ERGO Life Insurance SE

Independent Auditor's Report, Annual Management Report and Separate Financial Statements for the Year Ended 31 December 2021

FINANCIAL STATEMENTS

Company name:	**ERGO Life Insurance SE**
Registry number:	**110707135**
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	Republic of Lithuania
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Website:	**www.ergo.lt**
Core business:	**Life insurance**
Beginning of financial year:	**1 January 2021**
End of financial year:	**31 December 2021**
Chairman of the Board and Managing Director:	**Bogdan Benczak**
Auditor:	**Ernst & Young Baltic UAB**

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PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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

INDEPENDENT AUDITOR'S REPORT

To the shareholder of ERGO Life Insurance SE

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ERGO Life Insurance SE, a company registered in accordance with the corporate law of the European Union (hereinafter the Company), which comprise the separate statement of financial position as of 31 December 2021, separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matters	How the matter was addressed in the audit
Estimates used in the calculation of insurance contract provisions	
Insurance contract provisions as at 31 December 2021 were 248 million euro, which represents approximately 90% of the Company's liabilities (Note 22). The Company uses actuarial models to support the valuation of the insurance contract provisions.	Our audit procedures included, among others, the following: We assessed the accounting policies over the calculation of insurance contract provisions.

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

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Other information

Other information consists of the information included in the Company's 2021 Annual Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor

In accordance with the decision made by shareholder we have been appointed to carry out the audit of the Company's financial statements for the first time on 27 December 2018. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by Shareholders has been renewed and the period of total uninterrupted engagement is 2 years.

Consistency with the audit report submitted to the audit committee

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

Non audit services

We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

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

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

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

Jonas Akelis
Auditor's licence
No. 000003

31 March 2022

ANNUAL MANAGEMENT REPORT

2021

Review of operations

Strong owner

Through their parent company, ERGO Group AG, the ERGO insurance companies in the Baltics represent the biggest global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims. Its credibility is affirmed by the ratings awarded by credit rating agencies to the owner company and the parent company ERGO. Munich Re's rating is Aa3 or excellent (according to Moody's); ERGO Group's rating is AA– (according to Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list.
ERGO Group serves 37.9 million customers in over 30 countries, mostly in the European and Asian markets. It is the largest health and legal expenses insurer in Europe.

PARTNERSHIPS WITH THE WORLD'S STRONGEST REINSURANCE PROVIDERS

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

At the end of 2021, the share capital of ERGO Life Insurance SE (hereinafter in the report ERGO Life Insurance SE, ERGO, the company) was EUR 4,380,213. The sole shareholder of ERGO Life Insurance SE is ERGO International AG, registry code HRB 40871, address ERGO-Platz 1, 40198 Düsseldorf, Germany.

Information about the company's Board:

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

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

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

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

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

Information about the company's Supervisory Board:

1. Piotr Maria Sliwicki. Chairman of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Chairman of the Management Board of STUnZ ERGO Hestia SA, Chairman of the Management Board of STUnZ ERGO Hestia SA. As from 1 November 2021, Mrs. Grzegorz Szatkowski is the Chairman of the Supervisory Board.

2. Grzegorz Szatkowski. 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), a member of the Supervisory Board of STU ERGO Hestia SA and a Vice-chairman of the Board of STUnŻ ERGO Hestia SA.

3. Justyna Wajs, a 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), a member of the Management Board of STU ERGO Hestia SA, a member of the Management Board of TU ERGO Hestia SA and STUnŻ ERGO Hestia SA.

