of the existence of the triggering events.

(l) Financial assets

Financial assets comprise investments in equity and debt instruments, trade and other receivables, cash and cash equivalents, loans provided and derivative financial instruments.

Financial assets are classified into four categories, depending on the purpose of acquisition:

- financial assets at fair value through profit or loss;
- loans and receivables
- held-to-maturity investments;
- available-for-sale financial assets.

Financial assets at fair value through profit or loss are financial assets which on initial recognition are designated as at fair value through profit or loss.

Derivatives are classified as held for trading and are designated as at fair value through profit or loss unless they are designated and used as effective hedging instruments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the company intends and is able to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or are not classified to any of the other categories.

Purchases of financial assets are recognised at the settlement date. A financial asset is derecognised when contractual rights to receive cash flows from the asset expire, or where the asset, together with substantially all the risks and rewards of ownership, has been transferred.

Financial assets are initially measured at their fair value. After initial recognition, the company measures financial assets at fair value through profit or loss and available-for-sale financial assets at their fair value, without any deduction for the transaction costs it may incur on disposal. The fair value of a quoted financial asset is its quoted bid price at the reporting date.

If the market for a financial asset is not active, the company determines fair value using valuation techniques. These include the use of recent arm's length market transactions, references to another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be measured reliably, they are measured at cost.

Held-to-maturity investments are measured at amortised cost less impairment losses using the effective interest method. Loans and receivables are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument excluding future credit losses. The calculation includes all fees paid or received between parties to the contract, direct transaction costs, and all other premiums or discounts.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income or expense. When available-for-sale financial assets are sold or become impaired, the cumulative gains or losses previously recognised in other comprehensive income or expense are recognised in profit or loss. Where these investments are interest-bearing, the interest income calculated using the effective interest method is recognised in profit or loss.

(m) Derivative financial instruments

The company uses derivative financial instruments to hedge the risk of fluctuations in the value of assets that arise from changes in foreign exchange rates, share prices and interest rates. When a derivate financial instrument is recognised initially, it is measured at its fair value.

After initial recognition, derivative financial instruments are re-measured to fair value at each subsequent reporting date. Derivatives with a positive fair value are classified as assets and derivatives with a negative fair value are classified as liabilities. A gain or loss arising from a change in the fair value of a derivative, except for a gain and loss arising from a derivative that is part of a hedging relationship that qualifies for hedge accounting, is recognised in profit or loss. The company does not have any derivatives that are part of hedging relationships which qualify for hedge accounting. A derivative is derecognised when it matures or is transferred or cancelled.

(n) Receivables

Receivables are measured at their amortised cost and presented in the statement of financial position net of any doubtful and irrecoverable items. Irrecoverable receivables are accounted for off the statement of financial position. Receivables are measured on an individual basis and expensed or deducted from corresponding income when they become doubtful or irrecoverable.

(o) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits and overnight deposits. In the statement of cash flows, cash flows are presented using the direct method.

(p) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-fixed-interest securities have to be impaired for the first time in case if security fulfils the following criteria:

- The market price is at least 20% below the purchase price or

- The market price remains below the purchase price for at least six months.

"Once-impaired-always-impaired" principle. A security that has already been written down in the past is "infected" and must be written down at every reporting date if its market value as at that date is below its amortised cost.

Fixed-interest securities have to be impaired in case if security fulfils following criteria:

- The market value of a fixed-interest security on the review date is at least 20% lower than the amortised cost or
- The market value of a fixed-interest security on the review date is less than 70% of its nominal value.

"Once-impaired-always-impaired" principle does not apply to fixed-interest securities. Consequently, an examination must be carried out as at every reporting date using the above procedure to ascertain whether impairment applies.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. In the event of impairment, any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income or expense is transferred to profit or loss.

When a previously recognised impairment loss decreases and the decrease can be objectively related to an event occurring after the loss was recognised, the impairment loss is reversed. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

(q) Employee benefits

Termination benefits are paid when the company terminates an employee's employment before the normal retirement date or when an employee decides to accept voluntary redundancy in exchange for termination benefits. The company recognises termination benefits when it is demonstrably committed to terminate the employment of an employee or a group of employees under a detailed formal plan for the termination and is without realistic possibility of withdrawal or is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

(r) Allocation of expenses

Expenses are first allocated on the basis of cost centres that are divided into categories according to their function: administration, sales, investment, and claims handling. If a cost centre is related to more than one function, expenses are re-allocated. Reallocations are made based on expert opinions derived from analyses that are generally valid for at least one year.

(s) Other provisions

Other provisions are recognised when:

- the company has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the provision.

A provision is recognised by reference to management's best estimates of the expenditure required to settle the obligation and the time the obligation ought to be settled.

(t) Dividends

Dividends are recognised as a liability on an accrual basis in the period in which they are declared.

(u) Events after the reporting period

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2021) and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the reporting date, but which will have a significant effect on the result of the next financial year are disclosed in the notes to the annual financial statements.

(v) New and revised International Financial Reporting Standards and new interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC)

1. **Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs, which have been adopted by the Company as of January 1, 2021.

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods.

The amendments do not impact the Company's financial statements as there are no hedging activities.

IFRS 4: Insurance Contracts (Amendments)

The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.

It is hard to predict the structure of the Company's investment portfolio on January 1, 2023. As of December 31, 2021, all debt and other fixed-income securities passed the SPPI test and there is an insignificant amount of equities and fund units in the portfolio. Most likely, the amendments will not significantly impact the Company's financial statement.

IFRS 16 Leases Covid 19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The Company's lease contracts met the required conditions. The positive impact on the Income Statement in the year 2020 was 30 122 euros. There is no impact on the Income Statement in the Reporting year.

2. **Standards issued but not yet effective and not early adopted**

IFRS 9 Financial Instruments

The standard is effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if information is available without the use of hindsight. Under IFRS 4 Insurance Contracts, effective from 1 January 2018, insurance companies have an option to adopt IFRS 9 together with IFRS 17 from 1 January 2023.

The company, as an insurance provider, has elected to use the option to defer the application of IFRS 9. The company meets the conditions for deferral because it has not applied IFRS 9 before and the carrying amount of its insurance contract liabilities accounts for more than 90% of the carrying amount of its total liabilities.

It is hard to predict the structure of the Company's portfolio on January 1, 2023. As of December 31, 2021, all debt and other fixed-income securities passed the SPPI test and there is an insignificant amount of equities and fund units in the portfolio. Most likely, the standard will not significantly impact the Company's financial statement.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance, and cash flows of an entity.

The Company expects that the new standard, when initially applied, will not have a material impact on its financial statements because the Company's core business is non-life insurance.

IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. These amendments have been endorsed by the EU.

The Company does not expect the amendments to have a material impact on its financial statements if classification overlay is applied.

Amendment in 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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

The Company does not expect the amendments to have a material impact on its financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income, or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the Company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have been endorsed by the EU.

The Company can provide the data in the granularity, which complies with requirements set up by the Amendments.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amend-ments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

IFRS 16 Leases Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for the issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have been endorsed by the EU.

The Company does not see any obstacles to applying the amendments.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have been endorsed by the EU.

The Company does not see any obstacles to applying the amendments.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

The Company does not see any obstacles to applying the amendments.

Note 2. Risk profile

As a part of Munich Re group, ERGO is committed to turning risk into value. ERGO's risk management encompasses all strategies, methods and processes used to identify, analyse, assess, control, and monitor both long- and short-term risks to which ERGO is exposed or may become exposed in the future.

To achieve the above goal, risk management has been made an integral part of the company's management. We have set up a risk management function to achieve Munich Re's key strategic risk management objectives:

- to maintain financial strength sufficient for ensuring that all commitments to customers can be met at all times;
- to maintain and increase the value of the shareholders' investment;
- to preserve the reputation of Munich Re and all of its entities and units.

Risk-taking is our business and in order to meet the above objectives, we have to take risks of the right kind and the right size. This is the purpose of our risk management. The logic of the business model exposes the company to various risks. Therefore, risk awareness and prudent risk management are our priorities. We put a lot of effort in enhancing our risk management system. Own risk and solvency assessment, which covers all the processes and procedures employed to identify, assess, monitor, manage, and report short- and long-term risks forms an essential part of ERGO's risk management system. Our own risk and solvency assessment integrate both the current and future periods' business strategy, risk strategy and capital management. The chapters below describe the main risks that ERGO has to face because of its business model.

2.1. Insurance risks

The insurance environment is regulated by the law of obligations and insurance activities legislation. In certain areas, motor insurance legislation is applied. As the Baltic countries are members of the EU, all legislation and regulations have to comply with relevant EU directives. Amendment or potential amendment of laws and regulations increases business risk.

Insurance risk management is an integral part of the company's risk management system. To ensure a balanced insurance portfolio, the company has established pricing and underwriting guidelines, which are updated on a regular basis. The core elements of insurance risk management are continuous monitoring of risk developments and regular review of the actuarial assumptions employed to calculate technical provisions. Insurance premiums and provisions are calculated on the basis of carefully selected actuarial assumptions. The inter-relationship between revision risk and concentration risk may give rise to material losses. Such risks are monitored using scenario analysis and modelling, which provide information about the maximum possible liability. To protect itself against such risks and limit fluctuations in income, the company uses reinsurance.

Policies for mitigating insurance risks

The company's insurance activity assumes the risk that a loss event involving a person, or some property directly related to an insurance contract will occur. The risk may relate to a property, liability, health, accident, financial, or other loss arising from an insured event whose time of occurrence and severity are unknown at the date the insurance contract is concluded.

Through its insurance and investment activities, the company is also exposed to market risks.

The company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or exceed set limits, pricing guidelines and centralised management of reinsurance.

The company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and general insurance risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing.

The theory of probability is applied to pricing and calculating technical provisions. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any year may vary from those estimated using statistical techniques.

The key risks associated with insurance services are underwriting risk and competitive risk. The company is also exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the company is unable to estimate the probability of an insured event and the size of a potential loss sufficiently accurately and, as a result, insufficient insurance premiums are charged. The risks of a specific contract may be influenced by factors such as the location of the policyholder and the insured property, the safety measures in place, the nature of the policyholder's business, the age of the property, etc. In calculating a premium that is commensurate with the risk insured, the company relies on the loss incurrence statistics for similar risks and the specific features of the risk insured. If insurance risk is systematically underestimated, the company may not be able to indemnify losses and perform its obligations under insurance contracts.

The risks associated with policyholder claims involve the risk that the insured will make false or invalid claims or will exaggerate the amount claimed following a loss. The category also includes the risk of intentional or unintentional underinsurance.

The process used to determine assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for assumptions are internal and external and based on detailed studies that are carried out annually. Assumptions are checked to ensure that they are consistent with observable market prices or other published information. Special attention is paid to assumptions which change over time. Where there is insufficient information to make a reliable estimate, conservative assumptions are used.

Insurance risk management strategy

The company's underwriting strategy seeks diversity to ensure a balanced portfolio. The company believes that a large portfolio of similar risks ensures a better predictability of the outcomes.

The principles of insurance risk management are described in the company's risk strategy. To enforce appropriate risk selection within the portfolio, the underwriting strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write in terms of line size, line of business and industry. Most non-life insurance contracts are annual in nature and underwriters may refuse to renew the contract or change contract terms and conditions on renewal.

Insurance services are designed and updated in accordance with the company's internal regulations that provide a framework for insurance services, definitions of insurance risks, and a list of risks or assets that are not to be insured. Adherence to underwriting rights is determined through exception reports which are prepared in respect of insurance classes and services on a quarterly basis.

General insurance contracts

Liability insurance

Liability insurance is considered a long-tail line as handling and settling claims for a given insured event takes relatively long. The speed of claim reporting depends on the insurance cover and the terms and conditions of the insurance contract. The speed of claim handling depends on the speed of reporting, the cover provided, the jurisdiction, and specific policy terms and conditions.

