ERGO Life Insurance SE

Independent Auditor's Report,
Annual Management Report and Separate Financial Statements
for the Year Ended 31 December 2019

ANNUAL REPORT

Company name:	**ERGO Life Insurance SE**
Registry number:	**110707135**
Address:	**Geležinio Vilko St. 6A, LT-03507 Vilnius**
	Republic of Lithuania
Telephone:	**+370 5 268 30 11**
Fax:	**+372 5 268 3015**
E-mail:	**info@ergo.lt**
Website:	**www.ergo.lt**
Core business:	**Life insurance**
Beginning of financial year:	**1 January 2019**
End of financial year:	**31 December 2019**
Chairman of the management board and Managing Director:	**Bogdan Benczak**
Auditor:	**KPMG Baltics, UAB**

Contents

KPMG Baltics, UAB
Konstitucijos Ave 29
LT-08105, Vilnius
Lithuania

Phone: +370 5 2102600
Fax: +370 5 2102659
E-mail: vilnius@kpmg.lt
Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of ERGO Life Insurance SE ("the Company"), which comprise:

- the separate statement of financial position of the Company as at 31 December 2019,
- the separate income statement of the Company for the year then ended,
- the separate statement of comprehensive income of the Company for the year then ended,
- the separate statement of changes in equity of the Company for the year then ended,
- the separate statement of cash flows of the Company for the year then ended, and
- the notes to the separate financial statements of the Company, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. Each audit matter and our respective response are described below.

Company code: 111494971
VAT code: LT114949716

Measurement of life insurance provision

The amount of life insurance provision as at 31 December 2019: EUR 185,964 thousand (as at 31 December 2018: EUR 187,311 thousand); change in life insurance provision for the year ended 31 December 2019: income of EUR 1,347 thousand (year ended 31 December 2018: expenses of EUR 4,880 thousand).

Refer to page 37 "Life insurance provision" (accounting policy) and Note 22.1 "Life insurance provision" on page 69 (financial disclosures).

Key audit matter	How the matter was addressed in our audit
Insurance contract liabilities represent the Company's single largest liability in its statement of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies. At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, "LAT test") with an aim to determine whether its recognized life insurance provision is adequate. The test is based on the comparison of the management's current estimates of the present value of future cash flows arising from the in-force insurance contracts with the recognized amounts of provision. In case the LAT test shows that the amount of life insurance provision is insufficient compared to the estimated future cash flows, the entire deficiency is recognized in profit or loss. Relatively insignificant changes in the key assumptions used in the valuation model can have significant effect on the amounts of such liabilities. The assumptions that we consider to have the most significant impact are those that relate to discount rates used, lapse rates of the policies and administrative expenses necessary for servicing the existing insurance portfolio.	Our procedures, performed, where applicable, with the support from our own actuarial specialists, included, among others: • Evaluating the methodology and assumptions used by the Company in its mathematical reserve and LAT test against industry standards and relevant regulatory and financial reporting requirements; • Testing of the design and implementation of selected key controls over the Company's process for setting and updating actuarial assumptions; • Assessing the results of the Company's experience studies, and using those historical results to challenge the key non-market assumptions (such as, among other things, lapse and mortality rates) used in the LAT test as at 31 December 2019. Also, critically assessing administrative expenses used in LAT test and calculation of life insurance provision to actual expenses incurred in year 2019; • Assessing the reasonableness of the discount rates used by the Company against observable market rates; • Checking the accuracy of mathematical reserve as at 31 December 2018 for policies maturing on 1 January 2019 and comparing with maturities paid in 2019; • Examining the changes in the insurance liability during the year, starting from the opening balance and considering all inflows and outflows which affect the amounts of the liability;

Completeness and quality of data used in the Company's actuarial calculations were also our area of focus. Due to the above factors, we considered measurement of the life insurance provision to be our key audit matter.	• Assessing the Company's disclosures regarding life insurance provision against the requirements of the relevant financial reporting standards.

Other Information

The other information comprises the information included in the Company's annual management report, but does not include the separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

- The information given in the Company's annual management report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- The Company's annual management report has been 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 Separate Financial Statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 separate financial statements, including the disclosures, and whether the separate 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Under decision of the general shareholders' meeting we were appointed in 2003 for the first time to audit the Company's separate financial statements. Our appointment to audit the Company's separate financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 17 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of separate financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
7 April 2020

ANNUAL MANAGEMENT REPORT

2019

Review of operations

Strong owner

Through their parent company, ERGO Insurance Group, ERGO companies in the Baltic States represent the powerful global financial group Münchener Rückversicherungs-Gesellschaft (Munich Re), which has been successfully operating since 1880. Its credibility is affirmed by the ratings awarded by credit rating agencies to the owner company and the parent company ERGO. The ratings issued by credit rating agencies to Munich RE are the following: A.M. Best – A+, Fitch – AA, Moody's – Aa3, Standard & Poor's Global ratings – AA-. The ratings issued to ERGO Insurance Group: Fitch – AA-, Standard & Poor's Global ratings – A.

ERGO Insurance Group is one of the largest insurance groups in Germany and Europe, it operates in more than 30 countries and concentrates on Europe and Asia. ERGO offers a comprehensive spectrum of insurance, provision and services. About 40,000 people work for the Group, either as salaried employees or as registered sales representatives.

At the end of 2019, 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 Management Board:

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

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

Information about the company's Supervisory Board:

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 STUnZ ERGO Hestia SA, Chairman of the Management Board of STUnZ ERGO Hestia SA.

Grzegorz Szatkowski. Chairman of Supervisory Board of Marina Sp. Z o. o. and of Centrum Pomocy Osobom Poszkodowanym Sp. Z o.o.; 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 STUnZ ERGO Hestia SA.

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: the year 2019 in figures

Gross premium income	EUR 71.64 million
Total assets	EUR 344.84 million
Investments in financial instruments	EUR 312.55 million
Insurance contract provisions	EUR 207.67 million
Equity	EUR 75.72 million
Profit for the year	EUR 5.57 million
Total comprehensive income / expense	EUR 18.85 million
Return on equity	8.19%
Insurance contracts in force	101,006
Offices	9 in Lithuania, 22 in Latvia, 15 in Estonia
Employees	422

Economic environment

According to the estimates of the European Commission made in March 2020, there is still a lot of uncertainty about the extent and economic impact of the crisis caused by the COVID-19 pandemic. The impact of the crisis will depend, among other things, on the spread of the pandemic and on the capacity of public authorities to act quickly.

The stylised scenario is based on the assumptions that COVID-19 will have the same mortality rate across the EU and that the restrictions imposed will have a bigger impact in Europe compared to the one observed in China. On that basis, the COVID-19 crisis is estimated to have significant detrimental impacts, some of which can, however, be offset by timely and effective policy action. The base case scenario is that real GDP growth in 2020 will be zero but in the case of a more adverse scenario it may also be negative.

Estonia

Economic growth in the first half of 2019 was driven by strong private investment and a flexible labour market. Nevertheless, in the future growth is expected to slow due to cyclical factors and the restructuring of the energy sector.

Economic growth will be adversely affected by uncertainty in the industrial sector and declining electricity production (due to rising carbon allowance prices).

So far, growth in private consumption has been supported by rapidly rising employment and real incomes. Domestic demand is expected to remain the main growth driver thanks to rising incomes and moderate inflation.

Latvia

In 2019, economic growth in Latvia slowed. Private consumption is expected to remain the principal growth driver, while investment is expected to continue to decline. Growth in private consumption will be supported by subdued inflation and tax cuts.

Export growth is expected to be modest due to weak external demand, agricultural exports being a possible exception. The decline in investment should somewhat mitigate labour shortages and the tight situation in the labour market.

Lithuania

In 2019, economic growth was supported by strong domestic demand and a resilient export sector. Growth in private consumption has been driven by employment growth and lower labour taxes.

Growth in exports has been driven by robust export of services, which is expected to offset the decline in the export of goods in the second half of 2019.

According to forecasts, inflation will decrease.

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 and the updated version is effective starting from 1 January 2020; however, these amendments were not substantial and related to changes in liquidation and bankruptcy processes of insurance companies, etc.

Under this new framework, known as the insurance distribution directive (IDD) (also known as Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)) which was successfully integrated into national legal acts, consumers and retail investors buying insurance products will benefit from:

- stronger focus on identification of consumer 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 renumeration, 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 consumers avoid buying products that do not meet their needs.

Accordingly, it is ensured that in the event of any IDD breaches, the competent authorities have the power to impose, in accordance with national law, at least the following administrative sanctions and other measures:

1) a temporary ban on the exercise of management functions in insurance intermediaries or insurance undertakings imposed against any member of the management body of the insurance intermediary or insurance undertaking who is held responsible;
2) in the case of a legal person, the following maximum administrative pecuniary sanctions:
    a) at least EUR 5,000,000 or up to 5% of the total annual turnover according to the last available accounts approved by the management body; or
    b) up to twice the amount of the profits gained or losses avoided because of the breach, where those can be determined.

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. The Law has been slightly amended on 7 November 2019. In order to help organisations improve their implementation of the obligations established under the GDPR, on 18 December 2019 the Lithuanian State Data Protection Inspectorate prepared and approved “Guidelines for security measures and risk assessment of processing personal data for data controllers and processors”. Infringements of provisions listed in Art. 83 of the General Personal Data Protection regulation shall be subject to administrative fines of up to EUR 10,000,000–20,000,000, or in the case of an undertaking, up to 2–4% of the total worldwide annual turnover of the preceding financial year, whichever is higher. Due to application of this regulation, the company reorganised a number of its processes and implemented new ones, their improvement is a constant and continuous activity.

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 amendments came into force on 10/01/2020, others will enter into force at a later date). This law provides essential requirements on prevention of money laundering and terrorist financing in the contracting process, monitoring of relationships and payment of insurance claims.