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

Cooperation with the world's strongest re-insurers

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

ERGO Life Insurance SE: Result for 2021

Gross premium income	EUR 80.72 million
Total assets	EUR 345.91 million
Investments in financial instruments	EUR 309.42 million
Insurance contract provisions	EUR 196.70 million
Equity	EUR 71.11 million
Profit for the year	EUR 4.87 million
Total comprehensive income/expense	EUR -10.07 million
Return on equity	6.11%
Insurance contracts in force	94,690
Offices	8 in Lithuania, 19 in Latvia, and 1 in Estonia
Employees (FTEe)	in total – 245, which 102 in Lithuania, 114 in Latvia and 29 in Estonia

Economic environment

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

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

Geopolitical environment

ERGO Life Insurance SE, including the branches (further ERGO or Company), monitor the geopolitical situation in Eastern Europe and carefully assess all circumstances that could impact Company activity and risk profile, including operation and cyber risks. We have performed several analyses of the possible impact of the conflict situation on the Company's business. ERGO does not run direct business in the conflict area (Russia, Ukraine, also Belarus). However, the Company carefully reviewed the insurance products it sells and implemented additional preventive measures to reduce the further possible risk exposure in Ukraine, Russia, and Belarus (i.e. underwriting limitations).

Estonia

In Estonia GDP is forecasted to increase significantly by 7.5% in 2021 after dropping by 3% in 2020, driven by government stimulus, buoyant exports and private demand. Growth is expected to return to more moderate, but still solid rates of 3.1% in 2022 and 4.0% in 2023, supported by a recovery in employment, sustained wage growth and dynamic foreign demand. Inflation is set to upswing this year, driven by the transitory increases in imported energy prices gradually passing through to other goods and services.

Consumer price growth accelerated into the third quarter of 2021 and is estimated to remain elevated for the following three quarters. Annual inflation is forecast at 4.5% this year, 6.1% in 2022, and 2.1% in 2023. The recent energy price jumps and global supply bottlenecks are bound to raise manufacturing, transport and delivery costs, affecting price developments in a significant portion of the economy, fading away only gradually. By 2023, labour shortages, notably for skilled labour, are expected to translate into wage pressures in various domestic sectors, pushing core inflation up.

The unemployment rate is estimated to remain at 6.8% this year and drop steadily afterwards, to 5.2% in 2023. Wage dynamics have been largely unaffected by the crisis, with repeated increases in 2020 and 2021, particularly in the government sector. Wage growth is expected to pick up in 2021 and accelerate thereafter, as the labour market becomes tighter. Combining the employment and wage projections, compensations per employee are set to soften until 2022 and then speed up in 2023. As a result, unit labour costs are forecast to start rising again next year, although at a moderate pace. However, wage rises that were secured in recent months and wage contract renewals coming due in 2022 are bound to reflect the price increases, with persistent effects on core inflation throughout the forecast horizon.

Latvia

Latvia's GDP is projected to grow by 4.7% in 2021 driven mainly by exports and investment. Consumption held up well due to sizeable government support measures. However, rapidly rising infection rates prompted a tightening of containment measures in October which is expected to set to slow down the economy in final quarter of 2021 and in the beginning of 2022.

GDP growth for 2022 is forecasted at 4.4%. In 2023 the growth is projected to slow to 3.8%. Private consumption and services exports are expected to be the main growth drivers as they still have some way to go before they reach their pre-pandemic levels. Investment is forecast to continue its solid march thanks to a pick-up in inflows of EU funds. Growth in goods exports is expected to continue benefiting from the EU recovery, although it is set to slow compared to 2021.

Unemployment rate is expected to decrease to level of 7.3% in 2021. In 2022 and 2023, rapid growth in the services sectors is set to add to the demand coming from investment, lowering the unemployment rate to 6.6% in 2023, close to its pre-crisis low. At the same time, the tightening of the labour market is set to support rapid wage growth.
Consumer price inflation is set to reach 3.2% in 2021, driven by rapid energy price increases. The spike in energy prices in the second half of 2021 is set to carry over to next year, translating into 5.9% growth in the HICP in 2022. In 2023, inflation is forecast to slow to around 1% as energy prices reverse.

Lithuania

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

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

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

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

Regulatory environment

The main law for insurance industry in Lithuania is the Law on Insurance of the Republic of Lithuania. 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.