The majority of liability covers are written on a ‘claims made’ or ‘act committed’ trigger. The main exception is motor liability insurance that is written on an occurrence basis. Liability contracts provide the scope of liability also in geographical terms. Generally, the scope of liability is limited to the country where the entity providing the insurance cover is located.

Motor liability insurance is the insurance of the civil liability of a person in possession of a major source of danger. It covers the losses that may be incurred from activities related to ownership or use of a vehicle. Motor liability insurance is also valid outside the Baltic countries and covers relevant losses incurred in the EU countries and countries that have joined the Green Card Convention. Losses are indemnified in accordance with the liability rates of the country in which the traffic accident occurs. In some countries liability is unlimited. Therefore, in principle, motor liability insurance contracts are contracts with unlimited liability. This means that policies are written without a limit although rates are set considering the actual value of the largest possible claim.

Motor liability insurance covers property damages and personal injuries inflicted on third persons and, locally, also the medical treatment expenses of the driver that caused the insured event. This means that the nature of losses differs. Property losses are handled quickly but the handling of personal injury claims may take years.

In the case of personal injuries that have to be indemnified with periodic payments (pensions) the insurer is not allowed to indemnify the damages in an agreed lump sum. In the case of traffic accidents that occur in the Baltic countries, motor liability insurance does not cover unearned income. Due to a longer handling period and also because personal injuries are directly related to many other socio-economic factors, the proportion of personal injury claims is increasing rapidly.

Motor liability insurance contracts are entered into for an unspecified term. The maximum term of a policy is 12 months. A specific feature of the product is that when the policy expires, the insurer’s liability does not expire unless the policyholder has concluded a new insurance contract. An insurer may not refuse to conclude a contract. This increases the importance of risk assessment.

Liability insurance is typically the greatest source of uncertainty regarding claim provisions. Claims with long reporting lags result in greater inherent risk. Claims with long latency also increase the potential recognition lag, i.e. the lag between writing a type of policy in a certain market and the recognition that such policies have potential mass tort or latent claim exposure. As a rule, liability insurance services have long reporting lags and involve several parties, claims may be filed by several persons and claim amounts may be large. Therefore, estimation of provisions in liability insurance is somewhat more difficult than in other classes that do not have such features.

Property insurance

The company offers property insurance to owners of property located in the Baltic countries. Property insurance protects, subject to the limits and restrictions of insured amounts and insurance conditions, policyholders against financial loss caused by damage to their physical property or financial loss arising from business interruption caused by damage to property.

The event (e.g. a fire or burglary) giving rise to a claim for compensating damage to buildings or property located therein usually occurs suddenly and the cause and time are generally easily determinable. The claim is generally reported promptly and can be settled without delay. Delays may result from the determination of the cause of the insured event, restoring the property and making relevant preparations.

Property business is therefore classified as 'short-tailed' meaning that the increase in costs over time and investment return are of negligible importance. This contrasts with the 'long-tailed' classes (e.g. liability insurance) where the ultimate cost of a claim takes longer to determine, making costs and investment return considerably more important.

Marine and transport insurance

This category comprises the insurance of watercraft and the transport of goods such as goods in transit insurance, carrier's liability insurance and forwarding agent's liability insurance. The classes incorporate the features of both property insurance and liability insurance. Similarly, to liability insurance, reporting and handling are long-term processes.

Product-specific risks include claims related to violation of customs regulations. The risks related to property insurance are more indeterminate because insurance cover is valid also outside the Baltic countries.

Pricing risks

Non-life insurance premiums are usually calculated for one year on the basis of established insurance rates. The adequacy of insurance rates is checked on a regular basis. Rates may be changed due to changes in claim incurrence statistics, market trends and the provision of a broader or more limited insurance cover. The company has a routine procedure for changing rates. Rates are calculated based on mathematical assumptions. Therefore, there exists the risk that the frequency and severity of losses will surpass the assumptions. This risk is mitigated by checking the validity of assumptions applied in routine reporting.

Another pricing risk is related to the sales process. The ultimate price of an insurance service depends on various risk factors, some of which are subjective. Therefore, there exists the risk that risk factors are intentionally or unintentionally altered. The company has mitigated the risk by excluding the possibility of price manipulations on the sale of mass products. In classes where each item of insured property has to be assessed on an individual basis, the underwriting process includes risk assessment and supervision by the company's insurance department.

Claims handling risks

The overriding principles of the company's claims handling operations are transparency and prudence. Transparency assumes the clarity of the handling process and its compliance with established guidelines. On the one hand this is in the customer's best interests and on the other allows monitoring and checking the handling process. The risks inherent in the process are mitigated by the absence of cash risk and applying proper quality controls, separating the process into stages, and observing signature rules.

In line with the principle of prudence each reported claim is evaluated on an individual basis considering the circumstances surrounding the claim, the information obtained during the handling process and historical evidence about the size of similar claims. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of reported claims. Therefore, case estimates are reviewed regularly and updated as and when new information becomes available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many factors affecting the ultimate loss is difficult to estimate. Provision estimation difficulties, which differ by line of business, depend also on the terms of the underlying insurance contract, claim complexity and size, determination of the date of occurrence, and reporting lag.

Provisioning risks

The company's exposure to latent bodily injury claims arises mainly from motor liability insurance contracts and, to a lesser extent, accident insurance contracts. The company's estimate of its ultimate liability for such exposures includes case-based provisions and a provision for liabilities incurred but not reported (IBNR).

The IBNR provision is estimated using statistical methods, such as the chain ladder and Bornhuetter Ferguson methods, and considering claims development, frequency and severity. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate number of claims for each year based on observed developments of earlier years and expected loss ratios.

The key methods that are used and have remained unchanged from prior years are:

- chain ladder methods, which use historical data to estimate the ratio of paid and incurred claims to forecasted ultimate claims cost;
- expected loss ratio methods, which use the company's expectation of the loss ratio for a class of insurance.

The actual method or blend of methods used varies by the year of incurrence, the line of business and observed historical claims development.

The methods rely on historical claims development information and assume that the historical pattern will occur again in the future. There are reasons why this may not be the case, and which are considered, where possible, by modifying the methods. Such reasons include:

- changes in the processes that affect the development or recording of claims paid and forecasted (such as changes in claims provisioning procedures);
- economic, legal, political, and social trends that cause the rate of inflation differ from the forecast;
- changes in the mix of business;
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and separate calculations are made to estimate the size of reinsurance recoveries.

ERGO calculates its insurance provisions using the principle of best actuarial estimates, i.e. an insurance provision is recognised in an amount that best reflects the expected future net cash outflows. In addition to direct claim and benefit payments, the expected future cash outflows comprise claims handling and other potential costs as well as expected future income from salvage and subrogation recoveries.

Concentration risks

Within the insurance process, concentration risk may arise where a particular event or series of events has a strong impact on the company's liabilities. Such concentration may arise from a single insurance contract or through a large number of related contracts.

Recognition of losses due to such events will accurately reflect the events that have taken place. The company's cash flows resulting from a high-severity risk such as a flood may differ significantly from the cash flows resulting from an ordinary insured event.

The company is engaged in non-life insurance, providing cover for various risks. In property insurance, the company needs to monitor the geographical concentration of risks because external factors such as adverse weather conditions may have a negative impact on a large proportion of insured property in a particular geographical area. Claim-triggering perils such as storms, floods, fires, explosions, and growth in crime may occur on a regional basis, meaning that the company has to manage its geographical risk dispersion very carefully. The company assesses and mitigates the geographical concentration of risks by using contemporary tools for analysing geographical information.

In geographical terms, the company’s insurance contract liabilities break down as follows.

In euros	2021			2020		
	Gross provisions	**Reinsurers’ share**	**Net provisions**	**Gross provisions**	**Reinsurers’ share**	**Net provisions**
Estonia	64 027 943	9 639 578	54 388 365	52 686 713	5 894 236	46 792 477
Latvia	48 350 424	12 130 939	36 238 851	49 403 780	14 492 423	34 911 357
Lithuania	89 842 423	6 910 631	82 912 426	84 241 364	5 501 851	78 739 513
Total	**202 220 790**	**28 681 148**	**173 539 642**	**186 331 857**	**25 888 510**	**160 443 347**

Impact of catastrophic events

Probable events that could have the strongest impact on the insurance portfolio are natural disasters such as floods and storms. In Estonia, the probable frequency of a severe natural disaster comparable to the storm on 9 January 2005 is once in twenty years. In order to limit the impact of a potential catastrophe, the company has bought natural catastrophe reinsurance with an insured amount of 26 million euros and retention of 3.0 million euros. In addition, the company constantly limits its risk concentration by spreading its insurance risks across Estonia and limiting its contractual exposure to any single peril in the event of a natural disaster.

The biggest possible losses resulting from single events relate to motor liability insurance and property insurance. The company has bought non-proportional peril-based reinsurance cover, limiting its net liability to 1.0 million euros per insurance contract in property insurance and 1.0 million euros per insured event in motor liability insurance.

Reinsurance strategy

The company reinsures a certain part of the risks for which it provides insurance cover under insurance contracts. The purpose of reinsurance is to reduce the company’s share of losses and limit the potential net loss through the diversification of risks. The main contract forms in reinsurance are peril-based obligatory non-proportional and peril-based obligatory proportional reinsurance, accompanied by catastrophe reinsurance for aggregated risks related to the whole portfolio. Risks exceeding the limits of obligatory reinsurance contracts or falling outside their scope are reinsured on a facultative basis.

Reinsurance is acquired on the guiding principle that the net loss should not exceed 1.0 million euros for each individual insured item or each individual event. Retention for additional natural catastrophe reinsurance is 3.0 million euros. Standard exclusions from reinsurance contracts are losses arising from nuclear energy.

Breakdown of reinsurance retention by insurance class as at 31 December 2021

Class of insurance	Retention in euros
Motor liability insurance , Property, and technical risks insurance	1 000 000
Liability, marine and travel insurance , accident, livestock, motor own damage and surety insurance	500 000

Claims development

The claims development table allows comparing the claims outstanding estimates included in the financial statements with the claims incurred in previous years and reflects the company's ability to estimate the total value of claims. The table provides an overview of current estimates of cumulative claims (including claims paid and case-based provisions and IBNR but excluding claims handling costs and the provision for claims handling costs) and demonstrates how claims estimates have changed at subsequent year-ends. An estimate is increased or reduced as claims are paid and more information becomes available about the frequency and severity of claims outstanding.

Various factors may distort current estimates of provisions and cumulative prior year provisions. While the information in the table provides a historical perspective of the adequacy of claims outstanding estimates, it does not provide a basis for extrapolating surpluses or shortfalls of the past on current claims outstanding balances. The company believes that the estimates of claims outstanding as at the end of 2021 are adequate. However, due to the inherent uncertainties of the provisioning process, it cannot be guaranteed that the balances will prove adequate.

Analysis of claims development – gross (as at 31 December 2021)

In euros		*Year of loss incurrence*					
Estimate of cumulative claims	**Note**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
At end of year of incurrence		83 980 608	91 153 852	103 750 661	115 357 775	119 504 390	149 188 199
One year later		82 607 595	89 481 530	106 020 656	115 304 000	114 928 685	
Two years later		83 469 185	89 422 538	105 525 465	112 873 248		
Three years later		83 112 591	89 343 458	106 418 086			
Four years later		82 825 132	88 417 289				
Five years later		82 006 169					
Cumulative payments until 31 December 2021	21	78 670 342	84 759 434	94 821 400	101 505 701	102 187 764	90 865 043
Provision for claims outstanding (incl. IBNR) at 31 December 2021	**21**	**3 335 827**	**3 657 855**	**11 596 686**	**11 367 547**	**12 740 921**	**58 323 156**

At 31 December 2021, the provision for claims outstanding for earlier years of loss incurrence amounted to 17 251 598 euros (2020: 17 662 511 euros).

