ERGO Life Insurance SE

Independent Auditor's Report, Annual Management Report and Separate Financial Statements for the Year Ended 31 December 2020

FINANCIAL STATEMENTS

Company name:	**ERGO Life Insurance SE**
Registry number:	**110707135**
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	Republic of Lithuania
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E-mail:	**info@ergo.lt**
Website:	**www.ergo.lt**
Core business:	**Life insurance**
Beginning of financial year:	**As at 1 January 2020**
End of financial year:	**As at 31 December 2020**
Chairman of the Board and Managing Director:	**Bogdan Benczak**
Auditor:	**Ernst & Young Baltic UAB**

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PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of ERGO Life Insurance SE

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ERGO Life Insurance SE, a company registered in accordance with the corporate law of the European Union (hereinafter the Company), which comprise the separate statement of financial position as of 31 December 2020, separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate 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 International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). 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 requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

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

Key audit matters	How the matter was addressed in the audit
Estimates used in the calculation of insurance contract provisions	
Insurance contract provisions as at 31 December 2020 were 246 million euro, which represents approximately 90% of the Company's liabilities (Note 22). The Company uses actuarial models to support the valuation of the insurance contract provisions.	Our audit procedures included, among others, the following: We assessed the accounting policies over the calculation of insurance contract provisions.

Key audit matters	How the matter was addressed in the audit
Estimates used in the calculation of insurance contract provisions	
Complex models are employed that rely on input data, parameter assumptions and model design. Economic and actuarial assumptions, such as investment return, mortality, disability-morbidity and lapse rates, and expense assumptions (as disclosed in Note 3 (o) and Note 5 (a)) are key inputs used to estimate these provisions. According to IFRS 4 Insurance contracts requirements, the Company's management performs a liability adequacy test (LAT) to ensure that insurance contract provisions are adequate compared to the expected cash outflows. LAT comprises assumptions that are similar to those employed for the valuation models mentioned above and hence require making significant judgments. This area involves significant management estimates and judgements over uncertain future outcomes, primarily the timing and ultimate full settlement of long-term policyholder liabilities. Due to materiality of the amounts, complexity of models used in calculations and involved management judgement, we considered it a key audit matter.	We obtained an understanding of 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, calculation of insurance contract provisions, classification of insurance contracts. 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 provisions are complete and accurate. We tested the completeness of policies included in the calculations of reserves by selecting a sample of active policies at financial year-end and checking whether they were included in the reserve calculations. We assessed the accuracy of assumptions by comparing the historical data with actual data used by the Company. We involved our internal actuarial specialists to assist us in: 1. Assessment of the models for calculating insurance provisions. 2. Evaluation of key actuarial judgements used to calculate insurance contract provisions, as well as the assessment of accuracy of the methods used by re-performing the calculation of a sample insurance contract provisions and comparing our calculation results with those by the Company. 3. Performing analytical roll-forward procedures, such as comparison of insurance contract provisions per product group to prior year and validation of inflows and outflows affecting the life insurance provision. 4. Assessment of the validity of the LAT performed by the management. Our work on the liability adequacy tests included a review of the projected cash flows and 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 disclosures regarding these provisions in Note 22 Insurance contract provisions and reinsurance assets and in Note 5 (a) Insurance risks.

Other matters

The Company's financial statements for the year ended 31 December 2019 were audited by other auditor, which issued an unqualified opinion as of 7 April 2020.

Other information

Other information consists of the information included in the Company's 2020 Annual Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

In connection to 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.

We also have to evaluate, if the financial information included in the Company's Annual Management Report, corresponds to the financial statements for the same financial year and if the Company's Annual Management Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's Annual Management Report, corresponds to the financial information included in the financial statements for the same year; and
- The Company's Annual Management Report was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor
In accordance with the decision made by shareholder as at 27 December 2018 we have been appointed to carry out the audit of the Company's financial statements. The audit of the financial statements for the year ended 31 December 2020 was our first annual audit of the Company.

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

Non audit services
We confirm that to the best 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.

Throughout our audit engagement period, we have not provided to the Company any other services except for the audit of the financial statements and translation services (Note 9).

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

16 April 2021

ANNUAL MANAGEMENT REPORT

2020

Review of operations

Strong owner

Through their parent company, ERGO Group AG, the ERGO insurance companies in the Baltics 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. ERGO Group serves 37.9 million customers in over 30 countries, mostly in the European and Asian markets. It is the largest health and legal expenses insurer in Europe.

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.

At the end of 2020, the share capital of ERGO Life Insurance SE (hereinafter in the report ERGO Life Insurance SE, ERGO, the company) was EUR 4,380,213. The sole shareholder of ERGO Life Insurance SE is ERGO International AG, registry code HRB 40871, address ERGO-Platz 1, 40198 Düsseldorf, Germany.

Information about the company's Board:

Bogdan Benczak. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Maciej Szyszko. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Tadas Dovbyšas. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Marek Ratnik. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Ingrida Kirse. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Information about the company's Supervisory Board:

1. Piotr Maria Sliwicki. Chairman of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Chairman of the Management Board of STUnŻ ERGO Hestia SA, Chairman of the Management Board of STUnZ ERGO Hestia SA.

2. Grzegorz Szatkowski. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Vice-chairman of the Management Board of STU ERGO Hestia SA, Vice-chairman of the Management Board of STUnŻ ERGO Hestia SA.

3. Justyna Wajs, member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), member of the Management Board of STU ERGO Hestia SA, member of the Management Board of STUnŻ ERGO Hestia SA.

4. Dr Maximilian Happacher. Chairman of Supervisory Board of Victoria Lebensversicherung AG, of ERGO Insurance NV, of ERGO Lebensversicherung AG, and of ERGO Pensionskasse AG; member of the Supervisory Board of STUnZ ERGO Hestia S.A., of ERGO Pensionsfonds AG, of Plc Insurance company ERGO, of Protektor Lebensversicherungs-AG, of Versorgungsausgleichskasse Pensionskasse VVaG, and of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius), member of the Management Board of ERGO Insurance Company S.A. and of ERGO China New Life Insurance Co. Ltd.

Cooperation with the world's strongest re-insurers

ERGO works with the world's leading re-insurers (Munich Re, Swiss Re). Re-insurance helps ERGO to manage its potential risk factors and ensure smooth administration of compensations, especially for large-scale damage.

ERGO Life Insurance SE: Result for 2020

Gross premium income	EUR 75.20 million
Total assets	EUR 361.68 million
Investments in financial instruments	EUR 329.97 million
Insurance contract provisions	EUR 246.13 million
Equity	EUR 88.17 million
Profit for the year	EUR 5.44 million
Total comprehensive income/expense	EUR 12.46 million
Return on equity	6.64%
Insurance contracts in force	97,110
Offices	7 in Lithuania, 20 in Latvia, and 1 in Estonia
Employees (full time equivalent)	239: 103 in Lithuania, 110 in Latvia, and 26 in Estonia

Economic environment

According to the estimates of the European Commission made in February 2021, European economy is anticipated start on week ground in 2021 due to pandemic and further lockdowns in fourth quarter across EU. As a result the GDP is expected to decline by 6.3% in 2020 and is forecasted to rebound to 3.7% in 2021 in EU.

Compared to previous forecast from autumn 2020 GDP is expected to reach pre-crisis level by mid-2022, to the level of 3.9% mainly due to stronger momentum in the second half of 2021 and in 2022. Though the speed of recovery may vary significantly across the EU as some countries have suffered more during the pandemic than others whereas some are more dependent on the sectors as tourism, which are likely to remain weak for some time.

Inflation outlook has slightly increased for 2021 and is forecasted to raise from 0.3% in 2020 to 1.4% before stabilizing to 1.3% in 2022.

Estonia

Economic decline is expected to be about 3% in 2020, which is less than average in the EU. This is supported by relatively limited contradiction in private consumption and the resilience of exports. Unemployment increased (nearly up to 8% in third quarter) mostly in the sectors directly affected, e.g. hotels and restaurants.

As COVID-19 restrictions are assumed to be lifted gradually, GDP is forecasted to grow 2.6% in 2021, with growth expected to strengthen towards the second half of the year. Growth momentum is forecasted to drive annual GDP up by 3.8% in 2022.

Inflation turned negative in 2020, with the annual rate decreasing to -0.6%. Inflation is forecasted to increase to just over 1% in 2021 and above 2% in 2022.

Latvia

Decrease of GDP is expected to be on the level of 3.5% in 2020. Private consumption and exports suffered the most as pandemic restriction measures dampened consumer demand and restrain the supply in services.

Recovery from the fall in output during first half of the year was strong in third quarter and it was stalled in the last quarter due to renewed tightening of restrictions which are expected to impact economic growth throughout the first quarter of 2021.

GDP growth is forecasted to rebound in 2021 attaining 3.5%. Significant easing of restrictions will be possible once the level of vaccination coverage reaches a considerable share of population towards end of the summer. Economic growth in 2022 is expected to achieve 3.1% supported by private consumption and exports.

In 2020, inflation rate was very low, at level of 0.1%, impacted by significant decline in energy prices. Inflation in 2021 is forecasted to reach 1.5% and further increase to 1.9% is expected in 2022.

Lithuania

In 2020 economic decline is expected to be on the level of 0.9% which is one of the smallest declines in EU. Exports remained relatively resilient as manufacturing output was only slightly impacted by restrictive measures imposed to control the pandemic. GDP in forecasted to grow by 2.2% in 2021 and 3.1% in 2022.

Inflation rate remained at the level of 1.1% in 2020. In 2021 energy prices are forecasted to pick up and together with wage growth should impact the higher inflation up to 1.7% and 1.8% in 2022.

Regulatory environment

The main law for insurance industry in Lithuania is the Law on Insurance. The latest version of the Law on Insurance which entered into force on 1 January 2016 is largely based on the Directive 2009/138 of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). A substantial amendment to the Law on Insurance came into force as of 1 October 2018 when implementing the Insurance Distribution Directive. Also, certain amendments to the Law were made in 2019–2020 and the updated version is effective starting from 15 June 2020; however, these amendments were not substantial.

Under the Insurance Distribution Directive and implementing and delegated Regulations thereof, the aim is to better protect the interests of customers and increase the transparency of insurance companies, in particular through the provision of insurance-based investment products, including:

- stronger focus on identification of customer needs and acting in the best interest of the insured;
- greater transparency in insurance activities by providing sufficient information to the insured on an insurance product, their parts, intermediaries and their remuneration, potential conflicts of interest (if they are not managed effectively, etc.);
- stronger focus on management of conflicts of interest in order to prioritise activities of the insurance company to provide the best conditions for clients and not to serve business interests;
- rules on transparency and business conduct to help customers avoid buying products that do not meet their needs.

Furthermore, legal framework on the protection of personal data is substantial in activities of the insurance company because an insurance company is treated as one of the biggest controllers of personal data controlling the category of special personal data (highly sensitive personal data). Therefore, the Regulation 2016/679 of the European Parliament and of the Council (EU) effective as of 27 April 2016 on the protection of individuals with regard to processing of personal data and on the free movement of such data repealing Directive 95/46/EB (General Data Protection Regulation) (hereinafter – GDPR) has been of significant importance to activities of the insurance company. The GDPR is a European Union legal act of direct application. In Lithuania, as in other European Union member states, it has been applied as of 25 May 2018. With the Regulation in place, EU citizens are in better control of their personal data, and their safety will increase. As of 30 June 2018, a new version of the Law on Legal Protection of Personal Data has been adopted. Thereafter some minor amendments were introduced to the Law with effective date of 1 January 2021. As a result of the application of the said Regulation, the Company reorganised a number of its processes and implemented new ones to ensure the proper enforcement of data subjects' rights, registration and management of data breaches and other processes, the improvement of which requires regular and continuous involvement.

Another legal act with significant impact on the activities of ERGO Life Insurance related to distribution of life insurance products is the Law on the Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania, which was amended on 3 December 2019 (part of the amendments came into force on 10/01/2020 and 10/05/2020, others will enter into force in 2021). Additionally, new amendments were adopted on December 2020. This Law establishes comprehensive requirements on the framework on anti-money laundering and counter terrorist financing and includes control measures implemented both at the time of concluding contracts (appropriate customer due diligence and customer's money-laundering risk assessment).

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (hereinafter "SFDR") was adopted. The Regulation is directly applicable (albeit with some reservations) in all EU Member States as from 10 March 2021. This document aimed at disclosing to customers information about the Company's (ERGO Life Insurance SE) approach to sustainability risks and the maximum adverse effect on sustainability factors to ensure that customers are equipped to make informed investment decisions. To this end, pre-contractual disclosures and more extensive information on sustainability was developed in 2020 taking into account the requirements of the SFDR. This information will be made publicly available on the website of ERGO Life Insurance SE.

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2020 was EUR 75.20 million. In terms of premium income, ERGO Life Insurance SE maintained the fifth position in the Lithuanian and the fourth position in the Baltic life insurance market. Claims and benefits incurred and changes in liabilities totalled EUR 59.3 million. ERGO Life Insurance SE ended 2020 with total comprehensive income of EUR 12.46 million. Net investment income amounted to EUR 8.2 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 361.68 million (2019: EUR 344.84 million). Investments in financial instruments amounted to EUR 329.97 million (2019: EUR 312.55 million), debt securities accounted for 75.2% (2019: 72.9%), loans for 1.8% (2019: 1.9%) and equities and fund units for 23.0% (2019: 25.2%) of the total. Altogether, investments in financial instruments accounted for 91.2 % (2019: 90.6 %) of total assets. Insurance provisions totalled EUR 206.5 million (2019: EUR 207.7 million), accounting for 75.5 % (2019: 77.2 %) of total liabilities and 57.1 % (2019: 60.2%) of total assets.

Insurance activities

Gross premium income by insurance class

EUR	**2020**		**2019**		**Change**	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %
Life insurance contracts	44,527,292	59.2	41,202,013	57.5	3,325,279	1.7
Health insurance contracts	30,668,832	40.8	30,435,020	42.5	233,812	-1.7
Total from insurance activities	***75,196,124***	***100.0***	***71,637,033***	***100.0***	***3,559,091***	
In total	**75,196,124**	**100.0**	**71,637,033**	**100.0**	**3,559,091**	

In 2020, ERGO Life Insurance SE generated premium income of EUR 75.2 million, an increase of 5 % on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 44.5 million or 59.2% and EUR 30.67 million or 40.8% of the portfolio respectively.

