ERGO Insurance SE

ANNUAL REPORT
2020

ANNUAL REPORT

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Core business:	**non-life insurance**
Beginning of financial year:	**1 January 2020**
End of financial year:	**31 December 2020**
Chairman of the management board:	**Bogdan Benczak**
Auditor:	**Ernst & Young Baltic AS**
Accompanying documents:	**1. Independent auditors' report**
	2. Profit allocation proposal
	3. Information on the sole shareholder
	4. List of business activities

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Review of operations

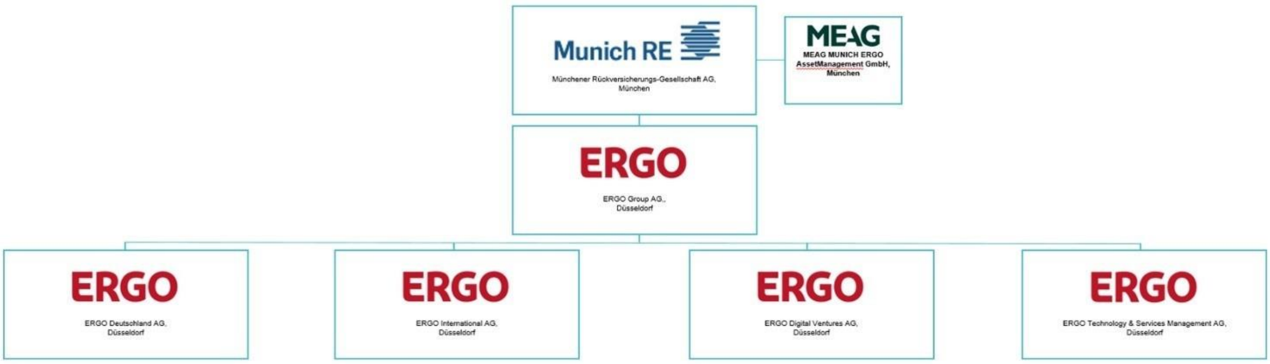
Explanatory note to the annual report

Caring for the future is in our nature.

Legal structure of the company

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

The Company is 100% owned by ERGO International AG, Germany, which is part of the ERGO Group AG, Germany, which in turn is part of the Munich Re Group (Münchener Rückversicherungs-Gesellschaft AG, Munich).



A strong owner

Through their parent company, ERGO Group AG (hereinafter ERGO Group), the ERGO insurance companies in the Baltics (hereinafter ERGO or Company) represent the biggest global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims.

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.

Partnerships with the world's strongest reinsurance providers

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

ERGO Insurance SE: the year 2020 in figures

Gross premium income	194.1 million euros
Total assets	306.8 million euros
Investments in financial instruments	209.5 million euros
Insurance contract provisions	186.3 million euros
Equity	80.6 million euros
Comprehensive income	13.6 million euros
Return on equity	17.7%
Insurance contracts in force	1,008,355
Offices	15 in Estonia, 20 in Latvia, 60 in Lithuania
Employees	943

Economic environment

The near-term outlook for the European economy looks weaker than expected in autumn 2019. However, growth in the European economy is set to resume in spring 2021 and gather momentum in the summer, when economic activity will be unfrozen gradually. As the overall outlook for the global economy is improved, external demand is also set to support the recovery. All of that allows EU´s economy to reach the pre-crises level within the forecast horizon. The speed of the recovery will, however, vary significantly across the EU. Countries dependent on sectors such as tourism, are likely to remain weak for some time. Uncertainty and risks remain still elevated and crucially related to the evolution of the pandemic. Overall, in the EU, GDP is forecast to grow by 3.7% in 2021.

Estonia

Estonia´s real GDP is expected to show a less than average (in the EU) contraction in 2020. Mostly due to a relatively limited contraction in private consumption and the resilience of exports. Restrictions introduced in December 2020 limited the economic activity much less than those taken in the spring of 2020 and thus the negative impact on GDP is projected to be smaller.

As the restrictions will be gradually lifted, GDP is forecast to grow by 2,6% in 2021, with growth expected to strengthen towards the second half of the year. Growth is expected to be driven mainly by private consumption and a gradual resumption of private investment. The recent changes in the pension system also present a positive risk to private consumption and growth.

Inflation is forecast to increase to just over 1% in 2021, dampened by the persisting slack in the labour market and the economy following the 2020 crisis.

Latvia

Private consumption and exports suffered the most in 2020 as pandemic containment measures dampened consumer demand and restricted the supply of services (in particular).

Tightened restrictions at the end of the year stalled the recovery and are expected to impact (limit the recovery) economic growth throughout the first quarter of 2021. Due to this, recovery will be limited in the first half of the year. Overall, GDP growth is forecast to rebound in 2021, reaching 3.5%. Eased restrictions and reopening of restricted parts of the economy will provide a strong short-term boost to growth.

In 2021, inflation is forecast to pick up to 1.5%, primarily due to a recovery in energy prices.

Lithuania

Lithuania´s GDP had one of the smallest declines in EU in 2020 due to the growth from net exports and agriculture output. As it seems, manufacturing output was only slightly affected by the restrictions and external demand stayed strong.

Economic growth is forecast to remain subdued in the first half of the 2021. But from the third quarter onwards, pent-up demand combined with continued wage growth are projected to boost private consumption. At the same time, public investment is also set to contribute to the recovery, private investments following with a lag. Overall, real GDP in Lithuania is forecast to grow by 2.2% in 2021.

Overall, HICP inflation is forecast at 1.7% in 2021.

Legal environment

Estonian Financial Supervision Authority (FSA) Guidelines on Cloud Service Providers

On 2nd of June 2020 Estonian FSA has implemented the Guidelines on Cloud Service Providers. These guidelines are based on EIOPA guidelines establishing principles on process for rendering cloud services.

These guidelines apply from 1 January 2021 to all contracts that concerning the outsourcing of activities to cloud service providers and which have been entered into or amended on or after that date. Insurers should consider critical or important cloud service providers and review existing agreements relating to the transfer of functions or activities and amend them accordingly to ensure compliance with these guidelines by 31 December 2022.

FSA's updated Guidelines on IT Technology and Information Security

As from 30th of June 2020 the FSA's updated Guidelines IT technology and Information Security came into force. The purpose of these guideline is to establish information technology and information security minimum organizational requirements for the financial sector undertakings in order to increase the efficiency of the financial sector and reducing systemic and operational risks. The instructions describe the minimum requirements according to the assessment of the Financial Supervision Authority. The recommendations set out internationally recognized standards ISO / IEC 27001 and recommendations given in ISO / IEC 27002. In applying the guideline, the "comply or explain" principle must be taken into account and the supervised entity must be able to justify, if necessary, why it does not apply any of the points of the Guidelines or does so in part. The organization of information technology and information security in a financial sector company must provide appropriate support business processes. The company's information systems must meet business and external requirements availability, integrity and confidentiality requirements. Implementation of the guide in a company depends primarily on the complexity of the company's processes and the severity of the consequences.

Changes of the Fire Safety Act

Changes of the Fire Safety Act were approved in December 2020 by Estonian Parliament. Changes are in force as from 1st March 2021. There is a requirement that larger companies will be required to carry out fire safety inspections. According to the law, in the future the owners or owners of larger office buildings, industrial and production buildings and garages must generally carry out a fire safety inspection every three years and send it to the Rescue Board. The law allows an inspection to be performed only by a person who holds a level 5 professional certificate of a fire safety specialist or a level 6 professional certificate of a fire safety expert. It regards also ERGO’s activity as we have also significant rental space. Also, insurers should apply these principles in customer UW acceptance process.

Changes of the Traffic Act

On 28th of October 2020 the changes of the Traffic law were approved by Estonian Parliament. As from 01.01.2021 the new principles for light motor vehicle were introduced, it regards various electric vehicles designed to carry one person, such as electric scooters, electric skateboards, balancers, and other similar vehicles without seats. According to the law, a light motorist can 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 light traffic, with a speed that does not endanger the pedestrian in the immediate vicinity of pedestrians. In order to drive on the road with a light motor vehicle, a driver of a light motor vehicle aged 10-15 is required to drive a bicycle and a driver under the age of 16 must wear a helmet with a strap fastened when driving on the road. It also sets requirements for the power of light traffic vehicles, the use of reflectors and lights, the maximum permissible width of light traffic vehicles, requirements for stopping and parking, and sets the levels of fines for violating traffic requirements.

Financial performance of ERGO Insurance SE

ERGO Insurance SE’s gross premium income for 2020 was 194.1 million euros. In terms of premium income, ERGO Insurance SE holds the fourth position in the Estonian market and the third position in the Baltic non-life insurance market. Claims and benefits incurred totalled 125.7 million euros, accounting for 64.7% of gross premium income. The net expense ratio was 29.5% (2019: 29.5%) and the net loss ratio was 63.1% (2019: 64.2%). The net combined ratio for 2020 was 92.6% (2019: 93.7%). ERGO Insurance SE ended 2020 with total comprehensive income of 13.6 million euros

(2019: 11.9 million euros). The insurance result was a profit of 13.4 million euros, net investment income amounted to 0.4 million euros and other activities generated a profit of 0.05 million euros. Income tax expense amounted to 0.8 million euros. The comprehensive result was also influenced by a 0.5-million-euro increase in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 306.8 million euros (2019: 278.4 million euros). Investments in financial instruments amounted to 209.5 million euros (2019: 193.7 million euros), debt securities accounting for 99.98% (2019: 86.6%), loans for 0.0% (2019: 0.7%) and equities and fund units for 0.02% (2019: 12.6%) of the total. Altogether, investments in financial instruments accounted for 68.3% (2019: 69.6%) of total assets. Insurance provisions totalled 186.3 million euros (2019:171.9 million euros), accounting for 82.4% (2019: 81.3%) of total liabilities and 60.7% (2019: 61.7%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 49.1 million euros (2019: 38.3 million euros), providing the company with an adequate liquidity buffer.

Insurance activities

Gross premium income by line of business

In euros	**2020**		**2019**		**Change in**	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, pp
Motor liability insurance	67 568 910	34,8%	74 969 228	38,8%	-7 400 318	-4,0%
Accident insurance	8 151 388	4,2%	7 655 800	4,0%	495 588	0,2%
Travel insurance	3 091 896	1,6%	5 174 394	2,7%	-2 082 498	-1,1%
Technical risks insurance	7 071 035	3,6%	6 083 564	3,2%	987 471	0,5%
Individuals’ property insurance	14 747 361	7,6%	13 435 221	7,0%	1 312 140	0,6%
Legal persons’ property insurance	12 119 353	6,2%	11 209 609	5,8%	909 744	0,4%
Agricultural risks insurance	2 065 584	1,1%	2 691 625	1,4%	-626 041	-0,3%
Motor own damage insurance	48 710 656	25,1%	48 442 571	25,1%	268 085	0,0%
Liability insurance	9 001 484	4,6%	8 264 961	4,3%	736 523	0,4%
Goods in transit insurance	1 739 418	0,9%	1 501 021	0,8%	238 397	0,1%
Carrier’s liability insurance	2 661 063	1,4%	2 650 453	1,4%	10 610	0,0%
Watercraft insurance and watercraft owner’s liability insurance	6 285 432	3,2%	1 900 403	1,0%	4 385 029	2,3%
Guarantee insurance	5 509 647	2,8%	3 628 448	1,9%	1 881 199	1,0%
Railway rolling stock insurance	145 091	0,1%	85 473	0,0%	59 618	0,0%
Assistance insurance	2 519 549	1,3%	2 937 420	1,5%	-417 871	-0,2%
Financial risks insurance	689 285	0,4%	590 173	0,3%	99 112	0,1%
Loss of employment insurance	394 490	0,2%	341 432	0,2%	53 058	0,0%
Legal expenses insurance	1 561 633	0,8%	1 637 973	0,9%	-76 340	-0,1%
Total from insurance activities	**194 033 275**	99,9%	**193 199 769**	99,9%	**833 506**	0,0%
Legal persons’ property insurance	62 959	0,0%	109 099	0,1%	-46 140	0,0%
Liability insurance	45 000	0,0%	0	0,0%	45 000	0,0%
Total from reinsurance activities	**107 959**	0,1%	**109 099**	0,1%	**-1 140**	0,0%
Total	**194 141 234**	100,0%	**193 308 868**	100,0%	**832 366**	

In 2020, ERGO Insurance SE generated premium income of 194.1 million euros, a 0.4% increase on 2019. The largest classes were motor third party liability (hereafter ‘motor liability’) and comprehensive motor vehicle (motor hull, hereafter ‘motor own damage’) insurance, which generated premium income of 67.6 million euros and 48.7 million euros, accounting for 34.8% and 25.1% of the total portfolio, respectively. Individuals’ property insurance contributed 14.7 million euros, i.e. 7.6% and legal persons' property insurance 12.2 million euros, i.e. 6.3%. Premiums written in liability insurance and accident insurance totalled 9.0 million euros and 8.2 million euros, respectively, and their respective contributions were 4.6% and 4.2%. The total contribution of other insurance classes, which each accounted for less than 3.6%, was 33.7 million euros, i.e. 17.4%.