The following sensitivity analysis reflects the effect of a 5% change in the provisions for claims outstanding on the company's net loss ratio, profit or loss for the year, and equity.

Results of the sensitivity analysis for claims

	As at 31 December 2021		As at 31 December 2020	
	Change in net loss ratio in percentage points	Impact on profit and equity in euros	Change in net loss ratio in percentage points	Impact on profit and equity in euros
Motor liability insurance	4,3	-2 780 968	4	-2 781 605
Motor own damage insurance	0,6	-287 339	0,4	-195 234
Individuals' property insurance	0,7	-105 398	0,6	-79 437
Legal persons' property insurance	3,9	-361 578	2,9	-246 869
Other classes of insurance	2,7	-1 273 935	2,3	-948 585

Sensitivity analysis involves applying various methods to assess the volatility of estimates used for creating provisions for claims and its impact on the net loss ratio and net profit or loss. A 5% decrease in premium income for 2021 would have had a -0,2 million euro impact on the company's insurance result.

Liability adequacy test

The company has assessed the insurance liabilities recognised in the statement of financial position as at 31 December 2021 using the liability adequacy test.

As a result, the company reduced the deferred acquisition costs by 669 513 euros (see note 11) and recognised an additional unexpired risks provision of 371 321 euros. Detailed information on insurance provisions is provided in note 2

In euros

	As at 31 December 2021		As at 31 December 2020	
Class of insurance	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision
Commercial property insurance	-644 217	0	-124 430	0
Watercraft insurance and watercraft owner's liability insurance	-25 296	371 321	0	0
Total	**-669 513**	**371 321**	**-124 430**	**0**

2.2. Market, credit, and liquidity risk management

The principles of managing the risks related to financial assets are embedded in the company's risk management policy and observed in adhering to the predetermined risk appetite, strategic investment of assets, and specific risk management processes.

The company manages its asset risk by preparing a new investment policy on an annual basis. Implementation of the strategy and adherence to limits and restrictions is monitored by a multi-level structure. Tactical decisions are made and implemented by MEAG. The compliance of investments with the adopted strategy is monitored by the asset and liability management (ALM) team and the team of the risk management function. If problems arise, they are reviewed by the ALM team, which includes qualified members from Estonia and Germany, and the management board. Many ERGO Group entities are also involved in planning, monitoring, and managing investment risks.

Credit risk

The credit risk of investments is the risk that the issuer of a security will not discharge its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The table below describes the company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of the company's fixed-income securities was A (2020: AA-). The company believes that its credit risk exposure to other financial assets is low due to their small proportion.

In its insurance activities, the company's main credit risk is payment default by a broker or reinsurer. The company's credit risk arises principally from its insurance and reinsurance receivables. In each business line, risk management measures are applied to protect the company's financial position. The company has rules in place for consistently monitoring and managing overdue receivables. A receivable that is more than 180 days overdue is written down. To mitigate the risk arising from reinsurance, the company enters into obligatory reinsurance contracts with such reinsurers only whose equity amounts to at least 250 million euros and rating is above A– (according to Standard & Poor's). Facultative reinsurance contracts are concluded with such reinsurers only that have been included in a list approved by the relevant department of ERGO Group. In addition, premiums ceded to any one reinsurer may not exceed 10% of ERGO's annual gross premium income.

The assets presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies.

2021	Standard & Poor's	AAA	AA	A	BBB	BB	Without rating	Total
In euros	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**Without rating**	
Debt securities at fair value		85 875 265	42 428 017	30 370 254	45 439 326	1 092 849	0	**205 205 711**
Proportion of debt securities		41,85%	20,68%	14,80%	22,14%	0,53%	0,00%	**100,00%**
Reinsurance assets		0	23 415 791	3 222 434	1 960	0	2 040 963	**28 681 148**
Proportion of reinsurance assets		0,00%	81,63%	11,24%	0,01%	0,00%	7,12%	**100,00%**
Cash and cash equivalents		0	10 430 306	5 440 482	0	0	69 751	**15 940 539**
Proportion of cash and cash equivalents		0,00%	65,43%	34,13%	0,00%	0,00%	0,44%	**100,00%**

2020	Standard & Poor's	AAA	AA	A	BBB	BB	Without rating	Total
In euros	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**Without rating**	
Debt securities at fair value		131 950 998	38 844 461	16 358 867	22 305 437	0	0	**209 459 763**
Proportion of debt securities		63,00%	18,55%	7,81%	10,65%	0,00%	0,00%	**100,00%**
Reinsurance assets		0	21 865 558	2 905 086	527	0	1 117 339	**25 888 510**
Proportion of reinsurance assets		0,00%	84,46%	11,22%	0,00%	0,00%	4,32%	**100,00%**
Cash and cash equivalents		0	8 540 343	307 464	1 958 499	0	147 944	**10 954 250**
Proportion of cash and cash equivalents		0,00%	77,96%	2,81%	17,88%	0,00%	1,35%	**100,00%**

To mitigate concentration risk for credit exposure, ERGO establishes counterparty limits for all banks and banking groups the companies working with. Compliance with the limits is monitored regularly.

Other financial assets are also exposed to credit risk. The table below analyses financial assets' maturity structure, which reflects their credit quality. Receivables that are more than 180 days past due are written down in full.

As at 31 December 2021 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	17 254 618	1 988 757	494 327	1 061 039	**20 798 741**
Receivables from brokers and other intermediaries	722 259	337 992	2 350	150 652	**1 213 253**
Receivables from reinsurers	1 831 598	2 052 535	5 984	4 327 369	**8 217 487**
Other receivables	516 234	575 013	43 736	45 663	**1 180 646**
Total	**20 324 709**	**4 954 297**	**546 397**	**5 584 724**	**31 410 127**

As at 31 December 2020 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	16 081 235	2 420 199	570 650	605 924	**19 678 008**
Receivables from brokers and other intermediaries	656 544	381 880	7 036	196 661	**1 242 121**
Receivables from reinsurers	11 281	1 084 820	169 665	546 144	**1 811 910**
Other receivables	575 562	48 669	14 337	33 622	**672 190**
Total	**17 324 622**	**3 935 568**	**761 688**	**1 382 351**	**23 404 229**

Market risk

The most important risk related to financial assets is a decrease in the value of the investment portfolio, caused by the volatility of market prices.

Exposure to fluctuations in market value is assessed on an ongoing basis using four models. The first, Net Loss Limit (NLL), monitors the probability of achieving a result that surpasses the minimum investment result fixed by actuaries. The second, Credit Value at Risk (CVaR) measures the potential loss that a portfolio of assets exposed to credit risk could suffer due to a weakening of the issuer's credit rating. The third, Market Value at Risk (MVaR), measures the potential decrease in the value of the current investment portfolio during one year. The fourth, Investment Asset/Liability Mismatch (InvALM) combines two of the above models (CVaR and MVaR) and the company's liabilities side and views how market events could influence the company when the risks taken on the asset side exceed the risk-neutral position resulting from liabilities. Clearly defined processes ensure that the company can respond timely to any significant capital market developments.

Market risk also includes potential inflation-triggered growth in future liabilities, particularly long-term liabilities such as motor liability insurance pensions. The risk is mitigated by estimating pension provisions by applying the expected rate of inflation and not discounting other kinds of case-based claims provisions. In view of the nature of its business and the small proportion of its long-term liabilities, the company believes that the impacts of market risk are moderately low.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The company's investments comprise mostly fixed-income securities whose market value is influenced by changes in interest rates. At 31 December 2021, the weighted average yield to maturity of fixed-income available-for-sale debt securities was -0.18% (31 December 2020: -0.41%).

Assets exposed to interest rate risk, by interest rate

In euros	As at 31 December 2021		As at 31 December 2020	
	Cost	Fair value	Cost	Fair value
Fixed rate debt securities				
interest rate 0,00% -2,50%	176 697 014	177 785 931	182 861 367	184 082 296
interest rate 2,51% -3,50%	8 899 977	8 892 786	4 790 858	4 853 818
interest rate 3,51% -4,50%	13 198 802	13 201 440	16 981 698	17 017 068
interest rate 4,51% -5,50%	3 307 639	3 330 421	3 428 132	3 506 581
interest rate 5,51% -6,50%	1 998 643	1 995 133	0	0
Total fixed rate debt securities	**204 102 075**	**205 205 711**	**208 062 055**	**209 459 763**

If at 31 December 2021 the yield curve had shifted evenly 100 basis points upward or downward across all maturities, the company's equity would have decreased or increased by 5.1 million euros (2020: 5.3 million euros). There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expense.

(b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk), either changes resulting from factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

If at 31 December 2021 the value of investments in equity and debt securities funds had increased or decreased by 10%, the company's equity would have increased or decreased by 0.5 million euros (2020: 4 thousand euros). The decrease in risk is attributable to the realisation of investments in debt securities funds during the financial year.

Changes in the economies of different areas may also affect the fair values of financial assets connected with those areas.

Investments in financial instruments by issuer's domicile

In euros

As at 31 December	2021	2020
Debt and other fixed-income securities		
Australia	3 650 296	2 063 643
British Virgin Islands	1 153 087	1 160 290
Bulgaria	594 123	0
Canada	2 158 402	1 201 758
Cayman Islands	1 134 776	1 144 440
Chile	1 065 712	0
China	2 502 274	0
Croatia	1 040 051	0
Denmark	1 005 991	0
France	45 078 994	67 201 476
Germany	64 481 104	102 439 595
Great Britain	3 129 681	2 286 632
Hungary	1 543 389	0
Ireland	777 948	0
Israel	1 918 859	0
Italy	7 271 240	0
Japan	2 614 554	0
Kazakhstan	1 026 051	0
Lithuania	1 851 073	1 291 273
Luxembourg	6 121 245	3 856 803
Macedonia	1 092 848	0
Mexico	2 751 422	1 150 758
Netherlands	5 908 143	5 030 756
Peru	564 245	0
Philippines	1 510 855	0
Poland	1 003 073	0
Portugal	4 052 442	0
Romania	1 102 273	0
Saudi Arabia	999 595	0
South Korea	1 018 992	0
Spain	16 749 578	8 805 240
Switzerland	1 013 658	0
United States of America	16 299 274	11 827 099
Total debt and other fixed-income securities	***205 205 711***	***209 459 763***
Equities and fund units		
Germany	910 589	0
Ireland	1 393 053	0
Lithuania	43 443	43 443
Luxembourg	2 673 499	0
Total equities and fund units	***5 020 584***	***43 443***
Total investments in financial instruments	**210 226 295**	**209 503 206**

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company's liabilities in different currencies are covered with assets denominated in the same currencies. Currency risk is countered by monitoring that no uncovered currency exposure would exceed 5% of assets.

The following assets and liabilities are exposed to currency risk

In euros	**As at 31 December 2021**	**As at 31 December 2020**
	USD	**USD**
Insurance and other receivables	68 162	41 958
Investments in financial instruments – available-for-sale debt securities	6 360 074	0
Reinsurance payables	90 795	36 252
Total	**6 519 031**	**78 210**

Liquidity risk

The company has to be able to discharge its payment obligations at any time. This is ensured by liquidity planning that is embedded in the asset and liability management (ALM) model.

To be able meet its settlement commitments at any time, the company needs to know its liabilities and has to acquire a suitable investment portfolio. This is achieved by close cooperation between actuaries, the investment manager and the ALM team.

The debt securities portfolio is composed by considering the average duration of liabilities and modifying the duration of assets and liabilities with duration matching. In addition, a large share of the company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the company's liquid funds totalled 226 million euros (2020: 220 million euros) including available-for-sale debt securities of 205,2 million euros (2020: 209,5 million euros), equities and fund units of 5 million euros (2020: 0 million euros), loans of 0 million euros (2020: 0 million euros) and cash and cash equivalents of 15,9 million euros (2019: 11 million euros).

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio was 2.5 years (2020: 2.5 years).