Claims and benefits paid by insurance class

EUR	**2020**		**2019**		**Change**	
	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %
Life insurance contracts	30,214,514	58.2	27,874,209	54.5	3,210,018	3.7
Health insurance contracts	21,673,395	41.8	23,269,832	45.5	2,476,637	-3.7
Total from insurance activities	**51,887,909**		**51,144,041**		**743,868**	

Claims and benefits paid in 2020 totalled EUR 51.89 million (2019: EUR 51.14 million). The largest share of claims was settled in life insurance: EUR 30.21 million or 58.2% of claims paid. The next-largest class was health insurance, where claims and benefits paid totalled EUR 21.67 million or 41.8%.

Investment activities

Strategic investment management is the responsibility of the company's asset and liability group which includes highly qualified specialists from ERGO Life Insurance SE and ERGO International AG. In line with the investment management system implemented in 2005, tactical investment management is outsourced to an external service provider. In January 2015, tactical investment management was taken over by the Group's asset management company MEAG Munich ERGO Asset Management Gmbh (MEAG), which delivers the service in accordance with the strategic investment management plan and risk profile approved by the Management Board of ERGO Life Insurance SE.

Income on assets with interest rate risk amounted to EUR 4.6 million. Realisation of equities and units resulted in a profit of EUR 0.25 million and realisation of debt securities in a gain of EUR 0.13 million. Dividend income was EUR 2.14 million. The fair value reserve increased by EUR 7.0 million.

Development

ERGO Life Insurance SE further increased its financial capacity and stability

Insurance premiums written by ERGO Life Insurance SE during the reporting year amounted to EUR 75.20 million, i.e. 5% more than in 2019 (2019: EUR 71.64 million). In terms of premiums written in the separate life insurance groups, the most rapid increase was in health insurance premiums. In life insurance, the most rapid increase was in unit-linked life insurance, life risk insurance and additional (health) insurance.

Fast and fair insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR 59.3 million (2019: EUR 62.3 million).

Special attention is paid to risk management. In our activity we face the following risks: insurance risk, investment risk, claim reserve risk, solvency reserve risk. The Company manages its risks following the recommendations prepared by ERGO companies in the Baltic States and the risk management strategy approved by the Company.

In 2021, we plan to grow and strengthen our position in the market. At the end of 2020, ERGO Life Insurance held 9.3% of the Baltic life insurance market.

Legal structure of the company

ERGO Life Insurance SE, Vilnius, hereinafter referred also as ERGO or the Company, is operated in the legal form of *societas Europaea*, a company registered in accordance with the corporate law of the European Union. ERGO is operating in the Baltic countries, with the headquarters in Lithuania and branches in Estonia and Latvia.

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).

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.

ERGO's staff

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

Customer experience

Since 2020, we have been using the Net promoter score (NPS) methodology in all three Baltic countries, receiving continuous feedback from customers and improving customer service.
A uniform and clear system in all countries will allow us to consistently improve our processes and service so that customers remain satisfied and loyal to the ERGO brand.

As the customer needs evolve, we updated the structure of the line of health insurance for businesses in 2020: we proposed new limits, supplemented the list of the services offered, and renewed the line of individual health insurance. With the onset of the global pandemic, the availability of services also changed: medical institutions began to provide remote medical services, and therefore, in response to the changing situation in the country, we included the said services in the lists of insured events. During quarantine, we also allocate certain amount of our funds to disinfection measures (disinfectant fluids, medical masks, respirators), which help to contain the spread of the virus.

ERGO focuses on long-term life insurance business in the Baltics and holds strong positions in unit-linked life insurance, biometric insurance risk and pension annuity. ERGO offers to its clients various independent saving instruments for pension, a variety of services related insurance risks and hedging against those risks. In 2020, ERGO was actively engaged in cancer insurance services, which are a unique insurance product on the market. ERGO launched a distance selling tool for the clients in 2020 thus enabling them to adapt to the constraints of teleworking and quarantine.

ERGO has been offering video counselling to customers in Estonia since the middle of the year. Initially, such remote customer counselling was used for a legal expenses insurance, but after a successful trial period, the video counselling service was also adapted to other insurance products. ERGO is the only company in Estonia offering video counselling in the insurance sector.

Our achievements

The dearest of all, greenest and the most humane insurer in the Baltic States
From the survey of leading brands and lifestyle conducted by Brand Capital in the Baltic States, ERGO is recognised as the dearest of all, greenest and the most humane insurance brand in the Baltic States in 2020.

Gold category rating
For the second year in a row, ERGO was awarded the Gold Rating at the Sustainability Index Awards in Latvia. The awards are organised by the Institute of Corporate Social Responsibility and Sustainability, the Employers Confederation of Latvia and Free Trade Union Confederation of Latvia. Based on internationally recognised methodology, the Sustainability Index is an instrument which helps Latvian companies to determine the level of their sustainability and corporate social responsibility.

Top employer awards
ERGO has been among the top 50 employers for many consecutive years, and in 2020 it ranked 36th in Lithuania and 39th in Latvia. The leading internet recruitment company CV-Online LT announced the list of the most reliable Lithuanian employers identified by summing up the impressions of the company’s account and all job offers published by the company in 2020, regardless of the company’s field of activity.

Sponsorship and social responsibility

Brand buddies
In 2020, ERGO continued cooperation and social initiatives aimed at creating a safer, healthier and more beautiful Lithuania. Our partners and the brand buddies are SOS Children’s Village, Kino pavasaris [Vilnius Film Festival], LTeam, IKI Velomarathon, Nida Jazz [Music Festival], the National Cancer Institute and scientists from the Marine Research Institute of Klaipėda University. We are delighted that we have delivered our promises and supported all these social and cultural initiatives without reducing much-needed assistance to our brand buddies in 2020.
In Estonia, ERGO provided support to young athletes through scholarships. The Company received the award *Sport Friend 2020* from the Estonian Olympic Committee and the Ministry of Culture for its active and exceptional contribution to supporting young athletes. In Latvia, ERGO has been supporting the beach volleyball championship for eight years.

Healthy lifestyle
ERGO encourages its employees to be more active and lead a healthy lifestyle. To keep the physical activity of its employees and their families going and their mood lifted in quarantine period, the Company organised remote yoga classes and various physical challenges both among colleagues in Lithuania and in the three Baltic States. To make it easier for employees to maintain emotional stability and improve psychological health, the Company organised a series of remote meetings with psychologists. The employees gained knowledge on how to communicate with children while spending so much time together at home, and were provided with the possibility to raise any concerns.

Trainings and world-view broadening
Employee personal development and world-view broadening is at core for ERGO. To this end, *Mokslo sumuštinis* [Science Sandwich] initiative has been set up, where employees are invited to listen to presentations from experts in various fields. The Company’s aim to support a learning organisation culture has led to internal initiatives such as the Internal Coach Club, the Mentoring Program, and the Leadership Academy.

The roles and responsibilities of the members of the Management Board are as follows.

- Bogdan Benczak, Chairman of the Board, is responsible for the following pan-Baltic departments: communication, marketing and client experience, HR and administration, legal and compliance control, regional development and strategy, claim administration, information security, fraud prevention and detection.
- Maciej Szyszko, Member of the Management Board and Chief Financial Officer, is responsible for financial management and the following departments in the Baltics: accounting, planning and controlling, investment, IT, actuaries, risk management and acquisitions.
- Ingrida Kirse, Member of the Management Board and ERGO's team leader in Latvia, is responsible for life and health insurance, pricing and reinsurance in the Baltics.
- Tadas Dovbyšas, Member of the Management Board and ERGO's team leader in Lithuania, is responsible for own sales network and business clients, including banking insurance in the Baltics, sales in Lithuania and Latvia.
- Marek Ratnik, Member of the Management Board and ERGO's team leader in Estonia, is responsible for risk assessment and product development, pricing and reinsurance in the Baltics.

Statement of the management's responsibility

The Board of ERGO Life Insurance SE confirms that the separate financial statements for the year ended 31 December 2020 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and that appropriate accounting policies have been applied on a consistent basis. The Board of ERGO Life Insurance SE is responsible for preparing these separate financial statements from the books of primary entry. The Board confirms that these separate financial statements for the year ended 31 December 2020 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgements and estimates have been made by the Board in the preparation of the separate financial statements for the year ended 31 December 2020.

The Board of ERGO Life Insurance SE is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The members of the Board are also responsible for operating the Company in compliance with the legislation of the Republic of Lithuania.

Bogdan Benczak
Chairman of the Board

As at 16 April 2021

Separate financial statements

Separate statement of profit or loss

EUR	Note	2020	2019
Revenue			
Gross written premiums		75,196,124	71,637,033
Written premiums ceded to reinsurers		-962,514	-901,969
Total net premiums written		**74,233,610**	**70,735,064**
Change in gross provision for unearned premiums		-496,897	587,945
Reinsurers' share of change in provision for unearned premiums, gross		0	0
Change in provision for unearned premiums, net		**-496,897**	**587,945**
Net earned premiums	**6**	**73,736,713**	**71,323,009**
Fees and commission income	**23**	**573,135**	**565,624**
Net investment income	7	8,193,966	14,399,871
Commission income	9.1	384,450	421,930
Other revenue		610,671	697,673
Total revenue		**83,498,935**	**87,408,107**
Expenses			
Claims and benefits incurred		-59,329,861	-62,314,607
Reinsurers' share of claims and benefits incurred		-14,968	90,596
Net policyholder claims and benefits incurred	**8**	**-59,344,829**	**-62,224,011**
Change in value of financial liabilities from unit-linked contracts	**23**	**-1,129,982**	**-2,757,154**
Acquisition expenses	9	-11,542,501	-10,875,040
Administrative expenses	9	-4,407,182	-4,868,526
Other operating expenses	9	-383,423	-265,736
Investment expenses	9	-389,246	-454,165
Other expenses	9	-746,873	-358,662
Total expenses		**-77,944,036**	**-81,803,294**
Operating profit/loss		**5,554,899**	**5,604,813**
Profit before tax		**5,554,899**	**5,604,813**
Income tax expense/benefit	**28**	**-113,385**	**-32,298**
Profit for the year		**5,441,514**	**5,572,515**

Separate statement of comprehensive income

EUR	Note	2020	2019
Profit/loss for the year		**5,441,514**	**5,572,515**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in the value of available-for-sale financial assets	21	7,017,590	13,276,466
Total other comprehensive expense/income for the year		**7,017,590**	**13,276,466**
Total comprehensive income/expense for the year		**12,459,104**	**18,848,981**

The notes on pages 24 to 82 are an integral part of these separate financial statements.

Separate statement of financial position

EUR

Assets

At 31 December	**Note**	**2020**	**2019**
Property and equipment	10	1,464,176	2,072,351
Intangible assets	12	1,143,254	871,404
Deferred acquisition costs	11	4,996,925	5,380,348
Investments in subsidiaries	13	4,677,870	4,677,870
Asset held for sale	14	0	622,281
Investments in financial instruments			
Equities and fund units accounted at FVTPL	*15*	*57,168,766*	*51 889 808*
Equities and fund units available for sale	*15*	*18,719,434*	*26 781 873*
Debt and other fixed-income securities	*15*	*248,078,322*	*227 877 839*
Loans	*15*	*6,005,617*	*6 004 493*
Total investments in financial instruments		329,972,139	312,554,013
Reinsurance assets	16	128,453	160,591
Insurance and other receivables	17	8,834,372	9,816,276
Deferred tax asset	28	123,158	110,460
Cash and cash equivalents	18	10,327,609	8,576,679
Total assets		**361,667,956**	**344,842,273**

Equity and liabilities

At 31 December	**Note**	**2020**	**2019**
Equity			
Issued capital	19	4 380 213	4 380 213
Capital reserve	20	15 869 501	15 869 501
Fair value reserve	21	43 897 652	36 880 062
Retained earnings		24 027 209	18 585 695
Total shareholders' equity		**88 174 575**	**75 715 471**
Liabilities			
Insurance contract provisions	22	246,127,191	239,979,839
Reinsurance payables		303,600	243,638
Financial liabilities from investment contracts	23	17,515,299	19,577,873
Lease-related liabilities	27	1,166,282	1,768,921
Insurance payables	24	4,301,229	3,975,802
Other payables and accrued expenses	25	4,079,780	3,580,729
Total liabilities		**273,493,381**	**269,126,802**
Total equity and liabilities		**361,667,956**	**344,842,273**

The notes on pages 24 to 82 are an integral part of these separate financial statements.

Separate statement of changes in equity

EUR	Issued capital	Capital reserve	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 31 December 2018	**4,380,213**	**15,869,501**	**23,603,595**	**16,513,181**	**60,366,490**
Distribution of dividends	0	0	0	-3,500,000	-3,500,000
Total transactions with owner	**0**	**0**	**0**	**-3,500,000**	**-3,500,000**
Profit/(loss) for the year	0	0	0	5,572,515	5,572,515
Other comprehensive income	0	0	13,276,466	0	13,276,466
Total comprehensive income	**0**	**0**	**13,276,466**	**5,572,515**	**13,848,981**
Balance as at 31 December 2019	**4,380,213**	**15,869,501**	**36,880,061**	**18,585,696**	**75,715,471**
Distribution of dividends	0	0	0	0	0
Total transactions with owner	**0**	**0**	**0**	**0**	**0**
Profit/(loss) for the year	0	0	0	5,441,514	5,441,514
Other comprehensive income	0	0	7,017,590	0	7,017,590
Total comprehensive income	**0**	**0**	**7,017,590**	**5,441,514**	**12,459,104**
Balance as at 31 December 2020	**4,380,213**	**15,869,501**	**43,897,651**	**24,027,210**	**88,174,575**

The notes on pages 24 to 82 are an integral part of these separate financial statements.