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2019 was EUR 71.64 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 62.3 million. ERGO Life Insurance SE ended 2019 with total comprehensive income of EUR 5.6 million. Net investment income amounted to EUR 14.4 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 344.84 million (2018: EUR 316.30 million). Investments in financial instruments amounted to EUR 312.55 million (2018: EUR 286.90 million), debt securities accounted for 72.9% (2018: 76.2%), loans for 1.9% (2018: 2.2%) and equities and fund units for 25.2% (2018: 21.6%) of the total. Altogether, investments in financial instruments accounted for 90.6% (2018: 89.1%) of total assets. Insurance provisions totalled EUR 207.7 million (2018: EUR 208.06 million), accounting for 77.2% (2018: 82.3%) of total liabilities and 60.2% (2018: 65.4%) of total assets.

Insurance activities

Gross premium income by insurance class

In euros	**2019**		**2018**		**Change**	
	Gross premiums written	Share of class, %	Gross premiums written	Share of class, %	Gross premiums written	Share of class, pp
Life insurance contracts	41,202,013	57.5	41,449,790	58.6	-247,777	-1.1
Health insurance contracts	30,435,020	42.5	29,240,405	41.4	1,194,615	1.1
Total from insurance activities	***71,637,033***	***100.0***	***70,690,195***	***100.0***	***946,838***	
Total	**71,637,033**	**100.0**	**70,690,195**	**100.0**	**946,838**	

In 2019, ERGO Life Insurance SE generated premium income of EUR 71.64 million, a 1.3% increase on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 41.2 million or 57.5% and EUR 30.43 million or 42.5% of the portfolio respectively.

Claims and benefits paid by insurance class

In euros	**2019**		**2018**		**Change**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Life insurance contracts	27,874,209	54.5	24,664,191	54.3	3,210,018	0.2
Health insurance contracts	23,269,832	45.5	20,793,195	45.7	2,476,637	-0.2
Total	**51,144,041**		**45,457,386**		**5,686,655**	

Claims and benefits paid in 2019 totalled EUR 51.14 million (2018: EUR 45.46 million). The largest share of claims was settled in life insurance: EUR 27.87 million or 54.5% of claims paid. The increase, if compared to 2018, was driven by a large number of expired endowment insurance contracts in the Latvian portfolio. The next-largest class was health insurance, where claims and benefits paid totalled EUR 23.27 million or 45.5%.

Investing 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 (MEAG Munich ERGO Asset Management Gmbh), 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.

In 2019, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the rated debt securities portfolio was as follows: 25.5% (2018: 25.2%) had a AAA (by Standard & Poor's) or Aaa (by Moody's) rating, 33.5% (2018: 33.2%) were rated AA or Aa, 24.8% (2018: 26.2%) had an A rating, and 16.2% (2018: 15.3%) were rated BBB or Baa. At the year-end, the investment portfolio comprised investments in associates of EUR 4.7 million (2018: EUR 4.7 million), debt securities of EUR 228 million (2018: EUR 213 million), loans of EUR 6.0 million (2018: EUR 6.0 million), and equities and fund units of EUR 27.0 million (2018: EUR 27.0 million). There were no term deposits.

Income on assets with interest rate risk amounted to EUR 4.8 million. Realisation of equities and units resulted in a profit of EUR 0.01 million and realisation of debt securities in a gain of EUR 0.3 million. Dividend income was EUR 2.49 million. The fair value reserve increased by EUR 9.1 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 71.64 million, i.e. 1 per cent more than in 2018 (2018: EUR 70.69 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 proper 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 62.3 million (2018: EUR 45.5 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 2020 we plan to grow and strengthen our position in the market. At the end of 2019 ERGO Life Insurance held 9.3 per cent of the life insurance market share of the Baltic States.

Sales and customer service

In the Baltic States ERGO identified strategic directions for the next few years, i.e. to become the insurer who is the best at meeting the clients' needs, to promote a leadership culture in the ERGO community, to improve effectiveness of processes, to expand sales, to grow business in an organic manner, to pay attention to innovations, technologies and data.

ERGO Life Insurance SE addresses the changing client needs and realities; therefore, the company can offer its clients modern insurance products. In Lithuania ERGO became the first insurer in the market with a special insurance against cancer. This ERGO insurance covers a wide range of various types of cancer and offers a wide age limit of the insured. Also, minor children of the insured are insured free of charge. With this insurance ERGO seeks to speak courageously about this illness and to help people financially secure their future.

Due to outbreaks of measles in Lithuania, ERGO was the first insurance company to offer its clients a special initiative for insurance against measles which was implemented over a couple of months and during which measles were included into the accident insurance for natural persons and additional insurance against accidents (in life insurance contracts).

In 2019 ERGO expanded its health insurance product for the business segment in Lithuania with one more useful service – in case of death of an employee employers are able to choose the size of the benefit paid to the family. It is a useful solution for employers as they will not have to prepare a special budget in order for a benefit to be paid to the family in case of a death.

ERGO Life Insurance SE in Lithuania was also the first company to offer its clients a new health insurance product Thoughtful Parenting. This special product with protection of health insurance and insurance against accidents was created for clients who became parents a year ago and purchased the EUR 5,000 health insurance at a symbolic price. Thoughtful Parenting is the first health insurance experience when clients are identified and documents are signed remotely by using the electronic signature.

In 2019 ERGO updated its health insurance app in Latvia and Lithuania in order to provide more convenience for clients to submit information related to health insurance.

Health insurance product Maxi designed for foreign citizens applying for visas was introduced in Estonia.

The company focuses on long-term life insurance business in the Baltics and holds strong positions in voluntary pension insurance 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, and for the retired members of pillar II pension funds it provides pension annuity service in all Baltic States.

We are proud of

Best customer support in Estonia and Lithuania. Based on results of a research of mystery shopping exercises carried out by Dive Lithuania, ERGO is the insurance company with the best customer support in Lithuania in 2019 (91% score). Results of an investigation of mystery shopping exercises carried out in Estonia at the end of the year by Dive Estonia show that ERGO carries the title of the insurance company with the best customer support in Estonia as well.

Highest NPS. ERGO in Estonia carries the highest Net Promoter Score (NPS) among insurance companies based on the findings of a research of the net promoter score of service companies carried out in Estonia by Kantar Emor.

Most beloved insurer in the Baltic States. This year ERGO is recognised as the most beloved insurer in the Baltic States based on the results of the research conducted by DDB Brand Capital (2019). In the overall list of all companies ERGO occupies the 48th place in the Baltic States and, compared to the previous year, has advanced by 22 places. ERGO also holds the 3rd place among all companies of the financial sector in the Baltic States and is only below two banks.

Top employer awards. ERGO in Latvia is listed among the 50 best employers and holds the high 23rd place. The leading online employment company CV-Online Latvia announced the most reliable Latvian employers in several categories which were determined by summarising results of the most ambitious employee survey. A significant portion of the public voted for the most reliable employer, almost 8,000 in total.

For the first time ERGO entered the list of the 50 top employers concluded in Lithuania by CV-Online LT and was ranked 27th. 50 companies who attracted the most attention were selected for the list of Top Employer 2019 out of 3,000 companies who published their job offers in 2019 on www.cvonline.lt. Annual account results and views of job offers were recorded.

Gold category rating. ERGO in Latvia for the third year participated in the Sustainability Index Awards and was awarded the Gold Rating (a Silver Rating in the previous year). 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. ERGO not only entered the Gold category of the Sustainability Index but was also recognised as a company of gender equality in Latvia. The aim of this nomination is to highlight the company which was the most successful at promoting equal rights between men and women.

Family-friendly workplace. ERGO in Latvia was awarded the status of a family-friendly workplace. The awards have been organised for 12 years now, and this year ERGO was among the 38 winning companies.

Excellent employee survey results. Based on the results of an ERGO employee survey carried out in the Baltic States, one of the most significant indicators, i.e. sustainable involvement, is as high as 86%. As many as 90% of ERGO employees in Estonia, Latvia and Lithuania took part in the survey and expressed their opinions.

Sponsorship and social responsibility

ERGO is implementing a wide range of social responsible projects in all three Baltic Countries. The projects implemented are related to the environment and nature conservation, sport and healthy lifestyle, culture and science. Employees willingly participate in the majority of these projects.

Environment and nature conservation. In the autumn of 2019 ERGO launched the image campaign “Let’s protect our future” in the Baltic States with the aim to encourage people to reflect on nature and start taking care of it as it is our only home. When implementing the campaign we are committed to do everything in our power to reduce the ecological footprint. ERGO also encourages its clients, partners and the public to take notice and show efforts of nature conservation.

The environment and climate change are issues of particular concern; therefore, ERGO supported Climathon events in Vilnius and Tallinn. These events are related to climate change and simultaneously take place in 100 cities around the world. ERGO supported the hackathon related to climate change during which participants of different occupations and experience generated ideas and worked in teams to create projects which could contribute to mitigation of climate change.

Support for the Alytus community. Community plays an essential role when a disaster strikes. In order to support the residents of Alytus and its region in the event of a major fire, ERGO provided the support necessary to eliminate the extreme situation which occurred due to environmental air contamination by hazardous substances.

Forestation. ERGO in Latvia together with like-minded partners planted almost 3,000 pines. Approximately 27 thousand pines and spruce have been planted over the last nine years when ERGO has participated in the forestation project.

Global initiative Earth Hour. ERGO supported the global initiative Earth Hour. All lights were turned off in the main ERGO office in Vilnius for one hour. Employees were also encouraged to join the initiative.

Waste is sorted in ERGO offices, and internal communications help to encourage employees to contribute to environmental protection and nature conservation: to print less, to drink water from the tap and to use own containers, to turn off lights, not to use tableware made of plastic, etc. ERGO in Estonia took part in the social campaign "Don't' drink plastic" encouraging people to use less products of non-recyclable plastic.