Compared to 2019, the share of watercraft insurance and watercraft owner's liability insurance increased by 2.3 percentage points and its premium income grew by 4.4 million euros, i.e. 230.7%. In addition to that, good growth was achieved in guarantee insurance where premium income grew by 51.8%, i.e. 1.9 million euros year on year.

Claims and benefits paid by line of business

In euros	**2020**		**2019**		**Change in**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Claims and benefits paid	Share of class, %	Claims and benefits paid
Motor liability insurance	43 523 046	38,6%	45 329 374	41,3%	-1 806 328	-2,7%
Accident insurance	3 713 809	3,3%	3 184 553	2,9%	529 256	0,4%
Travel insurance	1 720 512	1,5%	2 721 918	2,5%	-1 001 406	-1,0%
Technical risks insurance	3 804 392	3,4%	3 936 010	3,6%	-131 618	-0,2%
Individuals' property insurance	7 970 381	7,1%	6 906 179	6,3%	1 064 202	0,8%
Legal persons' property insurance	7 732 679	6,9%	5 805 326	5,3%	1 927 353	1,6%
Agricultural risks insurance	1 549 186	1,4%	1 857 719	1,7%	-308 533	-0,3%
Motor own damage insurance	31 397 138	27,9%	31 666 571	28,8%	-269 433	-1,0%
Liability insurance	2 879 684	2,6%	2 119 534	1,9%	760 150	0,6%
Goods in transit insurance	320 238	0,3%	337 395	0,3%	-17 157	0,0%
Carrier's liability insurance	1 329 857	1,2%	1 221 918	1,1%	107 939	0,1%
Watercraft insurance and watercraft owner's liability insurance	1 570 712	1,4%	230 849	0,2%	1 339 863	1,2%
Guarantee insurance	1 595 138	1,4%	1 768 209	1,6%	-173 071	-0,2%
Railway rolling stock insurance	152 670	0,1%	329 279	0,3%	-176 609	-0,2%
Assistance insurance	1 789 653	1,6%	1 542 482	1,4%	247 171	0,2%
Financial risks insurance	979 324	0,9%	98 824	0,1%	880 500	0,8%
Loss of employment insurance	80 614	0,1%	58 145	0,1%	22 469	0,0%
Legal expenses insurance	529 750	0,5%	668 112	0,6%	-138 362	-0,1%
Total	**112 638 783**	100,0%	**109 782 395**	100,0%	**2 856 388**	

Claims and benefits paid in 2020 totalled 112.6 million euros (2019: 109.8 million euros). Claims incurrence trends did not change significantly. The largest share of claims was settled in motor liability insurance: 43.5 million euros, i.e. 38.6% of claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 31.4 million euros, i.e. 27.9%.

Investing activities

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. In January 2015, tactical investment management was taken over by the group's asset management company MEAG (MEAG Munich ERGO Asset-Management GmbH). 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 2020, 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: 63% (2019: 50.1%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) credit rating, 18,5% (2019: 18.1%) were rated AA or Aa, 7,8% (2019: 13%) had an A rating, 10,6% (2019: 16.3%) had a BBB or Baa rating, and 0% (2019: 2.5%) were rated BB or Ba.

At the year-end, investments consisted of investments in associates and subsidiaries of 0.05 million euros (2019: 0.69 million euros), debt securities of 209.5 million euros (2019:167.8 million euros), loans of 0 million euros (2019: 1.4 million euros), and equities and fund units of 0.04 million euros (2019: 24.5 million euros). There were no investments in term deposits.

Income on assets with interest rate risk amounted to negative 0.07 million euros (2019: 0.31 million euros). Realisation of debt securities produced a gain of 0.8 million euros (2019: 0.05 million euros). Dividend income amounted to 0.03 million euros (2019: 0.12 million euros). The fair value reserve increased by 0.5 million euros (2019: increased by 0.8 million euros). Thus, the overall yield of the investment portfolio was 0.47% (2019: 0.52%). Investment management expenses accounted for 0.16% of the carrying value of managed investments (2019: 0.19%).

Sustainable and responsible

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.

Economic liability

In its operations, ERGO adheres to the principles of responsible investment and sustainable insurance. We take into consideration environmental, social, and managerial aspects throughout the value chain in a systemic manner, from entry into insurance contracts to asset management. We implement proactive environmental management to reduce our carbon footprint.

It is important for ERGO to base its business on provisions laid down by law, regulation, or administrative action. This also applies to internal rules. We have no tolerance for financial crimes and implement measures to prevent, detect and duly react to any fraudulent conduct. We have established measures for the prevention of corruption, money laundering and terrorist financing and entered into appropriate contracts with our partners.

Upon making donations, we do not accept any benefits or favours in return. Our donations constitute our contribution for the benefit of the society. All of these requirements also apply to our employees.

We align our operations with high ethical and legal standards, create an air of confidence and protect the company's reputation.

Data Protection

ERGO takes the protection of the personal data of its employees and clients, the data of its business and sales partners and ERGO's own business secrets very seriously. Every employee is required to work towards this. In addition, we avoid any situations that could lead to a conflict between personal interests and the interests of ERGO or those of our clients, business, and sales partners. In 2020, all of our employees completed training on the Personal Data Protection Act, and they adhere to the principles thereof. We have taken complementary action to ensure the protection of all personal data within the company.

Environment

Munich Re's goal is to become climate-neutral by 2030. This means that we adhere to all of our principles to reach this goal. We have decided that the head office of ERGO Estonia will move to more eco-friendly premises in 2022. In organising tenders and making decisions, we make an effort to ensure minimal impact on our ecological footprint.

Personnel

Our company holds the equal treatment of employees in high regard. To ensure this, we apply harmonised policies and regulations (compensation, human resources) to all employees and avoid conflicts of interest. Employees are subjected to equal treatment regardless of gender, sex, race or position.

Separate indicators are monitored to ensure equality between men and women. Today, we can say that women make up 66% of ERGO's executive staff, exceeding the target set within the group.

Compensation schemes are established, implemented, and applied in line with the company's business and risk management strategy. We assess our risks, goals, long-term interests as well as the results of the company in order to avoid conflicts of interest. Compensation analyses are based on market comparisons and serve to ensure the fair and equal treatment of employees. The company's structure is based on the principle of separation of functions and any conflicts arising from the company's structure are analysed and the company applies measures to avoid conflicts of interest.

HR statistics are monitored on an ongoing basis (staff turnover, internal applicants to fill positions, ratio of men/women, age composition, etc.) to ensure informed decisions in areas impacting employees and human resources.

The wishes and expectations of employees are taken into consideration upon creating motivation and benefits packages and in creating balance between different groups of employees.

Developments in 2020

Changes in governing bodies

ERGO is continuing with the harmonisation of its processes in the Baltics, creating a new 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 so far support the way of thinking of a company considering the personal needs of customers by providing them with clear added value. In the year 2020, the company continued with activities planned in the ERGO Baltic Strategy for 2019-2022.

In January, changes took place in the areas of responsibility of the Management Board. Maciej Szyszko, CFO and member of the Management Board, is now also responsible for the IT area on a daily basis as well as communicating with the ERGO Group. Bogdan Benczak, the Chairman of the Board, is responsible for strategic IT initiatives.

Business operations of ERGO Insurance SE and future forecasts

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.

From this year, ERGO is gradually transitioning to a new brand in the Baltics. In connection with this, we are changing the values, messages, and external image of ERGO.

We believe that everyone can make their world better with ERGO. ERGO values, considers, and covers the current and future risks of customers. This is the basis for our activities and customer relationships. We are an active companion and an equal partner for our client at every stage of the customer’s life. The customer creates their world, while we hedge the customer’s risks by way of providing care, simplifying, and inspiring.

At the beginning of August, the Financial Supervision Authority published the results of the first quarter of 2020, according to which the market share of ERGO Insurance SE was 31.1% in the first quarter, which made ERGO the largest insurance company in Estonia. In December, the turnover of ERGO Insurance SE was 7.2 million euros, with the company having a market share of 23.1%, giving us the position of being the market leader.

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 50th in the Baltics among various brands.

Sales and service

In Estonia, Kantar Emor conducted the NPS Benchmark survey of service companies, according to the results of which ERGO improved its position in Estonia by one place in the general ranking compared to a year earlier to achieve 23rd place. ERGO improved its NPS score by 8 points to 20 points (European Benchmark 13). Among insurance companies, ERGO was in second place. In 2020, the last round of NPS interaction-based monitoring was started in Latvia as well. This will ensure that a uniform customer feedback system is in place for the improvement and development of uniform service throughout the Baltics in the future.

ERGO again 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.

ERGO closed all its sales offices in the Baltics in the middle of March and directed all its employees to telework due to the state emergency caused by the coronavirus pandemic. Working from home offices, we were able to continue providing our customers with excellent service. We answered customers' questions by phone and e-mail. When purchasing insurance contracts, the option of entering into contracts through the use of the ERGO online office was used. From May, the sales offices closed in March started to gradually open. All offices follow the rules established by governments. In addition, there are protective walls installed on service counters, visors were distributed to advisers and a requirement was established: one customer in the office at a time.

From the middle of June, ERGO Estonia added a customer service channel to its arsenal by introducing the video consulting solution. Initially, we offered the video counselling service for the legal expenses insurance product, but now we offer this service to all our customers. ERGO Estonia is the only company which offers video consultation in the insurance sector.

From October to the end of December, ERGO pop-up sales points were open in various shopping centres all over Estonia, where our cooperation partner offered legal expense insurance and accident insurance. As part of the cooperation project, we provided the customers with special offers.

According to the Dive Mystery Shopping sectoral survey conducted in Lithuania in 2020, ERGO was the insurance company with the best customer service in Lithuania in 2019 (recommended by 91%). ERGO Lithuania was also number one in customer service according to the Shopper Quality Group survey, which saw the company being recommended by 84% of the participants in the first quarter of 2020. No cross-sectoral Dive Mystery Shopping survey was conducted in Estonia this year. Based on Dive's in-house monthly surveys, it can be seen that the quality of ERGO Estonia's customer service is increasingly valued as well as very highly. Test purchase results exceed 90%.

ERGO Estonia participated in the campaign “The Month of Good Service”. Several customer managers and advisers of ERGO participated in the competition to determine the best customer service representative. Within the framework of “The Month of Good Service”, all ERGO Estonia offices were awarded with the diploma “Customers praise!”

The year 2020 was also successful for ERGO in terms of cooperation between our partner companies. Several development activities as part of the initiative “Best Cooperation Partner for Brokers” were implemented. This helped to increase the business volumes of our partners.