Separate statement of cash flows

EUR

(Inflow + , outflow –)	Note	2020	2019
Net cash flows from operating activities		**4,656,087**	**3,049,595**
Premiums received in direct insurance		81,857,920	76,100,466
Claims and benefits incurred, and handling costs paid		-55,418,718	-53,278,623
Settlements with reinsurers		-679,222	-410,740
Paid for operating expenses[1]		-18,134,869	-15,053,168
Other income and expenses		298,256	648,282
Taxes paid		-3,267,280	-4,956,622
Net cash flows used in investing activities		**-2,905,157**	**2,273,085**
Acquisition of equities and fund units		-10,887,887	-27,804,012
Disposal of equities and fund units		645,388	9,752,419
Acquisition of debt and other fixed-income securities		-9,922,736	-12,891,520
Disposal of debt securities		13,159,296	25,108,384
Interest received		2,571,136	5,702,382
Dividends received		2,129,959	2,457,431
Paid on acquisition of property and equipment and intangible assets		-806,035	-425,851
Proceeds from sale of property and equipment and intangible assets		205,722	373,852
Net cash flows from/used in financing activities		**0**	**-3,500,000**
Dividends paid		0	-3,500,000
Net cash inflow/(outflow)		**1,750,930**	**1,822,680**
Cash and cash equivalents at the beginning of the year		**8,576,679**	**6,753,999**
Increase (decrease) in cash and cash equivalents		1,750,930	1,822,680
Cash and cash equivalents at the end of year	**18**	**10,327,609**	**8,576,679**

[1] In this paragraph the company has disclosed lease payments made for short-term leases and leases of low-value assets – EUR 53,820 as at 31 December 2020 (EUR 147,446 – 31 December 2020) and payments made for the principal portion of lease liabilities (in scope of IFRS 16) – EUR 492,491 as at 31 December 2020 (EUR 548,743 – 31 December 2019).

The notes on pages 24 to 82 are an integral part of these separate financial statements.

Notes to the separate financial statements

Note 1. Reporting entity

ERGO Life Insurance SE (hereinafter "the Company") is a life insurance company incorporated and domiciled in Lithuania. The Company's legal address is Geležinio Vilko St. 6A, Vilnius.

The Company is engaged in life insurance and health and accident insurance business.

The separate financial statements of ERGO Life Insurance SE for 2020 include the financial data of ERGO Life Insurance SE's head office in Lithuania and the financial information of its Latvian and Estonian branches.

These separate financial statements were authorised for issue by the management board on 7 April 2021. Under the Law on Companies of the Republic of Lithuania, the annual report and the financial statements that have been prepared by the management board and approved by the supervisory board must also be approved by the shareholders' general meeting. Shareholders may decide not to approve the financial statements and may demand that a new set of financial statements be prepared.

Note 2. Basis of Preparation

The principal accounting policies applied in the preparation of these separate financial statements are set out below. Consistent accounting principles have been applied to the financial years presented in these separate financial statements.

These financial statements are separate financial statements of the Company. Consolidated financial statements are not prepared as the exemption criteria in IFRS 10.4(a) for preparation of consolidated financial statements is met. The consolidated financial statements of the ultimate parent Münchener Rückversicherungs-Gesellschaft AG (code – HRB 42039, address – Königinstr. 107, 80802 München, Germany) are published on the website www.munichre.com. The Company also meets consolidation exemption criteria set out in Article 6 of the Law on Consolidated Financial Statements of Companies of the Republic of Lithuania.

(a) Basis of accounting

The separate financial statements of ERGO Life 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 Union (IFRS EU) to be effective for the year 2020.

(b) Functional and presentation currency

These separate financial statements are presented in euro (unless otherwise stated), which is the Company's functional currency.

(c) Basis of measurement

The separate financial statements are prepared on the historical cost basis except for the financial assets measured at fair value through profit or loss, available-for sale financial assets and unit-linked and investment contract liabilities, measured at fair value.

(d) Use of judgements and estimates

In preparing these separate financial statements, the management made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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 net carrying values 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.

Key sources of uncertainty estimates in the separate 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 policies (h) and (o) respectively.

Estimates are also used in the fair value measurement of financial assets (see part n), determining impairment of financial assets (see part m) and deferred tax assets (see part t).

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

- Note 15. Investments in financial instruments
- Note 11. Deferred acquisition costs
- Note 17. Insurance and other receivables
- Note 22. Insurance contract provisions
- Note 28. Income tax
- Note 31. COVID-19 major developments in 2020

The risks and estimation uncertainties related to insurance contracts and financial instruments are described in note 3.

(i) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS EU, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

— Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(a) Classification of insurance contracts

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.

As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Non-life insurance contracts have generally a term of one year. Life insurance contracts are long term usually. Life insurance contracts are with investment guarantee (conventional), and contracts where investment risk is born by policyholder (unit linked).

The classification process of insurance contracts.

If there is a significant insurance risk, the product is classified as an insurance contract and accounted under IFRS 4.

If there is no significant insurance risk, the product is classified as an investment product. If the product has any elements of the benefit driven by discretionary participation, the product is classified as an investment product with discretionary participation features. Such products are accounted under IFRS4. If the investment product does not have any elements of the benefit driven by discretionary participation, the product is classified as an investment product without discretionary participation features. Such products are accounted under IAS 39.

(b) Revenue

Insurance gross premiums

In the case of health and accident insurance contracts, the total annual premium is recognised as income on the date the contract is issued. The amount payable by the policyholder is recognised as a receivable.

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy becomes effective.

In accordance with Article 128 of to the Estonian Insurance Activities Act, an insurance undertaking who enters into pension contracts shall submit upon the preparation of the financial statements in an annex thereof the pension contracts report. ERGO Life Insurance SE Estonian branch enters into a pension contract in terms of Funded Pensions Act. ERGO Life Insurance SE Estonian branch pension contracts income is disclosed in Annex 1 to these separate financial statements.

Reinsurance premiums

Gross outward reinsurance premiums are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross general reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums and claims on the face of the separate statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, which is consistent with how the business is managed.

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Investment income

Interest income is recognised in profit or loss using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. 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 value of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument but not considering future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been reduced due to impairment, interest income on them is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Net realised gains and losses recorded in the separate statement of profit or loss include gains and losses on financial assets and properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Investment income also includes dividends when the right to receive payment is established.

(c) Expenses

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.

Gross benefits and claims paid for life insurance contracts and for unit-linked contracts include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Reinsurers' share of claims and benefits incurred

Reinsurers' share of claims and benefits incurred are recognised when the related gross insurance claim or benefit incurred is recognised in line with the terms of the relevant contract.

Operating expenses

Acquisition costs include costs incurred in connection with acquiring insurance contracts. Such direct costs are commissions paid to brokers and other intermediaries, the salaries of sales representatives, advertising expenses, and expenses related to issuing policies.

*Administrative expense*s comprise expenses related to portfolio management, general management, accounting and information technology. This category includes all expenses that are not included in acquisition costs, claims handling expenses or investment management expenses.

Investment expenses comprise direct costs related to management of investment portfolios and allocable investment expenses.

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.

(d) Lease accounting

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

(i) The Company as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located to the condition required by the terms and conditions of the lease, less any lease incentives received.

The right-of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed lease payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "lease-related liabilities" in the statement of financial position.

Short-term leases and leases of low-value assets
The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Company, as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Computer equipment	3 years
Cars, office and communications equipment	5 years
Furniture	6–7 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. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Intangible assets

(i) Recognition and measurement

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets comprise acquired software and licences.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful live for current and comparative periods is as follows:

Software	3–5 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. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Deferred acquisition costs

Acquisition costs are costs incurred in connection with the acquisition of new insurance contracts and the renewal of existing contracts. Only certain (“deferrable”) acquisition costs are deferred, such as agents’ commissions and other variable underwriting and policy issue costs. General selling expenses and line of business costs are not deferred unless they are primarily related to the acquisition of new business. Deferred acquisition costs are not recognised for single premium life insurance contracts; deferred acquisition costs are recognised for the rest of products.

Acquisition costs of life insurance are capitalized and amortized over the lifetime of the contracts, capitalized or amortized in proportion to the premium income or in proportion to the projected gross profit margins calculated from the respective contracts for the relevant life of the contract. The second option applies to contracts where the investment risk is borne by the policyholder. The first option applies to other contracts. The amortization amount takes into account the actuarial interest rate and changes in the withdrawal or cancellation of contracts from the portfolio. In health insurance, deferred acquisition costs are amortized over the average term of the insurance policies (from one to five years) using the straight-line method. The carrying amount of deferred acquisition costs is reviewed regularly for impairment through a liability adequacy test in accordance with IFRS 4.

(i) Cash and cash equivalents

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

(j) Investment is subsidiaries and associates

Investments in subsidiaries and associated companies are accounted for at cost less impairment.

(k) Assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such non-current assets and disposal groups classified as held for sale are generally measured at the lower of their carrying value and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent losses on remeasurement are recognised in profit or loss. Impairment losses on available-for-sale assets measured at initial recognition, and subsequent gains and losses on revaluation of the assets are included in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised/depreciated.

(l) Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

(i) Non-derivative financial assets and financial liabilities. Recognition and derecognition

All financial assets and financial liabilities are initially recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Non-derivative financial assets – Measurement*

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) *Non-derivative financial liabilities – Measurement*

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) *Derivatives*

If needed, the Company uses derivatives 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 derivative is recognised initially, it is measured at its fair value.

After initial recognition, derivatives 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.

(m) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

— restructuring of an amount due to the Company on terms that the Company would not consider otherwise;

— indications that a debtor or issuer will enter bankruptcy;

— adverse changes in the payment status of borrowers or issuers;

— the disappearance of an active market for a security because of financial difficulties; or

— observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

<u>Financial assets measured at amortised cost</u>

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

<u>Available-for-sale financial assets</u>

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying values of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the Company makes estimate of the recoverable amount of such asset. An impairment loss is recognised if the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

(n) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

<u>Correction of error in disclosure</u>

In 2020 the Company has changed classification of investments into fair value levels. It was done with a purpose to align classification policy of the Company to the one used by Munich Re on group level. As a result, the Company have corrected the prior year disclosure of fair value in Note 26, which was not fully aligned with the group policy in the previous year.

According to updated policy, in the case of Level 1, valuation is based on quoted prices in active markets for identical financial assets which the Company can refer to at the valuation date. The financial instruments allocated to this level mainly comprise listed and unlisted equity funds, listed bond funds.

Assets allocated to Level 2 are valued using models based on observable market data. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. Moreover, we have allocated to this level such assets for which prices are provided by price quoters but for which there is no proof that these were based on actual market transactions. The financial instruments we have allocated to this level mainly comprise bearer bonds and unlisted bond funds.

For assets allocated to Level 3, valuation techniques are used that are also based on unobservable inputs – which influences valuation both immaterially and materially. The inputs used reflect the Company's assumptions regarding the factors which market players would consider in their pricing. To this end, we use the best available market information, supplemented with internal company data. The assets allocated to this level of the fair value hierarchy comprise property funds.

Due to changed policy all bonds and unlisted bond funds are now disclosed in level 2 instead of level 1 and property funds disclosed in level 3 instead of level 1 and 2 due to applied valuation techniques and inputs used.

(o) Insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

Insurance contract liabilities consist of:

Life insurance provision

The procedure and methodology for calculating insurance provisions are set forth in the Insurance Law of the Republic of Lithuania and ERGO's actuarial practice guidelines. A provision is calculated on a contract by contract basis and it consists of amounts received under a contract plus any interest (and additional benefits) accrued under the contract less contract management fees and risk cover charges.

Savings phase products discount rate is a lower of guaranteed rate in range from 0.1% to 4%, depending on the type and time of issue of the contract and the currency of the insured amount and planned return of assets in the Company's model, the adequacy of which is assessed at least annually. In annuities payment phase, a provision is formed with the investment return of 0.05% with possible exceptions in the case of Latvian annuities, where a different planned return on investment is determined for a specific tariff version before the distribution of that version begins.

Acquisition costs are capitalised (recognised as deferred acquisition costs) for such life insurance contracts, the costs of which are recovered according to technical business plans over a period exceeding one year of insurance (see Note 11). Management fees, risk premiums and risk covers are calculated and deducted from the liability accrued for a contract on a monthly basis based on the terms of the insurance contract. Provisions with a negative value are not carried in the separate statement of financial position.

The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and forecasted future investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included.

Unearned premium provision

A provision for unearned premiums represents the portion of premiums received or receivable relating to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

The unearned premium provision is calculated in health insurance 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 premiums written under the contract as the post-reporting date term of the contract makes up of the entire term of the contract. In the separate statement of financial position, the unearned premiums provision is recognised within the life insurance provision.

Outstanding claim provision

The provision for claims outstanding equals the amounts that have been allocated to cover the expected final expenditure relating to insured events reported to the insurer by the reporting date and insured events that occurred but were not reported to the insurer by the reporting date.

Provision for bonuses

The provision for bonuses represents the estimated amount that can be used in subsequent periods for increasing provisions and financial liabilities in addition to guaranteed profit sharing (additional profit sharing).

Unexpired risk provision

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.

Unit-linked contracts provision

The unit-linked contracts provision is formed for the unit-linked contracts classified as insurance contracts – the contracts that contain significant insurance risk. Insurance risk is assumed significant if sum insured at policy inception exceeds 5% of 1st year premium. The provision is determined based on the market values of the securities connected to these insurance contracts.

Insurance liability valuation

Conventional insurance contract related liability is valued on a case by case basis using prospective actuarial gross premium valuation method with locked-in assumptions. Health insurance liabilities are valued as unearned premium provision, produced using *pro rata temporis* method.

Liability adequacy test

The insurance portfolio is assessed performing 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. Corresponding asset portfolio is taken into account as well.

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 taken into account.

(p) Financial liabilities

(i) Financial liabilities from investment contracts

This class includes investment contracts the financial liabilities of which are determined based on the market values of the securities linked to the investment contracts. Such financial liabilities are classified as at fair value through profit or loss upon acquisition. The Company has designated the liabilities to the category of at fair value through profit or loss because this eliminates or significantly reduces the accounting mismatch for assets and liabilities which would arise if gains and losses on the said assets and liabilities were recognised using different accounting policies. This class covers products that contain insignificant insurance risk. Insurance risk is assumed insignificant if sum insured at policy inception does not exceed 5% of 1st year premium.