"Kino pavasaris". Vilnius International Film Festival "Kino pavasaris" is the biggest film festival in the Baltic States and its growth continues – this year films were shown in 19 Lithuanian cities. As many as 126.5 thousand people watched various films over 1,300 screenings. ERGO supported this major cultural event for the 8th time. Employees were also involved in the festival and had the opportunity to watch several films and to participate in a film event together with their children.

ERGO social initiative Light Your Bike and IKI Velomarathon event. ERGO in Lithuania is the main sponsor of the biggest cycling event IKI Velomarathon. The event attracts more than 10 thousand cyclists annually from different age groups, both professionals and amateurs. In order to draw attention to safety of cyclists during the hours of darkness, in 2019 ERGO together with its partners, i.e. the Lithuanian Road Police Service, IKI Velomarathon, the Cycling School and the Lithuanian Cyclists' Community launched the social initiative Light Your Bike. The objective of the initiative is to carry out education activities and to encourage cyclists to have all the necessary light reflecting elements and flashlights as required under the Traffic Rules. ERGO employees and their family members are invited to take part in the event and to join the ERGO team of amateur cyclists. The number of participants is growing each year, and more than 230 employees joined the event in 2019. The high level of participation guaranteed that ERGO was awarded as the biggest team of amateur cyclists among those that took part in the IKI Velomarathon. ERGO employees in Latvia also participated in a similar cycling event Latvijas riteņbraucēju vienības brauciens.

ERGO employees cycle not only in events as employees of 11 ERGO offices in Lithuania are able to use bicycles for travels to clients or cycle during their free time or lunch breaks. Employees are also encouraged to practise sport and spend time with their colleagues.

Healthy lifestyle. ERGO encourages its employees to be more active and lead a healthy lifestyle. For this purpose "Health months" are organised when employees are provided with products for healthy teas, and ERGO launched the initiative Apple Days in Lithuania when once a month employees in all offices are treated with seasonal fruits.

In Latvia, employees initiated spring, autumn and winter team sport events. Using a sports app, employees competed in jogging, hiking, cycling and gymnastics. ERGO team participated in Tet Riga marathon, and in December 100 employees ran in the annual Santa Claus charity run.

ERGO in Latvia also gathered a volleyball team of its employees and partly paid for training while preparing for volleyball beach competitions. For the 7th time ERGO became the major sponsor of the volleyball beach competition which takes place in Latvia.

In Lithuania and Latvia ERGO sponsors employee teams who play volleyball, basketball, football. ERGO employees in Estonia took part in the Corporate Sport Month activities organised by the Estonian Olympic Committee and SportID. During the activities employees were challenged with various sport challenges.

ERGO supports Lithuanian athletes and their preparation for the Olympic Games; therefore, this year ERGO started cooperation with the Lithuanian National Olympic Committee. One of the events was the Olympic Day during which a team of ERGO employees participated in various sporting activities together with other teams.

Grants for young athletes. For several years in a row, ERGO in Estonia announced a competition for the Young Athlete grant in the amount of EUR 25 thousand. With the grant, ERGO wishes to support the healthy and active lifestyle of the people of Estonia.

Scholarships for education seekers. ERGO in Latvia provides scholarships to young people who have lost their parents and need support in order to obtain higher education. In total, over 18 years, ERGO has supported education of 86 young people, and allocated more than EUR 300 thousand for the purpose.

ERGO collaborates with the organisation SOS Children's Villages and its day care centres and support various activities organised by the organisation. This year ERGO gave the opportunity for a number of children to go to summer camps.

Employee kindness initiatives. Employees in all Baltic States personally contribute to kindness initiatives by collecting money and items for those in need. Charity markets, Pie Days, trips to and meetings with children from poor families or those living in orphanages are organised for the same purpose. Children often lack attention and communication; therefore, the time our employees spent with them is of utmost importance.

More than 30 ERGO employees in Latvia participated in the Blood Donor Day and donated more than 14 litres of blood.

Family day. ERGO family day was organised for the 7th time in Latvia on the International Children's Day. Around 100 children of ERGO employees participated in the event in 2019 when they visited the ERGO office and gained more knowledge about the work of their parents, insurance as well as active and healthy lifestyle. The main theme of the event was Safe Summer.

Children's space in ERGO offices. Spaces for the children of employees were installed in Latvia and Lithuania in 2019. These spaces are for children to safely spend time after school or during school holidays and wait for their parents to finish their work. Children can do their homework, watch TV, read or play.

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

- Chairman of the Management Board Bogdan Benczak 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.
- Member of the Management Board and Chief Financial Officer Maciej Szyszko is responsible for financial management and the following departments in the Baltics: accounting, planning and controlling, investment, IT, actuaries, risk management and acquisitions.
- Member of the Management Board and ERGO's team leader in Latvia Ingrida Kirse is responsible for life and health insurance, pricing and reinsurance in the Baltics.
- Member of the Management Board and ERGO's team leader in Lithuania Tadas Dovbyšas is responsible for own sales network and business clients, including banking insurance in the Baltics, sales in Lithuania and Latvia.
- Member of the Management Board and ERGO's team leader in Estonia Marek Ratnik is responsible for risk assessment and product development, pricing and reinsurance in the Baltics.

Statement of the management's responsibility

The Board of Directors of ERGO Life Insurance SE confirm that the separate financial statements for the year ended 31 December 2019 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. Board of Directors of ERGO Life Insurance SE are responsible for preparing these separate financial statements from the books of primary entry. The Board of Directors confirm that these separate financial statements for the year ended 31 December 2019 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 judgments and estimates have been made by the Board of Directors in the preparation of the separate financial statements for the year ended 31 December 2019.

The Board of Directors of ERGO Life Insurance SE are 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. They are also responsible for operating the Company in compliance with the legislation of the Republic of Lithuania.

Bogdan Benczak
Chairman of the Board

7 April 2020

Separate financial statements

Separate income statement

In euros	Note	**2019**	**2018**
Income			
Gross premiums written		71,637,033	70,690,195
Written premiums ceded to reinsurers		-901,969	-992,675
Total net premiums written		**70,735,064**	**69,697,520**
Change in gross provision for unearned premiums		587,945	-272,570
Reinsurers' share of change in provision for unearned premiums		0	0
Net change in provision for unearned premiums		**587,945**	**-272,570**
Net earned premiums	**6**	**71,323,009**	**69,424,950**
Fee and commission income	**23**	**565,624**	**531,813**
Net investment income	7	14,399,871	3,417,509
Other income		697,673	705,123
Total income		**86,986,177**	**74,079,395**
Expenses			
Claims and benefits incurred		-62,314,607	-53,570,250
Reinsurers' share of claims and benefits incurred		90,596	76,951
Net policyholder claims and benefits incurred	**8**	**-62,224,011**	**-53,493,299**
Change in value of financial liabilities from unit-linked contracts	**23**	**-2,757,154**	**971,469**
Acquisition costs	9	-10,875,040	-10,669,556
Administrative expenses	9	-4,868,526	-4,267,175
Other operating expenses	9	156,194	-921,579
Investment expenses	9	-454,165	-501,912
Other expenses	9	-358,662	-2,409,327
Total expenses		**-81,381,364**	**-71,291,379**
Operating profit/loss		**5,604,813**	**2,788,016**
Profit before income tax		**5,604,813**	**2,788,016**
Income tax expense/benefit	**28**	**32,298**	**87,335**
Profit for the year		**5,572,515**	**2,700,681**

Separate statement of other comprehensive income

In euros	Note	**2019**	**2018**
Profit/loss for the year		**5,572,515**	**2,700,681**
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	13,276,466	-2,622,127
Total other comprehensive expense/income for the year		**13,276,466**	**-2,622,127**
Total comprehensive income/expense for the year		**18,848,981**	**78,554**

The notes on pages 24 to 78 are an integral part of these separate financial statements.

Separate statement of financial position

In euros

Assets

As at 31 December	**Note**	**2019**	**2018**
Property and equipment	10	2,072,351	301,087
Intangible assets	12	871,404	869,214
Deferred acquisition costs	11	5,380,348	5,646,084
Investments in subsidiaries	13	4,677,870	4,677,870
Investments in associates	14	0	0
Asset held for sale	14	622,281	622,281
Investments in financial instruments			
Equities and fund units accounted at FVTPL	*15*	*51,889,808*	*40,500,616*
Equities and fund units available for sale	*15*	*26,781,873*	*27,256,978*
Debt and other fixed-income securities	*15*	*227,877,839*	*213,138,002*
Loans	*15*	*6,004,493*	*6,002,247*
Total investments in financial instruments		312,554,013	286,897,843
Reinsurance assets	16	160,591	149,133
Insurance and other receivables	17	9,816,276	10,284,380
Deferred tax assets	28	110,460	100,758
Cash and cash equivalents	18	8,576,679	6,753,999
Total assets		**344,842,273**	**312,302,649**

Equity and liabilities

As at 31 December	**Note**	**2019**	**2018**
Equity			
Share capital	19	4,380,213	4,380,213
Capital reserve	20	15,869,501	15,869,501
Fair value reserve	21	36,880,062	23,603,596
Retained earnings		18,585,696	16,513,180
Total equity		**75,715,471**	**60,366,490**
Liabilities			
Insurance contract provisions	22	207,667,904	208,057,862
Reinsurance payables		243,638	286,159
Financial liabilities from unit-linked contracts		32,311,935	23,210,828
Financial liabilities from investment contracts	23	19,577,873	17,289,789
Lease-related liabilities	27	1,768,921	0
Insurance payables	24	3,975,802	4,148,569
Other payables and accrued expenses	25	3,580,729	2,942,952
Total liabilities		**269,126,802**	**255,936,159**
Total equity and liabilities		**344,842,273**	**316,302,649**

The notes on pages 24 to 78 are an integral part of these separate financial statements.