Services and products

ERGO Lithuania added free technical assistance to its motor vehicle liability insurance. In addition to motor hull insurance, the whole family was offered additional protection in the amount of 30,000 euros. It was a special offer that was only available for a certain period.

Motor vehicle liability insurance was also in focus in other countries. Estonia saw changes being made to the pricing of motor vehicle liability insurance.

As of March 1, the terms and conditions of Luminor Bank’s credit card travel insurance in Estonia changed. This change affected all credit cards with travel insurance; it also extends to existing cards. This change was made to offer Luminor’s customers broader protection that would meet the customer’s expectations and needs and the Estonian market standards and practices. The ERGO travel insurance product saw travel failure insurance being added to the product with additional insurance cover.

The claims-handling statistics for the first and second quarters were strongly affected by the coronavirus pandemic and the emergency situation in the country. The number of travel damage cases increased by several times, and most of the recorded damage cases are related to travel failures due to the spread of the coronavirus. The emergency situation that came into force in the second half of March also had an impact on traffic density, as a result of which the number of traffic losses decreased by 26% compared to the same period last year.

From the beginning of April, the home insurance solution was renewed in Lithuania, and in the future the data will be automatically integrated from the respective registry centre. This innovation helps to provide insurance quotes to customers more quickly because there was no longer a need to ask property owners to provide additional information about the insured buildings and no need for our employees and brokers to enter this information manually.

New smart solutions were implemented in Latvia in the second quarter. For example, the ERGO Smart solution was introduced in April, which allows a vehicle to be inspected remotely in the event of a vehicle accident.

In May, Latvia was introduced to an ERGO solution where in the future it is possible to remotely identify the customer in the case of life insurance.

Due to the coronavirus pandemic, 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. Interest in health insurance also increased during the emergency. Adjustments were made to the prices of health insurance.

In June, ERGO extended its travel accident insurance coverage in Estonia to trips within Estonia. Travel failure insurance helps to cover package tours, overnight stays, as well as transport costs if you are unable to go on a trip for an unexpected reason or it must be terminated earlier than planned.

As of July 1, new employer health insurance conditions came into force in ERGO Estonia which make the product more competitive and the claims handling process even more convenient for the insured person than before.

In July, ERGO launched a new motor hull insurance solution in Estonia, where the customer can assemble a comprehensive insurance product with suitable protections. Several new additional options for protection were introduced to the market and the existing ones were renewed.

In September, ERGO, in cooperation with United Motors and Glasur Grupp, started to offer its customers the possibility of car repair with spot paint repair technology, which is a fast and environmentally friendly way to repair a car. The service is already offered in Tallinn and Tartu, with the intention to provide it throughout Estonia.

Since November, ERGO has been testing the DriveX SmartScan solution of an Estonian start-up, which makes taking photos of the car necessary for motor hull insurance significantly quicker, more flexible, and more convenient for the customer. SmartScan has now been put into operation at ERGO.

From October, ERGO Latvia introduced new accident insurance rules, including new risk of medical expenses, which is intended to cover the costs of post-accident medical treatment.

In November, a new customer consulting tool – live chat – was installed in ERGO’s webpage. Through this channel customers applied to conclude contract, change contacts, or register claims.

Work organisation and staff events

2020 was a year of organisational change for ERGO. There was an urgent need to adjust to work in home offices – from mid-2020, most ERGO employees have teleworked. The transition to working remotely was quick and successful at ERGO. We quickly resolved the technical, organisational, and mindset-related aspects of the transition.

During the year, ERGO employees had to undergo various types of mandatory training, including those about GDPR, risk management, anti-money laundering, information security, customer complaint handling and the Code of Conduct. We also adapted quickly and flexibly to provide a wider range of training and development activities to employees via the internet.

From March 6 to 27, an international communication survey was conducted in all Baltic countries to obtain employee feedback on the effectiveness of communication and how satisfied they are with the channels used as well as the content and availability of internal communication.

In all three countries, ERGO's work organisation was strongly affected by the coronavirus pandemic and the nationally declared emergency situation. All sales offices were closed, and work was reorganised into home offices. The sales offices were gradually reopened, but the rest of the employees worked from a home office until the end of 2020.

Due to the coronavirus pandemic and the emergency situations declared in the countries, the number of various personnel-oriented activities increased significantly.

To ensure that working from a home office would be successful, instructions were created, and employees were involved in various activities. In Estonia, for example, home office photos were shared; tips were shared on how to work remotely, which books to read, etc. In addition, Latvia and Lithuania established an ERGO radio for the employees. Lectures with psychologists were organised for Estonian and Latvian colleagues to help them recognize burnout and support them while they worked from home.

In Lithuania, on an employee initiative, "Mokslo sumuštinis" (Science Sandwich) was launched in April. The purpose of this initiative is to invite employees to a quarterly virtual meeting with an interesting person who shares their knowledge or information on an interesting topic.

In Latvia and Lithuania, employees were offered the opportunity to listen to ERGO radio, which would support people working from home during an emergency and offer them the opportunity to feel like a united team. The radio was run for a whole month in Lithuania, with 60 different programmes broadcast and the total airtime being 768 hours. In Latvia, the radio project lasted almost two weeks and offered employees the opportunity to listen to interviews and request songs two days a week. ERGO radio was also mentioned in Lithuania in an article about the internal culture of organisations in the local business newspaper Verslo žinios. The ERGO radio project won second place in the special internal communication category "Coronavirus Challenge" („Koronaviruso iššūkis") of the "PR Impact Awards 2020".

Due to the coronavirus pandemic, the ERGO galas, which were scheduled to take place in all the three countries in February and March, were cancelled – these events are the largest series of events for thanking ERGO employees. We found various creative solutions to recognise employees. The best employees were rewarded either during Teams web meetings or by way of intranet articles. Latvia organised the cancelled "ERGOscar" by webcast in June with the awards and diplomas presented then. Estonia saw the best employees recognised through video.

In the second quarter, ERGO Estonia started conducting regular monthly web-based information sessions, where people talk about how ERGO is doing and what our business results and goals are.

Sports challenges were also held in all Baltic countries with the aim of encouraging people to leave the home office and be physically active. In May, together with the ERGO Group, Diversity Day was celebrated in all three Baltic countries.

From May to the end of July, ERGO Baltics participated in an action launched by Munich Re to support charities that help alleviate the effects of the coronavirus.

In Latvia, ERGO organised the “Safe, Cool, Healthy” challenge for the children of the employees in September, encouraging children’s creativity, reminding them of the principles of a safe and healthy lifestyle and encouraging them to live in an environmentally friendly way.

All three Baltic countries saw ERGO conducting a welfare survey among its employees. The aim was to find out how our employees are doing in the home office and what kind of support they need. The results of the survey showed that ERGO employees are also committed and efficient when working from home. Based on the input from the survey, ERGO has launched various initiatives to make telework more convenient for employees.

In September, the Munich Re Group invited all its companies to participate in the Reignite project to formulate a common objective for the group. Employees from all three Baltic countries participated in the project.

In November, the “Think, do, inspire” challenge took place for ERGO employees in all Baltic countries. The aim of the challenge is to be united, to be aware of the company’s values and to promote healthier lifestyles.

There was also a challenge organised for all ERGO employees in November in which employees were asked to delete unnecessary files from their computers. The purpose of the challenge was to save energy and protect the climate; it was also a great opportunity to do good. Eleven countries participated in the group’s challenge of deleting digital waste. A total of 18,093.53 GB of data was deleted. ERGO Baltics was fourth, similar to the previous year, deleting 2.41 GB of data per person.

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 reach the gold label of a family- and employee-friendly company by 2022.

The year 2020 saw us start using the Baltic-wide personal data management system My ERGO (SAGE People). My ERGO is a tool for managing personnel processes in the human resources department as well as self-service, where employee can initiate and participate in the processes and see their own data and other information concerning personnel processes.

ERGO employees will continue their work on the principle of operating in the office only in exceptional cases, with additional measures being taken when working in sales offices.

Marketing

In all three countries, important steps were taken in the first quarter to introduce ERGO’s new branding. Both the brand’s corporate identity and positioning are being renewed - changes are taking place in both the visual identity and the brand’s promise.

A sales campaign took place in Latvia from January 6 to February 29, in the framework of which a home insurance policy was offered for three years with a 0% deductible.

At the beginning of February, a travel insurance newsletter was sent to our Estonian customers to remind that when they travel during school holidays, they must be sure to get travel insurance cover.

In Estonia, a flash campaign of legal aid costs was carried out on Valentine’s Day, in the framework of which a 50% discount was offered for the annual legal aid contract.

Lithuania saw an accident insurance campaign being launched in February and March, including coverage for coronavirus. A motor hull insurance campaign was launched in Latvia on March 2 which was aimed at introducing additional coverage where things left in the car are also insured if they are stolen from the car. The campaign lasted until the end of the summer.

March saw the life and accident insurance, online insurance and online office traffic, motor hull and home insurance campaigns started in Estonia.

In March, an ERGO newsletter was sent to all ERGO customers in Estonia, covering the following topics: ERGO work organisation and how to contact us if the offices are closed during an emergency situation; ERGO home assistance; the new Rendin insurance solution; and online insurance, i.e. “pay when you drive” traffic and motor hull insurance.

In May, the accident insurance campaign “There is no holiday for accidents” was started at ERGO Latvia. The campaign also offers free insurance for sports equipment and tick-borne diseases.

From May 1, a private health insurance campaign was launched in Estonia.

From the middle of May, the bicycle motor hull insurance campaign gained momentum in Estonia. The campaign, already familiar from last year, was held for a longer time this year. The aim is to increase ERGO’s brand awareness and talk about ERGO as a company that supports a healthy lifestyle and is environmentally friendly. We also offer added value to our private customers by allowing them to choose a bicycle instead of a replacement vehicle in the event of an insured event if the repair period is five or more days.

In June, ERGO Estonia introduced an opportunity where the travel failure travel insurance protection was also extended to trips within Estonia. In July and August, ERGO, in cooperation with Viimsi SPA and Grand Rose SPA, offered a visit to Atlantis Aquapark at Tallinn Viimsi SPA and a free salt chamber visit at Grand Rose SPA Hotel as a marketing support measure for ERGO's travel insurance policy in Estonia.

From the middle of July to October, the property and casualty insurance campaign “Namai namučiai” (“Home, Lovely Home”) was conducted by ERGO Lithuania. The aim was to encourage customers to purchase other types of insurance as well.

At the beginning of August, a campaign was launched in Lithuania to support compulsory driver insurance and bicycle insurance.

At the beginning of August, the children's adventure park Adventica was opened in the Lithuanian shopping centre Ozas. ERGO provides free life insurance for parents of children visiting and playing in the park.

In the autumn, life and health insurance campaigns were launched in Estonia. ERGO employees are also involved in the campaign, for whom a separate recommendation campaign has been created.

In the middle of September, Estonia gained momentum at ERGO with the autumn legal expenses insurance campaign, the aim of which was to introduce the legal expenses insurance product and explain that legal assistance does not always have to be expensive. The campaign also includes one lucky person receiving an iPhone.

In September, ERGO Latvia, in cooperation with the parking operator Europark and the organization “Safe Driving School”, started the annual project “ParkoSkola” aimed at improving drivers' parking skills. As part of the initiative, people were invited to apply for free parking training.

From October to December, ERGO Estonia held a marketing campaign for legal expenses insurance.

On Black Friday, the contract was free of charge for all ERGO Estonia clients who entered into a new legal aid expenses insurance contract for three months.

In November, a traffic insurance information campaign took place in Estonia, with which we called on customers to create a better traffic culture, use turn signal, not use a mobile phone at the wheel and consider other road users.

In December, a Christmas campaign was held where families with young children had the opportunity to enter into an annual life insurance contract which was free of charge for them in the amount of the average net salary.