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

- stronger focus on identification of customer needs and acting in the best interest of the insured;
- greater transparency in insurance activities by providing sufficient information to the insured on an insurance product, their parts, intermediaries and their remuneration, potential conflicts of interest (if they are not managed effectively, etc.);

- stronger focus on management of conflicts of interest in order to prioritise activities of the insurance company to provide the best conditions for clients and not to serve business interests;
- rules on transparency and business conduct to help customers avoid buying products that do not meet their needs.

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). 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) is of significant importance to activities of the Insurance Company. The GDPR is a European Union legal act of direct application. In implementing the General Data Protection Regulation (GDPR), which entered into force on 25 May 2018, the Company is continuously maintaining a high level of data protection in its operations, i.e. regularly reviews and updates its internal procedures governing the processing of handling of personal data in order to comply with the provisions of the applicable legal regulation (laws, requirements established by the State Data Protection Inspectorate) and clarifications of relevant court decisions. The Company's employees improve their knowledge in the field of personal data protection through trainings and competence tests.

A further legislative package with significant impact on the activities of ERGO Life Insurance SE related to distribution of life insurance products include the Directive 2018/843 of the European Parliament and of the Council (5th AML Directive) and the Law on the Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania, which impose requirements comprising control measures implemented both at the time of concluding contracts (appropriate customer due diligence and customer's money-laundering risk assessment) and conducting monitoring of the business relationship, including payment of insurance claims. The 5th AML Directive has increased transparency of information on ultimate owners/beneficiaries of legal entities. The Directive also introduced some amendments concerning the identification of politically exposed persons and customer due diligence. The Company shall continuously strengthen the AML/CFT area in order to properly manage the relevant risks.

On 10 March 2021, Sustainable Finance Disclosure Regulation (SFDR) came into force.

This document aimed at disclosing to customers information about the Company's (ERGO Life Insurance SE) approach to sustainability risks and the maximum adverse effect on sustainability factors to ensure that customers are equipped to make informed investment decisions. To this end, and in line with the requirements of the SFDR, the Sustainability Policy has been published on the Company's website, demonstrating how sustainability risks are integrated into the Company's investment decision-making processes. Following the entry into force of the Regulatory Technical Standards (RTS) (which is planned for 1 July 2022), the companies will be obliged to disclose information on adverse impacts on sustainability at the corporate level using a single format, including sustainability impact indicators specified therein.

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2021 was EUR 80.72 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 67.6 million. ERGO Life Insurance SE ended 2021 with total comprehensive loss of EUR -10.07 million. Net investment income amounted to EUR 14.4 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 345.91 million (2020: EUR 361.68 million). Investments in financial instruments amounted to EUR 306.14 million (2020: EUR

329.97 million), debt securities accounted for 66.55% (2020: 75.2%), loans for 3.92% (2020: 1.8%) and equities and fund units for 29.53% (2020: 23.0%) of the total. Altogether, investments in financial instruments accounted for 88.50% (2020: 91.2%) of total assets. Insurance provisions totalled EUR -248.5 million (2020: EUR -246.1 million), accounting for 90.44% (2020: 89.99%) of total liabilities and 71.85% (2020: 68.05%) of total assets.

Insurance activities

Gross premium income by insurance class

EUR	**2021**		**2020**		**Change**	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %
Life insurance contracts	45,854,489	56.8	44,527,292	59.2	1,327,197	-2.4
Health insurance contracts	34,866,948	43.2	30,668,832	40.8	4,198,116	2.4
Total from insurance activities	***80,721,437***	***100.0***	***75,196,124***	***100.0***	***5,525,313***	
In total	**80,721,437**	**100.0**	**75,196,124**	**100.0**	**5,525,313**	

In 2021, ERGO Life Insurance SE generated premium income of EUR 80.7 million, an increase of 7% on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 45.85 million or 56.8% and EUR 34.87 million or 43.2% of the portfolio respectively.