Separate statement of changes in equity

In euros	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2017	**4,380,213**	**15,869,501**	**26,225,722**	**17,312,500**	**63,787,936**
Dividend distribution	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	2,700,681	2,700,681
Other comprehensive expenses	0	0	-2,622,127	0	-2,622,127
Total comprehensive income	**0**	**0**	**-2,622,127**	**2,700,681**	**78,554**
Balance at 31 December 2018	**4,380,213**	**15,869,501**	**23,603,595**	**16,513,181**	**60,366,490**
Dividend distribution	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 at 31 December 2019	**4,380,213**	**15,869,501**	**36,880,061**	**18,585,696**	**75,715,471**

The notes on pages 24 to 78 are an integral part of these separate financial statements.

Separate statement of cash flows

In euros

(Inflow + , outflow –)	Note	2019	2018
Net cash from operating activities		**3,049,595**	**10,087,027**
Insurance premiums received		76,100,466	75,375,187
Claims, benefits and handling costs paid		-53,278,623	-46,094,480
Settlements with reinsurers		-410,740	-538,431
Paid in operating expenses		-15,053,168	-16,622,225
Other income and expenses		648,282	519,689
Taxes paid		-4 956 622	-2 552 713
Net cash used in investing activities		**2,273,085**	**-8,853,043**
Acquisition of equities and fund units		-27,804,012	-48,992,807
Disposal of equities and fund units		9,752,419	11,915,656
Acquisition of debt and other fixed-income securities		-12,891,520	-4,844,298
Disposal of debt securities		25,108,384	27,192,959
Interest received		5,702,382	4,909,767
Dividends received		2,457,431	829,498
Paid on acquisition of property and equipment and intangible assets		-425,851	-297,443
Proceeds from sale of property and equipment and intangible assets		373,852	433,625
Net cash from financing activities		**-3,500,000**	**-3,500,000**
Dividends paid		-3,500,000	-3,500,000
Net cash inflow/ (outflow)		**1,822,680**	**-2,266,016**
Cash and cash equivalents at beginning of year		**6,753,999**	**9,020,015**
Decrease in cash and cash equivalents		1,822,680	-2,266,016
Cash and cash equivalents at end of year	**18**	**8,576,679**	**6,753,999**

The notes on pages 24 to 78 are an integral part of these separate financial statements.

Notes to the separate financial statements

Note 1. Reporting entity

ERGO Life Insurance SE ('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 2019 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 2020. 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 2019.

(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 at fair value through profit or loss, available-for sale financial assets and unit-linked and investment contract liabilities, which are measured at their fair values.

(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 carrying amounts of assets and liabilities that are not readily apparent from other sources. Although the estimates are based on management's best judgement and facts, actual results may differ from those estimates.

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

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 (n) respectively.

Estimates are also used in determining impairment of financial assets (see accounting policies (l)) and deferred tax asset (see accounting policies (s)).

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

- Note 11 Deferred acquisition costs
- Note 17 Insurance and other receivables
- Note 22 Insurance contract provisions
- Note 28 Income tax

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

(i) Measurement of fair values

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 fall into different levels of the fair value hierarchy, then 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).

(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.

According to 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 pension contract in terms of Funded Pension 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 income statement 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 amount 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 written down 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 income statement 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.

Other income

Rental income from investment property is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in profit or loss as an integral part of rental income.

(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

Reinsurance claims and benefits are recognised when the related gross insurance claim or benefit is recognised according to 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 expenses 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

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable from 1 January 2019
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, 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 payments, including in-substance fixed 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 'loans and borrowings' 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.

(ii) The Company as a lessor
At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contracts to each lease component on the basis of their relative stand-alone prices. When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

(ii) Leased assets

Leases of property and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's separate statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(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, which includes capitalised borrowing costs, 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. For traditional life insurance products acquisition costs are capitalised for the duration of contract and charged to expenses in proportion to premium revenue recognised. Deferral period for UL product is shorter: up to 15 years in Lithuania and up to 7 years in Latvia.

(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 assets, or disposal groups, are generally measured at the lower of their carrying amount 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, investment property or biological assets, which continue to be measured in accordance with the Group’s other 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.

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

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other 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

<u>Financial assets at fair value through profit or loss</u>

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.

<u>Loans and receivables</u>

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.

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

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 OCI 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) Derivative financial instruments

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

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

(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 amount 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.

Available-for-sale financial assets

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 amounts 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, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

(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.

(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 technical 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 0.3% 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, technical provision is formed with the investment return of 0.05%.

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 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. A separate reserve for longevity may be established and included in the measurement of the liability.

Provision for unearned premiums

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 premiums 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.

Provision for claims outstanding

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 technical provisions and financial liabilities in addition to guaranteed profit sharing (additional profit sharing).

Provision for unexpired risks

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

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 unit-linked 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.

(ii) Financial liabilities from health insurance contracts

Financial liabilities from health insurance contracts consist of amounts received and the interest and additional benefits (profit sharing) accrued for the contracts less contract management fees and risk cover charges. The guaranteed annual interest rate of contracts ranges from 0.3% to 4% depending on the type and time of issue of the contract. The interest rate is guaranteed until the end of the investment (capital accumulation) period of the contract.

(iii) 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 income statement net of any reimbursement. 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 0.234% until May and 0.217 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 recognised, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation 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.

(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

As of 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.

Note 4. Application of new and amended International Financial Reporting Standards (IFRS)

Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Part 3 “Significant accounting policies” to all periods presented in these separate financial statements.

The following new standards and amendments with effective date of 1 January 2019 did not have any impact on these separate financial statements:

- Interpretation of IFRIC 23 – Uncertainty over income tax treatments;
- Amendment to IFRS 9 – prepayments with negative compensation;
- Amendments to IAS 28 Sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IAS 19 Employee Benefits – plan amendment, curtailment or settlement;
- Annual improvements to IFRSs 2015-2017.

The following new standards and amendments with effective date of 1 January 2019 did have an impact on these separate financial statements:

IFRS 16 Leases *(Effective for annual periods beginning on or after 1 January 2019)*

IFRS 16 has replaced IAS 17 *Leases* and any interpretations related to this standard and has introduced a full model of identification and settlement of leases in the lessors' and lessees' financial statements. The most important change pertains to lessees, for which the new standard eliminates the distinction between financial leases and operating leases. For accounting policies for Leases see Part 3 (d) Leases.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these separate financial statements.

(i) IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. Insurance undertakings are permitted to adopt the standard for the annual periods beginning on or after 1 January 2023)

This Standard 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 – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and 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 recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised 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 recognised.

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

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

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

The Company has not yet prepared an analysis of the expected quantitative impact of the new standard, because the management has selected to apply the temporary exemption applicable to companies whose activities are predominantly connected with insurance and defer the application of IFRS 9 until 1 January 2023.

(ii) Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019. Insurance undertakings are permitted to adopt the standard for the annual periods beginning on or after 1 January 2023).

(iii) Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

(iv) Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

(v) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely).

(vi) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023).

The Company does not plan to adopt these standards early. The Company has assessed the potential impact from new standards and does not expect the new standards to have material impact on the separate financial statements.

(vii) IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company does not plan to adopt this standard early. The Company expects that this new standard, when initially applied, will have a material impact on the separate financial statements of the Company as the Company concludes insurance contracts; however, the Company's management has not yet started the assessment of the quantitate impact.

Note 5. Risk management

As part of the Munich Re Group, the Company is committed to turning risk into value. The Company's risk management includes all strategies, methods and processes to identify, analyse, assess, control monitor and report the short and long term risks the Company faces or may face in the future.

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

- Maintain the financial strength, thereby ensuring that the liabilities to the clients can be met;
- Protect and increase the value of the shareholders' investment;
- Safeguard the reputation of Munich Re, its sub-groups and each legal entity.

The Company needs to take the right type of risks in appropriate amounts in order to achieve these goals. The Company's risk management aims to achieve this. 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 and future periods' business strategy, risk strategy and capital management. The chapters below describe the main risks that the Company has to face because of its 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 impact from changes in the lapse rate is assessed by the Company on the regular basis (at least annually); the comparison of actual surrenders and modelled is performed and significant fluctuations (if any) analysed in the details. Proper expense evaluation is considered a challenging aspect as well due to long-term projections which lead to expense estimation for the next 40 years. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is considered to be 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 in Estonia in 2017 and in Lithuania in 2018. The distribution of these products is planned to be terminated also in Latvia in the near future.

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, current Company's experience cannot be considered sufficient to have prudent actual longevity estimates. 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 the Funded Pension Act) as well as rather constant expenses for annuity products.

3. Unit-linked products. The products are sensitive to lapse and expense risks; depending on the products, they might be potentially sensitive to mortality, disability-morbidity, accident and sickness risks. These products are reflected under life insurance risk modules. The parameters of product assessment costs, lapse and claims are assessed at least annually and updated in case of deviations from actual portfolio development.

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 in Latvia and Estonia. 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 2019 *In euros*	**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**

As at 31 December 2018 *In euros*	**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%	-19,176	-19,176	-27,732	**-39,097**
Lapse and surrenders rate	+ 10%	-173,996	-173,996	84,360	**121,079**
Discount rate	+ 1%	-3,570,286	-3,570,286	1,287,105	**983,331**
Mortality rate	- 10%	22,707	22,707	27,734	**37,005**
Lapse and surrenders rate	- 10%	193,256	193,256	-84,349	**-121,185**
Discount rate	- 1%	7,965,351	7,965,351	-1,298,671	**-1,840,762**

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 rates will become insufficient due to the changed assumptions. 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 technical provision evaluation arise due to the fact that major part of portfolio has guaranteed outgoes, rather long-term, future projections of 40 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 Management Board member. 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 2019, the weighted average purchase yield to maturity of fixed-income portfolio was 2.51% (31 December 2018: 2.79%).