ERGO Latvia launched a life insurance sales and branding campaign aimed at educating the public about the benefits of life insurance, strengthening ERGO's position as a life insurance company and obtaining contact information for potential customers, as well as promoting product sales. The campaign lasted until the end of 2020. As the aim was to make the concept of life insurance more modern and easier to understand, we called it "smart insurance" as part of this campaign.

In November, ERGO launched the property insurance sales campaign “Great peace at home” in Latvia, within which all property insurance risks are insured. A lottery was also held for customers.

ERGO has been operating on the Estonian market for 30 years, so in December we celebrated the anniversary of "ERGO 30". A week of good deeds and the generation of an abundance of smart environmentally friendly ideas, or ERGOton, took place for ERGO employees. For two weeks, the news portal Delfi was the content marketing section of ERGO 30, where we published various opinion pieces. In addition, Estonia's first reflective hiking trail was opened in the Kakerdaja bog.

Sponsorship and social responsibility

In Latvia, ERGO took part of the Work Shadow Day, and 14 students from different schools visited ERGO's various offices to learn more about the profession and what skills are needed.

In Lithuania, ERGO is a major sponsor of the largest local film festival "Kino pavasaris". Due to the spread of the coronavirus and the resulting restrictions, the festival could not be held in its usual form this year. The concept was completely changed, and the festival was moved to a web platform.

ERGO employees also had the opportunity to watch movies at home using the web solution.

For the third time, ERGO has participated in student fairs at the beginning of the year in Estonia. The aim of these fairs is to introduce ERGO, present internship offers and summer jobs, and be there for potential interns by answering their questions. The Delta Career Day of the University of Tartu and the "Key to the Future" fair of Tallinn University of Technology were visited.

For the fourth year in a row, ERGO participated in the Latvian “Sustainability Index Award” competition, and for the second year in a row, ERGO Latvia was recognized as a sustainable company with a gold label. To develop our work environment to be more family- and employee-friendly, we joined the Estonian Ministry of Social Affairs' family friendly-employer programme. The programme lasts 1.5-2.5 years, after which the organisation is awarded a final label, either on the bronze, silver, or gold level.

Due to the emergency situation caused by the Covid-19 pandemic, the Latvian beach volleyball championship ERGO Open 2020 took place a little later than usual this year. Given that several international competitions had been cancelled, all of Latvia's best beach volleyball players, including two Olympic-level pairs, gathered for the Latvian Championships this summer.

For the eighth year in a row, ERGO is supporting the Latvian beach volleyball championship, being its main sponsor. In August, the largest cycling event in the Baltics, “IKI Velomaratonas”, took place in Lithuania. ERGO is a supporter of this competition. This year, ERGO participated moderately in the competition due to the coronavirus pandemic. We did not have an ERGO staff cycling team or ERGO activities/information tents outside.

From September to the end of the year, ERGO will support the broadcast of the Lithuanian health programme “Sveikata” on the TV channel TV3. ERGO’s experts teach viewers of life insurance issues – what is life insurance, why should people enter into a life insurance contract at an early age, why is a life insurance contract entered into for a long time, etc.

In September, ERGO announced a scholarship for young athletes in Estonia to support the continuation of the path of top sports for young athletes. A total scholarship fund in the amount of 25 thousand euros will be distributed. In September, the Estonian Olympic Committee and the Ministry of Culture presented awards to the Sports Friend 2020 laureates. We are pleased that ERGO was awarded with the title of Sports Friend 2020 for our active and outstanding contribution to supporting young athletes.

ERGO Estonia has had a close cooperation with the Rescue Board over the years. The focus is on prevention.

Key financial indicators

In thousands of euros, except for ratios *As at 31 December or for the year*	2020	2019
For the year		
Gross written premiums	**194 141**	**193 309**
Gross earned premiums	**192 759**	**190 033**
Gross claims and benefits incurred	**125 664**	**125 386**
Gross expenses	**54 907**	**54 812**
Gross loss ratio	**65,2%**	**66,0%**
Net loss ratio	**63,1%**	**64,2%**
Gross expense ratio	**28,5%**	**28,8%**
Net expense ratio	**29,5%**	**29,5%**
Gross combined ratio	**93,7%**	**94,8%**
Net combined ratio	**92,6%**	**93,7%**
Claims handling ratio	**9,9%**	**9,8%**
Claims paid ratio	**58,0%**	**56,8%**
As at the year-end		
Total assets	**306 757**	**278 431**
Ratio of investments to total assets	**68,3%**	**69,6%**
Ratio of equity to total assets	**26,3%**	**24,1%**
Ratio of insurance provisions to total assets	**60,7%**	**61,7%**
Profitability indicators		
Insurance result (technical result)	**13 375**	**11 461**
Investment result	**958**	**938**
Profit for the financial year	**13 042**	**11 092**
ROE	**17,7%**	**18,2%**
ROA	**4,5%**	**4,3%**
ROI	**0,5%**	**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 2020 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	2020	2019
Income			
Gross written premiums	3	194 141 234	193 308 868
Written premiums ceded to reinsurers	3	-11 630 794	-8 433 993
Change in gross provision for unearned premiums	21	-1 337 511	-3 276 180
Reinsurers' share of change in provision for unearned premiums	15	745 381	446 895
Net earned premiums		**181 918 310**	**182 045 590**
Reinsurance commission income	4	1 218 680	1 119 186
Investment income, net	5	767 887	475 812
Other income	6	1 946 039	1 720 769
Total income		**185 850 916**	**185 361 357**
Expenses			
Claims and benefits incurred	7	125 663 513	125 385 922
Reinsurers' share of claims and benefits incurred	7	-10 853 496	-8 493 675
Net policyholder claims and benefits incurred		**114 810 017**	**116 892 247**
Change in other technical provisions		45 170	0
Acquisition costs	8	44 239 980	44 031 720
Administrative expenses	8	8 795 082	8 622 979
Other operating expenses	8	1 871 510	2 157 004
Investment expenses	8	325 602	349 419
Other expenses	8	1 897 324	1 385 814
Total expenses		**171 984 685**	**173 439 183**
Operating profit/loss		**13 866 231**	**11 922 174**
Profit/loss before income tax		**13 866 231**	**11 922 174**
Income tax expense	27	**-823 780**	**-830 357**
Profit/loss for the year		**13 042 451**	**11 091 817**

Statement of comprehensive income

In euros	Note	2020	2019
Profit/loss for the year		**13 042 451**	**11 091 817**
Change in the value of available-for-sale financial assets	20	515 507	811 531
Other comprehensive income/expense for the year		**515 507**	**811 531**
Total comprehensive income/expense for the year		**13 557 958**	**11 903 348**

The notes on pages 29 to 91 are an integral part of these financial statements.

Statement of financial position

In euros

As at 31 December	Note	31.12.2020	31.12.2019
Assets			
Deferred tax assets	27	264 664	273 452
Property and equipment[1]	10	11 155 878	12 544 919
Intangible assets			
Deferred acquisition costs	11	8 834 520	8 635 680
Other intangible assets	12	14 081 639	7 373 533
Investments in associates	13	50 000	50 000
Asset held for sale	13	0	637 372
Investments in financial instruments			
Equities and fund units	14	43 443	24 487 062
Debt securities	14	209 459 763	167 814 219
Loans	14	0	1 380 000
Total investments in financial instruments		209 503 206	193 681 281
Reinsurance assets	15	25 888 510	16 512 924
Insurance and other receivables	16	26 024 103	27 032 980
Cash and cash equivalents	17	10 954 250	11 689 236
Total assets		**306 756 770**	**278 431 377**

Equity and liabilities

As at 31 December	Note	31.12.2020	31.12.2019
Equity			
Share capital	18	6 391 391	6 391 391
Capital reserve	19	3 072 304	3 072 304
Fair value reserve	20	1 397 708	882 201
Retained earnings (prior years)		56 707 348	45 615 531
Profit/loss for the year		13 042 451	11 091 817
Total equity		**80 611 202**	**67 053 244**
Liabilities			
Insurance contract provisions	21	186 331 857	171 924 447
Reinsurance payables	22	4 278 709	3 512 993
Insurance payables	23	15 999 366	15 814 346
Other payables and accrued expenses[1]	24	13 529 458	14 121 854
Allocated loans	28	6 006 178	6 004 493
Total liabilities		**226 145 568**	**211 378 133**
Total equity and liabilities		**306 756 770**	**278 431 377**

[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 29 to 91 are an integral part of these financial statements.

Statement of cash flows

In euros

(Inflow + , outflow –)	Note	**2020**	**2019**
Cash flows from operating activities		**8 636 596**	**7 005 329**
Insurance premiums received		176 853 563	184 548 137
Claims, benefits and handling costs paid		-108 098 144	-107 225 434
Settlements with reinsurers		-7 244 010	-5 044 266
Settlements with holders of reinsurance policies		41 732	0
Paid in operating expenses[1]		-56 217 951	-55 488 834
Other income and expenses		18 146 715	15 586 304
Acquisition of equities and fund units		0	-4 324 428
Disposal of equities and fund units		28 014 173	719 123
Acquisition of debt and other fixed income securities		-228 975 419	-108 766 760
Disposal of debt and other fixed income securities		182 244 209	84 961 037
Interest received		4 408 129	3 114 578
Dividends received		91 656	56 801
Corporate income tax paid		-473 890	-944 245
Paid in investment expenses		-154 167	-186 684
Cash flows used in investing activities		**-8 161 747**	**-3 587 190**
Participation disposal		590 488	0
Acquisition of property and equipment and intangible assets		-8 766 168	-3 622 741
Proceeds from sale of property and equipment and intangible assets		13 933	35 551
Cash flows used in financing activities		**-1 209 835**	**-1 472 364**
Payments for the principal portion of lease liabilities	26	-1 209 835	-1 472 364
Net cash outflow/ inflow		**-734 986**	**1 945 775**
Cash and cash equivalents at beginning of year		**11 689 236**	**9 743 461**
Decrease/ increase in cash and cash equivalents		-734 986	1 945 775
Cash and cash equivalents at end of year	17	**10 954 250**	**11 689 236**

[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 IAS 17, 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 29 to 91 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 2018		**6 391 391**	**3 072 304**	**70 670**	**45 615 531**	**55 149 896**
Profit for the year	27	0	0	0	11 091 817	11 091 817
Other comprehensive income	20	0	0	811 531	0	811 531
Total comprehensive income for the year		**0**	**0**	**811 531**	**11 091 817**	**11 903 348**
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**

The notes on pages 29 to 91 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 2020 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 xx March 2021. 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.

(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 2020.

(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 that the following assets and liabilities are measured at their fair values:

- financial assets at fair value through profit or loss;
- available-for sale financial assets.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 (l) *(i)* respectively.

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

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) Operating lease expenses

Till 31 December 2018 operating lease payments were recognised as an expense on a straight-line basis over the lease term. Other payments associated with the leases were recognised in profit or loss as an integral part of lease expense.

(i) 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 2020, 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.

(j) 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.

(k) 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 (r)). 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.

(l) 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 (r)). 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 future economic benefits are identified and respective business plan approved.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Dividends

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

(w) 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 2020) 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.

(x) 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, 2020.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on March 29, 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard-setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards to update references to the revised Conceptual Framework. Its objective is to support a transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after January 1 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations with the acquisition date is in the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted.

The amendments do not impact the Company's financial statements as there are no Business Combinations planned in the foreseeable future.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity'. Besides, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.

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

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial

Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after January 1 2020, and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

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

IFRS 16 Leases Covid-19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after June 1 2020. Earlier application is permitted, including in financial statements not yet authorized for the issue on May 28 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 were 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 June 30 2021.
- There is no substantive change to other terms and conditions of the lease.

The Company's lease contracts meet the required conditions. The positive impact on the Income Statement in the Reporting year is 30 122 euros.

2) Standards issued but not yet effective and not early adopted

IFRS 9 *Financial Instruments* (2014)

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

As an insurance provider, the Company has elected to use the option to defer the application of IFRS 9. Accordingly, the standard will not significantly impact its financial statements before it is applied for the first time. 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.