All of the company's receivables and liabilities except for liabilities arising from insurance contracts are current, i.e. with a maturity of up to one year.

Financial assets and liabilities exposed to liquidity risk by maturity

In euros

As at 31 December 2021	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	40 902 023	26 005 757	12 535 232	8 960 223	7 781 122	**96 184 357**
Of which net insurance pension payments	21	0	2 647 952	3 069 797	3 571 564	2 399 246	983 699	**12 672 258**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 17	21 004 566	20 090 871	62 644 224	73 432 432	49 038 184	0	**226 210 277**
Other financial assets	16	0	31 414 613	0	0	0	0	**31 414 613**
Other financial liabilities	23, 24, 28	0	31 897 824	0	6 000 000	0	6 000 000	**43 897 824**
Net exposure (assets less liabilities)		**21 004 566**	**-21 294 363**	**36 638 467**	**54 897 200**	**40 077 961**	**-13 781 122**	**117 542 709**

In euros

As at 31 December 2020	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	34 083 990	22 370 191	12 442 210	8 824 516	7 313 687	**85 034 594**
Of which net insurance pension payments	21	0	2 815 242	3 091 306	3 383 078	2 308 228	1 059 302	**12 657 156**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 15	10 997 693	3 726 774	74 957 996	103 203 713	27 571 280	0	**220 457 456**
Other financial assets	16	0	23 406 534	0	0	0	0	**23 406 534**
Other financial liabilities	23, 24, 28	0	27 451 977	0	0	6 000 000	0	**33 451 977**
Net exposure (assets less liabilities)		**10 997 693**	**-34 402 659**	**52 587 805**	**90 761 503**	**12 746 764**	**-7 313 687**	**125 377 419**

2.3. Capital management

Management's policy is to maintain a strong capital base so as to protect the interests of investors, creditors, and policyholders and to sustain future development of the business. Management monitors return on equity (the ratio of profit to the period's average equity) on an ongoing basis. The return for 2021 was -3.9% (2020: 17.7%).

Thorough capital planning, regular monitoring and a system of risk limits and warnings enable the company to identify a decrease in the capital buffer and potential shortfalls sufficiently early. The capital management plan includes the financial and solvency forecasts made during the planning process, which in turn are part of the company's own risk and solvency assessment report.

The capital management plan considers the changes planned in the company's own funds. Assessment of the overall solvency needs represents the company's own view of its risk profile and the capital and other funds needed to address these risks.

The company's own funds meet the capital requirements set out in the Insurance Activity Act.

2.4. Strategic risks

Strategic risks may result from wrong business decisions or poor execution of decisions already made. We also regard reluctance to adapt to changes in the environment (e.g. the legal environment) as a strategic risk.

The main strategic risks result from economic environment developments and possible regulatory changes as well as from quality of data analytics and effective resource allocation between major projects and daily tasks. Moreover, continuously rising cyber security risks due to increasing digitalization could impact the Company performance.

Strategic risks are mitigated by integrating risk management processes into the adoption of strategic decisions, particularly into the preparations and decisions made during the planning process.

As part of strategic risk management, we identify the most significant risks, which are assessed and monitored at the level of the management board. Where necessary, the management board determines the appropriate risk mitigation measures. In the case of all significant risks the company appoints the persons responsible for the implementation of measures.

2.5. Operational risks

Operational risks are an inevitable part of the company's business operations. They have to be mitigated or, where possible, avoided if it is economically practicable. Operational risks result from inadequate processes, failures in communication or information technology, and external factors such as natural disasters and legal risks.

In operational risk management, ERGO focuses on the following areas:

- resources, particularly information technology and infrastructure;
- personnel and processes;
- projects.

Operational risk management is underpinned by qualitative and quantitative assessment. Risks related to business processes are managed through relevant processes and appropriate control of IT applications used. Company-level control activities also ensure compliance with legal and regulatory requirements.

Through the internal control system, the company has identified, analysed, and assessed both company-wide risks and the risks inherent in the key processes, including IT risks. There are measures in place for improving risk control and mitigating risks. The company's internal control and risk management systems deal with both risks arising from everyday operations as well as compliance and financial reporting risks. The model adopted allows identifying risks that are common to different departments and processes. Operational risks are identified, analysed, and assessed on a regular basis.

We mitigate the risks resulting from business processes with process, IT, and company level controls. Process level controls include authorisation systems, the four-eye principle, segregation of duties, rules, and regulations, etc. IT controls include backup solutions, access controls and incident management planning. The purpose of company level controls is to assess whether all requirements of an adequate and appropriate control environment are met.

The continuity of critical business processes and systems in emergency or crisis situations is ensured by well-designed incident management, an appropriate crisis management structure and adequate disaster recovery concepts. Business continuity systems are tested on a regular basis.

To mitigate personnel risk, the company has established guidelines for avoiding conflicts of interest. The risk of corporate misconduct is counteracted by a system of powers and authorities, the segregation of duties, internal regulations, and random tests of business transactions.

Although operational risks are mainly managed through the above processes, some risks (either individually or in combination with others) may have such an extensive impact on a specific process and the company as a whole that the company's ability to carry on its regular business activities is put at risk (business interruption). Therefore, significant risk events are evaluated separately to increase awareness of such incidents and highlight their potential impact.

2.6. Reputational risks

Reputational risk is the risk that negative publicity regarding ERGO's business practices or operations, whether true or not, will cause a situation where trust in the company is lost. Reputational risk may arise as a result of some other risk (e.g. operational risk, strategic risk, or concentration risk) or together with other risks. Thus, reputational risks are controlled indirectly, through the control of other risks.

Reputational risk can occur in a number of different ways: directly as a result of the company's actions, indirectly due to the actions of an employee or tangentially through third parties.

ERGO has identified two subcategories of reputational risk:

- data and information;
- communication risk.

Reputational risk related to the unauthorised disclosure of confidential information stays continuously high. Reputational risks are identified by three methods:

- preparation of extraordinary reports;
- regular quarterly communication between the risk management team and other relevant parties, e.g. the compliance control, internal audit, and corporate communication teams;
- the internal control system where the evaluation of every operational risk is accompanied by the assessment of potential damage to reputation.

Risk takers – process owners – determine the measures including the implementation plans required for minimising and managing risk. Depending on relevance and significance, they may consult with other relevant parties such as the compliance control or internal audit teams and inform them about the measures determined. The measures for mitigating the most important reputational risks are discussed and approved by local management. The management of ERGO Group AG and Munich Re or relevant committees are notified of measures adopted according to need.

The greatest reputational risks are added to the company's risk profile and the company prepares quarterly risk reports on them. The company has put in place a special reporting system to make sure that (potential) reputational risks are reported without delay.

Risk controllers – the compliance control and internal audit teams – evaluate reputational risk using their own methods and report all actual or anticipated reputational risks they have identified to the risk management team and other responsible stakeholders.

2.7. COVID-19 major developments

The COVID-19 pandemic had a continuous significant impact on Company's customers, staff, and society as a whole in 2021. ERGO has prioritized sustaining customer service during these turbulent times and taken active steps to support Company's stakeholder navigating through the challenging period.

Financial markets were volatile during 2021 also as a result of the COVID-19 pandemic. Inflation rates worldwide increased significantly and at the moment there is no certainty whether this is short-term or long-term occurrence.

Company portfolio in terms of total gross written premium has been COVID-19 affected but still rather stable development and optimism for the future can be observed.

From an operational perspective, the Company was able to sustain all employees working from home when it was required. While sales services experienced some slippage, in general business remained largely as usual. ERGO prioritized health and welfare of its staff and organized working and training arrangements implementing measures to bring the infection risk to minimum possible level.

2.8. Geopolitical risk

ERGO Insurance SE, including the branches (further ERGO or Company), monitors the geopolitical situation in Eastern Europe and carefully assesses all circumstances that could impact Company activity and risk profile, including operation and cyber risks. We have performed several analyses of the possible impact of the conflict situation on the Company's business.

Underwriting risk

ERGO does not run direct business in the conflict area (Russia, Ukraine, also Belarus). Thus, lines of business could be affected by the geopolitical tensions, and where does Company have possible risk exposure were identified. It was revealed that there is no risk exposure in Commercial and Private property and Engineering lines of business. Potential exposure for Marine Cargo exposures, Road Carriers Liability Insurance (CMR) and Freight Forwarders Liability (war exclusion applies) and limited exposure for MOD and Travel lines of business (for policies covering extended region/worldwide, however, the war exclusion applies). Additionally, the analysis of the possible impact on the top-line was performed. It could be estimated that the conflict situation could affect the total GWP by a decrease of 4%.

Additional preventive measures were implemented to reduce the further risk exposure in Ukraine, Russia, and Belarus (i.e. underwriting limitations).

Market risk

ERGO has limited market risk exposure in an asset portfolio. The direct impact comes through holding bonds of a European Union based subsidiary of the Company registered in Russia. The share of this investment in total investment assets held by ERGO as of 31.01.2022 is 0,6059%. Although coupons of bonds were paid duly (on March 21, 2022) and in contractual currency (EUR), this investment is subject to impairment as market value declined after February 24, 2022. Also, there are indirect investments through investment funds that form an immaterial share of total investment assets (0,0024%).

Operational risk

The most significant operational risks derive from sanction management and information and cyber security.

Sanction risks in ERGO are generally managed and grouped into two major categories: targeted and sectoral sanctions. Targeted sanctions are fully covered by an automated screening tool implemented in the Company as part of the Internal Control System. All insured parties and persons participating in the contract (natural or legal persons) who obtain direct or indirect insurance coverage are checked against the sanction lists by the screening tool. Sectoral sanctions are managed through both: an automated screening tool and manual control, performed to all insurance products to which sanctions could possibly apply.

ERGO Insurance SE, being a part of ERGO Group, takes the topic of information and cyber security very seriously. According to the best international practices, the Company has established an information security management system (ISO27001). Additionally, there is a cyber security maturity program where ERGO is expected to be on a specific level of cyber security. These initiatives create a background to be properly prepared for cyber risks. Furthermore, security trends are closely monitored; special communication to all employees was performed to raise employees' awareness of potential cyber-attacks. In addition to the abovementioned, at the end of February 2022, ERGO has run a supplementary evaluation of cyber security measures applied and set additional prevention measures to be implemented.

Note 3. Premium income

The following table outlines gross and net premiums for 2021 and 2020 by line of business.

In euros	2021			2020		
	Gross written premiums	Reinsurers' share	Net earned premiums[1]	Gross written premiums	Reinsurers' share	Net earned premiums[1]
Motor liability insurance	65 878 352	1 280 759	65 192 671	67 568 910	1 241 120	69 373 659
Accident insurance	9 126 799	181 142	8 609 098	8 151 388	30 677	7 870 060
Travel insurance	1 874 738	62 558	1 941 378	3 091 896	63 528	3 232 096
Technical risks insurance	8 040 565	324 666	7 282 228	7 071 035	437 873	6 030 272
Individuals' property insurance	16 559 758	161 000	15 604 275	14 747 361	199 098	13 946 081
Legal persons' property insurance	11 549 941	3 004 486	8 770 971	12 119 353	3 914 357	8 124 067
Agricultural risks insurance	1 690 065	170 634	1 701 630	2 065 584	237 344	2 053 521
Motor own damage insurance	49 848 132	27 899	48 895 935	48 710 656	26 644	47 947 638
Liability insurance	9 956 713	1 826 894	8 066 864	9 001 484	1 750 510	6 918 108
Goods in transit insurance	2 126 760	462 739	1 662 029	1 739 418	381 597	1 210 732
Carrier's liability insurance	2 923 796	90 808	2 688 910	2 661 063	53 935	2 565 223
Watercraft insurance and watercraft owner's liability insurance	9 626 024	758 860	9 188 417	6 285 432	389 904	5 495 473
Guarantee insurance	5 266 745	2 687 598	2 388 308	5 509 647	2 664 469	2 042 876
Railway rolling stock insurance	111 061	11 766	135 234	145 091	31 159	124 254
Assistance insurance	2 120 255	0	2 030 336	2 519 549	0	2 470 044
Financial risks insurance	847 224	209 603	592 865	689 285	206 759	468 341
Loss of employment insurance	377 127	0	384 593	394 490	0	393 386
Legal expenses insurance	1 533 554	0	1 532 229	1 561 633	0	1 564 957
Total from insurance activities	**199 457 609**	**11 261 412**	**186 667 971**	**194 033 275**	**11 628 974**	**181 830 788**
Legal persons' property insurance	323 090	0	239 900	62 959	0	62 959
Liability insurance	27 000	1 492	29 231	45 000	1 820	24 563
Total from reinsurance activities	**350 090**	**1 492**	**269 131**	**107 959**	**1 820**	**24 563**
Total	**199 807 699**	**11 262 904**	**186 937 102**	**194 141 234**	**11 630 794**	**181 855 351**

[1] Net earned premiums = gross written premiums – reinsurers' share – net change in the provision for unearned premiums and change in unexpired risks provision.