(ii) Other financial liabilities

All other financial liabilities (trade payables, other current and non-current liabilities, loans received, debt securities issued) are initially recognised at their fair values and are subsequently measured at their amortised cost using the effective interest rate method. The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are measured in the separate statement of financial position at the amount payable. Non-current financial liabilities are initially recognised at the fair value of the transaction (less transaction costs). In subsequent periods, they are measured at their amortised cost using the effective interest rate method.

(r) Provisions and contingent liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the separate statement of profit or loss, net of any reimbursement (if any). If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(s) Vacation pay liability and other liabilities to employees

Payables to employees include the accrued vacation pay liability calculated in accordance with employment contracts and the legislation in force at the reporting date. The vacation pay liability includes associated social security tax and unemployment insurance contributions. The item also includes contractual termination benefits and associated social security tax.

Social security tax includes statutory national funded pension contributions. The Company has no legal or constructive obligation to make any pension or similar payments in addition to payments of social security tax.

(t) Taxes

The main rates of the taxes (other than income tax) applicable to the Company:

- Insurance Supervisory Commission maintenance fee of 0.217% until May and 0.117% as of May from insurance premiums written in Lithuania;
- Social insurance contributions of 1.77% in Lithuania, 24.09% in Latvia and 33.00% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT less input VAT;
- Real estate tax up to 1% in Lithuania, up to 0.5% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. In the reporting period, the corporate income tax rate in Lithuania was 15% (the same as in the previous year). Activity in the Republic of Latvia and Estonia is not subject to corporate income tax. Instead of taxation on the profit of the current year, the tax is applied only upon profit distribution, i.e. upon payment of dividends.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Activity in the Republic of Latvia and Estonia is not subject to corporate income tax. The change of corporate income tax in Latvia came into effect applicable from 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2020 was 20/80 of the amount distributed as the net dividend (20/80 in 2019). In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2020 was 20/80 of the amount distributed as the net dividend (20/80 in 2019).

The Company has undistributed profit in Latvia, accrued after 1 January 2018, which would be taxed upon distribution. According to paragraph 39 of IAS 12, an Company shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates except the cases than recognition exception apply. The Company has determined that the recognition exception in paragraph 39 of IAS 12 does apply to it because it is not probable that the temporary difference will reverse in the foreseeable future, i.e. no distribution of undistributed profits in Latvia are planned in the foreseeable future.

(u) 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.

(v) Capital management

From 1 January 2016, the Company assesses capital adequacy based on Solvency II rules. Solvency II entails rules for calculating capital requirements and qualifying capital, risk management and internal control requirements, regulates the reporting of the risk and capital situation. The objective of capital management is to ensure the sustainability and stability of the Company protecting therewith the interests of policyholders and shareholders. Capital management is based on the management of the assets and liabilities of the Company and risks related thereto and consist of regular assessment of the compliance with the capital requirements established in the Insurance Activities Act. Based Insurance Activities Act, the Company should comply with the following requirements:

- the sum of eligible basic own funds shall not be smaller than the floor of the minimum capital requirement, which is 6.2 million euros;
- the sum of eligible own funds shall not be smaller than the solvency capital requirement.

The Company has sufficient own funds which consists from ordinary share capital, share premium account related to ordinary share capital, retained earnings and revaluation reserve. According to the Solvency II rules – as of 31 December 2020 the eligible own funds exceed the solvency capital requirement by 2.18 times (31 December 2019: 2.25 times).

(z) Offsetting and comparative figure

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except for the cases when certain International Financial Reporting Standard specifically requires such set-off.

Where necessary, comparative figures have been adjusted to agree with the current year's presentation of information.

Note 4. 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. 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 management have assessed that 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 management have assessed that the amendments do not have a material impact on the Company’s 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 management have assessed, that 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, 2020.
- There is no substantive change to other terms and conditions of the lease.

The management applied this amendment and the practical expedient provided for therein earlier, i.e. from 1 January 2020, since the Company received COVID-19 related rent concessions. To reflect changes in lease payments that arise from rent concessions to which the practical expedient has applied, the Company recognised in the reporting period income 9,617 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 judgement 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, equities and funds units passed the SPPI test.

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 have a material impact on its financial statements because the Company's core business is insurance. There will be changes in valuation models, the classification of insurance contracts (profitable and onerous) and the insurance portfolio's aggregation requirements.

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 on its financial statements when initially applied.

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.

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

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

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

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

Note 5. Risk management

As part of the ERGO Group, ERGO is committed to turning risk into value. Risk management is an integral part of our corporate management with regard to achieving this goal. Risk management includes all strategies, methods and processes to identify, analyse, assess, control, monitor and report the short and long term risks ERGO faces or may face in the future.

Risk management is performed at all levels of ERGO Group and is organized according to the three “lines of defence”: risk takers (1st line), Risk Management Function, Actuarial Function, Compliance Function (2nd line), and Internal Audit Function (3rd line).

The Company’s Risk Management Function is established to achieve main strategic goals from a risk management perspective:

- Maintain the financial strength, thereby ensuring that the liabilities to the clients are met;
- Protect and increase the value of the shareholders’ investment;
- Safeguard the reputation of the Company and ERGO Group.

The Company needs to take the right type of risks in appropriate amounts in order to achieve these goals. Therefore, risk awareness and prudent risk management are priorities. The Company puts a lot of effort in enhancing its risk management system. Own risk and solvency assessment, which covers all the processes and procedures employed to identify, assess, monitor, manage, and report the short- and long-term risks forms an essential part of ERGO’s risk management system. Own risk and solvency assessment integrates both the current status and outlook of the business strategy, risk strategy and capital management. The chapters below describe the main risks that the Company has to face due to the business model.

(a) Insurance risks

The insurance environment is regulated by the law of obligations and insurance activities legislation. As the Baltic countries are members of the EU, all legislation and regulations have to comply with relevant EU directives. As of 1 January 2016, Lithuania’s, Latvia’s and Estonia’s laws related to insurance supervision comply with the EIOPA directives prepared for Solvency II regime.

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. Insurance premiums and provisions are calculated on the basis of carefully selected actuarial assumptions. The milestones for evaluating underwriting portfolio risks differ depending on product group. The latter is described in more details in subsequent chapters.

Policies for mitigating insurance risk

The Company’s insurance activity assumes the risk that a loss event involving a person directly related to an insurance contract will occur. The risk may relate life, health, accident, 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 strict underwriting policy, group-wide new product approval procedures and follow-up of current products, continuous check-up of consistency in reserving and underwriting rates.

The Company uses several methods to assess and monitor insurance risk. 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 market risk. The Company is also exposed to the risk of dishonest actions by policyholders.

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.

Diversity among product groups is important as well. Key underwriting risks per policy group are as follows:

1 Products with guaranteed investment return in savings phase. The group of products is sensitive to mortality, lapse, expense and catastrophe risks. The portfolio is mainly under run-off with very small volumes of new business and end of term of current policies. Risk capital for this product group remains on approximately the same level with slight decrease over time and more volatility is experienced if there are significant down / up movements of risk-free rate. Proper cost evaluation is considered challenging aspect also due to long term projections which lead to expense estimation for the next 40 years. Cost allocation rules were updated in June 2020 to be in line with actual cost allocation.

Another challenging point to forecast is lapse due to different trends depending on company's strategy. Most recent analysis showed lapse increase for products in paid-up phase is still higher than modelled. In response, upon acceptance from company's CFO the lapse rates were increased from February, 2020. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is of minor importance.

In response to particularly low return on investments in the market, the distribution of products with guaranteed investment return in saving phase was terminated.

2 Pension annuities in annuity payment phase (product with guaranteed investment return). The group of products is sensitive to longevity, lapse and expense risks. Longevity risk is constantly growing due to increasing volume of pension annuities in annuity payment phase portfolio. Also, Company's current experience cannot be considered sufficient in order to have prudent actual longevity estimates. Expected mortality rates were lowered down to 80% from 100% in the end of 2019 due to most recent analysis, however, there is still some uncertainty left in future longevity development.

Expense and lapse risks are of minor importance due to lapse restrictions (the latter option is possible only for Estonia's pension annuities paid under Funded Pension Act) as well as rather constant expenses for annuity products. Relevant changes in Estonia's legislation to be in force since 2021 will allow annuities' receivers to withdraw accumulated sum from private companies. It is projected that this change in legal environment will result in surrender of significant part of Company's immediate annuity portfolio; however, taking into account current development of this portfolio, this is not assumed to be a threat from Company's solvency perspective.

Annuities after second pillar accumulation are highly influenced by legal environment. Rules have changed recently in Lithuania: it is not allowed to choose private company as second pillar annuity's payer since July 2020, therefore this portfolio is currently in run-off. Annuities after second pillar accumulation are still distributed in Latvia. Due to the definition of currently allowed annuity structure and clients' preferences, the latter product has very small portion of uncertainty, therefore corresponding risk capital is mainly linked with investment return.

3 Unit-linked products. The products are sensitive to mortality, disability-morbidity, lapse, expense and catastrophe risks. The products have longer duration than other non-annuity products, therefore main underwriting risks for unit-linked business are expense and lapse.

4 Risk products. The products are sensitive to mortality, disability-morbidity, lapse, expense, catastrophe risks. These products are reflected either under life or health similar to life underwriting risk modules.

The principles of insurance risk management are described in the Company's risk strategy.

Insurance contract groups

The Company's portfolio can be split into three main groups: insurance with investment return, insurance linked to investment units and risk-based insurance without savings part.

Insurance with investment return

The group takes the majority of the Company's portfolio. Investment return guarantees are applied to four groups of products:

1. Capital endowment. These products include both savings element and death risk part. To be more precise, if the policy is not lapsed, the agreed insured amount is paid in death case or after policy termination, whichever occurs first.
2. Term fix. The purpose of this product is scholarship for the beneficiary's child. The product also covers both savings element and death risk part. However, if the policy is not lapsed and death of the insured person occurs, the insured amount is paid only after policy termination due to product origin. This group of products is rather often equipped with orphan's pension risk rider which ensures orphan pension's payments in case of insured person's death until policy termination.
3. Deferred annuity. The product is constructed for future additional pension accumulation and is considered as the third pillar. The product has main outgo after policy maturity; however, if death of the insured person occurs earlier, paid premiums less taxes are paid to policy's beneficiaries.
4. Immediate annuity. The product differs from the first three in the way that there is only one single premium and the insured person starts getting annuity payments immediately after the policy has become effective. The insured person can choose annuity with guaranteed period (5 or more years) or without it. In case a non-zero guaranteed period is chosen and death of the insured person occurs prior to the end of the guaranteed period, annuity payments continue to be paid to the policy's beneficiaries or there is a lump sum payment for them.

All these insurance sub-groups are very sensitive to the decrease in market investment return. Taking into account current market situation, meeting the requirement of guaranteed investment return becomes challenging. For this reason, distribution of products with guaranteed investment return in savings phase was terminated. Sensitivity to other main risks differs per types of insurance.

Mortality risk. Capital endowment and term fix products are very sensitive to mortality fluctuations. However, strict underwriting policy, portfolio volume and substantial mortality risk margin allow hedging against this risk. Deferred annuity is much less sensitive to mortality due to the fact that outgo in case of death is much lower than in case of capital endowment or term fix products. Immediate annuities have opposite trend and longevity risk must be examined in this case.

Lapse risk. Taking into account current market trends, capital endowment, term fix, deferred annuity products are rather sensitive to the decrease in lapse risk. Lapse risk for immediate annuities is negligible since lapse possibility is restricted for all products except Estonia's pension annuities paid under the Funded Pensions Act.

Determination of proper expense assumptions might be considered challenging since the projection must be done for the next 40 years. This situation is handled performing expense assumption check-ups and (if needed) recalibrations on an annual basis.

Due do portfolio diversification, concentration risk is reduced.

Insurance linked to investment units

The group of products is currently the most popular in the market. In the Company's portfolio, this group of products is also increasing and is prevalent in the portfolio of newly underwritten products. This product group is almost not sensitive to market risks, as the investment risk is borne by the policyholder; however, it is usually equipped with risk riders which must be evaluated cautiously.

Risk-based insurance without savings part

The group of products covers long-term risk riders as well as health insurance product which has at most one year duration.

Health product has higher flexibility for price adjustments due to its short duration; however, it must be kept in mind that higher rates might lead to lower renewals resulting in significant drop in business volume. The latter is not the case for rider products because future premiums are defined on the day when the policy is concluded.

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and the Company's assets, i.e. deferred acquisition costs. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities. The method used for deriving sensitivity information and significant assumptions made did not change from the previous period.

As at 31 December 2020

EUR	**Change in assumptions**	**Increase/(decrease) in gross liabilities**	**Increase/(decrease) in net liabilities**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in deferred acquisition costs**
Mortality rate	+10%	-30 140	-30 140	-20 830	**-31 630**
Lapse and surrenders rate	+10%	-138 429	-138 429	64 144	**96 712**
Discount rate	+1%	-3 850 168	-3 850 168	1 144 118	**670 588**
Mortality rate	-10%	32 958	32 958	20 831	**29 286**
Lapse and surrenders rate	-10%	153 392	153 392	-64 138	**-97 120**
Discount rate	-1%	8 117 019	8 117 019	-1 154 408	**-1 484 905**

As at 31 December 2019 EUR	Change in assumptions	Increase/(decrease) in gross liabilities	Increase/(decrease) in net liabilities	Increase/(decrease) in profit before tax	Increase/(decrease) in deferred acquisition costs
Mortality rate	+10%	-24,126	-24,126	-24,204	**-37,091**
Lapse and surrenders rate	+10%	-162,436	-162,436	72,956	**111,273**
Discount rate	+1%	-3,908,629	-3,908,629	1,206,955	**856,295**
Mortality rate	-10%	27,244	27,244	24,206	**34,718**
Lapse and surrenders rate	-10%	180,096	180,096	-72,949	**-111,397**
Discount rate	-1%	8,264,383	8,264,383	-1,217,810	**-1,673,022**

Pricing risks

The premium rates and tariffs applied by the Company are usually calculated for a long-term but their adequacy is checked on a regular basis. Premium rates and tariffs may be changed due to changes in claim incurrence statistics, market trends and the broadening or limitation of insurance cover. The Company has a routine procedure for changing premium rates and tariffs. Tariffs are calculated based on mathematical assumptions.