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

In euros	**2019**	**2018**
	Carrying amount	**Carrying amount**
Fixed-income debt securities		
Interest rate 0.00−2.50%	103,565,609	81,530,354
Interest rate 2.51−3.50%	16,987,150	17,208,951
Interest rate 3.51−4.50%	47,364,351	50,064,862
Interest rate 4.51−5.50%	35,534,088	34,752,456
Interest rate 5.51−6.50%	23,680,861	24,013,663
Interest rate 6.51−7.50%	473,518	499,750
Interest rate 7.51−8.50%	272,261	286,840
Total fixed-income debt securities	**227,877,839**	**208,356,877**
Floating rate debt securities	0	4,781,125
Loans		
Interest rate 2.51−3.50%	6,004,493	6,002,247
Total loans	**6,004,493**	**6,002,247**
No interest	87,248,360	74,511,593
Total	**321,130,692**	**293,651,842**

(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 2019 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 2.7 million (2018: 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

In euros

As at 31 December	**2019**	**2018**
Debt and other fixed-income securities		
Austria	15,041,083	13,924,560
Australia	1,662,483	1,589,976
Belgium	15,948,008	14,638,162
Canada	1,805,349	1,688,424
Chile	2,102,647	1,145,614
Czech Republic	248,739	256,719
Denmark	0	208,601
Estonia	2,242,614	2,194,587
Finland	2,662,920	2,681,383
France	40,193,176	37,192,380
Germany	22,842,273	23,818,707
Hungary	1,986,936	895,781
Indonesia	532,393	493,108
Ireland	8,749,650	7,034,248
Israel	4,426,320	2,410,276
Italy	12,754,276	11,604,209
Kazakhstan	826,532	0
Latvia	5,664,947	4,279,624
Lithuania	5,382,515	6,935,503
Luxembourg	4,916,009	4,404,740
Mexico	2,555,879	2,390,952
Netherlands	13,130,016	12,406,020
New Zealand	671,461	649,663
Norway	1,837,197	1,008,641
Peru	1,282,406	1,224,105
Poland	6,115,367	5,665,443
Slovakia	4,783,951	4,447,462
Slovenia	5,050,443	4,563,428
Spain	19,620,984	17,921,231
Sweden	1,454,024	0
Switzerland	730,777	729,431
Great Britain	1,681,755	6,435,174
USA	3,529,464	3,515,231
European Investment Bank	15,445,245	14,784,618
Total debt and other fixed-income securities	***227,877,839***	***213,138,002***
Equities and fund units		
Ireland	18,617,747	19,590,340
Estonia	6,709,232	6,300,171
Finland	81,561	46,873
Lithuania	0	110,846
Luxembourg	1,373,333	1,208,748

In euros		
As at 31 December	**2019**	**2018**
Total equities and fund units	***26,781,873***	***27,256,978***
Loans Estonia	6,004,493	6,002,247
Total loans	***6,004,493***	***6,002,247***
Unit-linked		
Ireland	2,931,501	1,525,400
Finland	1,876,243	1,132,728
Lithuania	0	11,219,764
Luxembourg	47,082,064	26,622,724
Total Unit-linked	***51,889,808***	***40,500,616***
Cash		
Estonia	1,381,196	1,220,093
Latvia	3,039,828	3,719,826
Lithuania	4,155,655	1,814,080
Total cash	***8,576,679***	***6,753,999***
Total investments in financial instruments	**321,130,692**	**293,651,842**

(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.

In euros	**As at 31 December 2019**	**As at 31 December 2018**
	USD	**USD**
Insurance and other receivables	2,692	2,573
Investments in financial instruments – available-for-sale debt securities	0	0
Other liabilities from direct insurance business	0	0
Reinsurance payables	0	(1,423)
Total	**2,692**	**1,150**

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 (2018: 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.

Rating		2019		2018	
Standard & Poor's	**Moody's**	**Carrying amount in euros**	**%**	**Carrying amount in euros**	**%**
AAA	Aaa	58,166,379	**18.1**	53,758,966	**18.3**
AA	Aa	76,323,254	**23.8**	70,767,034	**24.1**
A	A	56,508,175	**17.6**	55,903,149	**19.0**
BBB and below	Baa	36,880,031	**11.5**	32,708,853	**11.2**
Not rated	Not rated	93,252,853	**29**	80,513,840	**27.4**
Total		**321,130,692**	**100**	**293,651,842**	**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 2019 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	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**
Total	**7,766,679**	**1,107,281**	**299,783**	**373,376**	**9,547,119**

As at 31 December 2018 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	7,919,591	1,093,559	214,183	186,649	**9,413,982**
Receivables from intermediaries	9	6	0	17	**32**
Receivables from reinsurers	35,527	31,345	0	0	**66,872**
Other receivables	269,137	206,480	27,816	73,430	**576,863**
Total	**8,224,264**	**1,331,390**	**241,999**	**260,096**	**10,057,749**

In its insurance activities, the Company's main credit risk is payment default by a broker or reinsurer. The Company's credit risk arises principally from its insurance and reinsurance receivables. In each business line, risk management measures are applied to protect the Company's financial position. The Company has rules in place for consistently monitoring and managing overdue receivables. 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 269.24 million (2018: EUR 253.08 million), including available-for-sale securities of EUR 227.9 million (2018: EUR 213.1 million), equities and fund units of EUR 26.78 million (2018: EUR 27.23 million), loans of EUR 6.00 million (2018: EUR 6.00 million), and cash and cash equivalents of EUR 8.58 million (2018: EUR 6.75 million).

Investments in financial instruments and cash (by maturity):

As at 31 December		
In euros	**2019**	**2018**
Carrying amount	**321,130,692**	**293,651,842**
Total contractual cash flows	**337,738,614**	**314,907,092**
No maturity	87,248,360	74,511,593
Up to one year	7,901,096	7,703,728
2-3 years	39,693,173	12,087,911
4-5 years	31,100,795	34,250,016
6-10 years	72,505,055	58,609,204
11-15 years	46,410,296	51,061,751
16 and more	52,879,839	76,682,889

At the year-end, the weighted average duration of fixed income portfolio was 9 years (2018: 9 years). There were no non-cash movements in the portfolio.

Financial liabilities (based on maturities):

As at 31 December 2019 *In euros*	**Up to 1 year**	**2 to 5 years**	**6 to 10 years**	**Over ten years**	**Total**
Insurance contracts provisions	39,068,300	57,356,025	48,905,804	62,337,775	**207,667,904**
Reinsurance payables	243,638	0	0	0	**243,638**
Financial liabilities from unit-linked contracts	2,165,115	8,021,626	6,486,957	15,638,237	**32,311,935**
Financial liabilities from investment contracts	7,046,877	10,099,405	1,328,853	1,102,738	**19,577,873**
Insurance payables	3,975,802	0	0	0	**3,975,802**
Other payables and accrued expenses	5,349,650	0	0	0	**5,349,650**
Total	**57,849,382**	**75,477,056**	**56,721,614**	**79,078,750**	**269,126,802**

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 risk

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 organizational 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 (IDD) and General Data Protection Regulation (GDPR). 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 aging 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 digitalization.

As part of the Management of Strategic Risks' process, top risks are identified, evaluated by the Board of Management and discussed on 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 risk

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 recognized 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 regarding ERGO's business practices and associations, whether accurate or not, will cause loss of confidence in the integrity of the institution. Reputational risks may result from the realization 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 unauthorized 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 Management Board. ERGO Group Management Board, Munich Re Management 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 function and the Internal Audit – 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 2019 and 2018 by insurance class.

In euros	2019				2018			
	Gross premiums written	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross premiums written**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, Riders (supplementary insurance)	3,766,628	-485,702	0	3,280,926	2,290,217	-599,299	0	1,690,918
Life, Unit-linked	9,963,392	0	0	9,963,392	9,771,872	0	0	9,771,872
Life, Endowment	12,124,058	-7,985	0	12,116,073	13,552,235	-15,070	0	13,537,165
Life, Pension	10,857,659	0	0	10,857,659,	11,604,347	0	0	11,604,347
Life, Term Life	4,490,275	-408,282	0	4,081,993	4,231,119	-378,306	0	3,852,812
Health insurance	30,435,020	0	-587,945	29,847,075	29,240,405	0	-272,570	28,967,835
Total	**71,637,033**	**-901,969**	**-587,945**	**70,735,064**	**70,690,195**	**-992,675**	**-272,570**	**69,424,950**

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

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

Distribution of gross premiums written by currency

In euros	**2019**	**2018**
EUR	71,606,818	70,651,950
USD	30,215	38,245
Total	**71,637,033**	**70,690,195**

Distribution of gross premiums written by country

In euros	**2019**	**2018**
Latvia	35,787,461	38,708,232
Lithuania	29,947,908	26,193,215
Estonia	5,901,664	5,788,748
Total	**71,637,033**	**70,690,195**

Note 7. Investment income

In euros	2019	2018
Interest income on		
Available-for-sale debt securities	4,849,220	4,909,410
Loans	63	45
Term deposits	21	311
Total interest income	**4,849,494**	**5,124,642**
Dividend income	2,489,404	525,364
Net realised gains on available-for-sale financial instruments	431,845	781,700
Fair value gains and losses on financial assets at FVPL (designated as such upon initial recognition)	6,617,784	-2,462,525
Investments in associates	11,344	12,884
Total	**14,399,871**	**3,417,509**

Note 8. Claims and benefits

The following table shows claims paid and incurred in 2019 and 2018 by insurance class.