Claims and benefits paid by insurance class

EUR	**2021**		**2020**		**Change**	
	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %
Life insurance contracts	40,966,084	62.2	30,214,514	58.2	10,751,570	4
Health insurance contracts	24,857,230	37.8	21,673,395	41.8	3,183,835	-4
Total from insurance activities	**65,823,314**		**51,887,909**		**13,935,405**	

Claims and benefits paid in 2021 totalled EUR 65.82 million (2020: EUR 51.89 million). The largest share of claims was settled in life insurance: EUR 40.97 million or 62.2% of claims paid. The next-largest class was health insurance, where claims and benefits paid totalled EUR 24.86 million or 37.8%.

Investment activities

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

Income on assets with interest rate risk amounted to EUR 4.4 million. Realisation of equities and units resulted in a profit of EUR 0.23 million and realisation of debt securities in a gain of EUR 1.07 million. Dividend income was EUR 0.32 million. The fair value reserve decreased by EUR 14.9 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 80.72 million, i.e. 7% more than in 2020 (2020: EUR 75.20 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, Latvian pension annuities, life risk insurance and additional (health) insurance.

Fast and fair insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR -67.3 million (2020: EUR -55.4 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 2022, we plan to grow and strengthen our position in the market. At the end of 2021, ERGO Life Insurance held -8.4% of the life insurance market share of the Baltic States.

Legal structure of the company

ERGO Life Insurance SE is one of the leading insurance companies in the Baltics, offering life and health insurance to both private and corporate clients.

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

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

The Group is represented in around 30 countries worldwide, focusing mainly on Europe and Asia. About 38,000 people worldwide work as salaried employees or sales agents for ERGO Group. It offers a comprehensive range of insurances, pensions, investments and services.

ERGO Group is part of Munich Re (Münchener Rückversicherungs-Gesellschaft AG, Munich) – one of the world’s leading reinsurers and risk carriers.

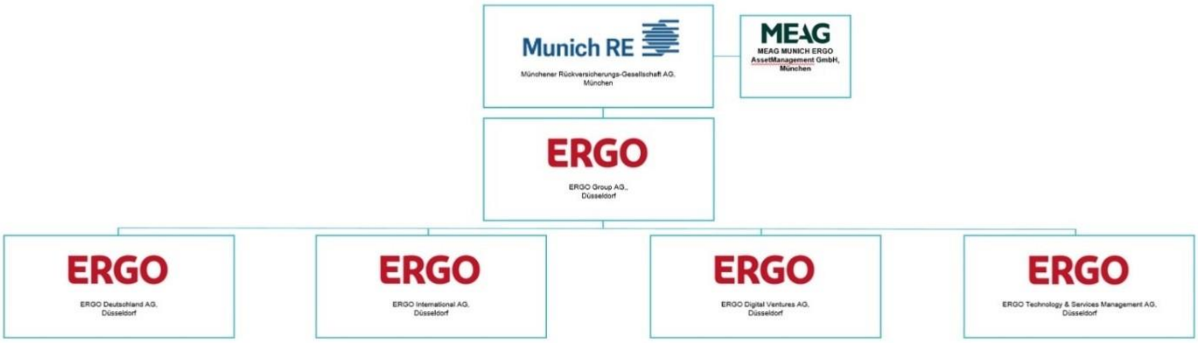
Reliability is confirmed by the ratings given to ERGO Group’s owner and parent: Munich Re’s rating is AA3 or excellent (according to Moody’s); ERGO Group’s rating is AA – (according to Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list.