Therefore, there exists the risk that realistic parameters will not be in line with the assumptions set, thus making premium rates and tariffs insufficient. This risk is mitigated by checking the validity of assumptions applied in regular analyses.

Another pricing risk in life insurance is anti-selection risk. This risk is mitigated during the underwriting procedure or by setting special conditions in term and conditions.

Claim handling risks

Claim handling risk is of major importance for health insurance. 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 the established guidelines. On the one hand, this is in the customer's best interests and on the other, it 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 taking into account 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 class 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

Main risks in provision evaluation arise due to the fact that major part of portfolio has guaranteed outgoes, rather long-term, future projections of 40–60 years must be done; however, premium rates for existing business cannot be revised. Therefore, future reserving and liability adequacy test assessment parameters are revised on an annual basis. If new trends are determined, the parameters used for the adequacy of liabilities are updated correspondingly. Should this test indicate inadequacy of provisions, reserve calculation parameters would be updated accordingly.

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 to limit the potential net loss through the diversification of risks. The main contract form in reinsurance is obligatory proportional reinsurance. Risks exceeding the limits of obligatory reinsurance contracts or falling outside their scope are reinsured on a facultative basis.

(b) Market, credit and liquidity risks

ERGO pursues an investment strategy that is largely based on the characteristics of the maturity and currency structure of its liabilities. In addition to return, safety and creditworthiness, investment decision considers liquidity, diversification and above all, the structure of the insurance liabilities. The principles of managing the risks related to financial assets are embedded in the Company's risk management policy and observed in 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 restrictions is monitored by a multi-level structure. In 2019, tactical decisions were made and implemented by MEAG (MEAG Munich ERGO Asset Management GmbH), an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management team (AL Team) which, in addition to asset manager, consists of the Company's actuaries, investment officers, risk manager, head of planning and controlling department and the member of the Board. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Market risk

One of the most important risks 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 an NNL model. Under this model, Net Loss Limit (NLL), monitors the probability of achieving a result that surpasses the minimum investment result fixed by the actuaries. Clearly defined processes ensure that the Company can respond timely to any significant capital market developments.

(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, the market value of which is influenced by changes in interest rates. As at 31 December 2020, the weighted average purchase yield to maturity of fixed-income portfolio was 2.38% (31 December 2019: 2.51%).

Investments in financial instruments and cash exposed to interest rate risk, by interest rate

EUR	2020 Carrying amount	2019 Carrying amount
Fixed-income debt securities		
Interest rate 0.00-2.50 %	116,027,485	103,565,609
Interest rate 2.51–3.50%	21,569,993	16,987,150
Interest rate 3.51-4.50 %	50,690,701	47,364,351
Interest rate 4.51-5.50 %	35,526,168	35,534,088
Interest rate 5.51-6.50 %	23,564,021	23,680,862
Interest rate 6.51-7.50 %	445,348	473,518
Interest rate 7.51-8.50 %	254,606	272,261
Total fixed-income debt securities	**248,078,322**	**227,877,839**
Loans		
Interest rate 2.51–3.50%	6,005,617	6,004,493
Total loans	**6,005,617**	**6,004,493**
No interest	86,215,809	87,248,360
In total	**340,299,748**	**321,130,692**

(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), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

If as at 31 December 2020 the value of investments in equity and fixed income funds had increased/decreased by 10%, the Company’s equity would have increased/decreased by EUR 1.9 million (2019: EUR 2.7 million).

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

Investments in financial instruments and cash by issuer's domicile

EUR

At 31 December	2020	2019
Debt and other fixed-income securities		
Austria	15,177,386	15,041,083
Australia	2,264,328	1,662,483
Belgium	18,601,237	15,948,008,
Great Britain Virgin Islands	210,962	0
Cayman Islands	312,120	0
Canada	2,292,187	1,805,349
Chile	2,113,175	2,102,647
Czech Republic	189,189	248,739
Estonia	2,232,902	2,242,614
Finland	2,689,803	2,662,920
France	41,003,566	40,193,176
Germany	22,941,584	22,842,273
Hungary	5,258,015	1,986,936
Indonesia	534,585	532,393
Ireland	9,438,256	8,749,650
Israel	5,372,354	4,426,320
Italy	13,694,495	12,754,276
Kazakhstan	2,115,875	826,532
Latvia	5,764,507	5,664,947
Lithuania	4,184,751	5,382,515
Luxembourg	20,266,720	4,916,009
Mexico	2,217,431	2,555,879
Netherlands	14,219,511	13,130,016
New Zealand	0	671,461
Norway	1,876,107	1,837,197
Peru	2,585,948	1,282,406
Poland	6,736,045	6,115,367
Portugal	223,223	0
Slovakia	4,505,777	4,783,951
Slovenia	5,386,285	5,050,443
Spain	20,222,721	19,620,984
Sweden	1,473,441	1,454,024
Switzerland	0	730,777
Great Britain	4,574,418	1,681,755
USA	7,399,418	3,529,464
European Investment Bank	0	15,445,245
Total debt and other fixed-income securities	***248,078,322***	***227,877,839***
Equities and fund units		
Ireland	9,818,570	18,617,747
Germany	1,156,449	0
Estonia	6,343,769	6,709,232
Finland	105,945	81,561
Luxembourg	1,294,701	1,373,333

EUR

At 31 December	2020	2019
Total equities and fund units	***18,719,434***	***26,781,873***
Loans Estonia	6,005,617	6,004,493
Total loans	***6,005,617***	***6,004,493***
Unit-linked		
Ireland	7,712,417	2,931,501,
Finland	2,527,626	1,876,243
Luxembourg	46,928,723	47,082,064
Total Unit-linked	***57,168,766***	***51,889,808***
Cash		
Estonia	1,500,083	1,381,196
Latvia	4,628,750	3,039,828
Lithuania	4,198,776	4,155,655
Total cash	***10,327,609***	***8,576,679***
Total investments in financial instruments	**340,299,748**	**321,130,692**

(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.

Most of 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 exceeds 5% of total assets.

The following assets and liabilities are exposed to currency risk.

EUR	**As at 31 December 2020**	**As at 31 December 2019**
	USD	**USD**
Insurance and other receivables	1,911	2,692
Investments in financial instruments – available-for-sale debt securities	0	0
Other liabilities from direct insurance business	0	0
Reinsurance payables	0	0
In total	**1,911**	**2,692**

Credit risk

The credit risk of investments is the risk that the issuer of a security will not honour/fulfil its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The following table describes the Company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of fixed-income securities was A (2019: A). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion. The financial instruments and cash presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies. A rating of a parent company is presented for cash and cash equivalents.

2020 In euros	Standard & Poor's / Moody's	AAA / Aaa	AA / Aa	A / A	BBB / Baa	BB / Ba	Without rating / Without rating	Total
Debt and other fixed-income securities		58,870,979	77,955,819	54,465,219	56,786,305	-	-	**248,078,322**
Proportion of debt securities and other fixed income securities		*24%*	*31%*	*22%*	*23%*	*0%*	*0%*	*100%*
Equities and fund units accounted at FVTPL		-	-	-	-	-	57,168,766	**57,168,766**
Equities and fund units available for sale		-	-	-	-	-	18,719,434	**18,719,434**
Loans		-	-	-	-	-	6,005,617	**6,005,617**
Cash and cash equivalents		-	7,887,383	230,965	2,191,688	-	17,573	**10,327,609**
Proportion of cash and cash equivalents		*0%*	*76%*	*2%*	*21%*	*0%*	*0%*	*100%*

2019 In euros	Standard & Poor's / Moody's	AAA / Aaa	AA / Aa	A / A	BBB / Baa	BB / Ba	Without rating / Without rating	Total
Debt and other fixed-income securities		58 166 379	76 323 254	56 508 175	36 880 031	-	-	**227 877 839**
Proportion of debt securities and other fixed income securities		*26%*	*33%*	*25%*	*16%*	*0%*	*0%*	*100%*
Equities and fund units accounted at FVTPL		-	-	-	-	-	51 889 808	**51 889 808**
Equities and fund units available for sale		-	-	-	-	-	26 781 873	**26 781 873**
Loans		-	-	-	-	-	6 004 493	**6 004 493**
Cash and cash equivalents		-	6 625 410	-	1 931 550	-	19 719	**8 576 679**
Proportion of cash and cash equivalents		*0%*	*64%*	*0%*	*19%*	*0%*	*0%*	*100%*

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 *EUR*	**Not due**	**Less than 30 days past due**	**Overdue 30–60 days**	**Overdue 60-180 days**	**In total**
Receivables from policyholders	7,004,797	594,910	134,215	291,146	**8,025,068**
Receivables from intermediaries	3,451	102	0	49	**3,602**
Receivables from reinsurers	58,024	12,328	0	1,444	**71,796**
Other receivables	240,278	306,141	13,412	174,075	**733,906**
In total	**7,306,550**	**913,481**	**147,627**	**466,714**	**8,834,372**

As at 31 December 2019 *EUR*	**Not due**	**Less than 30 days past due**	**Overdue 30–60 days**	**Overdue 60-180 days**	**In total**
Receivables from policyholders	7,697,031	781,100	299,655	295,223	**9,073,009**
Receivables from intermediaries	10,102	67	128	0	**10,297**
Receivables from reinsurers	1,444	0	0	0	**1,444**
Other receivables	58,102	326,114	0	78,153	**462,369**
In total	**7,766,679**	**1,107,281**	**299,783**	**373,376**	**9,547,119**

In its insurance activities, the Company's main credit risk is payment default by a policyholder. 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.

Receivables that are more than 180 days overdue are written down. Impairment of receivables from policyholders is presented in Note 18.

To mitigate the risk arising from reinsurance, the Company enters into obligatory reinsurance contracts only with such reinsurers whose equity amounts to at least EUR 250 million and rating is above A– (according to Standard & Poor's). Facultative reinsurance contracts are concluded with such reinsurers only that have been included in the 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.

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 to 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 taking into account liability cash flows with the aim to build asset portfolio with similar cash flow structure. 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 EUR 283.13 million (2019: EUR 269.24 million), including available-for-sale securities of EUR 248.1 million (2019: EUR 227.9 million), equities and fund units of EUR 18.72 million (2019: EUR 26.78 million), loans of EUR 6.00 million (2019: EUR 6.00 million), and cash and cash equivalents of EUR 10.33 million (2019: EUR 8.58 million).

Investments in financial instruments and cash (by maturity):

At 31 December

EUR	**2020**	**2019**
Total contractual cash flows	**340,299,748**	**337,738,614**
No maturity	86,215,809	87,248,360
Up to one year	8,243,828	7,901,096
2–3 years	30,955,388	39,693,173
4-5 years	25,415,993	31,100,795
6–10 years	83,758,102	72,505,055
11-15 years	48,620,803	46,410,296
16 years and more	57,089,825	52,879,839

At the year-end, the weighted average duration of fixed income portfolio was 9 years (2019: 9 years). There were no non-cash movements in the portfolio.

Financial liabilities (based on maturities):

As at 31 December 2020 *EUR*	**Up to 1 year**	**2 to 5 years**	**6 to 10 years**	**More than 10 days**	**In total**
Insurance contract provisions	37,656,887	61,716,474	49,188,885	57,911,479	**206,473,725**
Reinsurance payables	303,600	0	0	0	**303,600**
Financial liabilities from unit-linked contracts	6,470,493	5,813,806	8,855,956	18,513,211	**39,653,466**
Financial liabilities from investment contracts	12,216,965	2,422,996	1,598,333	1,277,005	**17,515,299**
Lease-related liabilities	386,755	739,088	40,439	0	**1,166,282**
Insurance payables	4,301,229	0	0	0	**4,301,229**
Other payables and accrued expenses	4,079,780	0	0	0	**4,079,780**
In total	**65,415,709**	**70,692,364**	**59,683,613**	**77,701,695**	**273,493,381**

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

Liquidity risk is mitigated through asset and liability management. The main market risk is a potential investment return insufficiency to cover guaranteed investment return for liabilities. The risk is mitigated by cautious asset and liability cash flow matching.

Strategic risks

Strategic risks can result from wrong business decisions or inadequate implementation of decisions already made. Additionally, we also reflect the reluctance to adjust to a changing environment (e.g. changes of the legal environment) in the strategic risks.

Strategic risks are addressed by interlocking strategic decision making and risk management processes, especially with regards to preparations and decisions as part of the planning process.

Despite a stable political environment in the Baltic region, potential shifts in regulation and competitive market environment are the key risks that might affect strategy execution:

- Capital markets – Baltic Life insurance business is dependent on capital market developments. Baltic Life insurance entity's investment portfolio is not able to provide returns, which would meet guaranteed interests it is obliged to offer to clients. Guarantees given in the past are significantly higher than existing capital markets can provide.
- Political environment – political environment for savings phase products in the Baltic States is currently stable. In all three Baltic States, governments are preparing projects regarding potential organisational changes for annuities paid after second-pillar savings. The Company monitors these proposals and assesses their potential impact on the liabilities portfolio.
- Shifting regulation – current government pays a lot of attention to monitoring the implementation of EU regulation, e.g. Insurance Distribution and General Data Protection Regulation. These require additional resources, proper analysis, trainings and communication. Failure to be in compliance with the regulations leads to high penalties and reputational impact.
- Competitive insurance market environment – competition is increasing and market continues to be soft. Declined demand and resulting tariff's decrease could end in difficulties to generate positive underwriting results.
- Demographical situation – reduced migration due to potential market softening and decline in the economic growth, also continuing population ageing might trigger a need for certain products we offer as well as the decrease in a number of possible clients.
- The possible impact to the business model of the Company by the changed customers' behaviour and needs in terms of digitalisation.

As part of the Management of Strategic Risks' process, top risks are identified, evaluated by the Board and discussed on the Board level. If needed, appropriate measures are initiated on the Board level. For these risks, a responsible person is defined who is responsible for implementing the measures.

Operational risks

Operational risks are inevitably connected to the Company's business activities. They should be mitigated or, if possible, avoided as long as this is economically feasible. The causes of operational risks are errors in processes, inadequate information and telecommunications technology, external influences, such as natural disasters, and legal risks.

ERGO's operational risk management focuses on the following operative elements:

- resources, especially information and infrastructure (IT and buildings);
- human resources and processes;
- projects.