In euros	2019				2018			
	Claims paid[1]	**Change in provision**	**Reinsu-rers' share of claims**	**Net claims incurred**	**Claims paid[1]**	**Change in provision**	**Reinsu-rers' share of claims**	**Net claims incurred**
Life, Riders (supplementary insurance)	-1,163,907	-95,770	93,096	-1,166,581	-858,889	-91,931	46,636	-904,184
Life, Endowment	-13,273,314	1,649,626	0	-11,623,688	-13,951,729	619,066	0	-13,332,664
Life, Pension	-11,404,412	-1,551,455	0	-12,955,867	-8,433,194	-3,914,344	0	-12,347,537
Life, Term Life	-301,514	266,455	-2,500	-37,559	-240,460	172,028	30,317	-38,115
Life, Unit-Linked	-2,426,060	-452,717	0	-2,878,777	-1,790,754	-504,465	0	-2,295,218
Health insurance	-24,446,306	-14,127	0	-24,460,433	-21,848,081	23,236	0	-21,824,845
Change in unit-linked reserve	0	-9,101,107	0	-9,101,106	0	-2,750,736	0	-2,750,736
Total	**-53,015,513**	**-9,299,094**	**90,596**	**-62,224,011**	**-47,123,107**	**-6,447,145**	**76,953**	**-53,493,299**

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

Catastrophes and major losses in 2019

In 2019 there were no losses incurred due to unforseen events or natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

In euros	Note	2019	2018
Acquisition costs		**10,875,040**	**10,669,556**
Service fees and commissions		5,405,028	5,225,275
Salaries		2,565,411	2,195,052
Social security charges		333,918	630,155
Marketing expenses		553,242	554,790
Depreciation and amortisation		366,556	273,781
IT costs		533,334	518,129
Rental and utilities charges		200,428	388,018
Office expenses		165,507	173,146
Training and other staff costs		98,543	49,646
Communications expenses including mobile phone charges		44,367	59,337
Other labour costs		63,333	55,512
Business travel expenses		61,363	46,098
Costs of company cars		34,581	41,584
Miscellaneous expenses		449,429	459,033
Administrative expenses		**4,868,526**	**4,267,175**
Salaries		2,623,551	2,090,496
Social security charges		352,889	565,791
IT costs		654,722	368,692
Depreciation and amortisation		331,472	215,259
Rental and utilities charges		125,964	276,599
Other labour costs		74,107	123,122
Business travel expenses		135,979	117,560
Training and other staff costs		84,412	91,092
Office expenses		72,186	64,979
Communications expenses including mobile phone charges		18,646	41,162
Costs of company cars		14,948	26,006
Miscellaneous expenses		379,648	286,417
Other operating expenses		**156,194**	**921,579**
Change in deferred acquisition costs		-265,736	1,321,209
Reinsurance commission and reinsurers' share of deferred acquisition	9.1	421,930	-399,630
Investment expenses		**454,165**	**501,908**
Services purchased		371,582	422,760
Salaries		47,719	44,540
Social security charges		16,129	15,055
Rental and utilities charges		13,216	13,463
Training and other staff costs		899	701
Business travel expenses		1,502	1,495
Communications expenses including mobile phone charges		371	266
Other labour costs		710	485
Office expenses		132	257
IT costs		82	59
Miscellaneous expenses		1,822	2,829

In euros	2019	2018
Other expenses	**358,662**	**2,409,327**
Decrease in value of asset held for sale (see note 14)	0	1,172,177
Expenses related to currency revaluation	135,090	114,664
Change in lump sum allowance	66,413	140,998
Write-off of property and equipment	648	85,633
Exp. Fr. Arranging (re-)insurance contract	0	705,338
Write-off of intangible assets	0	89,124
Write-off of office plant & equipment	1,152	1,070
Expenses related to lease of premises under IFRS 16	10,469	0
Miscellaneous expenses	144,890	100,323

9.1 Commission income

In euros	2019	2018
Reinsurance commissions	81,115	102,221
Participation in reinsurers' profit	340,815	297,409
Reinsurers' share of deferred acquisition costs	0	0
Total	**421,930**	**399,630**

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 2019, the cost of fully depreciated items still in use was EUR 481,269 (31 December 2018: EUR 623,103). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

In euros

Asset class	Land	Buildings	Equipment and other items	Total
Cost				
As at 31 December 2017	**18,935**	**210,909**	**947,436**	**1,177,280**
Value adjustment	0	0	0	0
Additions	0	0	75,678	75,678
Sales	0	0	-34,841	-34,841
Write-off	0	-74,909	-263,979	-338,888
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
Additions	0	0	232,769	232,769
Additions under IFRS 16	0	584,778	29,022	613,799
Sales	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**	**1,034,265**	**3,150,365**
Accumulated depreciation				
As at 31 December 2017	**0**	**0**	**646,787**	**646,787**
Depreciation for the year	0	0	110,240	110,240
Sales	0	0	-30,043	-30,043
Write-off	0	0	-148,842	-148,842
As at 31 December 2018	**0**	**0**	**578,142**	**578,142**
Depreciation of assets recognised under IFRS 16	0	458,415	33,783	492,198
Depreciation for the year		0	80,726	80,726
Sales	0	0	-67,440	-67,440
Write-off	0	0	-5,611	-5,611
As at 31 December 2019	**0**	**458,415**	**619,599**	**1,078,015**
Carrying amount				
As at 1 January 2018	**18,935**	**210,909**	**300,649**	**530,493**
As at 31 December 2018	**18,935**	**136,000**	**146,152**	**301,087**
As at 31 December 2019	**18,935**	**1,638,749**	**414,666**	**2,072,351**

Note 11. Deferred acquisition costs

In euros	**2019**	**2018**
Balance as at 1 January	**5,646,084**	**6,967,293**
Amortised portion	-1,777,579	-2,558,154
Addition from new contracts	1,511,843	1,236,945
Reduction after liability adequacy test	0	0
Balance as at 31 December	**5,380,348**	**5,646,084**

Note 12. Other intangible assets

In euros	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 1 January 2018	**3,487,711**	**566,167**	**4,053,878**
Purchase of software and licences	910,408	17,750	928,158
Addition – internally generated IT projects	0	0	0
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	-1,142,981	-55,159	-1,198,140
As at 31 December 2018	**3,255,138**	**528,758**	**3,783,896**
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	**2,813,502**	**579,538**	**3,393,040**
Accumulated amortisation			
As at 31 December 2017	**2,448,562**	**494,015**	**2,942,577**
Amortisation for the year	390,693	53,720	444,413
Write-off	-436,078	-36,230	-472,308
As at 31 December 2018	**2,403,177**	**511,505**	**2,914,682**
Amortisation for the year	295,426	14,331	309,757
Write-off	-702,803	0	-702,803
As at 31 December 2019	**1,995,800**	**525,836**	**2,521,636**
Carrying amount			
As at 1 January 2018	**1,039,149**	**72,152**	**1,111,301**
As at 31 December 2018	**851,961**	**17,253**	**869,214**
As at 31 December 2019	**817,702**	**53,702**	**871,404**

In 2019, on a joint agreement of the Baltic States, in order to improve the efficiency of processes and compatibility between the three countries, capitalization of .NET project was started. Also, an implementation of new personnel accounting programme SAGE was started.

Note 13. Investments in subsidiaries

Investment in subsidiary: 100 per cent 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.

In euros

Carrying amount of investment in subsidiary	
As at 31 December 2017	**4,677,870**
Acquired assets	0
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2018	**4,677,870**
Acquired assets	0
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2019	**4,677,870**

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2019 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
6,980,962	**88,853**	**6,892,109**	**2,974,928**	**2,496,965**

Note 14. Investments in associates

Investment in an associated company: the Company owns 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 is classified as non-current assets held for sale, because a successful outcome of the sales transaction in 2020 is 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. Non-current asset held for sale is reflected at fair value of EUR 622,281. The difference between fair value and the carrying amount is recognised as an impairment loss as at 31 December 2018.

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 is still presented as non-current assets held for sale at fair value of EUR 622,281. The Company intends to complete the sales process in April 2020.

The main financial information (not audited) of CJSC ERGO Ins. Co as at 31 December 2019 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
12,474,635	**6,951,871**	**5,522,764**	**10,262,648**	**25,918**

Note 15. Investments in financial instruments

In euros

As at 31 December	Note	2019	2018
Available-for-sale financial assets			
Equities and fund units	15.1	26,781,873	27,256,978
Debt and other fixed-income securities	15.2	227,877,839	213,138,002
Total available-for-sale financial assets		**240,394,980**	**240,394,980**
Investments accounted at FVTPL			
Equities and fund units	15.1	51,889,808	40,500,616
Total investments accounted at FVTPL		**51,889,808**	**40,500,616**
Derivative financial instruments	15.2	**0**	**0**
Loans and receivables			
Loans	15.3	6,004,496	6,002,247
Term deposits with credit institutions	15.3	0	0
Total loans and receivables		**6,004,493**	**6,002,247**
Total		**312,554,013**	**286,897,843**

15.1. Equities and fund units accounting

In euros	As at 31 December 2019		As at 31 December 2018	
	Cost	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	4,243,462	4,390,363	5,633,408	5,664,987
Units in listed debt funds	13,769,372	14,244,301	13,769,373	13,967,390
Unlisted equities	1,419,482	1,437,977	1,391,480	1,352,080
Property funds	5,000,001	6,709,232	5,000,001	6,272,521
Unit-linked	47,279,895	51,889,808	39,453,912	40,500,616
Total	**71,712,212**	**78,671,681**	**65,248,174**	**67,757,594**

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.

In euros	**As at 31 December 2019**		**As at 31 December 2018**	
	Cost	**Fair value**	**Cost**	**Fair value**
Fixed-income debt securities				
Government bonds	151,775,659	183,079,591	151,134,821	171,852,474
Financial institutions' bonds	16,372,625	17,857,854	12,761,649	13,482,848
Other debt securities	25,227,860	26,940,393	22,482,689	23,021,555
Total fixed-income debt securities	**193,376,144**	**227,877,839**	**186,379,159**	**208,356,877**
Financial institutions' bonds				
Total floating rate debt securities	0	0	4,639,913	4,781,125
	0	**0**	**4,639,913**	**4,781,125**
Total	**193,376,144**	**227,877,839**	**191,019,072**	**213,138,002**

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 2019 and 2018, 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

In euros		
As at 31 December	**2019**	**2018**
1 year	0	0
2-3 years	0	0
4-5 years	0	0
5-10 years	6,004,493	6,002,247
Total	**6,004,493**	**6,002,247**

As at 31 December 2019, the following loans were issued:

EUR 6,004,493 (31 December 2018: EUR 6,002,247) 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:

In euros		
As at 31 December	**2019**	**2018**
Provision for unearned premiums	0	0
Provision for claims outstanding – claims incurred and reported	*160,591*	*149,133*
Provision for claims outstanding – IBNR	*0*	*0*
Provision for insurance pension annuities	*0*	*0*
Total provision for claims outstanding	160,591	149,133
Provision for future policy benefits	0	0
Provision for rebates	0	0
Total	**160,591**	**149,133**

Information on reinsurance assets is also provided in note 22.