Breakdown of gross written premiums by currency

In euros	2021	2020
EUR	199 648 183	193 924 787
USD	159 516	216 447
Total	**199 807 699**	**194 141 234**

Breakdown of gross written premiums by country

In euros	2021	2020
Estonia	66 203 955	63 999 334
Latvia	34 701 377	35 415 521
Lithuania	98 552 277	94 618 420
Total from insurance activities	**199 457 609**	**194 033 275**
Poland	350 090	107 959
Total from reinsurance activities	**350 090**	**107 959**
Total	**199 807 699**	**194 141 234**

Note 4. Commission income

In euros	2021	2020
Reinsurance commissions	1 431 503	1 559 469
Participation in reinsurers' profit	-15 343	-33 721
Reinsurers' share of deferred acquisition costs	-74 049	-307 068
Total	**1 342 111**	**1 218 680**

Note 5. Investment income

In euros	2021	2020
Interest income on		
Loans	0	51 495
Term deposits	273	293
Available-for-sale debt securities	-373 113	-126 138
Total interest income	**-372 840**	**-74 350**
Dividend income	25 734	33 273
Net realised gain on		
Available-for-sale debt securities	389 495	808 964
Total net realised gains	**389 495**	**808 964**
Total	**42 389**	**767 887**

Note 6. Other income

In euros	2021	2020
Gain on disposal of property and equipment	10 559	45 069
Fees, commissions, and charges received	666 798	617 562
Insurance brokerage income	187 271	156 845
Income from currency revaluation	66 915	61 051
Rental income	236 113	358 801
Income from real estate in own use	158 509	152 256
Income from receivables written down	769 101	445 709
Miscellaneous income	52 211	108 746
Total	**2 147 477**	**1 946 039**

Note 7. Claims and benefits

The following table shows claims paid and incurred in 2021 and 2020 by line of business

In euros	2021				2020			
	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred
Motor liability insurance	42 771 805	2 366 663	-2 719 403	42 419 062	43 523 046	600 522	213 945	44 337 513
Accident insurance	4 646 460	95 625	0	4 742 086	3 713 809	-39 520	0	3 674 288
Travel insurance	847 520	-50 940	-725	795 854	1 720 512	-242 934	-95	1 477 485
Technical risks insurance	4 928 553	1 124 815	0	6 053 368	3 804 392	-34 302	-739	3 769 350
Individuals' property insurance	11 133 513	519 225	0	11 652 739	7 970 381	520 412	0	8 490 792
Legal persons' property insurance	13 756 226	1 695 587	-6 934 311	8 517 504	7 732 679	5 565 295	-6 513 204	6 784 769
Agricultural risks insurance	1 212 208	-184 669	0	1 027 539	1 549 186	131 717	0	1 680 904
Motor own damage insurance	34 791 704	1 850 378	-265 127	36 376 955	31 397 138	-477 106	-234 803	30 685 228
Liability insurance	3 856 907	-1 290 018	-96 401	2 470 486	2 879 684	866 544	-446 000	3 300 227
Goods in transit insurance	623 678	26 807	-12 857	637 628	320 238	101 386	-1 159	420 466
Carrier's liability insurance	1 779 431	-143 291	0	1 636 140	1 329 857	143 494	0	1 473 352
Watercraft insurance and watercraft owner's liability insurance	10 116 351	8 127 982	-4 638 617	13 605 716	1 570 712	4 152 547	-450 000	5 273 258
Guarantee insurance	1 168 563	-623 630	-440 708	104 225	1 595 138	83 866	-1 045 596	633 408
Railway rolling stock insurance	107 541	-105 427	0	2 114	152 670	-252 662	0	-99 991
Assistance insurance	1 439 042	39 691	0	1 478 733	1 789 653	-61 664	0	1 727 989
Financial risks insurance	1 751 391	378 902	-907 002	1 223 292	979 324	2 106 855	-2 375 845	710 334
Loss of employment insurance	114 834	-39 831	0	75 003	80 614	46 114	0	126 728
Legal expenses insurance	366 762	-87 738	0	279 025	529 750	-185 834	0	343 917
Total	**135 412 489**	**13 700 131**	**-16 015 151**	**133 097 469**	**112 638 783**	**13 024 730**	**-10 853 496**	**114 810 017**

[1] Claims paid include insurance indemnities and benefits paid, claims handling costs and income from salvage and subrogation recoveries.

Claims handling costs

In euros	**2021**	**2020**
Salaries	3 950 677	3 911 729
Social security charges	587 103	591 319
Depreciation and amortisation	512 577	515 623
Services purchased	5 038 987	4 562 618
Other labour costs	89 460	83 887
Business travel expenses	2 382	6 171
Costs of company cars	28 366	32 742
Training and other staff costs	31 057	49 472
Rental and utilities charges	-5 774	66 471
Office expenses	184 164	169 895
Communications costs including mobile phone charges	43 592	51 111
IT costs	499 699	482 455
Miscellaneous costs	488 638	585 743
Total	**11 450 928**	**11 109 236**

The following table provides an overview of income from subrogation and salvage recoveries in 2021 and 2020.

In euros	**2021**	**2020**
Motor liability insurance	2 255 498	2 432 561
Accident insurance	955	1 757
Travel insurance	6 023	28 817
Technical risks insurance	88 897	74 872
Private property Insurance	876 145	536 469
Corporate property Insurance	736 933	297 363
Motor own damage insurance	4 512 541	1 853 986
Liability insurance	83 303	2 076 219
Goods in transit insurance	47 852	53 617
Carrier’s liability insurance	30 219	23 185
Watercraft insurance and watercraft owner’s liability insurance	4 700	23 486
Guarantee insurance	148 399	9 330
Assistance insurance	2 488	245 754
Railway rolling stock insurance	0	236
Other Property Insurance	-3 988	-13 600
Legal expenses insurance	189 253	15 979
Total	**8 979 218**	**7 660 031**

Catastrophes and major losses in 2021

In 2021, there were no natural disasters with a significant impact. The largest loss event reported to the company occurred in Latvia, was related to legal persons' property insurance, and amounted to 4,3 million euros (gross amount).

Note 8. Expenses

In euros	Note	2021	2020
Acquisition costs		**45 752 624**	**44 239 980**
Salaries		12 032 264	11 672 473
Social security charges		1 657 336	1 594 616
Depreciation and amortisation		2 167 345	2 115 443
Service fees and commissions		23 258 568	22 756 353
Change in deferred acquisition costs		269 319	-198 841
Other labour costs		381 257	360 305
Business travel expenses		21 212	28 484
Costs of company cars		255 971	263 180
Training and other staff costs		177 186	196 029
Rental and utilities charges		1 244 460	1 175 248
Office expenses		346 438	459 686
Communications expenses including mobile phone charges		299 766	299 032
IT costs		1 835 198	1 689 893
Marketing expenses		971 776	951 676
Miscellaneous expenses		834 528	876 403
Administrative expenses		**9 564 952**	**8 795 082**
Salaries		5 382 098	5 095 012
Social security charges		1 006 717	945 607
Depreciation and amortisation		668 848	698 224
Other labour costs		130 212	136 319
Business travel expenses		23 798	54 505
Costs of company cars		51 499	50 145
Training and other staff costs		79 494	98 625
Rental and utilities charges		582 169	587 735
Office expenses		92 224	103 905
Communications expenses including mobile phone charges		39 033	41 471
IT costs		1 477 511	786 308
Miscellaneous expenses		31 349	197 226
Other operating expenses		**1 705 494**	**1 871 510**
Membership fee to Traffic Insurance Foundation		1 705 494	1 871 510
Investment expenses		**315 537**	**325 602**
Salaries		46 499	60 123
Social security charges		15 717	15 956
Services purchased		107 313	92 338
Other labour costs		214	194
Business travel expenses		83	1 797
Training and other staff costs		0	2 720
Rental and utilities charges		480	596
Office expenses		9 246	10 141
Communications expenses including mobile phone charges		157	836
IT costs		200	109
Other services		27 775	29 640

Miscellaneous expenses		107 853	111 152

In euros	Note	2021	2020
Other expenses		**2 065 668**	**1 897 325**
Fees to the Financial Supervision Authority and membership fees to professional associations		383 213	403 480
Insurance brokerage expenses		180 312	149 524
Audit and legal fees		130 735	125 641
Business licenses and permits		386 517	0
Interest paid		209 369	206 693
Real estate related expenses		177 432	259 040
Write-off of property and equipment	10	0	2 291
Write down of other intangible assets		29 443	0
Interest paid on finance leases		30 602	41 047
State fees, stamp duties and late payment interest		40 449	31 537
Foreign exchange loss		79 114	303 102
Miscellaneous expenses		418 482	374 970

Note 9. Foreign exchange differences

In the reporting period, the net amount of foreign exchange differences recognised in profit or loss, excluding those arising on financial instruments at fair value through profit or loss, was a loss of 12,199 euros (2020: a loss of 243,551 euros).

Note 10. Property and equipment

Property and equipment comprise tangible assets employed in the company's activity whose useful life exceeds one year and land and buildings that are in the company's own use. Items of property and equipment are depreciated using the straight-line method.

At 31 December 2021, the cost of fully depreciated items still in use amounted to 2,767,073 euros (31 December 2020: 2,889,306 euros). ERGO Insurance SE has only such items of property and equipment that are in its own use.

Detailed information about right-of-use assets which do not meet the criteria for investment property is disclosed in note 26 Leases.