The management of operational risk is based on qualitative and quantitative measurement.

The Company manages the risks which are connected to the business processes with adequate controls in the respective processes and used IT applications. Also, the controls and measures on legal entity level guarantee compliance with the regulatory requirements. The functionality of the single controls is guaranteed via the cooperation of the different functions of the first to third line of defence and as well via the interlocking of controls on the different levels within the Internal Control System.

The Internal Control System embraces a process which, starting from the Company's risk strategy and risk-bearing capacity is intended first to link operational risk identification, analysis and assessment with control identification and assessment using the Group-wide control environment as a basis. Then, the net risks are compared, for example, with the limit system and excessive risks managed as necessary through reduction, transfer and/or intensive monitoring. Significant operational risks or corresponding controls are identified, analysed and assessed across all important risk dimensions (financial reporting, compliance and operations) and the associated controls recorded and/or action initiated.

Process risks are reduced by automated IT application controls, and in scope of Internal Control System, these controls are identified, assessed, monitored and managed based on CoIT, an internationally recognised framework for IT governance, which breaks down tasks in IT into processes and controls. IT control assessment consists of evaluation of general controls – controls linked to individual applications, and to entity level control evaluation – controls performed for the Company. Besides that, IT related operational risks are managed is scope of IT risk management framework.

In addition, Business Continuity Management system ensures the continuity of important business processes and systems in emergency or risky situations. The goal is to be able to continue with normal business operations within ERGO under such circumstances. This is assured by a well-defined emergency management, a proper set-up of crisis management, and adequate recovery management concepts. The continuity systems are tested regularly.

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

Although the operational risks are mainly managed via above-described processes, some of these risks (alone or in combination with other risks) could potentially have a huge impact on a particular process or the Company as a whole and could endanger the Company's ability to continue with business as usual (business interruption). For this reason, important events are assessed separately in order to increase awareness of such events and to make the potential impact transparent.

Reputational risk

Reputational risk is the risk that adverse publicity, whether accurate or not, regarding ERGO's business practices and associations will cause loss of confidence in the integrity of the institution. Reputational risks may result from the realisation of other risks (e.g. operational, strategic or concentration risk) and/or in conjunction with other risks, hence, reputational risks are controlled indirectly through the control of the respective risks and risk types.

Reputational risk can occur through a number of ways: directly as the result of the actions of the Company itself; indirectly due to the actions of employees; or tangentially through other third parties.

ERGO has defined three sub-categories of reputational risk:

- data and information;
- image risks;
- investment performance.

The reputational risk associated with unauthorised publishing of confidential information is increasing, as society's awareness on disclosure on personal data is growing, also in relation with the implementation of data protection regulations in EU countries.

The identification process of reputational risk takes place in three ways:

- Ad hoc reporting;
- Regular quarterly communication between the Risk Management function and relevant parties such as the Compliance function, Internal Audit or Corporate Communication;
- Internal control system, where basic assessment of potential reputational loss for each operational risk takes place.

Respective risk takers define measures including an implementation plan to minimize and steer the risk. Depending on the relevance and materiality, other relevant parties such as the Compliance function or Internal Audit are consulted and informed about the defined measures. As a minimum, measures for the most important reputational risks are discussed and approved by the local Board. ERGO Group's Board, Munich Re's Board or relevant committees are informed about the initiated measures as necessary.

The top reputational risks are incorporated into the risk profile of the Company and reported during the quarterly risk reporting. Ad-hoc reporting processes have been implemented to ensure that (potential) reputational risks are communicated promptly.

The control functions – the Compliance and the Internal Audit function – perform the reputational risk assessment process in accordance with their own methodology and report identified real of presumable reputational risks to the Risk Management function as well as other responsible stakeholders.

Note 6. Premium income

The following table outlines gross and net premiums for 2020 and 2019 by insurance class.

EUR	2020				2019			
	Gross written premiums	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross written premiums**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, supplementary insurance	6,092,914	-510,297	0	5,582,617	3,766,629	-485,702	0	3,280,927
Life, Unit-linked	12,967,955	-527	0	12,967,428	9,963,392	0	0	9,963,392
Life, Endowment	11,197,289	-7,704	0	11,189,585	12,124,058	-7,985	0	12,116,073
Life, Pension	12,070,807	0	0	12,070,807,	10,857,659	0	0	10,857,659
Life, Term Life	2,198,327	-443,986	0	1,754,341	4,490,275	-408,282	0	4,081,993
Health insurance	30,668,832	0	-496,897	30,171,935	30,435,020	0	587,945	31,022,965
In total	**75,196,124**	**-962,514**	**-496,897**	**73,736,713**	**71,637,033**	**-901,969**	**587,945**	**71,323,009**

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

Gross and net changes in the provision for unearned premiums are presented in note 22.

Distribution of gross premiums written by currency

EUR	**2020**	**2019**
EUR	75,170,410	71,606,818
USD	25,714	30,215
In total	**75,196,124**	**71,637,033**

Distribution of gross premiums written by country

EUR	**2020**	**2019**
Latvia	41,156,881	35,787,461
Lithuania	29,067,073	29,947,908
Estonia	4,972,170	5,901,664
In total	**75,196,124**	**71,637,033**

Note 7. Investment income

EUR	2020	2019
Interest income on		
Available-for-sale debt securities	4,633,594	4,849,220
Loans	12	63
Term deposits	213	211
Total interest income	**4,633,819**	**4,849,494**
Dividends income	2,139,257	2,489,404
Net realised gains on available-for-sale financial instruments	383,637	431,845
Fair value gains and losses on financial assets at FVTPL (designated as such upon initial recognition)	1,209,647	5,573,283
Net realised gains on financial assets at FVTPL (designated as such upon initial recognition)	118,286	1,044,501
Investments in associates	23,112	11,344
Impairment loses of securities available-for-sale	-313,792	0
In total	**8,193,966**	**14,399,871**

Note 8. Claims and benefits incurred

The following table shows claims paid and incurred in 2020 and 2019 by insurance class.

EUR	2020				2019			
	Claims paid [1]	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**	**Claims paid [1]**	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**
Life, Riders (supplementary insurance)	-1,059,038	-246,226	-18,718	-1,323,982	-1,163,907	-95,770	93,096	-1,166,581
Life, Endowment	-14,273,169	3,832,551	0	-10,440,618	-13,273,314	1,649,626	0	-11,623,688
Life, Pension	-12,531,414	-1,597,938	0	-14,129,352	-11,404,412	-1,551,455	0	-12,955,867
Life, Term Life	-167,592	239,347	3,750	75,505	-301,514	266,455	-2,500	-37,559
Life, Unit-Linked	-2,903,357	-820,785	0	-3,724,142	-2,426,060	-452,717	0	-2,878,777
Health insurance	-22,744,835	284,127	0	-22,460,708	-24,446,306	-14,127	0	-24,460,433
Change in unit-linked reserves	0	-7,341,532	0	-7,341,532	0	-9,101,106	0	-9,101,106
Total	**-53,679,405**	**-5,650,456**	**-14,968**	**-59,344,829**	**-53,015,513**	**-9,299,094**	**90,596**	**-62,224,011**

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

Catastrophes and major losses in 2020

In 2020 there were no losses incurred due to unforeseen events or natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

EUR	Note	2020	2019
Acquisition expenses		**11,542,501**	**10,875,040**
Service fees and commissions		5,890,354	5,405,028
Salaries		2,930,045	2,565,411
Social security contributions		402,566	333,918
Marketing expenses		560,633	553,242
Depreciation and amortisation		200,117	366,556
IT costs		516,504	533,334
Rental and utilities		388,521	200,428
Office expenses		102,816	165,507
Training and other staff costs		64,728	98,543
Communications expenses, including mobile phone charges		41,125	44,367
Other labour costs		64,784	63,333
Business trip expenses		11,603	61,363
Costs of company cars		26,259	34,581
Miscellaneous expenses		342,446	449,429
Administrative expenses		**4,407,182**	**4,868,526**
Salaries		2,798,641	2,623,551
Social security contributions		357,653	352,889
IT costs		318,335	654,722
Depreciation and amortisation		220,499	331,472
Rental and utilities		273,452	125,964
Other labour costs		64,452	74,107
Business trip expenses		22,237	135,979
Training and other staff costs		57,939	84,412
Office expenses		51,626	72,186
Communications expenses, including mobile phone charges		15,857	18,646
Costs of company cars		12,074	14,948
Miscellaneous expenses		210,787	379,650
Non-audit services (translation) provided by audit company		3,630	0
Other operating expenses		**383,423**	**265,736**
Change in deferred acquisition costs		383,423	265,736
Investment expenses		**389 246**	**454,165**
Services purchased		324,207	371,582
Salaries		46,492	47,719
Social security contributions		15,714	16,129
Rental and utilities		1,624	13,216
Training and other staff costs		390	899
Business trip expenses		0	1,502
Communications expenses, including mobile phone charges		235	371
Other labour costs		249	710
Office expenses		200	132
IT costs		35	82
Miscellaneous expenses		100	1,823

EUR	2020	2019
Other expenses	**746,873**	**358,662**
Decrease in value of asset held for sale (see note 14)	0	0
Expenses related to currency revaluation	145,261	135,090
Change in lump sum allowance	64,880	66,413
Write-off of property and equipment	68,462	648
Write-off of intangible assets	0	0
Write-off of office plant & equipment	0	0
Arranging (re)insurance contract	1,025	1,152
Expenses related to lease of premises under IFRS 16	8,240	10,469
Miscellaneous expenses*	459,005	144,890

*- Miscellaneous expenses include audit services, Supervisory services, Membership fee, donations, etc.

9.1 Commission income

EUR	2020	2019
Reinsurance commissions	84,978	81,115
Participation in reinsurers' profit	299,472	340,815
Reinsurers' share of deferred acquisition costs	0	0
In total	**384,450**	**421,930**

Note 10. Property and equipment

Property and equipment comprise tangible assets employed in the Company's activity, the useful life of which 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.

As at 31 December 2020, the cost of fully depreciated items still in use was EUR 546,854 (31 December 2019: EUR 481,269). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

EUR

Category of assets	Land	Buildings	Equipment and other items	In total
Cost				
As at 31 December 2018	18,935	136,000	724,294	879,229
Recognition of right-of-use assets on initial application of IFRS 16	0	1,512,387	122,072	1,634,459
Value adjustment	0	0	232,769	232,769
Additions	0	0	0	0
Additions under IFRS 16	0	584,777	29,022	613,799
Disposals	0	-136,000	-68,280	-204,280
Write-off	0	0	-5,611	-5,611
As at 31 December 2019	**18,935**	**2,097,164**	**1,034,266**	**3,150,365**
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	115,339	115,339
Additions under IFRS 16	0	194,247	6,036	200,283
Terminations and corrections under IFRS 16	0	-254,245	0	-254,245
Disposals	-18,935	0	0	-18,935
Write-off	0	0	-5,248	-5,248
As at 31 December 2020	**0**	**2,037,167**	**1,150,393**	**3,187,560**
Accumulated depreciation				
As at 31 December 2018	**0**	**0**	**578,142**	**578,142**
Depreciation of assets recognised under IFRS 16	0	458,415	33,782	492,197
Depreciation for the year	0	0	80,726	80,726
Disposals	0	0	-67,440	-67,440
Write-off	0	0	-5,611	-5,611
As at 31 December 2019	**0**	**458,415**	**619,599**	**1,078,014**
Depreciation of assets recognised under IFRS 16	0	498,248	46,168	544,416
Depreciation for the year	0	0	104,826	104,826
Disposals	0	0	0	0
Write-off	0	0	-3,873	-3,873
As at 31 December 2020	**0**	**956,663**	**766,720**	**1,723,383**
Carrying amount				
As at 01 January 2019	**18,935**	**136,000**	**146,152**	**301,087**
As at 31 December 2019	**18,935**	**1,638,749**	**414,667**	**2,072,351**
As at 31 December 2020	**0**	**1,080,503**	**383,673**	**1,464,176**

Note 11. Deferred acquisition costs

EUR	**2020**	**2019**
Balance as at 1 January	**5,380,348**	**5,646,084**
Amortised portion	-1,860,212	-1,777,579
Addition from new contracts	1,476,789	1,511,843
Balance as at December 31	**4,996,925**	**5,380,348**

Note 12. Other intangible assets

EUR	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 01 January 2019	**3,255,137**	**528,758**	**3,783,895**
Purchase of software and licences	261,167	50,780	311,947
Addition – internally generated IT projects	0	0	0
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	-702,803	0	-702,803
As at 31 December 2019	**2,813,501**	**579,538**	**3,393,039**
Purchase of software and licences	650,849	19,029	669,878
Addition – internally generated IT projects	0	0	0
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	0	0	0
As at 31 December 2020	**3,464,350**	**598,567**	**4,062,917**
Accumulated amortisation			
As at 31 December 2018	**2,403,176**	**511,505**	**2,914,681**
Amortisation for the year	295,426	14,331	309,757
Write-off	-702,803	0	-702,803
As at 31 December 2019	**1,995,799**	**525,836**	**2,521,635**
Amortisation for the year	377,567	20,461	398,028
Write-off	0	0	0
As at 31 December 2020	**2,373,366**	**546,297**	**2,919,663**
Carrying amount			
As at 01 January 2019	**851,961**	**17,253**	**869,214**
As at 31 December 2019	**817,702**	**53,702**	**871,404**
As at 31 December 2020	**1,090,984**	**52,270**	**1,143,254**

In 2020, on a joint agreement of the Baltic States, in order to improve the efficiency of processes and compatibility between the three countries, capitalisation of .NET project was continued, and capitalisation of LH refactoring project was initiated. As at 31 December 2020, the cost of fully depreciated items still in use was EUR 2,284,723 (31 December 2019: EUR 2,270,562).

Note 13. Investments in subsidiaries

Investment in subsidiary: 100% of the shares of the company ERGO Invest SIA, the acquisition cost of which is EUR 4,677,870. The head office of ERGO Invest SIA is situated at Unijas 45, Riga, the Republic of Latvia.