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

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

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

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

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

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

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

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

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

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

It is expected that the new standard, when initially applied, will have a significant impact on the Company's financial statements since the classification and the measurement of its financial instruments are expected to change. The Company intends to adopt IFRS 9 together with IFRS 17 in 2023.

It is hard to predict the structure of the Company's portfolio on January 1, 2023. As of December 31, 2020, 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 January 1 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 standard has not been yet endorsed by the EU.

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 (Amendments), IFRS 4: Insurance Contracts (Amendments)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

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.

The Amendments to IFRS 17 have not yet been endorsed by the EU.

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

The amendments are 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. January 1 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. These Amendments have not yet been endorsed by the EU.

The Company does not expect the amendments to have a material impact if no change occurs in current policy of the company since at the moment the Balance sheet is presented in order of liquidity.

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 (Amendments)

The amendments are effective for annual periods beginning on or after January 1 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 recognize 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 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 when initially applied.

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. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. 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. The amendments are effective for annual periods beginning on or after January 1 2021, with earlier application permitted. While the application is retrospective, an entity is not required to restate prior periods. 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 when initially applied.

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 integrates 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 taking into account 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	2020			2019		
	Gross provisions	**Reinsurers' share**	**Net provisions**	**Gross provisions**	**Reinsurers' share**	**Net provisions**
Estonia	52 686 713	5 894 236	46 792 477	49 724 167	5 919 040	43 805 127
Latvia	49 403 780	14 492 423	34 911 357	39 560 337	5 584 101	33 807 581
Lithuania	84 241 364	5 501 851	78 739 513	82 639 943	5 009 783	77 798 815
Total	**186 331 857**	**25 888 510**	**160 443 347**	**171 924 447**	**16 512 924**	**155 411 523**

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 2020

Class of insurance	Retention in euros
Motor liability insurance	1 000 000
Property and technical risks insurance; liability, marine and travel insurance	500 000
Accident, live stock, motor own damage and surety insurance	300 000

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 2020 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 2020)

In euros			*Year of loss incurrence*			
Estimate of cumulative claims	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
At end of year of incurrence	72 990 244	83 980 608	91 153 852	103 666 793	115 127 307	119 317 312
One year later	65 771 093	82 607 595	89 565 397	106 251 125	115 491 078	
Two years later	65 495 499	83 469 185	89 422 538	105 525 465		
Three years later	65 535 533	83 112 591	89 343 458			
Four years later	65 350 913	82 825 132				
Five years later	65 863 790					
Cumulative payments until 31 December 2020	63 926 153	78 379 368	84 113 394	93 661 713	97 100 444	74 332 594
Provision for claims outstanding (incl. IBNR) at 31 December 2020	1 937 637	4 445 764	5 230 064	11 863 752	18 390 634	44 984 718

At 31 December 2020, the provision for claims outstanding for earlier years of loss incurrence amounted to 17 662 511 euros (2019: 15 405 788 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 2020		As at 31 December 2019	
	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	-2 781 605	3,7	-2 736 773
Motor own damage insurance	0,4	-195 234	0,5	-218 959
Individuals' property insurance	0,6	-79 437	0,4	-53 416
Legal persons' property insurance	2,9	-246 869	3,3	-284 234
Other classes of insurance	2,3	-948 585	1,9	-738 611

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 2020 would have had a -0.8 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 2020 using the liability adequacy test.

The test indicated that contractual liabilities did not exceed the insurance provisions recognised in any classes of insurance. As a result, the company reduced the deferred acquisition costs of commercial property insurance by 124 430 euros (see note 11) but, similarly to last year, did not recognise an additional unexpired risks provision. Detailed information on insurance provisions is provided in note 21.

In euros

	As at 31 December 2020		As at 31 December 2019	
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	-124 430	0	0	0
Other classes of insurance	0	0	0	0
Total	**-124 430**	**0**	**0**	**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 AA- (2019: A-). 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.

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%**

2019 *In euros*	Standard & Poor's Moody's	AAA Aaa	AA Aa	A A	BBB Baa	BB Ba	Without rating Without rating	Total
Debt securities at fair value		84 132 328	30 419 541	21 859 897	27 274 160	4 128 293	0	**167 814 219**
Proportion of debt securities		50,13%	18,13%	13,03%	16,25%	2,46%	0,00%	**100,00%**
Reinsurance assets		0	12 275 435	2 879 494	5 187	0	1 352 808	**16 512 924**
Proportion of reinsurance assets		0,00%	74,34%	17,44%	0,03%	0,00%	8,19%	**100,00%**
Cash and cash equivalents		0	8 469 602	0	2 935 729	0	283 905	**11 689 236**
Proportion of cash and cash equivalents		0,00%	72,46%	0,00%	25,11%	0,00%	2,43%	**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 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**
Loan receivables	0	0	0	0	**0**
Accrued income – interest receivable	0	0	0	0	**0**
Total	**17 324 622**	**3 935 568**	**761 688**	**1 382 351**	**23 404 229**

As at 31 December 2019 *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	16 927 639	2 562 662	257 806	323 877	**20 071 984**
Receivables from brokers and other intermediaries	778 766	855 803	10 828	148 711	**1 794 108**
Receivables from reinsurers	7 970	1 123 543	0	676 816	**1 808 329**
Other receivables	322 214	-204 262	45 519	126 069	**289 540**
Loan receivables	1 380 000	0	0	0	**1 380 000**
Accrued income – interest receivable	34 310	0	0	0	**34 310**
Total	**19 450 899**	**4 337 746**	**314 153**	**1 275 473**	**25 378 271**

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 2020, the weighted average yield to maturity of fixed-income available-for-sale debt securities was -0.41% (31 December 2019: 0.28%).

Assets exposed to interest rate risk, by interest rate

In euros	**As at 31 December 2020**		**As at 31 December 2019**	
	Cost	Fair value	Cost	Fair value
Fixed rate debt securities				
interest rate 0,00% -2,50%	182 861 367	184 082 296	126 862 795	127 031 073
interest rate 2,51% -3,50%	4 790 858	4 853 818	7 535 793	7 566 769
interest rate 3,51% -4,50%	16 981 698	17 017 068	22 897 019	23 055 840
interest rate 4,51% -5,50%	3 428 132	3 506 581	8 437 006	8 559 703
interest rate 5,51% -6,50%	0	0	1 566 834	1 600 834
Total fixed rate debt securities	**208 062 055**	**209 459 763**	**167 299 447**	**167 814 219**
Total	**208 062 055**	**209 459 763**	**167 299 447**	**167 814 219**

If at 31 December 2020 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 5.3 million euros (2019: 3.15 million euros). The rise in risk is attributable to an increase in the modified duration of the debt securities portfolio and increase of debt securities portfolio itself. 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 2020 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 4 thousand euros (2019: 2.4 million 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**	**2020**	**2019**
Debt and other fixed-income securities		
Australia	2 063 643	5 155 392
British Virgin Islands	1 160 290	0
Bulgaria	0	850 628
Canada	1 201 758	5 102 396
Cayman Islands	1 144 441	0
China	0	4 958 619
Croatia	0	4 804 714
Czech Republic	0	647 089
Denmark	0	3 022 118
Estonia	0	491 239
France	67 201 475	28 320 778
Germany	102 439 595	37 069 886
Great Britain	2 286 632	6 715 743
Indonesia	0	3 698 531
Korea	0	3 868 496
Latvia	0	1 267 794
Lithuania	1 291 273	1 351 339
Luxembourg	3 856 803	0
Mexico	1 150 758	632 896
Morocco	0	3 243 580
Netherlands	5 030 756	2 559 254
New Zealand	0	6 041 772
North Macedonia	0	4 128 292
Norway	0	706 215
Poland	0	4 839 910
Portugal	0	5 041 487
Singapore	0	3 840 479
Spain	8 805 240	22 437 204
Switzerland	0	4 210 019
USA	11 827 100	2 808 349
Total debt and other fixed-income securities	***209 459 763***	***167 814 219***
Equities and fund units		
Ireland	0	24 443 619
Lithuania	43 443	43 443
Total equities and fund units	***43 443***	***24 487 062***
Loans		
Belarus	0	1 380 000
Total loans	***0***	***1 380 000***
Total investments in financial instruments	**209 503 206**	**193 681 281**

(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	**31.12.2020 USD**	**31.12.2019 USD**
Insurance and other receivables	41 958	81 686
Investments in financial instruments – available-for-sale debt securities	0	3 152 371
Reinsurance payables	36 252	97 443
Total	**78 210**	**3 331 500**

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 220 million euros (2019: 205 million euros) including available-for-sale debt securities of 209.5 million euros (2019: 167.8 million euros), equities and fund units of 0 million euros (2019: 24.5 million euros), loans of 0 million euros (2019: 1.4 million euros) and cash and cash equivalents of 11 million euros (2019: 11.7 million euros).

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio and units in debt securities funds was 2.5 years (2019: 2.02 years). There were no non-cash movements in the portfolio.

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 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, 17	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**

In euros

As at 31 December 2019	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	35 409 565	24 824 207	11 688 519	5 700 624	3 016 952	**80 639 867**
Of which net insurance pension payments	21	0	2 646 654	2 928 054	3 160 909	2 162 918	1 076 173	**11 974 708**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 15	36 176 298	3 876 476	73 933 800	91 383 943	0	0	**205 370 517**
Other financial assets	16	0	24 009 395	0	0	0	0	**24 009 395**
Other financial liabilities	23, 24, 28	0	27 812 084	0	0	6 000 000	0	**33 812 084**
Net exposure (assets less liabilities)		36 176 298	-35 335 778	49 109 593	79 695 424	-11 700 624	-3 016 952	**114 927 961**

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 2020 was 17.7% (2019: 18.2%).

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 affects all aspects of the people's life all around the world and in Baltic in particular. Despite the high uncertainty with the further developments of the situation the Company is well prepared for situation. It refers to both: sustainable capital position and ensuring operations running smoothly on daily basis. The great portion of the Company functions switched to working remotely since March 2020. Even fair part of the sales operations used to work remotely for a number of weeks during springtime. By doing this ERGO ensured safety of its employees, business continuity of the processes as well as showed social responsibility towards the common struggle with pandemic.

The crisis showed limited impact on ERGO performance: for 9 months 2020 the Company collected 0,3% more insurance premiums than in 2019 totally. This is due to balancing effect from the business lines less affected directly by COVID-19 developments. Indeed, it is assumed that plan made in July 2019 and projected in last year ORSA report will be missed due to the uncertainties of macroeconomic developments caused by pandemic.

COVID-19 somewhat impacted claims reserves during the turbulent period of spring-summer 2020: rapid increase in travel insurance reserves and on the other hand relief in motor claims due to reduced traffic. However, by the 3Q the total effect on the claims developments is not significant. The Company anticipates possible future negative impact followed by business interruptions/closures in different business sectors.

ERGO Group Risk Management (IRM) has a significant role in the Company risk governance framework. On the early stages of the crisis IRM coordinated the assessment of current developments conducting specific analyses considering different possibilities for COVID-19 development (e.g. V, U, L scenarios). The Company's risk management processes include measures such as risk assessment, scenario analysis, solvency projections and increased reporting frequency if needed, making the process sustainable for addressing unfavourable changes in the external environment.

Underwriting risk

The COVID-19 pandemic is expected to have an impact through decrease in GWP due to the business interruptions and/or significant incline in companies' turnover and as a result change in strategic directions. Also motor claims have returned on the pre-COVID level while the premiums are considerably lower than previously.

For this type of risk emerging events as COVID-19 are analysed through a number of specific analysis as well as scenario analysis.

Market and Credit risk

COVID-19 pandemic had an impact on market risk as it caused significant price volatility on financial market. COVID-19 impact on credit risk is mostly associated with investments in fixed-income securities.