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

Reinsurance result

In euros	**Note**	**2019**	**2018**
Premiums paid to reinsurers	6	901,969	992,676
Reinsurers' share of change in provision for unearned premiums		0	0
Commissions and profit participation paid by reinsurers	9.1	-421,930	-399,630
Reinsurers' share of claims paid	8	-79,138	-67,470
Reinsurers' share of change in provision for claims outstanding	8	-11,458	-9,483
Reinsurers' share of deferred acquisition costs	9.1	0	0
Total		**389,443**	**516,093**

Note 17. Insurance and other receivables

In euros		
As at 31 December	**2019**	**2018**
Receivables from policyholders gross	9,628,817	9,973,186
Impairment of receivables from policyholders	-555,808	-559,204
Receivables from brokers and other intermediaries	10,297	32
Receivables from reinsurers	1,444	66,872
Total insurance receivables	***9,084,750***	***9,480,886***
Other receivables	462,369	576,863
Total other financial assets	***462,369***	***576,863***
Deferred expenses	229,770	192,105
Prepaid taxes	39,387	34,525
Total non-financial assets	***269,157***	***226,631***
Total	**9,816,276**	**10,284,380**

Note 18. Cash and cash equivalents

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

In euros	**31 December 2019**	**31 December 2018**
Cash at bank	8,576,269	6,753,752
Cash in hand	410	247
Total	**8,576,679**	**6,753,999**

Cash and cash equivalents by original currency

As at 31 December	**2019**	**2018**
EUR	8,576,679	6,753,999
USD	0	0
PLN	0	0

Note 19. Shareholders and share capital

	Number of shares	**Total share capital**
As at 31 December 2019	15,124	4,380,213
As at 31 December 2018	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. According to the articles of association, shares may be pledged only subject to the consent of the management board.

The sole shareholder of ERGO Life Insurance SE is ERGO International AG (registry number HRB 40871, address Victoriaplatz 2, 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 2019, 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 2019 consists of share premium: EUR 15,129,289, compulsory reserve: EUR 450,591 and other reserves: EUR 289,621 (as at 31 December 2018: EUR 15,129,289, compulsory reserve: EUR 450,591 and other reserves: EUR 289,621).

The authorised capital of the Company is booked according to the 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 General Shareholders' Meeting, according to 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 compulsory reserve 5% of the profit for distribution until the reserve makes up 10% of the Company's authorised capital. The compulsory reserve may be used only to cover losses of the Company. Part of the compulsory reserve, exceeding 10% of the authorised capital, can be redistributed when distributing profit of the following financial year.

As at the end of 2019, the Company had fully formed its compulsory 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.

In euros	**2019**	**2018**
At 1 January	**23,603,596**	**26,225,722**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-310,858	-225,640
Net change in fair value recognised in other comprehensive income or expense during the year	13,587,324	-2,396,486
At 31 December	**36,880,062**	**23,603,596**

Note 22. Insurance contract provisions and reinsurance assets

Insurance liability valuation

In euros

As at 31 December	Note	2019	2018
Gross provisions			
Life insurance provision	22.1	185,964,106	187,311,157
Provision for unearned premiums		11,880,726	12,468,670
Bonus provision	22.3	2,397,312	2,651,049
Provision for claims outstanding – claims incurred and reported		*6,231,421*	*4,451,672*
Provision for claims outstanding – IBNR		*926,299*	*995,356*
Provision for claims outstanding – indirect claims handling costs		*266,471*	*179,958*
Total provision for claims outstanding	22.2	7,424,190	5,626,984
Unexpired risk provision		1,570	0
Total gross provisions		**207,667,904**	**208,057,860**
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		*160,591*	*139,650*
Provision for claims outstanding – IBNR		*0*	*0*
Total provision for claims outstanding		160,591	139,650
Unexpired risk provision		0	0
Total reinsurers' share of provisions		**160,591**	**149,133**
Net provisions			
Life insurance provision		185,964,107	187,311,157
Provision for unearned premiums		11,880,725	12,468,670
Bonus provision		2,397,313	2,651,049
Provision for claims outstanding – claims incurred and reported		*6,070,830*	*4,302,539*
Provision for claims outstanding – IBNR		*926,299*	*995,356*
Provision for claims outstanding – indirect claims handling costs		*266,471*	*179,958*
Total provision for claims outstanding	22.2	7,263,600	5,626,984
Unexpired risk provision		1,570	0
Total net provisions		**207,507,313**	**207,908,727**

Life insurance mathematical technical provision

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

Unearned premiums technical provision

Unearned premiums technical 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 technical provision is calculated as gross part of premiums written which shall be attributed to income of the Company in the future accounting periods.

Outstanding claims technical provision

Technical 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.

Technical 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 technical provision for outstanding claims consists of outstanding claim settlement costs. This part of the technical 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 technical provision for outstanding claims.

Bonus provision

Bonus provision at the end of the period amounted to EUR 2.4 million (31 December 2018: EUR 2.65 million). The total amount relates to rebate of insurance premiums (participation in profit).

Unexpired risk provision

Unexpired risk technical provision was only relevant for health (medical expense) insurance. 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. As at 31 December 2018, premium adequacy test showed no technical provision insufficiency; therefore unexpired risk provision was not formed for any products. For other products, premium adequacy test showed no technical provision insufficiency; therefore, unexpired risk provision was not formed.

22.1 Life insurance provision (gross)

In euros	**2019**	**2018**
As at 1 January	187,311,157	182,431,243
Premiums received	20,881,134	22,762,648
Liabilities paid for death, maturities, surrenders, benefits and claims	-25,553,272	-21,309,081
Risk premiums	-1,275,632	-1,408,904
Risk free rate change	1,227,962	728,976
Alterations of policies	-780,221	-1,696,491
Effect of changed parameters	-	-
Investment return	3,964,688	4,452,903
Quarterly corrections (reserve changes due to incorrect product dates, data processing)	-	-
Update to best estimate reserve assessment method	-	-
Update to provisioning investment return	265,844	1,376,025
Renewal of policies in Lithuania	-	32,343
Pension annuities reserve after savings phase	424,137	-
Additional Estonian pension annuities reserve	334,379	-
Data quality improvement	-836,068	-58,503
As at 31 December	**185,964,106**	**187,311,157**

22.2 Provisions for claims outstanding by insurance class

In euros

Insurance class	Gross provision for claims outstanding	Gross provision for claims outstanding	Net provision for claims outstanding	Net provision for claims outstanding
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Health insurance	1,733,484	1,720,923	1,733,484	1,720,928
Accident insurance	232,214	245,576	230,531	243,893
Life insurance linked to investment funds	1,348,158	809,627	1,329,440	809,627
Life insurance	4,110,335	2,850,860	3,970,145	2,713,410
Total	**7,424,191**	**5,626,986**	**7,263,600**	**5,487,858**

22.3 Bonus provision (gross)

In euros	Notes	2019	2018
As at 1 January		2,651,049	3,099,260
Bonus for new business		166	762
Bonus release during the year		37,750	-581,784
Bonus accumulation during the year		-291,653	132,811
As at 31 December		**2,397,312**	**2,651,049**

Unexpired risk technical provision

Unexpired risk technical provision is only relevant for health (medical expenses) insurance. As at 31 December 2019, as a result of premium adequacy test, an unexpired risk technical provision of EUR 1,570 was formed for Lithuanian health insurance portfolio. No such provision was formed as at 31 December 2018.

Note 23. Financial liabilities from investment contracts

As at 31 December	2019	2018
Financial liabilities from investment contracts		
At beginning of year	**17,289,789**	**15,713,855**
Payments received	5,139,559	5,292,710
Fees and service charges	-565,624	-531,812
Provisions and payments made	-5,043,005	-2,213,495
Change in value, interest accrued	2,757,154	-971,469
At end of year	**19,577,873**	**17,289,789**

Note 24. Insurance payables

In euros

As at 31 December	2019	2018
Payables to policyholders	3,034,697	3,209,526
Payables to brokers and other intermediaries	941,105	939,043
Total	**3,975,802**	**4,148,569**

Note 25. Other payables and accrued expenses

In euros

As at 31 December	2019	2018
Payables to suppliers	838,312	962,989
Other payables	366,997	5,647
Total other financial liabilities	***1,205,309***	***968,636***
Accrued vacation pay payable	333,488	288,075
Personal income tax payable	482,968	411,789
Personal income tax payable for additional reliefs	1,223	2,458
Social security tax payable	69,998	15,424
Mandatory payment for second pillar pension funds	2,439	2,573
Value added tax payable	96,539	81,843
Payables to employees	160,593	53,914
Other accrued items	1,228,175	1,118,240
Total non-financial liabilities	***2,375,423***	***1,974,316***
Total	**3,580,729**	**2,942,952**

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.