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2019	**1 039 288**	**14 315 295**	**875 185**	**4 714 766**	**20 944 534**
Recognition of right-of-use assets on the adoption of IFRS16 at 1 January 2019	**0**	**0**	**0**	**0**	**0**
Additions	0	614 028	0	280 789	894 817
Sales	0	-372 306	0	-165 360	-537 666
Write-off	0	-82 546	-85 283	-447 613	-615 442
As at 31 December 2020	**1 039 288**	**14 474 471**	**789 902**	**4 382 582**	**20 686 243**
Additions	0	2 129 628	30 421	56 475	2 216 524
Sales	0	0	0	-40 294	-40 294
Write-off	0	-19 909	-8 394	-439 619	-467 922
As at 31 December 2021	**1 039 288**	**16 584 190**	**811 929**	**3 959 144**	**22 394 551**
Accumulated depreciation					
As at 31 December 2019	**0**	**4 003 146**	**631 019**	**3 765 450**	**8 399 615**
Depreciation for the year	0	1 549 379	42 070	370 185	1 961 634
Sales	0	-169 079	0	-164 187	-333 266
Write-off	0	0	-85 283	-412 335	-497 618
As at 31 December 2020	**0**	**5 383 446**	**587 806**	**3 559 113**	**9 530 365**
Depreciation for the year	0	1 811 690	38 997	294 538	2 145 225
Sales	0	0	0	-39 782	-39 782
Write-off	0	0	-8 394	-406 428	-414 822
As at 31 December 2021	**0**	**7 195 136**	**618 409**	**3 407 441**	**11 220 986**
Carrying amount					
As at 31 December 2020	**1 039 288**	**9 091 025**	**202 096**	**823 469**	**11 155 878**
As at 31 December 2021	**1 039 288**	**9 389 054**	**193 520**	**551 703**	**11 173 565**

Note 11. Deferred acquisition costs

In euros	**2021**	**2020**
Balance as at 1 January	**8 834 520**	**8 635 680**
Amortised portion	-7 999 028	-7 836 780
Addition from new contracts	8 399 221	8 160 050
Reduction after the liability adequacy test	-669 513	-124 430
Balance as at 31 December	**8 565 200**	**8 834 520**

Note 12. Other intangible assets

In euros	Software and licences
Cost	
As at 31 December 2019	**16 862 481**
Addition through purchase of software and licences	837 086
Addition through internally generated IT projects	7 873 109
Write-off of software and licences	-154 373
As at 31 December 2020	**25 418 303**
Addition through purchase of software and licences	483 444
Addition through internally generated IT projects	7 951 972
Write-off of software and licences	-12 134
As at 31 December 2021	**33 841 585**
Accumulated amortisation	
As at 31 December 2019	**9 488 948**
Amortisation for the year	2 002 089
Write-off	-154 373
As at 31 December 2020	**11 336 664**
Amortisation for the year	1 955 726
Write-off	-12 134
As at 31 December 2021	**13 280 256**
Carrying amount	
As at 31 December 2020	**14 081 639**
As at 31 December 2021	**20 561 329**

The company is developing an insurance software solution for all three Baltic states. The software named *Space* is implemented in Lithuania with limited functionality. The development is continuing, further implementations are planned for 2022. Work performed during the financial year has been recognised within *Addition through internally generated IT projects*. The purpose of the development project is to implement a technological solution that will enable to harmonise processes and increase their efficiency.

Internally generated software Space

	Carrying amount
31.12.2021	19 565 315
31.12.2020	10 705 947

No assets with a carrying amount were written off during the financial year.

At 31 December 2021, the cost of fully amortised assets still in use was 7,581,376 euros (31 December 2020: 4,729,174 euros).

Note 13. Investments in associates

ERGO Insurance SE is the sole shareholder in DEAX Õigusbüroo OÜ, whose share capital amounts to 50,000 euros. Since the business volume of DEAX Õigusbüroo OÜ is insignificant compared to the total assets and revenue of ERGO Insurance SE, the subsidiary is accounted for in the financial statements as of 31 December 2021 using the cost method.

Note 14. Investments in financial instruments

IFRS 13 establishes the following three-level fair value hierarchy:

- Level 1: financial instruments whose fair value is measured using quoted prices in active markets;
- Level 2: financial instruments whose all significant fair value measurement inputs are observable;
- Level 3: financial instruments whose fair value is measured using unobservable inputs.

According to the hierarchy, at 31 December 2021 the company's available-for-sale debt securities and debt funds of 207,9 million euros (2020: 209,5 million euros) fell into Level 2. At 31 December 2021, listed equities and fund units in the company's portfolio amounted to 2,3 million euros; at the end of the comparative period, 0 million euros fell into Level 1. The fair value of unlisted securities (carrying amount at 31 December 2021: 43,443 euros and at 31 December 2020: 43,443 euros) cannot be measured reliably. Therefore, their level has not been determined. More detailed information on the breakdown of assets between the different levels of the fair value hierarchy is provided in note 25 Fair value of financial instruments.

The fair value of Level 1 financial assets is measured by reference to quoted prices in active markets. The fair value of instruments traded in active markets is based on their listed market price at the end of the reporting period. A market is considered active when listed prices are easily and regularly available from a stock exchange, a dealer, a broker, an industry group, a pricing service or a regulatory authority and the prices represent actual and regularly occurring arm's length transactions. The listed market price of the company's financial assets is their current bid price.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Valuation techniques are applied using as much as possible observable market data, if available, and relying as little as possible on the company's own estimates. An instrument is classified to the Level 2 category when all important inputs that are required for determining fair value are observable.

14.1. Equities and fund units

In euros	As at 31 December 2021		As at 31 December 2020	
	Cost	Book value	Cost	Book value
Units in listed equity funds	1 998 568	2 303 642	0	0
Units in infrastructure debt funds	2 673 499	2 673 499	0	0
Unlisted equities	43 443	43 443	43 443	43 443
Total	**4 715 510**	**5 020 584**	**43 443**	**43 443**

Equities not listed on a public stock exchange comprise other equities measured at cost of 43,443 euros (2020: 43,443 euros).

Equities and fund units have been classified as available-for-sale financial assets. Unrealised gains and losses on equities and fund units are recognised in other comprehensive income or expense. Sales, interest, and dividend income is recognised in profit or loss.

Cash movements related to equities and fund units are presented in the statement of cash flows. Non-cash movements such as changes in the fair value reserve are presented in the table below.

Movements in equities and fund units

In euros	2021	2020
On 1 January	**0**	**24 443 619**
Purchased equities and fund units	4 672 067	1 026 898
Sold equities and fund units	0	-25 179 409
Changes in the fair value reserve	305 074	-367 430
Loss on the disposal	0	-38 566
Gain on the disposal	0	114 888
On 31 December	**4 977 141**	**0**

14.2. Available-for-sale debt and other fixed income securities

Debt and other fixed income securities have been classified as available-for-sale financial assets. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income or expense. Interest income is recognised using the effective interest method.

In euros	As at 31 December 2021		As at 31 December 2020	
	Cost	Book value	Cost	Book value
Fixed-income debt securities				
Government bonds	66 697 905	67 415 714	58 264 237	58 376 970
Financial institutions' bonds	99 984 581	99 942 978	120 191 735	120 393 544
Corporate bonds	37 419 589	37 847 019	29 606 083	30 689 249
Total fixed-income debt securities	**204 102 075**	**205 205 711**	**208 062 055**	**209 459 763**

Available-for-sale debt securities comprise government bonds and debt securities issued by financial institutions.

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. At 31 December 2021, the portfolio did not include any debt securities measured at cost or using valuation models.

Cash movements related to available-for-sale debt securities are presented in the statement of cash flows. Non-cash movements such as changes in the fair value reserve are presented in the table below.

Movements in the debt and other fixed income securities

In euros	**2021**	**2020**
On 1 January	**209 459 763**	**167 814 219**
Purchased debt securities	107 888 451	226 750 079
Sold debt securities	-107 650 250	-176 383 119
Received on maturity date debt securities	-2 000 000	-7 700 000
Amortisation of debt securities	-2 709 160	-2 706 876
Changes in the fair value reserve	-294 074	882 937
Loss on the disposal	-39 250	-84 362
Gain on the disposal	428 745	817 004
Currency revaluation	197 454	0
Changes in accrued interest	-75 968	69 881
On 31 December	**205 205 711**	**209 459 763**

Note 15. Reinsurance assets

At the reporting date, reinsurers’ share of insurance provisions was as follows:

In euros		
As at 31 December	**2021**	**2020**
Provision for unearned premiums	2 939 227	2 696 945
Provision for claims outstanding – claims incurred and reported	*23 132 871*	*20 599 034*
Provision for claims outstanding – IBNR	*315 661*	*316 210*
Provision for insurance pension annuities	*2 293 389*	*2 276 321*
Total provision for claims outstanding	25 741 921	23 191 565
Total	**28 681 148**	**25 888 510**

Information on reinsurance assets is also provided in note 21.

Other reinsurance receivables are reported within insurance receivables (see note 16).

Reinsurance result

In euros	**Note**	**2021**	**2020**
Premiums ceded	3	-11 262 905	-11 630 795
Reinsurers’ share of the change in the provision for unearned premiums	3	242 281	745 380
Commissions and profit participation paid by reinsurers	4	1 416 160	1 525 749
Reinsurers’ share of claims paid	7	13 464 796	2 223 496
Reinsurers’ share of the change in the provision for claims outstanding	7	2 550 355	8 630 002
Reinsurers’ share of deferred acquisition costs	4	-74 049	-307 069
Total		**6 336 638**	**1 186 763**

Note 16. Insurance and other receivables

In euros		
As at 31 December	**2021**	**2020**
Receivables from policyholders	20 798 741	19 678 008
Receivables from brokers and other intermediaries	1 213 253	1 242 121
Receivables from reinsurers	8 217 487	1 811 910
Subrogation and salvage receivables	4 486	2 305
Total insurance receivables	***30 233 967***	***22 734 344***
Other receivables	1 180 646	672 190
Total other financial assets	***31 414 613***	***23 406 534***
Prepaid taxes	1 156 841	695 816
Prepaid expenses	2 680 658	1 921 753
Total non-financial assets	***3 837 499***	***2 617 569***
Total	**35 252 112**	**26 024 103**

Note 17. Cash and cash equivalents

The balance of cash and cash equivalents consists of demand deposits with banks.

In euros		
As at 31 December	**2021**	**2020**
Demand deposits	15 940 539	10 954 250
Total	**15 940 539**	**10 954 250**

The original currency of cash and cash equivalents is the euro.

As at 31 December	**2021**	**2020**
EUR	15 934 913	10 954 250
USD	6 377	0

Note 18. Shareholders and share capital

		Ordinary shares without par value	Total share capital
	Number of shares	**In euros**	**In euros**
As at 31 December 2021	384 629	6 391 391	6 391 391
As at 31 December 2020	384 629	6 391 391	6 391 391

Ordinary shares carry all the rights provided for under the Estonian Commercial Code – the right to participate in the general meeting, distribution of profits and distribution of residual assets upon the dissolution of the company; the right to receive information from the management board about the activities of the company; a pre-emptive right to subscribe for new shares in proportion to the proportionate value of shares already held when share capital is increased, etc. The company's articles of association provide that upon the transfer of shares, other shareholders have a pre-emptive right before third parties. According to the articles of association, shares may be pledged only subject to the consent of the management board.

Adoption of shares without par value allowed the company to convert share capital into euros without changing the size of share capital. Upon conversion of share capital into euros, share capital would have had to be increased or reduced in order to arrive at a whole number. By adopting shares without par value, the company did not have to do this. Adoption of shares without par value also simplifies accounting for capital and allocation of profits. The third advantage of shares without par value is that it is easier to make changes to share capital – articles of association determine only the size of share capital and the number of shares.

The sole shareholder of ERGO Insurance SE is ERGO International AG (registry number HRB 40871, address ERGO-Platz 1, 40198 Dusseldorf, Germany). The shareholder of ERGO International AG is ERGO Group AG. The consolidated financial statements of ERGO Group AG, prepared in accordance with International Financial Reporting Standards, are available at www.ergo.de. The parent of ERGO Versicherungsgruppe AG group is Münchener Rückversicherungs-Gesellschaft AG whose shares are listed on German stock exchanges.

The entire share capital has been paid in.

Dividends

Based on the decision of the sole shareholder, in 2021 and 2020 no dividend was declared.

Note 19. Capital reserve

The capital reserve is created with annual net profit transfers made based on the resolution of the general meeting. Under the articles of association that have been in effect since 17 August 2017, the capital reserve has to amount to one tenth of share capital and pursuant to section 336(2) of the Estonian Commercial Code every year at least one twentieth of net profit for the year has to be transferred to the capital reserve. When the level outlined in the articles of association has been achieved, transfers may be discontinued. At 31 December 2021, the capital reserve of ERGO Insurance SE exceeded the level required by the articles of association.

Under section 337 of the Estonian Commercial Code, subject to a resolution of the general meeting, the capital reserve may be used to cover losses if the latter cannot be covered with unrestricted equity, or to increase share capital. The capital reserve may not be distributed to shareholders.

At 31 December 2021, the capital reserve amounted to 3,072,304 euros (31 December 2020: 3,072,304 euros).