Liquidity risk

Under influence of the COVID-19 pandemic the Company's liquidity situation was also affected. However, we are carefully monitoring the development to ensure that Company has sufficient resources to ensure liquidity. Asset portfolio has been structured in a way that liquidity requirements are met even during extraordinary circumstances – the majority of the Company's asset portfolio consists of liquid instruments (government bonds, covered bonds, cash and other fixed income investments).

Operational risk

The Company's operational risks associated with the COVID-19 pandemic mainly result from operational delays due to employee health problems as well as operational performance of ERGO partners. Also, IT security and data protection is key for operational risk under the current circumstances.

The Company has executed its business continuity plans to ensure safety of employees while operating smoothly as possible for the sake of ERGO clients.

Note 3. Premium income

The following table outlines gross and net premiums for 2020 and 2019 by line of business.

In euros	2020			2019		
	Gross written premiums	Reinsurers' share	Net earned premiums[1]	Gross written premiums	Reinsurers' share	Net earned premiums[1]
Motor liability insurance	67 568 910	1 241 120	69 373 659	74 969 228	942 740	74 637 284
Accident insurance	8 151 388	30 677	7 870 060	7 655 800	24 665	7 329 999
Travel insurance	3 091 896	63 528	3 232 096	5 174 394	84 790	4 901 986
Technical risks insurance	7 071 035	437 873	6 030 272	6 083 564	253 130	5 582 350
Individuals' property insurance	14 747 361	199 098	13 946 081	13 435 221	176 014	12 778 967
Legal persons' property insurance	12 119 353	3 914 357	8 124 067	11 209 609	2 802 729	8 149 867
Agricultural risks insurance	2 065 584	237 344	2 053 521	2 691 625	242 686	2 224 661
Motor own damage insurance	48 710 656	26 644	47 947 638	48 442 571	398 901	47 585 025
Liability insurance	9 001 484	1 750 510	6 918 108	8 264 961	1 576 200	6 119 578
Goods in transit insurance	1 739 418	381 597	1 210 732	1 501 021	107 382	1 428 072
Carrier's liability insurance	2 661 063	53 935	2 565 223	2 650 453	29 872	2 603 764
Watercraft insurance and watercraft owner's liability insurance	6 285 432	389 904	5 495 473	1 900 403	79 524	1 124 340
Guarantee insurance	5 509 647	2 664 469	2 042 876	3 628 448	1 542 311	1 689 321
Railway rolling stock insurance	145 091	31 159	124 254	85 473	88 123	836 105
Assistance insurance	2 519 549	0	2 470 044	2 937 420	0	2 645 416
Financial risks insurance	689 285	206 759	468 341	590 173	84 926	429 082
Loss of employment insurance	394 490	0	393 386	341 432	0	332 469
Legal expenses insurance	1 561 633	0	1 564 957	1 637 973	0	1 647 304
Total from insurance activities	**194 033 275**	**11 628 974**	**181 830 788**	**193 199 769**	**8 433 993**	**182 045 590**
Legal persons' property insurance	62 959	0	62 959	109 099	0	0
Liability insurance	45 000	1 820	24 563	0	0	0
Total from reinsurance activities	**107 959**	**1 820**	**87 522**	**109 099**	**0**	**0**
Total	**194 141 234**	**11 630 794**	**181 918 310**	**193 308 868**	**8 433 993**	**182 045 590**

[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	2020	2019
EUR	193 924 787	193 217 005
USD	216 447	91 863
Total	**194 141 234**	**193 308 868**

Breakdown of gross written premiums by country

In euros	2020	2019
Estonia	63 999 334	61 553 427
Latvia	35 415 521	36 909 953
Lithuania	94 618 420	94 736 389
Total from insurance activities	**194 033 275**	**193 199 769**
Poland	107 959	109 099
Total from reinsurance activities	**107 959**	**109 099**
Total	**194 141 234**	**193 308 868**

Note 4. Commission income

In euros	2020	2019
Reinsurance commissions	1 559 469	1 064 950
Participation in reinsurers' profit	-33 721	213 287
Reinsurers' share of deferred acquisition costs	-307 068	-159 051
Total	**1 218 680**	**1 119 186**

Note 5. Investment income

In euros	2020	2019
Interest income on		
Loans	51 495	70 499
Term deposits	293	358
Available-for-sale debt securities	-126 138	237 318
Total interest income	**-74 350**	**308 175**
Dividend income	33 273	121 267
Net realised gain on		
Available-for-sale debt securities	808 964	46 370
Total net realised gains	**808 964**	**46 370**
Total	**767 887**	**475 812**

Note 6. Other income

In euros	**2020**	**2019**
Gain on disposal of property and equipment	45 069	143 087
Fees, commissions and charges received	617 562	980 647
Insurance brokerage income	156 845	124 660
Income from currency revaluation	61 051	234 739
Rental income	358 801	22 052
Miscellaneous income	706 711	215 584
Total	**1 946 039**	**1 720 769**

Note 7. Claims and benefits

The following table shows claims paid and incurred in 2020 and 2019 by line of business

In euros	**2020**				**2019**			
	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	43 523 046	600 522	213 945	44 337 513	45 329 374	7 726 487	-3 066 715	49 989 145
Accident insurance	3 713 809	-39 520	0	3 674 288	3 184 553	172 719	0	3 357 272
Travel insurance	1 720 512	-242 934	-95	1 477 485	2 721 918	-223 853	23 622	2 521 687
Technical risks insurance	3 804 392	-34 302	-739	3 769 350	3 936 010	-548 113	0	3 387 898
Individuals' property insurance	7 970 381	520 412	0	8 490 792	6 906 179	-749 908	0	6 156 271
Legal persons' property insurance	7 732 679	5 565 295	-6 513 204	6 784 769	5 805 326	6 040 456	-3 313 267	8 532 514
Agricultural risks insurance	1 549 186	131 717	0	1 680 904	1 857 719	-86 576	0	1 771 143
Motor own damage insurance	31 397 138	-477 106	-234 803	30 685 228	31 666 571	152 017	-124 485	31 694 102
Liability insurance	2 879 684	866 544	-446 000	3 300 227	2 119 534	133 207	-56 004	2 196 737
Goods in transit insurance	320 238	101 386	-1 159	420 466	337 395	119 651	40 938	497 984
Carrier's liability insurance	1 329 857	143 494	0	1 473 352	1 221 918	213 483	200	1 435 601
Watercraft insurance and watercraft owner's liability insurance	1 570 712	4 152 547	-450 000	5 273 258	230 849	722 657	0	953 506
Guarantee insurance	1 595 138	83 866	-1 045 596	633 408	1 768 209	1 606 119	-1 979 512	1 394 816
Railway rolling stock insurance	152 670	-252 662	0	-99 991	329 279	-141 736	0	187 543
Assistance insurance	1 789 653	-61 664	0	1 727 989	1 542 482	3 590	0	1 546 071
Financial risks insurance	979 324	2 106 855	-2 375 845	710 334	98 824	442 040	-18 451	522 412
Loss of employment insurance	80 614	46 114	0	126 728	58 145	4 454	0	62 600
Legal expenses insurance	529 750	-185 834	0	343 917	668 112	16 833	0	684 945
Total	**112 638 783**	**13 024 730**	**-10 853 496**	**114 810 017**	**109 782 396**	**15 603 527**	**-8 493 675**	**116 892 248**

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

Claims handling costs

In euros	**2020**	**2019**
Salaries	3 911 729	3 957 807
Social security charges	591 319	595 158
Depreciation and amortisation	515 623	547 641
Services purchased	4 562 618	4 005 411
Other labour costs	83 887	100 500
Business travel expenses	6 171	45 318
Costs of company cars	32 742	38 060
Training and other staff costs	49 472	64 789
Rental and utilities charges	66 471	68 609
Office expenses	169 895	166 461
Communications costs including mobile phone charges	51 111	67 809
IT costs	482 455	463 010
Miscellaneous costs	585 743	653 532
Total	**11 109 236**	**10 774 105**

The following table provides an overview of income from subrogation and salvage recoveries in 2020 and 2019.

In euros	**2020**	**2019**
Motor liability insurance	2 432 561	2 414 763
Accident insurance	1 757	3 614
Travel insurance	28 817	60 302
Technical risks insurance	74 872	88 641
Private property Insurance	536 469	690 592
Corporate property Insurance	297 363	295 001
Motor own damage insurance	1 853 986	2 152 525
Liability insurance	2 076 219	2 408 864
Goods in transit insurance	53 617	43 195
Carrier’s liability insurance	23 185	241 338
Watercraft insurance and watercraft owner’s liability insurance	23 486	42 664
Guarantee insurance	9 330	5 770
Assistance insurance	245 754	78 300
Railway rolling stock insurance	236	3 233
Other Property Insurance	-13 600	-18 866
Legal expenses insurance	15 979	36 533
Total	**7 660 031**	**8 546 469**

Catastrophes and major losses in 2020

In 2020, 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 8.2 million euros (gross amount).

Note 8. Expenses

In euros	Note	2020	2019
Acquisition costs		**44 239 980**	**44 031 720**
Salaries		11 672 473	10 929 762
Social security charges		1 594 616	1 376 288
Depreciation and amortisation		2 115 443	2 059 854
Service fees and commissions		22 756 353	23 378 237
Change in deferred acquisition costs		-198 841	-701 186
Other labour costs		360 305	429 919
Business travel expenses		28 484	125 298
Costs of company cars		263 180	294 243
Training and other staff costs		196 029	270 921
Rental and utilities charges		1 175 248	1 088 439
Office expenses		459 686	611 009
Communications expenses including mobile phone charges		299 032	279 648
IT costs		1 689 893	1 566 527
Marketing expenses		951 676	1 205 186
Miscellaneous expenses		876 403	1 117 575
Administrative expenses		**8 795 082**	**8 622 979**
Salaries		5 095 012	4 652 772
Social security charges		945 607	791 103
Depreciation and amortisation		698 224	799 045
Other labour costs		136 319	173 769
Business travel expenses		54 505	237 853
Costs of company cars		50 145	56 195
Training and other staff costs		98 625	164 147
Rental and utilities charges		587 735	576 947
Office expenses		103 905	113 279
Communications expenses including mobile phone charges		41 471	46 200
IT costs		786 308	699 209
Miscellaneous expenses		197 226	312 460
Other operating expenses		**1 871 510**	**2 157 004**
Membership fee to Traffic Insurance Foundation		1 871 510	2 157 004
Investment expenses		**325 602**	**349 419**
Salaries		60 123	44 758
Social security charges		15 955	13 895
Services purchased		92 338	83 460
Other labour costs		194	2 780
Business travel expenses		1 797	13 799
Training and other staff costs		2 720	1 425
Rental and utilities charges		596	10 960
Office expenses		10 141	1 445
Communications expenses including mobile phone charges		836	2 070
IT costs		109	68
Other services		29 640	29 339
Miscellaneous expenses		111 152	145 420

In euros	Note	2020	2019
Other expenses		**1 897 325**	**1 385 814**
Fees to the Financial Supervision Authority and membership fees to professional associations		403 480	303 154
Insurance brokerage expenses		149 524	119 271
Audit and legal fees		125 641	134 184
Interest paid		206 693	205 008
Real estate related expenses		259 040	0
Write-off of property and equipment	10	2 291	0
Interest paid on finance leases		41 047	41 713
Expenses related to leasing out premises		0	29 902
State fees, stamp duties and late payment interest		31 537	38 778
Foreign exchange loss		303 102	193 679
Miscellaneous expenses		374 970	320 125