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

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

Information of own shares

2021 The company did not own, acquire or transfer its own shares.



Strategic vision

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

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

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

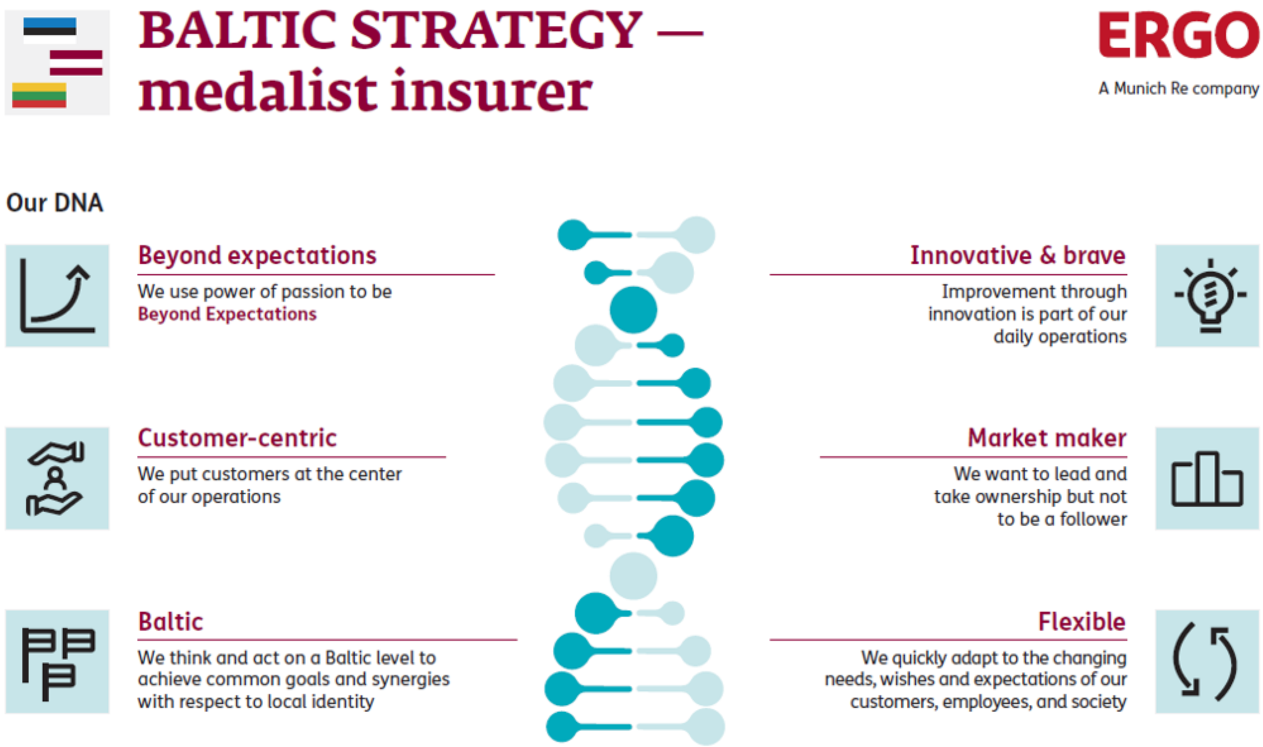
We insure people and companies for the future. For us, looking ahead and acting sustainably is a matter of course. We make an active contribution to social projects and, seek innovative solutions to the challenges posed by climate change.

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

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

Our people, **our DNA**:

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



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

Our engagement: During 2021 ERGO international engagement survey was carried out and it showed, that on Baltic level our employees' engagement is extremely high, reaching 91%. The progress comparing to the last survey in 2019 showed strong improvement in all areas.

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

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

Changes in the structure and operating principles of ERGO so far support the way of thinking of a company considering the personal needs of customers by providing them with clear added value. In the year 2021, the company continued with activities planned in the ERGO Baltic Strategy 2021-2023.

Main achievements / recognitions on company level 2021

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

*NPS (Net Promoter Score – survey “Customer Opinion”). Calculation formula NPS: Net Promoter Score = % Promoters - % Non-promoters

Sustainability overview

Our dedication

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

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

ERGO has undertaken to follow the ten principles of the United Nations Global Compact. These principles include commitment to the preservation, promotion and implementation of fundamental values related to human rights, humane working conditions, environmental protection, and anti-corruption efforts in our sphere of influence.

We comply with domestic and international environmental protection legislations as well as other binding obligations and self-commitment to environmental protection. We also stand by the Principles of Sustainable Insurance (PSI) and the Principles of Responsible Investments (PRI), as well as the goals of the Net-Zero Asset Owner Alliance (AOA).