Note 20. Fair value reserve

The fair value reserve comprises the net change in the fair value of available-for-sale financial assets.

When a financial asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

In euros	**2021**	**2020**
At 1 January	**1 397 708**	**882 201**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-387 197	-808 963
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	-466	-1 468
Net change in fair value recognised in other comprehensive income or expense during the year	398 663	1 325 938
At 31 December	**1 408 708**	**1 397 708**

Note 21. Insurance contract provisions and reinsurance assets

In euros			
As at 31 December	**Note**	**2021**	**2020**
Gross provisions			
Provision for unearned premiums		79 910 503	78 060 530
Provision for claims outstanding – claims incurred and reported		*84 898 182*	*71 869 269*
Provision for claims outstanding – IBNR		*17 965 088*	*17 425 630*
Provision for claims outstanding – indirect claims handling costs		*4 097 372*	*3 997 781*
Provision for insurance pension annuities		*14 965 646*	*14 933 477*
Total provision for claims outstanding		121 926 288	108 226 157
Other technical provision		383 999	45 170
Total gross provisions		**202 220 790**	**186 286 687**
Reinsurers' share of provisions			
Provision for unearned premiums		2 939 227	2 696 945
Provision for claims outstanding – claims incurred and reported		*23 132 871*	*20 599 034*
Provision for claims outstanding – IBNR		*315 661*	*316 210*
Provision for insurance pension annuities		*2 293 389*	*2 276 321*
Total provision for claims outstanding		25 741 921	23 191 565
Total reinsurers' share of provisions	15	**28 681 148**	**25 888 510**
Net provisions			
Provision for unearned premiums		76 971 276	75 363 585
Provision for claims outstanding – claims incurred and reported		*61 765 311*	*51 270 235*
Provision for claims outstanding – IBNR		*17 649 427*	*17 109 420*
Provision for claims outstanding – indirect claims handling costs		*4 097 372*	*3 997 781*
Provision for insurance pension annuities		*12 672 257*	*12 657 156*
Total provision for claims outstanding		96 184 367	85 034 592
Other technical provision		383 999	45 170
Total net provisions		**173 539 642**	**160 443 347**

Movements in provisions for unearned premiums

In euros	**2021**			**2020**		
	Gross provision for unearned premiums	**Reinsurers' share**	**Net provision for unearned premiums**	**Gross provision for unearned premiums**	**Reinsurers' share**	**Net provision for unearned premiums**
At 1 January	78 060 530	2 696 945	75 363 585	76 723 020	1 951 361	74 771 659
Changes from business combination	0	0	0	0	0	0
Premiums written	199 807 699	11 262 904	188 544 795	194 141 234	11 630 794	182 510 440
Premiums earned	-197 957 726	-11 020 622	-186 937 104	-192 803 724	-10 885 210	-181 918 514
At 31 December	**79 910 503**	**2 939 227**	**76 971 276**	**78 060 530**	**2 696 945**	**75 363 585**

Provisions for unearned premiums by line of business.

In euros

Insurance class	Gross provision for unearned premiums 31 Dec 2021	Gross provision for unearned premiums 31 Dec 2020	Net provision for unearned premiums 31 Dec 2021	Net provision for unearned premiums 31 Dec 2020
Motor liability insurance	25 220 095	25 815 175	25 220 097	25 815 175
Accident insurance	3 773 801	3 437 241	3 773 801	3 437 241
Travel insurance	531 347	659 498	529 773	658 971
Technical risks insurance	3 907 346	3 472 458	3 867 336	3 433 666
Individuals’ property insurance	7 198 499	6 404 014	7 198 499	6 404 014
Legal persons’ property insurance	4 420 496	4 559 109	4 070 069	4 212 395
Other property insurance	688 583	870 781	688 583	870 781
Motor own damage insurance	20 714 466	20 171 536	20 586 575	20 023 254
Liability insurance	4 727 997	4 283 425	4 409 583	4 015 678
Goods in transit insurance	521 777	522 765	520 806	518 816
Carrier’s liability insurance	1 130 225	973 276	1 117 355	973 276
Watercraft insurance and watercraft owner’s liability insurance	993 020	1 300 831	993 020	1 287 971
Guarantee insurance	4 547 012	4 147 610	2 493 462	2 302 624
Railway rolling stock insurance	43 918	79 859	43 918	79 859
Assistance insurance	1 051 983	962 061	1 051 982	962 062
Financial risks insurance	342 832	297 643	309 311	264 554
Loss of employment insurance	4 014	11 480	4 014	11 480
Legal expenses insurance	93 092	91 768	93 092	91 768
Total	**79 910 503**	**78 060 530**	**76 971 276**	**75 363 585**

Movements in provisions for claims outstanding.

In euros	2021			2020		
	Gross provision for claims outstanding	**Reinsurers' share**	**Net provision for claims outstanding**	**Gross provision for claims outstanding**	**Reinsurers' share**	**Net provision for claims outstanding**
At 1 January	108 226 157	23 191 565	85 034 592	95 201 427	14 561 563	80 639 864
Changes from business combination	0	0	0	0	0	0
Claims incurred in the reporting period	157 742 236	13 599 524	144 142 712	125 824 370	9 840 611	115 983 758
Change in claims incurred in prior periods	-8 629 615	2 415 628	-11 045 243	-160 857	1 012 887	-1 173 743
Claims paid	-135 412 490	-13 464 796	-121 947 694	-112 638 783	-2 223 496	-110 415 287
At 31 December	**121 926 288**	**25 741 921**	**96 184 367**	**108 226 157**	**23 191 565**	**85 034 592**

Provisions for claims outstanding by line of business.

In euros

Insurance class	Gross provision for claims outstanding 31 Dec 2021	Gross provision for claims outstanding 31 Dec 2020	Net provision for claims outstanding 31 Dec 2021	Net provision for claims outstanding 31 Dec 2020
Motor liability insurance	66 620 602	64 243 282	55 909 904	55 938 769
Accident insurance	1 177 371	1 081 747	1 177 371	1 081 747
Travel insurance	192 484	243 424	192 099	243 424
Technical risks insurance	2 566 164	1 441 352	2 566 164	1 441 352
Individuals' property insurance	2 107 954	1 588 729	2 107 954	1 588 729
Legal persons' property insurance	15 744 502	14 048 913	7 170 089	4 871 643
Other property insurance	140 731	325 399	140 731	325 399
Motor own damage insurance	5 778 832	3 919 964	5 746 773	3 896 191
Liability insurance	7 482 472	8 772 272	6 104 302	7 361 895
Goods in transit insurance	473 527	446 720	458 151	433 344
Carrier's liability insurance	1 490 764	1 634 055	1 490 764	1 634 055
Watercraft insurance and watercraft owner's liability insurance	13 077 886	4 949 903	11 458 310	4 499 903
Guarantee insurance	1 701 462	2 325 092	851 628	907 131
Railway rolling stock insurance	28 175	133 602	28 175	133 602
Assistance insurance	110 477	70 786	110 477	70 786
Financial risks insurance	2 913 931	2 554 395	352 521	160 100
Loss of employment insurance	50 270	90 101	50 270	90 101
Legal expenses insurance	268 684	356 421	268 684	356 421
Total	**121 926 288**	**108 226 157**	**96 184 367**	**85 034 592**

In motor liability insurance, the provision for claims outstanding also includes the provision for insurance pension annuities. At 31 December 2021, annuity claim files were open for 227 persons: 99 in Estonia, 68 in Latvia and 60 in Lithuania.

The following table shows pension annuity provisions by years of claim incurrence.

In euros	Year of incurrence						
	2021	2020	2019	2018	2017	2016 and earlier	Total
Gross provision for pension annuities	120 871	424 000	705 732	2 658 211	1 404 381	9 652 452	14 965 647
Net provision for pension annuities	120 871	424 000	705 732	1 760 888	1 404 381	8 256 386	12 672 258

Unexpired risks provision

In accordance with the company's accounting policies, the adequacy of insurance provisions has to be tested with a liability adequacy test. Where the test indicates a shortfall in provisions, the company has to first reduce deferred acquisition costs and then, if necessary, recognise an additional provision for unexpired risks. The liability adequacy test performed as at 31 December 2021 indicated that the provisions made for classes of insurance other than legal person's property insurance and watercraft insurance were adequate to cover ERGO Insurance SE's obligations while in legal person's property insurance and in the watercraft insurance, the liability adequacy test determined deficiencies. Based on the test results, deferred acquisition costs were reduced by 669 513 euros and additional unexpired risks provision was recognised in amount of 371 321 euros (see notes 2.1 and 11).

Note 22. Reinsurance payables

In euros **As at 31 December**	**2021**	**2020**
Payables to reinsurers	3 321 403	3 422 705
Reinsurers' share of deferred acquisition costs	930 052	856 004
Total	**4 251 455**	**4 278 709**

Note 23. Insurance payables

In euros **As at 31 December**	**2021**	**2020**
Payables to policyholders	14 688 802	12 377 168
Payables to brokers and other intermediaries	3 724 996	3 538 119
Other payables	86 117	84 079
Total	**18 499 915**	**15 999 366**

Note 24. Other payables and accrued expenses

In euros			
As at 31 December	**Note**	**2021**	**2020**
Other payables		1 083 159	411 781
Payables to suppliers		4 010 218	743 221
Accrued vacation payables		1 377 188	1 188 802
Payables to employees		1 315 499	1 987 358
Lease liabilities	26	5 396 915	5 040 125
Total other financial liabilities		***13 182 979***	***9 371 287***
Other accrued items		214 930	2 081 324
Personal income tax payable		509 928	429 259
Corporate income tax payable		604 349	818 178
Value added tax payable		808 453	162 428
Social security tax payable		723 981	643 892
Income tax payable on fringe benefits		2 895	2 192
Social security tax payable on fringe benefits		3 178	2 880
Payables to 2nd pillar pension funds (mandatory funded pension)		18 809	18 018
Total non-financial liabilities		***2 886 523***	***4 158 171***
Total		**16 069 502**	**13 529 458**

Note 25. Fair value of financial instruments

In euros		As at 31 December 2021					
	Note	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value							
Units in listed debt funds	14.1	2 303 642	2 303 642	2 303 642	0	0	2 303 642
Units in infrastructure debt funds	14.1	2 673 499	2 768 893[1]	0	0	2 768 893	2 768 893
Unlisted equities[1]	14.1	43 443	N/A[2]	N/A[2]	N/A[2]	N/A[2]	0
Government bonds	14.2	67 415 714	67 415 714	0	67 415 714	0	67 415 714
Financial institutions' bonds	14.2	99 942 978	99 942 978	0	99 942 978	0	99 942 978
Other bonds	14.2	37 847 019	37 847 019	0	37 847 019	0	37 847 019

In euros		As at 31 December 2020					
	Note	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value							
Unlisted equities[1]	14.1	43 443	N/A[2]	N/A[2]	N/A[2]	N/A[2]	0
Government bonds	14.2	58 376 970	58 376 970	0	58 376 970	0	58 376 970
Financial institutions' bonds	14.2	120 393 544	120 393 544	0	120 393 544	0	120 393 544
Other bonds	14.2	30 689 249	30 689 249	0	30 689 249	0	30 689 249

[1] Fair value measured using a discounted cash flow (DCF) approach, considering all the expected future cash flows of the respective investment as well as an adequate discount rate.

[2] Fair value cannot be measured reliably.

The table does not include the fair values of short-term receivables and payables because these approximate their carrying amounts.

Note 26. Leases

The company as a lessee

The company leases office premises, office equipment and IT equipment. Most leases for office premises are for open-ended. The expected expiry date of the lease is estimated by persons responsible for the area, based on current business needs and the company's development plans. Some leases of office premises provide for a rise in lease payments based on an agreed index.

The terms of IT and office equipment leases are fixed for 2 to 4 years.

Information about leases for which the company is a lessee is provided below.