EUR

Carrying amount of investment in subsidiary	
As at 31 December 2018	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2019	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2020	**4,677,870**

The main financial information (unaudited) of ERGO Invest SIA as at 31 December 2020 was the following (EUR):

Assets	Liabilities	Equity	Revenue	Result of the year
5,179,281	**136,974**	**5,042,307**	**783,705**	**150,199**

Note 14. Investments in associates,

Investment in an associated company: until 29 April 2020 the Company owned 32 per cent of the shares of the company CJSC ERGO Ins. Co. CJSC ERGO Ins. Co in Belarus is engaged in insurance activities, its office is registered at Pionierskaja 2, Minsk, Belarus.

As at 31 December 2019 and 2018, this investment was classified as non-current assets held for sale, because a successful outcome of the sales transaction in 2020 was highly probable. CJSC ERGO Ins. Co. sales negotiations started on 21 December 2018. The final price offer was received by ERGO on 14 February 2019, the purchase and sale agreement was signed on 6 March 2019. As at 31 December 2019 non-current asset held for sale is reflected at fair value of EUR 622,281.

Due to legal obstacles, the Company was not able to complete sales in 2019. As the purchaser confirmed its willingness to complete the sales on initial conditions, as at 31 December 2019 the investment was still presented as non-current assets held for sale at fair value of EUR 622,281.

The sale process was finalised on 29 April 2020 when ERGO received 645,388 euros, and respective legal procedures were carried out. The difference between the carrying amount and money received was recognised as gains.

Note 15. Investments in financial instruments

EUR			
At 31 December	**Note**	**2020**	**2019**
Available-for-sale financial assets			
Equities and fund units	15.1	18,719,434	26,781,873
Debt and other fixed-income securities	15.2	248,078,322	227,877,839
Total available-for-sale financial assets		**266,797,756**	**254,659,712**
Investments accounted at FVTPL			
Equities and fund units	15.1	57,168,766	51,889,808
Total investments accounted at FVTPL		**57,168,766**	**51,889,808**
Loans and receivables			
Loans	15.3	6,005,617	6,004,493
Total loans and receivables		**6,005,617**	**6,004,493**
In total		**329,972,139**	**312,554,013**

15.1 Equities and fund units accounting

EUR	**As at 31 December 2020**		**As at 31 December 2019**	
	Cost	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	1,099,907	1,156,451	237,285	245,960
Units in listed debt funds	9,215,350	9,541,662	17,775,549	18,388,704
Units in unlisted equity and debt funds	1,669,889	1,677,552	1,419,482	1,437,977
Property funds	5,000,000	6,343,769	5,000,001	6,709,232
Unit-linked	51,531,880	57,168,766	47,279,895	51,889,808
In total	**68,517,026**	**75,888,200**	**71,712,212**	**78,671,681**

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 expenses. Associated sales, interest and dividend income is recognised in profit or loss.

Unit-linked financial assets have been classified as at fair value through profit or loss, these financial assets were designated to that category on initial recognition.

15.2 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 expenses. Interest income is recognised using the effective interest rate method.

EUR	As at 31 December 2020		As at 31 December 2019	
	Cost	**Fair value**	**Cost**	**Fair value**
Fixed-income debt securities				
Government bonds	162,671,830	201,947,783	151,775,659	183,079,591
Financial institutions' bonds	23,436,590	25,280,786	16,372,625	17,857,854
Other debt securities	20,149,014	20,849,753	25,227,860	26,940,394
In total	**206,257,434**	**248,078,322**	**193,376,144**	**227,877,839**

Fair values of fixed-income securities and their dynamics during the period:

In euros	**2020**	**2019**
On 1 January	**227,877,839**	**213,138,002**
Purchased debt securities	17,488,831	13,842,431
Sold debt securities	-1,805,608	-3,571,110
Received on maturity date debt securities	-2,157,841	-7,322,211
Amortisation of debt securities	-887,324	-812,010
Changes in the fair value reserve	7,319,191	12,382,817
Gain on the disposal	131,014	306,966
Changes in accrued interest	112,220	-87,046
On 31 December	**248,078,322**	**227,877,839**

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

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. As at 31 December 2020 and 2019, 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 separate statement of cash flows. In the reporting period, there were no non-cash movements related to available-for-sale debt securities.

15.3 Loans

Loans by maturity

EUR		
At 31 December	**2020**	**2019**
5–10 years	6,005,617	6,004,493
In total	**6,005,617**	**6,004,493**

As at 31 December 2020, the following loans were issued:

EUR 6,005,617 (31 December 2019: EUR 6,004,493) to ERGO Insurance SE at 3.37% fixed interest per year. The loan was granted on 21 December 2016 and the repayment term of the loan is 22 December 2026.

Note 16. Reinsurance assets

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

EUR		
At 31 December	**2020**	**2019**
Provision for claims outstanding – claims incurred and reported	128,453	160,591
In total	**128,453**	**160,591**

Information on reinsurance assets is also provided in note 22.

Other reinsurance receivables are reported within insurance receivables (see note 17).

Reinsurance result

EUR	**Note**	**2020**	**2019**
Premiums paid to reinsurers	6	962,515	901,969
Reinsurers' share of change in provision for unearned premiums		0	0
Commissions and profit participation paid by reinsurers	9.1	-384,449	-421,930
Reinsurers' share of claims paid	8	-17,170	-79,138
Reinsurers' share of change in provision for claims outstanding	8	498	-11,458
Reinsurers' share of deferred acquisition costs	9.1	0	0
In total		**561,394**	**389,443**

Note 17. Insurance and other receivables

EUR		
At 31 December	**2020**	**2019**
Receivables from policyholders, gross	8,509,589	9,628,817
Impairment of receivables from policyholders	-484,521	-555,808
Receivables from brokers and other intermediaries	3,602	10,297
Receivables from reinsurers	71,796	1,444
Total insurance receivables	***8,100,466***	***9,084,750***
Other receivables	420,382	462,369
Total other financial assets	***420,382***	***462,369***
Deferred expenses	243,377	229,770
Prepaid taxes	70,147	39,387
Total non-financial assets	***313,524***	***269,157***
In total	**8,834,372**	**9,816,276**

Note 18. Cash and cash equivalents

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

EUR	**As at 31 December 2020**	**As at 31 December 2019**
Cash at bank	10,327,609	8,576,269
Cash on hand	0	410
In total	**10,327,609**	**8,576,679**

Cash and cash equivalents by original currency

At 31 December	**2020**	**2019**
EUR	10 327 609	8 576 679
USD	0	0
PLN	0	0

Note 19. Shareholders and issued capital

	Number of shares	**Total issued capital**
As at 31 December 2019	15,124	4,380,213
As at 31 December 2020	15,124	4,380,213

Ordinary shares carry all the rights provided for under the Law on Companies of the Republic of Lithuania – 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 the 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. Under the Articles of Association, shares may be pledged only subject to the consent of the Board.

The sole shareholder of ERGO Life 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 Versicherungsgruppe AG.

The consolidated financial statements of ERGO Versicherungsgruppe 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, the shares of which are listed on German stock exchanges.

As at 31 December 2020, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of EUR 290 each. The entire share capital has been paid in.

Note 20. Capital reserve

Capital reserve as at 31 December 2020 consisted of the following: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621 (as at 31 December 2019: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621).

The authorised capital of the Company is booked, as per Articles of Association of the Company. The amount paid, by which the sales price of the shares issued exceeds the nominal value of the shares, is booked as share premium. Share premium accounts may be used for increase of the authorised capital of the Company, as well as to cover losses.

Reserves are formed by distributing profit of the current and previous year by a decision of the General Meeting of Shareholders, in line with the legislation and legal acts of the Republic of Lithuania as well as the Articles of Association of the Company. Legal reserves are compulsory reserves formed of the profit for distribution. The Company shall transfer to the legal reserve 5% of the profit for distribution until the reserve makes up 10% of the Company’s issued capital. The legal reserve may be used only for covering losses of the Company. The share of the legal reserve in excess of 10% of the issued capital may be distributed when distributing the profit for the succeeding financial year.

As at the end of 2020, the Company had fully formed its legal reserve.

Note 21. 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.

EUR	**2020**	**2019**
As at 1 January	**36,880,062**	**23,603,596**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-312,408	-310,858
Net change in fair value recognised in other comprehensive income or expense during the year	7,329,998	13,587,324
At 31 December	**43,897,652**	**36,880,062**

Note 22. Insurance contract provisions and reinsurance assets

EUR

31 December	Note	2020	2019
Gross provisions			
Life insurance provision	22.1	183,535,418	185,964,106
Provision for unearned premiums		12,377,623	11,880,726
Bonus provision	22.3	2,127,453	2,397,312
Provision for claims outstanding – claims incurred and reported		*7,318,229*	*6,231,421*
Provision for claims outstanding – IBNR		*823,482*	*926,299*
Provision for claims outstanding – indirect claims handling costs		*291,520*	*266,471*
Total provision for claims outstanding	22.2	8,433,231	7,424,191
Unexpired risk provision		0	1,570
Unit-linked contracts provision		39,653,466	32,311,935
Total gross provisions		**246,127,191**	**239,979,839**
Reinsurers' share of provisions			
Life insurance provision		0	0
Provision for unearned premiums		0	0
Bonus provision		0	0
Provision for claims outstanding – claims incurred and reported		*128 453*	*160,591*
Provision for claims outstanding – IBNR		*0*	*0*
Total provision for claims outstanding		128 453	160,591
Unexpired risk provision		0	0
Unit-linked contracts provision		0	0
Total reinsurers' share of provisions		**128,453**	**160,591**
Net provisions			
Life insurance provision		183,535,418	185,964,106
Provision for unearned premiums		12,377,623	11,880,726
Bonus provision		2,127,453	2,397,312
Provision for claims outstanding – claims incurred and reported		*7,189,776*	*6,070,830*
Provision for claims outstanding – IBNR		*823,482*	*926,299*
Provision for claims outstanding – indirect claims handling costs		*291,520*	*266,471*
Total provision for claims outstanding	22.2	8,304,778	7,263,600
Unexpired risk provision		0	1,570
Unit-linked contracts provision		39,653,466	32,311,935
Total net provisions		**245,998,738**	**239,819,249**

Life insurance mathematical technical provision

Life insurance mathematical provision is calculated on a prospective actuarial basis. Change (increase) in the life insurance mathematical provision is influenced by the ageing of the available portfolio of contracts, signing of new contracts and regular reduction of provisioning discount rate.

Unearned premium provision

Unearned premiums provision is intended to cover insurance activity costs according to all effective insurance risks. It may also be used to cover current liabilities, when the insurance risk is evenly distributed in the period. Unearned premiums provision is calculated as gross part of premiums written which shall be attributed to income of the Company in the future accounting periods.

Outstanding claim provision

The provision for incurred but not reported claims (IBNR) is taken as the highest amount between estimated amounts by “Chain-Ladder” and “Bornhuetter-Ferguson”, “Average Claim” or “Incremental Loss Ratio” methods. IBNR is formed for health and accidental death and disability products.

The provisions for reported but not settled or settled unpaid claims are assessed based on actually reported but not settled or settled unpaid claims at the end of the reporting period.

Part of the provision for outstanding claims consists of outstanding claim settlement costs. This part of the provision is formed for all outstanding claims and is calculated as 10% for health and rider products as well as 1% for life products on the provision for outstanding claims.

Provision for bonuses

Bonus provision at the end of the period amounted to EUR 2.1 million (31 December 2019: EUR 2.4 million). The total amount relates to rebate of insurance premiums (participation in profit).

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2020, premium adequacy test showed no provision insufficiency; therefore unexpired risk provision was not formed for any products. As at 31 December 2019, due to the result of the premium adequacy test, an unexpired risk provision was formed for Lithuanian health insurance portfolio. For other products, premium adequacy test showed no provision insufficiency; therefore, unexpired risk provision was not formed.

Unit-linked contracts provision

The unit-linked contracts provision is formed for the unit-linked contracts classified as insurance contracts – the contracts that contain significant insurance risk. Insurance risk is assumed significant if sum insured at policy inception exceeds 5% of 1st year premium. The provision is determined based on the market values of the securities connected to the unit-linked contracts.

22.1 Life insurance provision (gross)

EUR	2020	2019
As at 1 January	**185,964,106**	**187,311,157**
Premiums received	21,666,620	20,881,134
Benefits and claims paid for death, maturities, surrenders	-26,441,464	-25,553,272
Risk premiums	-1,194,548	-1,275,632
Risk free rate change	20,543	1,227,960
Policy amendments	-1,180,662	-780,221
Return on investments	3,667,354	3,964,688
Quarterly corrections (reserve changes due to incorrect product dates, data processing)	39,563	-
Update to provisioning investment return	-	265,844
Pension annuities reserve after savings phase	242,194	424,137
Additional Estonian pension annuities reserve	843,984	334,379
Data quality improvement	-102,272	-836,068
At 31 December	**183,525,418**	**185,964,106**

22.2 Provisions for claims outstanding by insurance class

EUR

Insurance class	Gross provision for claims outstanding	Gross provision for claims outstanding	Net provision for claims outstanding	Net provision for claims outstanding
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Health insurance	1,450,927	1,733,484	1,450,927	1,733,484
Accident insurance	105,335	232,214	103,652	230,531
Life insurance linked to investment funds	1,988,848	1,348,158	1,862,078	1,329,440
Life insurance	4,888,121	4,110,335	4,888,121	3,970,145
In total	**8,433,231**	**7,424,191**	**8,304,778**	**7,263,600**

22.3 Bonus provision (gross)

EUR	Notes	2020	2019
As at 1 January		2,397,312	2,651,049
Bonus for new business		89	166
Bonus release during the year		-358,974	37,750
Bonus accumulation during the year		89,026	-291,653
At 31 December		**2,127,453**	**2,397,312**

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2020, there was no any unexpired risk provision formed. As at 31 December 2019, as a result of premium adequacy test, an unexpired risk provision of EUR 1,570 was formed for Lithuanian health insurance portfolio.