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 243,551 euros (2019: a gain of 69,893 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 2020, the cost of fully depreciated items still in use amounted to 2,889,306 euros (31 December 2019: 3,328,737 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 2018	**1 039 288**	**7 447 163**	**854 239**	**4 363 778**	**13 704 468**
Recognition of right-of-use assets on the adoption of IFRS16 at 1 January 2019	**0**	**6 077 396**	**0**	**413 000**	**6 490 396**
Additions	0	921 419	20 946	320 639	1 263 004
Sales	0	-130 683	0	-68 861	-199 544
Write-off	0	0	0	-313 790	-313 790
As at 31 December 2019	**1 039 288**	**14 315 295**	**875 185**	**4 714 766**	**20 944 534**
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**
Accumulated depreciation					
As at 31 December 2018	**0**	**2 581 162**	**562 870**	**3 626 774**	**6 770 806**
Depreciation for the year	0	1 477 584	68 149	495 487	2 041 220
Sales	0	-55 600	0	-59 867	-115 467
Write-off	0	0	0	-296 944	-296 944
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**
Carrying amount					
As at 31 December 2019	**1 039 288**	**10 312 149**	**244 166**	**949 316**	**12 544 919**
As at 31 December 2020	**1 039 288**	**9 091 025**	**202 096**	**823 469**	**11 155 878**

Note 11. Deferred acquisition costs

In euros	2020	2019
Balance as at 1 January	**8 635 680**	**7 934 493**
Amortised portion	-7 836 780	-7 134 929
Addition from new contracts	8 160 050	7 836 116
Reduction after the liability adequacy test	-124 430	0
Balance as at 31 December	**8 834 520**	**8 635 680**

Note 12. Other intangible assets

In euros	**Software and licences**
Cost	
As at 31 December 2018	**14 231 532**
Addition through purchase of software and licences	676 183
Addition through internally generated IT projects	2 832 838
Write-off of software and licences	-878 072
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**
Accumulated amortisation	
As at 31 December 2018	**8 506 601**
Amortisation for the year	1 860 419
Write-off	-878 072
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**
Carrying amount	
As at 31 December 2019	**7 373 533**
As at 31 December 2020	**14 081 639**

The company is developing an insurance software solution for all three Baltic states. The software named *Space* is expected to be implemented in 2021. 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
31.12.2020	10 705 947
31.12.2019	2 832 838

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

At 31 December 2020, the cost of fully amortised assets still in use was 4,729,174 euros (31 December 2019: 4,269,128 euros).

Note 13. Investments in associates and subsidiaries

In connection with the development of a new strategy, in 2017 ERGO International AG measured the value of all of the Group’s foreign subsidiaries. The performance and profitability of an entity were determined based on the following criteria: strategic importance, attractiveness of the market, profitability, and market position. Since CJSC ERGO Ins. Co did not meet the identified criteria, the sole shareholder of ERGO Insurance SE decided to sell its investment in CJSC ERGO Ins. Co.

Negotiations for the sale of CJSC ERGO Ins. Co. began on 21 December 2018. ERGO received the final offer on 14 February 2019. On 31 December 2018, it was highly likely that the sales transaction would be completed successfully in 2019. Therefore, investment in CJSC ERGO Ins. Co. was reclassified to assets held for sale. Assets held for sale were measured at their fair value of 637,372 euros. The difference between fair value and carrying amount was recognised as an impairment loss.

The sale process was finalised on 29 April 2020 when ERGO received payment 590 486 euros, and respective legal procedures were carried out. The difference between the carrying amount and money received was recognised as losses on sale and disclosed as miscellaneous expenses in Note 8.

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 2020 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 2020 the company’s available-for-sale debt securities of 209.5 million euros (2019: 167.8 million euros) fell into Level 2. At 31 December 2020, there are no listed equities and fund units in the company’s portfolio; at the end of the comparative period, 24.4 million euros fell into Level 1. The fair value of unlisted securities (carrying amount at 31 December 2020: 43,443 euros and at 31 December 2019: 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 2020**		**As at 31 December 2019**	
	Cost	Fair value	Cost	Fair value
Units in listed equity funds	0	0	24 076 189	24 443 619
Unlisted equities	43 443	43 443	43 443	43 443
Total	**43 443**	**43 443**	**24 119 632**	**24 487 062**

Equities not listed on a public stock exchange comprise other equities measured at cost of 43,443 euros (2019: 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. In the reporting period, there were no non-cash movements related to investments.

Movements in equities and fund units

In euros	**2020**	**2019**
On 1 January	**24 443 619**	**20 396 844**
Purchased equities and fund units	1 026 898	4 324 428
Sold equities and fund units	-25 179 409	-719 124
Changes in the fair value reserve	-367 430	421 292
Loss on the disposal	-38 566	0
Gain on the disposal	114 888	20 179
On 31 December	**0**	**24 443 619**

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 2020**		**As at 31 December 2019**	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Government bonds	58 264 237	58 376 970	80 057 052	80 329 888
Financial institutions' bonds	120 191 736	120 393 544	80 883 452	81 114 645
Corporate bonds	29 606 082	30 689 249	6 358 942	6 369 686
Total fixed-income debt securities	**208 062 055**	**209 459 763**	**167 299 446**	**167 814 219**

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 2020, 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. In the reporting period, there were no non-cash movements related to available-for-sale debt securities.

Movements in the debt and other fixed income securities

In euros	**2020**	**2019**
On 1 January	**167 814 219**	**146 295 885**
Purchased debt securities	226 750 079	108 040 448
Sold debt securities	-176 383 119	-78 098 238
Received on the maturity date debt securities	-7 700 000	-6 521 872
Amortisation of debt securities	-2 706 876	-2 252 711
Changes in the fair value reserve	882 937	390 239
Loss on the disposal	-84 362	-44 866
Gain on the disposal	817 004	71 057
Changes in accrued interest	69 881	-65 723
On 31 December	**209 459 763**	**167 814 219**

14.3. Loans

Mortgage loans by maturity

In euros **As at 31 December**	**2020**	**2019**
Two to three years	0	1 380 000
Total	**0**	**1 380 000**

At 31 December 2020, no mortgage loans recognised in the statement of financial position of ERGO Insurance (31 December 2019: 1,380,000 euros comprised a loan provided to CJSC ERGO Ins. Co.). From 1 July 2019 the interest rate was 5.6%. The settlement of the loan was ensured by the agreement on the sale of the investment in CJSC ERGO Ins. Co. and the loan was settled when the sales transaction was finalised.

Note 15. Reinsurance assets

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

In euros **As at 31 December**	**2020**	**2019**
Provision for unearned premiums	2 696 945	1 951 361
Provision for claims outstanding – claims incurred and reported	*20 599 034*	*11 989 445*
Provision for claims outstanding – IBNR	*316 210*	*131 851*
Provision for insurance pension annuities	*2 276 321*	*2 440 267*
Total provision for claims outstanding	23 191 565	14 561 563
Total	**25 888 510**	**16 512 924**

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**	**2020**	**2019**
Premiums ceded	3	-11 630 795	-8 433 993
Reinsurers' share of the change in the provision for unearned premiums	3	745 380	446 895
Commissions and profit participation paid by reinsurers	4	1 525 749	1 278 237
Reinsurers' share of claims paid	7	2 223 496	1 657 951
Reinsurers' share of the change in the provision for claims outstanding	7	8 630 002	6 835 723
Reinsurers' share of deferred acquisition costs	4	-307 069	-159 050
Total		**1 186 763**	**1 625 763**

Note 16. Insurance and other receivables

In euros **As at 31 December**	**2020**	**2019**
Receivables from policyholders	19 678 008	20 071 984
Receivables from brokers and other intermediaries	1 242 121	1 794 108
Receivables from reinsurers	1 811 910	1 808 329
Subrogation and salvage receivables	2 305	11 124
Total insurance receivables	***22 734 344***	***23 685 545***
Other receivables	672 190	289 540
Accrued income – interest receivable	0	34 310
Total other financial assets	***23 406 534***	***24 009 395***
Prepaid taxes	695 816	1 336 561
Prepaid expenses	1 921 753	1 687 024
Total non-financial assets	***2 617 569***	***3 023 585***
Total	**26 024 103**	**27 032 980**

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**	**2020**	**2019**
Demand deposits	10 954 250	11 689 236
Total	**10 954 250**	**11 689 236**

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

	31.12.2020	**31.12.2019**
EUR	10 954 250	11 689 236

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 2020	384 629	6 391 391	6 391 391
As at 31 December 2019	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 2020 and 2019 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 2020, 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 2020, the capital reserve amounted to 3,072,304 euros (31 December 2019: 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	**2020**	**2019**
On 1 January	**882 201**	**70 670**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-808 963	-61 963
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	-1 468	-220
Net change in fair value recognised in other comprehensive income or expense during the year	1 325 938	873 714
On 31 December	**1 397 708**	**882 201**

Note 21. Insurance contract provisions and reinsurance assets

In euros **As at 31 December**	**Note**	**2020**	**2019**
Gross provisions			
Provision for unearned premiums		78 060 530	76 723 020
Provision for claims outstanding – claims incurred and reported		*71 869 269*	*61 515 424*
Provision for claims outstanding – IBNR		*17 425 630*	*15 047 681*
Provision for claims outstanding – indirect claims handling costs		*3 997 781*	*4 223 348*
Provision for insurance pension annuities		*14 933 477*	*14 414 974*
Total provision for claims outstanding		108 226 157	95 201 427
Other technical provision		45 170	0
Total gross provisions		**186 331 857**	**171 924 447**
Reinsurers' share of provisions			
Provision for unearned premiums		2 696 945	1 951 361
Provision for claims outstanding – claims incurred and reported		*20 599 034*	*11 989 445*
Provision for claims outstanding – IBNR		*316 210*	*131 851*
Provision for insurance pension annuities		*2 276 321*	*2 440 267*
Total provision for claims outstanding		23 191 565	14 561 563
Total reinsurers' share of provisions	15	**25 888 510**	**16 512 924**
Net provisions			
Provision for unearned premiums		75 363 585	74 771 659
Provision for claims outstanding – claims incurred and reported		*51 270 235*	*49 525 979*
Provision for claims outstanding – IBNR		*17 109 420*	*14 915 830*
Provision for claims outstanding – indirect claims handling costs		*3 997 781*	*4 223 348*
Provision for insurance pension annuities		*12 657 156*	*11 974 707*
Total provision for claims outstanding		85 034 592	80 639 864
Other technical provision		45 170	0
Total net provisions		**160 443 347**	**155 411 523**

Movements in provisions for unearned premiums

In euros	2020			2019		
	Gross provision for unearned premiums	**Reinsurers' share**	**Net provision for unearned premiums**	**Gross provision for unearned premiums**	**Reinsurers' share**	**Net provision for unearned premiums**
On 1 January	76 723 020	1 951 361	74 771 659	73 446 840	1 504 469	71 942 371
Changes from business combination	0	0	0	0	0	0
Premiums written	194 141 234	11 630 794	182 510 440	193 308 868	8 433 993	184 874 875
Premiums earned	-192 803 724	-10 885 210	-181 918 514	-190 032 688	-7 987 101	-182 045 587
On 31 December	**78 060 530**	**2 696 945**	**75 363 585**	**76 723 020**	**1 951 361**	**74 771 659**

Provisions for unearned premiums by line of business.

In euros

Insurance class	**Gross provision for unearned premiums 31 Dec 2020**	**Gross provision for unearned premiums 31 Dec 2019**	**Net provision for unearned premiums 31 Dec 2020**	**Net provision for unearned premiums 31 Dec 2019**
Motor liability insurance	25 815 175	28 879 672	25 815 175	28 879 669
Accident insurance	3 437 241	3 186 589	3 437 241	3 186 589
Travel insurance	659 498	864 949	658 971	862 700
Technical risks insurance	3 472 458	2 830 845	3 433 666	2 830 775
Individuals' property insurance	6 404 014	5 801 831	6 404 014	5 801 832
Legal persons' property insurance	4 559 109	4 413 749	4 212 395	4 132 657
Other property insurance	870 781	1 096 061	870 781	296 294
Motor own damage insurance	20 171 536	19 829 201	20 023 254	19 630 118
Liability insurance	4 283 425	3 771 637	4 015 678	4 123 431
Goods in transit insurance	522 765	371 727	518 816	371 728
Carrier's liability insurance	973 276	931 371	973 276	931 371
Watercraft insurance and watercraft owner's liability insurance	1 300 831	842 967	1 287 971	865 870
Guarantee insurance	4 147 610	2 526 407	2 302 624	1 500 324
Railway rolling stock insurance	79 859	90 180	79 859	90 180
Assistance insurance	962 061	912 557	962 062	912 557
Financial risks insurance	297 643	267 809	264 554	250 096
Loss of employment insurance	11 480	10 376	11 480	10 376
Legal expenses insurance	91 768	95 092	91 768	95 092
Total	**78 060 530**	**76 723 020**	**75 363 585**	**74 771 659**

Movements in provisions for claims outstanding.