Right-of-use assets

Right-of use assets which do not meet the criteria for investment property are recognised as items of property and equipment (see note 10 Property and equipment).

	Buildings	Equipment and other items
2020		
Balance at 1st January 2020	5 679 403	218 405
Depreciation charge for the year	1 393 735	98 465
Additions under IFRS 16	614 028	92 671
Terminations and correction under IFRS16	-82 547	-32 987
Balance at 31st December 2020	**4 817 148**	**179 624**
2021		
Depreciation charge for the year	1 662 927	53 261
Additions under IFRS 16	2 237 325	0
Terminations and correction under IFRS16	-127 606	-33 193
Balance at 31st December 2021	**5 263 940**	**93 170**

Movements in the lease liabilities

Lease liabilities	2021	2020
At 1 January	5 040 125	5 925 223
Payments for the principal portion of lease liabilities	-1 750 338	-1 168 789
Non-monetary movements	2 107 128	283 691
At 31st December	**5 396 915**	**5 040 125**

Maturity analysis of lease liabilities

Lease liabilities	2021	2020
Less than one year	1 541 119	1 410 462
One to two years	1 297 384	1 096 509
Two to five years	2 454 574	2 147 878
Five to ten years	103 838	385 277
Total	**5 396 915**	**5 040 125**

Note 27. Income tax

At 31 December 2021, the company’s retained earnings totalled 66 676 207 euros (31 December 2020: 69 749 799 euros) and the carrying amount of intangible assets was 20 561 329 euros (31 December 2020: 14 081 639 euros). Thus, distributable profit amounted to 46 114 878 euros (31 December 2020: 55 668 160 euros). The maximum income tax liability that could arise if all of the distributable profit as at the reporting date were distributed as dividends amounts to 9 222 976 euros (31 December 2020: 11 133 632 euros) and the maximum amount that could be distributed as the net dividend is 36 891 902 euros (31 December 2020: 44 534 528 euros).

To determine the amount of income tax liability, retained earnings are adjusted for the carrying amount of intangible assets.

The income tax liability has been calculated without considering that in the reporting period the profit of the Lithuanian entity was taxed in its domicile when earned.

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the dividend tax recognised in the income statement for 2022 cannot exceed the company's distributable profit as at 31 December 2021.

On 31 December 2021, ERGO Insurance SE Latvian branch has accumulated losses; therefore, deferred tax liability has not recognized.

In euros

Income tax expense	**2021**	**2020**
Income tax expense	588 058	814 992
Change in deferred income tax	114 041	8 788
Total income tax expense	**702 099**	**823 780**

In euros

Reconciliation of accounting profit and income tax expense	**2021**	**2020**
Consolidated profit before tax	-3 073 592	13 042 451
Parent company's domestic tax rate 0%		
Effect of tax rates in foreign jurisdictions	333 810	560 744
Effect of expenses non-deductible for tax purposes	254 248	254 248
Change in recognised deferred tax assets	114 041	8 788
Income tax expense for the year	**702 099**	**823 780**

Note 28. Transactions with related parties

The company considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions. Related parties include:

- the parent company ERGO International AG and the ultimate controlling party Münchener Rückversicherungs-Gesellschaft AG;
- associates;
- other companies belonging to the same group;
- members of the company's management and supervisory boards and individuals with a significant shareholding unless the above persons cannot exert significant influence on the company's operating decisions.

In addition, related parties include close family members of, and companies related to the above persons.

The remuneration, performance bonuses and benefits provided to the members of the management board for the reporting period totalled 853 081 euros (2020: 560 432 euros). The members of the supervisory were not remunerated.

The remuneration of a member of the management board consists of fixed remuneration and performance benefits. Performance benefits depend on the achievement of targets which are agreed between the chairman of the supervisory board and the member of the management board before the beginning of the financial year. Payment of performance benefits is decided by the chairman of the supervisory board after the general meeting has approved the company's results for the financial year. When the agreed targets are partly not achieved, the company may decide not to pay any performance benefits. The share of maximum performance benefits in the annual income of members of the management board is considerably smaller than that of their basic remuneration. The targets that underlie provision of performance benefits include financial metrics applicable to the whole group as well as personal metrics applicable at the local level. Depending on the terms of their contracts and the circumstances of termination, members of the management board may be eligible to termination benefits for a period that may extend to the end of their term of office. Generally, the term of office of members of the management board is five years.

In euros

As at 31 December Related party	Receivables 2021	Payables 2021[1]	Receivables 2020	Payables 2020[1]
Parent of the group – Münchener Rück	0	214 554	0	466 747
Other group companies	6 713 797	15 212 976	1 643 942	6 941 535

In euros

Related party	Services purchased 2021[2]	Services sold 2021	Services purchased 2020[2]	Services sold 2020
Parent of the group – Münchener Rück	111 735	0	29 252	0
Other group companies	7 635 376	612 439	7 937 215	593 391

[1] Including a subordinated loan of 12 000 000 euros (2020: 6 000 000 euros) and related interest 10 539 euros (2020: 6 178 euros). Loan received from ERGO Life Insurance SE.

[2] Including interest of 209 369 euros (2020: 205 008 euros) on the loan received from ERGO Life Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

In euros

Reinsurance agreements	**2021**	**2020**
Münchener Rückversicherungs-Gesellschaft AG		
Reinsurance premiums	57 811	565 817
Reinsurers' share of claims paid	37 072	34 017
Reinsurance commissions and profit participation	50 173	141 369
Other Group companies		
Reinsurance premiums	3 189 384	2 863 355
Reinsurers' share of claims paid	8 228 387	322 830
Reinsurance commissions and profit participation	93 479	62 010
Gross premiums from incoming reinsurance	350 090	62 959
Commissions to holders of reinsurance policies	15 248	2 493

Note 29. Events after the reporting period

ERGO Insurance SE, including the branches (further ERGO or Company), monitors the geopolitical situation in Eastern Europe and carefully assesses all circumstances that could impact Company activity and risk profile, including operation and cyber risks. We have performed several analyses of the possible impact of the conflict situation on the Company's business.

A detailed assessment of underwriting, market and operational risks is provided in Note 2.8. Geopolitical risk.

Signatures to annual report 2021

The management board of ERGO Insurance SE has prepared the company’s review of operations and financial statements for 2021.

Bogdan Benczak
Chairman of the Management Board /signed digitally/

Maciej Szyszko

Member of the Management Board /signed digitally/

Tadas Dovbyšas
Member of the Management Board /signed digitally/

Ingrīda Ķirse
Member of the Management Board /signed digitally/

Marek Ratnik
Member of the Management Board /signed digitally/

Building a better working world

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ERGO Insurance SE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ERGO Insurance SE, which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity 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 ERGO Insurance SE as at 31 December 2021, 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 (Estonia). 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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) together with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements 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 the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	*How we addressed the key audit matter*
Valuation and completeness of liabilities arising from insurance contracts (Valuation of technical reserves)	
Insurance contract liabilities as at 31 December 2021 were 202 million euro representing 80% of the Company's liabilities as disclosed in note 21 of the financial statements. Subjective valuation insurance contract liabilities represent the single largest liability for the Company. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business. According to IFRS 4 Insurance contracts requirements, the Company's management performs a liability adequacy test (LAT) to ensure that insurance contract liabilities are adequate compared to expected cash outflows. LAT comprises assumptions that are similar to those employed for the valuation models as mentioned above and hence require making significant judgments. Inappropriate valuation of these liabilities could result in a misstatement to the financial statements of the Company and its overall financial position. Due to the inherent uncertainty of certain components taken into account to calculate the estimates for certain lines of businesses, especially those which are loss making, the selection of methodology, underlying assumptions and input parameters may significantly affect the annual result and the Company's equity position. Consequently, we considered it a key audit matter.	*Our audit procedures included, among others, the following:* We assessed the accounting policies over the calculation of insurance contract liabilities and their accordance to IFRS requirements. We understood the significant processes and performed tests of key controls and relevant IT general controls for selected IT systems over recognition of insurance contract premiums, recognition of claims paid and calculation of insurance contract liabilities. We involved internal actuarial specialists to assist us in assessment of the models for calculating insurance liabilities and performing LAT test applied by the management. By testing on a sample basis input data from insurance policies and claim documents, we have assessed whether the data used for the measurement of insurance contract liabilities are complete and accurate. We performed analytical procedures, such as comparison of insurance contract liabilities per products to prior year. We assessed accuracy of assumptions by comparing the historical data with actual data used by the Company. We evaluated actuarial judgements such as loss ratios, discount rates, mortality rates, future cash flows used in the models. Furthermore, we have assessed accuracy of the models by re-performing the calculation of a sample insurance reserves and comparing our calculation results with those by the Company. Special considerations were given to the Marine Hull line of business due to its impact on the financial year ending 31.12.2021 We verified the validity of liability adequacy test performed by the management by comparing claims reserves at the end of previous year to the sum of paid claims during the following year and claims reserve at the end of the following year. Our work on the liability adequacy tests included review of the assumptions adopted in the context of both the Company and industry experience and specific product features. We also assessed the adequacy of the financial statement disclosures in Notes 1 "Significant accounting policies" and 21 "Insurance contract provisions and reinsurance assets".

Other information

Other information consists of ERGO Insurance SE Management report but does not consist of 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 indicated below.

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

With respect to the Management Report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

Based on the work performed during our audit, in our opinion:

- the Management Report is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the applicable requirements of the Accounting Act of the Republic of Estonia.

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) 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 (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Building a better working world

- 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Company's financial statements the first time in 2020. Period of total uninterrupted engagement is 2 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Group, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit services

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 statutory audit services and services disclosed in the financial statements, no other services were provided by us to ERGO Insurance SE and its controlled undertakings.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 1 April 2022

/signed digitally/

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

Profit allocation proposal

In accordance with subsections 2 and 3 of section 332 of the Estonian Commercial Code, the management board of ERGO Insurance SE makes the sole shareholder ERGO International AG a proposal that:

1) no transfers be made to the capital reserve because the capital reserve exceeds the level required by the articles of association;
2) no transfers be made to other reserves;

3) the net loss for 2021 of 3,073,592 (three million seventy-three thousand five hundred and ninety-two) euros be transferred to retained earnings;

4) no distribution be made to the sole shareholder.

5) As of 1 January 2022, retained earnings amount to 66,676,207 (sixty-six million six hundred and seventy-six thousand two hundred and seven) euros.

On behalf of the management board of ERGO Insurance SE

Bogdan Benczak

Chairman of the Management Board

/signed digitally/

Information on the sole shareholder

This information is presented as of 01 April 2022.

The information is disclosed in accordance with section 334(2) of the Estonian Commercial Code.

Name of sole shareholder:	**ERGO International Aktiengesellschaft**
Legal address:	ERGO-Platz 1, 40198 Düsseldorf, Germany
Registry number:	HRB 40871, entered in the Commercial Register of Dusseldorf District Court, Germany

Dates of acquisition and subscription of the shares

1. Ordinary shares with no par value:

- 287,439 shares, 30 May 2000
- 61,550 shares, 29 May 2001
- 32,088 shares, 3 December 2001
- 65 shares, 3 June 2002
- 17 shares, 24 July 2002
- 77 shares, 10 September 2002
- 2 shares, 10 September 2002
- 62 shares, 17 September 2002
- 17 shares, 18 September 2002
- 5 shares, 2 December 2002
- 5 shares, 2 December 2002
- 865 shares, 18 November 2003
- 2 shares, 26 October 2004
- 3 shares, 2 December 2004
- 2,366 shares, 17 May 2006
- 23 shares, 24 May 2006
- 43 shares, 7 December 2007

List of business activities

Activities during the period 1 January 2021 – 31 December 2021	Amount
Non-life insurance (65121)	199 457 612
Reinsurance (65201)	350 090

Activities planned for the period 1 January 2022 – 31 December 2022

Non-life insurance (65121)

Reinsurance (65201)