Note 23. Financial liabilities from investment contracts

At 31 December	2020	2019
Financial liabilities from investment contracts		
Opening balance	**19,577,873**	**17,289,789**
Payments received	4,569,677	5,139,559
Fees and service charges	-573,135	-565,624
Provisions and payments made	-7,183,830	-5,043,005
Change in value, interest accrued	1,124,714	2,757,154
Closing balance	**17,515,299**	**19,577,873**

Note 24. Insurance payables

EUR

At 31 December	2020	2019
Payables to policyholders	3,388,406	3,034,697
Payables to brokers and other intermediaries	912,823	941,105
In total	**4,301,229**	**3,975,802**

Note 25. Other payables and accrued expenses

EUR

At 31 December	2020	2019
Trade payables	779,840	838,312
Other payables	471,913	366,997
Accrued vacation pay payable	420,132	333,488
Personal income tax payable	614,961	482,968
Personal income tax payable for additional reliefs	955	1,223
Social security tax payable	81,347	69,998
Mandatory payment for second pillar pension funds	2,407	2,439
Payable value added tax	110,823	96,539
Payables to employees	175,026	160,593
Other accrued items	1,422,376	1,228,172
In total	**4,079,780**	**3,580,729**

Note 26. Fair value of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

EUR		Carrying amount					Fair value			
As at 31 December 2020	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**In total**	**Level I**	**Level II**	**Level III**	**In total**
Financial assets measured at fair value										
Units in listed equity funds	15.1		1,156,451			1,156,451	1,156,451	0	0	1,156,451
Units in listed debt funds	15.1		9,541,663			9,541,663	9,541,663	0	0	9,541,663
Units in unlisted equity and debt funds	15.1		1,677,552			1,677,552	1,090,998	586,554	0	1,677,552
Property funds	15.1		6,343,770			6,343,770	0	0	6,343,770	6,343,770
Unit-linked	15.1	57,168,766				57,168,766	35,356,982	21,811,784	0	57,168,766
Government bonds	15.2		201,947,783			201,947,783	0	201,947,783	0	201,947,783
Financial institutions' bonds	15.2		25,280,786			25,280,786	0	25,280,786	0	25,280,786
Other debt securities	15.2		20,849,753			20,849,753	0	20,849,753	0	20,849,753
Financial assets not measured at fair value										
Loans	15.3			6,005,617		6,005,617	0	6,005,617	0	6,005,617
Insurance and other receivables	17			8,834,372		8,834,372				
Cash	18			10,327,609		10,327,609				
Financial liabilities measured at fair value										
Financial liabilities from investment contracts		17,515,299				17,515,299	11,246,323	6,268,976	0	17,515,299
Financial liabilities not measured at fair value										
Reinsurance payables					303,600	303,600				
Insurance payables					4,301,229	4,301,229				
Other payables					1,251,753	1,251,753				

EUR As at 31 December 2019	Note	Carrying amount Designated at fair value	Available for sale	Loans and receivables	Other financial liabilities	In total	Fair value (restated) Level I	Level II	Level III	In total
Financial assets measured at fair value										
Units in listed equity funds	15.1		245,960			245,960	245,960	0	0	245,960
Units in listed debt funds	15.1		18,388,704			18,388,704	18,388,704	0	0	18,388,704
Units in unlisted equity and debt funds	15.1		1,437,977			1,437,977	708,689	729 288	0	1,437,977
Property funds	15.1		6,709,232			6,709,232	0	0	6,709,232	6,709,232
Unit-linked	15.1	51,889,808				51,889,808	32,753,901	19,135,907	0	51,889,808
Government bonds	15.2		183,079,591			183,079,591	0	183,079,591	0	183,079,591
Financial institutions' bonds	15.2		17,857,854			17,857,854	0	17,857,854	0	17,857,854
Other debt securities	15.2		26,940,393			26,940,393	0	26,940,393	0	26,940,393
Financial assets not measured at fair value										
Loans	15.3			6,004,493		6,004,493				
Insurance and other receivables	17			9,816,276		9,816,276				
Cash	18			8,576,679		8,576,679				
Financial liabilities measured at fair value										
Financial liabilities from investment contracts		19,577,873				19,577,873	10,517,292	9,060,581	0	19,577,873
Financial liabilities not measured at fair value										
Reinsurance payables					243,638	243,638				
Insurance payables					3,975,802	3,975,802				
Other payables					1,205,309	1,205,309				

As it is disclosed in Note 3 (n) Fair value measurement, comparative figures in the table are corrected respectively. Property funds moved from level I and level II to level III (EUR 6.8 million), government bonds, financial institutions' bonds and other debt securities moved from level I to level II (EUR 228 million), unit-linked securities were moved from level 2 to level 1 (EUR 30.3 million) and units in unlisted debt funds were moved from level 1 to level 2 (EUR 0.5 million).

Note 27. Leases

The Company uses office premises, office equipment and cars under operating leases. In 2020, operating lease expenses on premises totalled EUR 53,820 (2019: EUR 147,446). These lease agreements on initial recognition and analysing new agreements of 2020 were recognised as low-value or short-term leases under IFRS 16. No operating lease expenses on other assets were incurred (in 2019, no operating lease expenses on other assets were incurred).

Leases as lessee (IFRS 16)

The Company leases office premises, office equipment, and IT equipment under operating leases. Most lease contracts for office premises are of indefinite duration. The expected contract end dates are assessed by responsible persons according to business forecasts. For some leases, contract conditions provide for an increase in the rental price according to a pre-agreed index.

IT and office equipment lease contracts have contract terms of two to four years. Information about leases for which the Company is a lessee is presented below.

Right of use-asset and lease liabilities

Right of use assets related to leased properties that do not meet the definition of investment property are presented as property and equipment (see Note 10 “Property and equipment”).

	Buildings	Equipment and other items	In total
2020			
Balance as at 01 January 2020	1,638,750	117,311	1,756,061
Depreciation for the year	-498,249	-46,168	-544,417
Additions to right-of-use assets	194,247	6,037	200,284
Disposal of right-of-use assets	-254,245	0	-254,245
Balance as at 31 December 2020	**1,080,503**	**77,180**	**1,157,683**

	Buildings	Equipment and other items	In total
2019			
Balance as at 01 January 2019	1,512,387	122,072	1,634,459
Depreciation for the year	-458,415	-33,783	-492,198
Additions to right-of-use assets	584,778	29,022	613,800
Balance as at 31 December 2019	**1,638,750**	**117,311**	**1,756,061**

Set out below are the carrying amounts of lease liabilities and their dynamics during the period:

In euros	**2020**	**2019**
On 1 January	**1,768,921**	**1,677,590**
Additions	196,847	1,036,898
Accretion of interest	8,240	10,468
Payments	-500,731	-559,211
Write-offs and disposals	-306,995	-396,824
On 31 December	**1,166,282**	**1,768,921**

Amounts recognised in profit or loss

2020 – Leases under IFRS 16	**2020**
Interest on lease liabilities	8,240
Depreciation for the year	544,417
Expenses relating to short-term leases	44,275
Expenses relating to leases of low-value assets	9,545

2019 – Leases under IFRS 16	**2019**
Interest on lease liabilities	10,468
Depreciation for the year	492,198
Expenses relating to short-term leases	144,727
Expenses relating to leases of low-value assets	2,719

In accordance with IFRS 16, in 2019 and in subsequent periods the Company recognises depreciation and interest costs in relation to the mentioned lease instead of recognising operating lease expenses. Interest rate used for discounting lease payments was 0.57% as at 31 December 2020. When measuring right-of-use assets, the Company assessed each contract separately.

Minimum lease payments under lease agreements

As at 31 December 2020

EUR	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**In total**
Lease-related financial liabilities	386,755	739,088	40,439	1,166,282
In total	**386,755**	**739,088**	**40,439**	**1,166,282**

As at 31 December 2019

EUR	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**In total**
Lease-related financial liabilities	647,587	635,057	486,277	1,768,921
In total	**647,587**	**635,057**	**486,277**	**1,768,921**

Note 28. Income tax

Corporate income tax consists of current and deferred tax.

In 2020, payable corporate income tax for the activity in the Republic of Lithuania is EUR 126,083.

For calculation of corporate income tax in the Republic of Lithuania in 2020 and 2019, a profit tax rate of 15% was applied.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax depends on the expected future use of the asset and the settlement of future liabilities and substantially enacted tax rate expected to apply.

A deferred tax asset is only recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax asset recognised as at 31 December 2020: EUR 123,158.

EUR

Income tax expense	**2020**	**2019**
Income tax expense	-126,083	-42,000
Change in deferred income tax	12,698	9,702
Total income tax expense	**-113,385**	**-32,298**

Recognised deferred income tax asset	**2020**	**2019**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	123,158	110,460
In total	**123 158**	**110 460**

Unrecognised deferred income tax asset	**2020**	**2019**
Tax losses	3,842,209	4,136,402
In total	3,842,209	4,136,402

The Company's management did not recognise deferred tax assets on tax losses as it cannot reliably assess whether these assets will be realised in the future.

Reconciliation of profit for accounting purposes and income tax expenses	**2020**	**2019**
Profit before tax	5,554,899	5,604,813
Parent company's domestic tax rate	833,235	840,722
Effect of tax rates in foreign jurisdictions	-185,250	-216,039
Effect of exempt income and non-taxable expenses	-270,472	-529,829
Non-deductible expenses	30,065	16,574
Unrecognised deferred tax assets movement:	0	0
Recognition of previously unrecognised tax losses	-294,193	-79,130
Effect of income tax of previous years	0	0
Income tax expense for the year	**113,385**	**32,298**

Note 29. Related party transactions

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 board and individuals with a significant shareholding, except where the above 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.

Remuneration of key management personnel

Key management personnel of the Company includes director of the Company. The summary of remuneration of key management personnel for the year is as follows:

	2020	2019
Salary	100,440	101,223
Social security contributions	2,501	2,520
Other short-term employment benefits	0	0
Bonuses	0	0
Total remuneration of key management personnel	**102,941**	**103,743**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

The remuneration, performance bonuses and benefits provided to the members of the Board for the year totalled EUR 356,790 (2019: EUR 100,553). The chairman of the Board receives remuneration only as the Company's director. The members of the Supervisory Board were not remunerated.

The remuneration of a member of the Board consists of fixed remuneration and performance benefits. Performance benefits depend on the achievement of targets and objectives that are agreed between the chairman of the Supervisory Board and each member of the Board before the beginning of the financial year.

Transactions with related parties are presented below:

EUR

At 31 December Related party	**Receivables in 2020**[1]	**Receivables in 2019**[1]	**Payables in 2020**	**Payables in 2019**
Parent of the group – Münchener Rück	0	0	309,992	278,889
Other group companies	6,039,035	6,043,400	220,727	204,272

EUR

Related party	**Services purchased in 2020**	**Services purchased in 2019**	**Services sold in 2020**[2]	**Services sold in 2019**[2]
Parent of the group – Münchener Rück	209,128		78,473	
Other group companies	1,314,591	379,206	4,766,809	402,259

[1] Including a loan of EUR 6,000,000 (2019: EUR 6,000,000) provided to ERGO Insurance SE.

[2] Including interest of EUR 5,617 (2019: EUR 4,493) on the loan provided to ERGO Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	**2020**	**2019**
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	517,874	394,448
Reinsurers' share of claims paid	0	74,353
Reinsurance commissions and profit participation	160,868	153,397

Note 30. Contingencies

As at 31 December 2020 and 2019, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the separate financial statements.

Note 31. COVID-19 major developments in 2020

On 11 March 2020, the World Health Organization announced the coronavirus outbreak a pandemic. 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: during 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.

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. More information regarding the impact of the COVID-19 developments could be found in the Chapter 3.2.

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). More information about this could be found in Chapter 3.6.

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 32. Events after the reporting date

No significant events occurred between the end of reporting period and date when the financial statements were authorised for issue.

Signatures to annual report 2020

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

Bogdan Benczak

Chairman of the Board .... As at 16 April 2021

Maciej Szyszko

Member of the Board .... As at 16 April 2021

Tadas Dovbyšas

Member of the Board .... As at 16 April 2021

Marek Ratnik

Member of the Board .... As at 16 April 2021

Ingrida Ķirse

Member of the Board .... As at 16 April 2021

Annex 1

According to the Estonian Insurance Activity Act § 128 an insurance undertaking who enters into pension contracts shall submit upon the preparation of the annual report in an annex to its annual accounts the pension contracts report. ERGO Life Insurance SE Estonian branch enters into a pension contract in terms of Funded Pension Act.

Expenses are distributed to pension contracts according to the following principles.

The indirect acquisition, administrative, unallocated loss adjustment expenses allocate proportionally to Cost Margin. Cost Margin Amount for the reporting period is calculated according to the basis for calculation of non-direct acquisition and administrative costs used in the pricing of the product. Cost Margin Amount percentages are calculated once per year and reviewed by Pricing Actuaries. Claims handling expenses are allocated proportionally according to a number of paid claims during the reporting period.

The following table presents the pension contracts income report for 2020 and 2019 years:

EUR	**2020**	**2019**
Net written premiums	**484,311**	**1,609,315**
Gross written premiums	484,311	1,609,315
Acquisition fees	0	12
Written premiums ceded to reinsurers	0	0
Net income from investments (+/-)	**848,738**	**1,261,467**
Income from interests and dividends	228,734	229,293
Profit/loss from change in value of investments	620,004	1,016,908
Profit/loss from investment realisation	0	15,266
Other income of financing activities	0	0
Other operating income	**0**	**0**
Annuity payments and change in liabilities related to annuities (+/-)	**-544,400**	**-2,068,492**
Annuity payments	**-860,850**	**-851,701**
Reinsurers share of annuity payments	0	0
Paid surrender values	**0**	**0**
Reinsurance share of paid surrender values	0	0
Change in liabilities related to annuities	**316,450**	**-1,216,791**
Reinsurance part in change in liabilities	0	0
Annuity management fees	5,879	-55,688
Annuity cancellation fees	148,433	374,286
Operation expenses (-)	**-78,367**	**-119,240**
Acquisition expenses	-38,574	-53,172
Acquisition expenses of related parties	0	0
Administrative expenses	-39,793	-66,068
Administrative expenses of related parties	0	0
Investment management expenses	0	0
Investment management expenses of related parties	0	0
Other operating expenses	0	0
Other management expenses of related parties	0	0
Profit/loss of the reporting period (+/-)	**710,282**	**683,050**
Profit distributed to annuity policyholders and beneficiaries	**0**	**0**

Annex 2

Profit distribution project

The management board of ERGO Life 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) dividend distribution in the amount EUR 7,000,000 be made to the sole shareholder.