In euros	2020			2019		
	Gross provision for claims outstanding	**Reinsurers' share**	**Net provision for claims outstanding**	**Gross provision for claims outstanding**	**Reinsurers' share**	**Net provision for claims outstanding**
On 1 January	95 201 427	14 561 563	80 639 864	79 597 900	7 725 838	71 872 062
Changes from business combination	0	0	0	0	0	0
Claims incurred in the reporting period	125 824 370	9 840 611	115 983 758	122 453 080	5 369 483	117 083 597
Change in claims incurred in prior periods	-160 857	1 012 887	-1 173 743	2 932 842	3 124 193	-191 351
Claims paid	-112 638 783	-2 223 496	-110 415 287	-109 782 395	-1 657 951	-108 124 444
On 31 December	**108 226 157**	**23 191 565**	**85 034 592**	**95 201 427**	**14 561 563**	**80 639 864**

Provisions for claims outstanding by line of business.

In euros

Insurance class	**Gross provision for claims outstanding 31 Dec 2020**	**Gross provision for claims outstanding 31 Dec 2019**	**Net provision for claims outstanding 31 Dec 2020**	**Net provision for claims outstanding 31 Dec 2019**
Motor liability insurance	64 243 282	63 634 049	55 938 769	55 042 871
Accident insurance	1 081 747	1 121 266	1 081 747	1 121 266
Travel insurance	243 424	486 453	243 424	483 865
Technical risks insurance	1 441 352	1 475 653	1 441 352	1 475 653
Individuals' property insurance	1 588 729	1 068 318	1 588 729	1 068 318
Legal persons' property insurance	14 048 913	8 483 617	4 871 643	5 270 813
Other property insurance	325 399	193 682	325 399	193 682
Motor own damage insurance	3 919 964	4 414 023	3 896 191	4 387 647
Liability insurance	8 772 272	7 905 854	7 361 895	6 522 780
Goods in transit insurance	446 720	345 332	433 344	331 956
Carrier's liability insurance	1 634 055	1 490 562	1 634 055	1 490 562
Watercraft insurance and watercraft owner's liability insurance	4 949 903	788 896	4 499 903	788 897
Guarantee insurance	2 325 092	2 241 226	907 131	927 509
Railway rolling stock insurance	133 602	386 264	133 602	386 264
Assistance insurance	70 786	132 449	70 786	132 449
Financial risks insurance	2 554 395	447 540	160 100	429 089
Loss of employment insurance	90 101	43 988	90 101	43 988
Legal expenses insurance	356 421	542 255	356 421	542 255
Total	**108 226 157**	**95 201 427**	**85 034 592**	**80 639 864**

In motor liability insurance, the provision for claims outstanding also includes the provision for insurance pension annuities. At 31 December 2020, annuity claim files were open for 241 persons: 116 in Estonia, 68 in Latvia and 57 in Lithuania.

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

In euros	**Year of incurrence**						
	2020	**2019**	**2018**	**2017**	**2016**	**2015 and earlier**	**Total**
Gross provision for pension annuities	415 125	668 437	2 513 054	1 219 925	2 445 874	7 671 063	14 933 477
Net provision for pension annuities	415 125	668 437	1 660 950	1 219 925	2 445 874	6 246 846	12 657 156

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 2020 indicated that the provisions made for classes of insurance other than legal person's property insurance were adequate to cover ERGO Insurance SE's obligations while in legal person's property insurance, the liability adequacy test determined a small deficiency. Based on the test results, deferred acquisition costs were reduced by 124 430 euros. No additional unexpired risks provision was recognised (see notes 2.1 and 11).

Note 22. Reinsurance payables

In euros **As at 31 December**	**2020**	**2019**
Payables to reinsurers	3 422 705	2 964 057
Reinsurers' share of deferred acquisition costs	856 004	548 936
Total	**4 278 709**	**3 512 993**

Note 23. Insurance payables

In euros **As at 31 December**	**2020**	**2019**
Payables to policyholders	12 377 168	12 324 311
Payables to brokers and other intermediaries	3 538 119	3 389 878
Other payables	84 079	100 157
Total	**15 999 366**	**15 814 346**

Note 24. Other payables and accrued expenses

In euros **As at 31 December**	**Note**	**2020**	**2019**
Other payables		411 781	372 737
Payables to suppliers		743 221	1 377 625
Accrued vacation payables		1 188 802	991 832
Payables to employees		1 987 358	1 932 625
Lease liabilities	26	5 040 125	5 925 223
Total other financial liabilities		***9 371 287***	***10 600 042***
Other accrued items		2 081 324	1 397 696
Personal income tax payable		429 259	406 643
Corporate income tax payable		818 178	890 313
Value added tax payable		162 428	153 334
Social security tax payable		643 892	643 420
Income tax payable on fringe benefits		2 192	5 203
Social security tax payable on fringe benefits		2 880	7 840
Payables to 2nd pillar pension funds (mandatory funded pension)		18 018	17 363
Total non-financial liabilities		***4 158 171***	***3 521 812***
Total		**13 529 458**	**14 121 854**

Note 25. Fair value of financial instruments

The availability of unadjusted quoted prices in active markets for identical assets and liabilities the entity can assess at the measurement date without adjustment is the prerequisite for categorizing assets or liabilities to Level 1. As the company applies valuation techniques, debt and other fixed-income securities are transferred from Level 1 to Level 2. Comparatives are adjusted respectively, for 167.8 million euros.

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							
Units in listed debt funds	14.1	0	0	0	0	0	0
Unlisted equities[1]	14.1	43 443	N/A[1]	N/A[1]	N/A[1]	N/A[1]	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
Financial assets measured at amortised cost							
Loans	14.3	0	0	0	0	0	0

In euros		As at 31 December 2019					
	Note	**Carrying amount**	**Fair value**	**Level 1**		**Level 3**	**Total**
Financial assets measured at fair value							
Units in listed debt funds	14.1	24 443 619	24 443 619	24 443 619		0	24 443 619
Unlisted equities[1]	14.1	43 443	N/A[1]	N/A[1]	N/A[1]	N/A[1]	0
Government bonds	14.2	80 329 888	80 329 888	0	80 329 888	0	80 329 888
Financial institutions' bonds	14.2	81 114 645	81 114 645	0	81 114 645	0	81 114 645
Other bonds	14.2	6 369 686	6 369 686	0	6 369 686	0	6 369 686
Financial assets measured at amortised cost							
Loans	14.3	1 380 000	1 407 348	0	0	1 407 348	1 407 348

[1] 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
2019		
Balance on 1st January 2019	6 077 396	413 000
Depreciation charge for the year	1 319 412	194 595
Additions to right-of-use assets	921 419	0
Balance on 31st December 2019	**5 679 403**	**218 405**
2020		
Depreciation charge for the year	1 393 735	98 465
Additions to right-of-use assets	614 028	92 671
Write offs right-of-use assets	-82 547	-32 987
Balance on 31st December 2020	**4 817 148**	**179 624**

Maturity analysis of lease liabilities

Lease liabilities	2020	2019
Less than one year	1 410 462	1 436 258
One to two years	1 096 509	1 273 447
Two to five years	2 147 878	2 318 661
Five to ten years	385 277	896 857
Total	**5 040 125**	**5 925 223**

Note 27. Income tax

At 31 December 2020, the company’s retained earnings totalled 69 749 799 euros (31 December 2019: 56 707 348 euros) and the carrying amount of intangible assets was 14 081 639 euros (31 December 2019: 7 373 533 euros). Thus, distributable profit amounted to 55 668 160 euros (31 December 2019: 49 333 815 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 11 133 632 euros (31 December 2019: 9 866 763 euros) and the maximum amount that could be distributed as the net dividend is 44 534 528 euros (31 December 2019: 39 467 052 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 2021 cannot exceed the company's distributable profit as at 31 December 2020.

On 31 December 2020, ERGO Insurance SE Latvian branch has accumulated losses; therefore, deferred tax liability has not recognized.

In euros

Recognised deferred income tax assets	2020	2019
Deductible temporary differences on other liabilities	264 664	273 452
Total	**264 664**	**273 452**

In euros

Reconciliation of accounting profit and income tax expense	2020	2019
Consolidated profit before tax	13 042 451	11 091 817
Parent company's domestic tax rate 0%		
Effect of tax rates in foreign jurisdictions	560 744	49 318
Effect of expenses non-deductible for tax purposes	254 248	839 079
Change in recognised deferred tax assets	8 788	-58 040
Income tax expense for the year	**823 780**	**830 357**

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 560 432 euros (2019: 647 488 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	Receivables 2020	Payables 2020[2]	Receivables 2019[1]	Payables 2019[2]
Related party				
Parent of the group – Münchener Rück	0	466 747	43 195	379 771
Other group companies	126 730	6 865 301	1 643 942	6 941 535

In euros

Related party	Services purchased 2020	Services sold 2020[4]	Services purchased 2019[3]	Services sold 2019[4]
Parent of the group – Münchener Rück	29 252	0	0	0
Other group companies	7 937 215	593 391	3 661 142	682 667

[1] Receivables as of 31.12.2019 include a loan of 1 380 000 euros and related interest 34 310 euros. Loan provided to CJSC ERGO Ins. Co.

[2] Including a subordinated loan of 6 000 000 euros (2019: 6 000 000 euros) and related interest 6 178 euros (2019: 4 493 euros). Loan received from ERGO Life Insurance SE.

[3] Services sold in the year 2019 include interest of 36 376 euros (2019: 70 395 euros) on the loan provided to CJSC ERGO Ins. Co.

[4] Including interest of 205 008 euros (2019: 206 693 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	**2020**	**2019**
Münchener Rückversicherungs-Gesellschaft AG		
Reinsurance premiums	565 817	188 773
Reinsurers' share of claims paid	34 017	-19 906
Reinsurance commissions and profit participation	141 369	2 601
Other Group companies		
Reinsurance premiums	2 863 355	1 219 482
Reinsurers' share of claims paid	322 830	10 023
Reinsurance commissions and profit participation	62 010	28 718
Gross premiums from incoming reinsurance	62 959	109 099
Commissions to holders of reinsurance policies	2 493	4 320

Signatures to annual report 2020

The management board of ERGO Insurance SE has prepared the company's review of operations and financial statements for 2020.

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/

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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 (the Company), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the 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 our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, 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 consolidated 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 2020 were 186 million euro representing 82% 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. The valuation of claims reserve involves a significant amount of Management’s judgement. 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. 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 quarter. 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

Management is responsible for the 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.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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 consolidated 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 scepticism throughout the audit. We also:

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the branches or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 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 consolidated financial statements the first time in 2020.

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, 01 April 2021

/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 profit for 2020 of 13,042,451 (thirteen million forty-two thousand four hundred and fifty-one) euros be transferred to retained earnings;

4) no distribution be made to the sole shareholder.

5) As of 1 January 2021, retained earnings amount to 69,749,799 (sixty-nine million seven hundred and forty-nine thousand seven hundred and ninety-nine) 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 at 01 April 2021.

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 2020 – 31 December 2020	Amount
Non-life insurance (65121)	194,033,275
Reinsurance (65201)	107,959

Activities planned for the period 1 January 2021 – 31 December 2021

Non-life insurance (65121)

Reinsurance (65201)