In euros		Carrying amount					Fair value			
As at 31 December 2019	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets measured at fair value										
Units in listed equity funds	15.1		4,390,363			4,390,363	4,390,363	0	0	4,390,363
Units in listed debt funds	15.1		14,244,301			14,244,301	14,244,301	0	0	14,244,301
Unlisted equities[1]	15.1		1,437,977			1,437,977	245,960	1,192,017	0	1,437,977
Property funds	15.1		6,709,232			6,709,232	1,001,782	5,707,450	0	6,709,232
Unit-linked	15.1	51,889,808				51,889,808	2,426,727	49,463,081	0	51,889,808
Government bonds	15.2		183,079,591			183,079,591	183,079,591	0	0	183,079,591
Financial institutions' bonds	15.2		17,857,854			17,857,854	17,857,854	0	0	17,857,854
Other debt securities	15.2		26,940,393			26,940,393	26,940,393	0	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 unit-linked contracts		32,311,935				32,311,935	2,426,727	29,885,208	0	32,311,935
Financial liabilities from investment contracts		19,577,873				19,577,873	0	19,577,873	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				

In euros										
As at 31 December 2018		**Carrying amount**					**Fair value**			
	Note	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets measured at fair value										
Units in listed equity funds	15.1		5,637,337			5,637,337	5,637,337	0	0	5,637,337
Units in listed debt funds	15.1		13,967,390			13,967,390	13,967,390	0	0	13,967,390
Unlisted equities[1]	15.1		1,352,080			1,352,080	96,202	1,255,878	0	1,352,080
Unit-linked	15.1		6,272,521			6,272,521	971,313	5,301,208	0	6,272,521
Government bonds	15.2	40,500,616				40,500,616	1,385,081	39,115,535	0	40,500,616
Financial institutions' bonds	15.2		171,852,474			171,852,474	171,852,474	0	0	171,852,474
Other debt securities	15.2		18,263,973			18,263,973	18,263,973	0	0	13,482,848
Financial assets not measured at fair value										
Loans	15.3				286,159	6,002,247				
Insurance and other receivables	17				4,148,569	10,284,380				
Cash	18				968,636	6,753,999				
Financial liabilities measured at fair value										
Financial liabilities from unit-linked contracts		23,210,828				23,210,828	1,385,081	21,825,747	0	23,210,828
Financial liabilities from investment contracts		17,289,789				17,289,789	0	17,289,789	0	17,289,789
Financial liabilities not measured at fair value										
Reinsurance payables					237,745	286,159				
Insurance payables					4,688,056	4,148,569				
Other payables					987,492	968,636				

Note 27. Leases

The Company uses office premises, office equipment and cars under operating leases. In 2019, operating lease expenses on premises totalled EUR 147,446 (2018: EUR 534,904). These lease agreements on initial recognition and analysing new agreements of 2019 were recognised as low-value or short-term leases under IFRS 16. No operating lease expenses on other assets were incurred (in 2018, 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 have termless conditions. 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 assets

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

Amounts recognized in profit or loss

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

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. 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 2019. When measuring right-of-use assets, the Company assessed each contract separately.

Minimum lease payments under lease agreements

As at 31 December 2019				
In euros	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Lease-related financial liabilities	647,587	635,057	486,277	1,768,921
Total	**647,587**	**635,057**	**486,277**	**1,768,921**

Note 28. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

In 2019, payable corporate income tax for the activity in the Republic of Lithuania is EUR 33,913.

For calculation of corporate income tax in the Republic of Lithuania in 2019 and 2018, 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 recognition relates to expected realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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 2019: EUR 100,460.

In euros

Income tax expense	**2019**	**2018**
Income tax expense	-42,000	-58,406
Change in deferred income tax	9,702	-28,929
Total income tax expense	**-32,298**	**-87,335**

Recognised deferred income tax asset	**2019**	**2018**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	110,460	100,758
Total	**110,460**	**100,758**

Unrecognised deferred income tax asset	**2019**	**2018**
Tax losses	4,565,195	4,644,325
Total	**4,565,195**	**4,644,325**

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	**2019**	**2018**
Profit before tax	5,604,813	2,788,016
Parent company’s domestic tax rate, 15%	840,722	418,202
Effect of tax rates in foreign jurisdictions, -3.86%	-216,039	-387,230
Effect of exempt income and taxable expenses, -9.46%	-529,829	-78,451
Non-deductible expenses, 0.30%	16,574	220,484
Change in unrecognised deferred tax assets	0	0
Recognition of previously unrecognized tax losses, -1.41%	-79,130	-85,670
Effect of income tax of previous years	0	0
Income tax expense for the year, 0.57%	**32,298**	**87,335**

Note 29. Transactions with related parties

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

- the parent company ERGO International AG and the ultimate controlling party Münchener Rückversicherungs-Gesellschaft AG;
- associates;
- other companies belonging to the same group;
- members of the Company's management and supervisory 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.

Compensation of key management personnel

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

	2019	**2018**
Salaries	101,223	90,223
Social tax	2,520	29,395
Other short-term employment benefits	0	1,530
Bonuses	0	0
Total compensation of key management personnel	**103,743**	**119,618**

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 management board for the year totalled EUR 100,553 (2018: EUR 208,422). The chairman of the management 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 management 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 management board before the beginning of the financial year.

Transactions with related parties are presented below:

In euros

As at 31 December				
Related party	**Receivables 2019**[1]	**Receivables 2018**[1]	**Payables 2019**	**Payables 2018**
Parent of the group – Münchener Rück	0	0	278,889	371,412
Other group companies	6,043,400	6,037,178	204,272	339,691

In euros

Related party	**Services purchased 2019**	**Services purchased 2018**	**Services sold 2019**[2]	**Services sold 2018**[2]
Parent of the group – Münchener Rück				
Other group companies	4,766,809	5,163,449	402,259	463,931

[1] Including a loan of EUR 6,000,000 (2018: EUR 6,000,000) provided to ERGO Life Insurance SE.

[2] Including interest of EUR 4,493 (2018: EUR 2,247) on the loan provided to ERGO Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	2019	2018
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	394,448	553,954
Reinsurers' share of claims paid	74,353	66,952
Reinsurance commissions and profit participation	153,397	172,374
Other group companies		
Ceded reinsurance premiums	0	0
Reinsurers' share of claims paid	0	0
Reinsurance commissions and profit participation	0	0
Gross premiums from incoming reinsurance	0	0
Commissions to holders of reinsurance policies	0	0

Note 30. Contingencies

As at 31 December 2019 and 2018, 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. Events after the reporting date

On 11 March 2020, the World Health Organization announced the coronavirus outbreak a pandemic, and the Lithuanian government declared 'lockdown' on 16 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Lithuanian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-border movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, airlines and railways suspended transport of people; schools, universities, restaurants, cinemas, theatres, museums and sports facilities, as well as retailers excluding food retailers, grocery stores and pharmacies, were closed. Some businesses in Lithuania have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Lithuania, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Lithuania and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty reflected in more volatile asset prices and currency exchange rates.

As of the date of approval of the financial statements for issue, the Company has not been significantly affected by the outbreak of COVID – 19, and over the last few weeks the Company's underwriting of new business has been in line with the management's expectations and, according to the management's assessment, its underwriting, claims handling and administrative/back-office operations have not been significantly disrupted.

Management considered the following operating risks that may adversely affect the Company:

- Unavailability of staff for an extended period;
- Recession in the region that would significantly reduce the purchasing power of end consumers and businesses, which can negatively impact insurance premiums;
- Negative impact on asset values from the deteriorating economic environment. The Company holds investments to bonds of countries, which are currently impacted by COVID-19. The current fair value of all investments to bonds, shares and funds is have decreased by 0,9% from the fair value as at 31 December 2019.

Considering the potential risks, the Management took the following steps and considers the following circumstances:

- Within a short time, Company ensured the possibility to work from home for all employees.
- The possible influence on the financial stability was analyzed within regular own risk and solvency (ORSA) process, which showed that even a severe but plausible increase in lapse rates and decrease in interest rates would not be critical to the Company's solvency position.
- As at 31 December 2019, the Company's liquidity position included cash equivalents amounting to EUR 8.6 million and debt securities, equities and fund units portfolio, most of which contains investment grade government bonds, amounting to EUR 313 million. Net assets of the Company amount to EUR 76 million, the Company has no external loan debt. The management is of the view that these liquid assets serve as a sufficient basis for any reasonably possible drops in business activity that may imply decreased asset base.

Based on the currently publicly available information, the Company's current KPI's and given the actions initiated by the management, the management does not anticipate a direct immediate and significant adverse impact of the COVID – 19 outbreak on the Company. The management cannot, however, preclude the possibility that extended lock-down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment the Company operates in will not have an adverse effect on the Company and its financial position and operating results in the medium and longer-term. The management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

Except for the above-mentioned, there were no material subsequent events that would require adjustment of or disclosure in the separate financial statements.

Signatures to annual report 2019

The management board of ERGO Life Insurance SE has prepared the Company's review of operations and financial statements for 2019.

Bogdan Benczak

Chairman of the management board .... 7 April 2020

Maciej Szyszko

Member of the management board .... 7 April 2020

Tadas Dovbyšas

Member of the management board .... 7 April 2020

Marek Ratnik

Member of the management board .... 7 April 2020

Ingrīda Ķirse

Member of the management board .... 7 April 2020

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 2019 and 2018 years:

In euros	**2019**	**2018**
Net written premiums	**1,609,315**	**1,529,832**
Gross written premiums	1,609,315	1,529,832
Acquisition fees	12	526
Written premiums ceded to reinsurers	0	0
Net income from investments (+/-)	**1,261,467**	**142,324**
Income from interests and dividends	229,293	214,838
Profit/loss from change in value of investments	1,016,908	-72,514
Profit/loss from investment realisation	15,266	0
Other financial income	0	0
Other operating income	**0**	**0**
Annuity payments and change in liabilities related to annuities (+/-)	**-2,068,492**	**-1,831,844**
Annuity payments	**-851,701**	**-769,092**
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	**-1,216,791**	**-1,062,752**
Reinsurance part in change in liabilities	0	0
Annuity management fees	-55,688	-33,679
Annuity cancellation fees	374,286	-100,568
Operation expenses (-)	**-119,240**	**-98,818**
Acquisition expenses	-53,172	-48,203
Acquisition expenses of related parties	0	0
Administrative expenses	-66,068	-50,615
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 (+/-)	**683,050**	**-258,506**
Profit distributed to annuity policyholders and beneficiaries	**0**	**0**

Annex 2

Profit allocation proposal

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 3,500,000 be made to the sole shareholder.