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

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

Economical Liability

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

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

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

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

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

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

Digitalization and data protection

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

ERGO protects the personal data of its employees and customers, the data of its business and trading partners and the trade secrets of ERGO with extreme caution. All employees must work towards this goal. In addition, we avoid situations that may result in a conflict of personal interest with ERGO or the interests of customers, business and trading partners. In implementing the General Data Protection Regulation (GDPR), which entered into force on 25 May 2018, ERGO is continuously maintaining a high level of data protection in its operations, i.e. regularly reviews and updates its internal procedures governing the processing of handling of personal data in order to comply with the provisions of the applicable legal regulation (laws, requirements established by the State Data Protection Inspectorate) and clarifications of relevant court decisions, carries out training and helps employees to improve their knowledge in the field of personal data protection.

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

Human rights

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

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

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

Social responsibility

Customer orientated services and products

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

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

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

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

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

Sponsorships / social responsibility actions 2021

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

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

We are members of Lithuania's Life Insurers Association, Society of Actuaries that in help with partners promote community and social cohesion.

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

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

ERGO Lithuania 30th birthday event- planting oaks.

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

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

In Latvia, we continued to support beach volleyball and also held the ERGO Open Championships to promote sporty and healthy lifestyle. ERGO employees also participated in the Riga Marathon.

People management

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

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

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

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

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

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

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

Diversity / Main HR Statistics

ERGO HR & Diversity statistics	*Total Baltic 2021*	
Total number of staff	1242	
Gender balance (No/%)	Male:	263 / 21,2%
	Female:	979 / 78,2%
Managers on Level 1-3 (No/%)	Male:	59 / 33,5%
	Female:	117 / 66,5%
Average age (years)	Male:	42
	Female:	43
Average tenure (years)	8.3	
Training hours per employee	28	
Employees on maternity leave	77	

Environmental responsibility

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

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

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

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

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

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

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

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


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

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

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

Direct Environmental Aspects

Electricity and heating

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

Fuel

We use two types of transport fuel – diesel and petrol. Fuel consumption is related to company's business activities, significant part of which comes from customer visits. In order to reduce our CO2 emissions amount in the future, we are focusing on further transport usage optimization and investment in low carbon consuming vehicles.

Business travels

This environmental impact category is related to our employee's business trips which are done via air flights or bus trips. As a result of Covid-19 impact and company's started digitalization activities we plan to significantly reduce business travels amount and subsequent CO2 emissions consumption.

Waste

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

Water

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

Indirect Environmental Aspects

Office technical infrastructure

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

Supplier and service provider management

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

Overview of carbon emissions

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

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

Many tasks were done in order to do implement new system at ERGO: e.g. our water, electricity, heating, waste and travels data are tracked and converted to CO2 emissions and action plans will be developed to reduce CO2 emissions in order to reach the 12% reduction, environmental risks in our organization were identified and monitored. In Lithuania Environmental Management System was already audited and certified, so we can see our progress in carbon emission eduction.

Carbon emissions in kilograms ***(CO2)***	*2021*	*2020*	*2019 (base)*
Carbon emission in kg (CO2)	398,429	433,264	604,524
Direct carbon emissions from primary energy consumption – Scope 1	319,283	339,901	418,205
Indirect carbon emissions from procured energy – Scope 2	43,788	45,604	114,632
Other indirect carbon emissions – Scope 3	353,58 4	47,759	71,687
Carbon emissions per employee	499	555	806
Carbon savings per employee since 2019	38%	31%	

Main activities and actions

Marketing, communication, brand image

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

In communication and PR we have set ourselves a goal to talk about insurance and prevention as clear as possible – bringing on surface a lot of examples, statistics and potential risks to meet our promise – making the world a safer place. Our value – simplify – is also met in internal communication and client's sales materials / homepage etc. By Baltic Brand Study ERGO is the most beloved, greenest, and most humane insurance brand in the Baltics in 2021 as it was also a year before.

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

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

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

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

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

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

People Management, Internal Communication

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

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

We constantly look over our motivation package and addition to pan Baltic harmonized motivation package, there are also country specific advantages.

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

Baltic overall motivation package, that was updated during 2021.

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

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

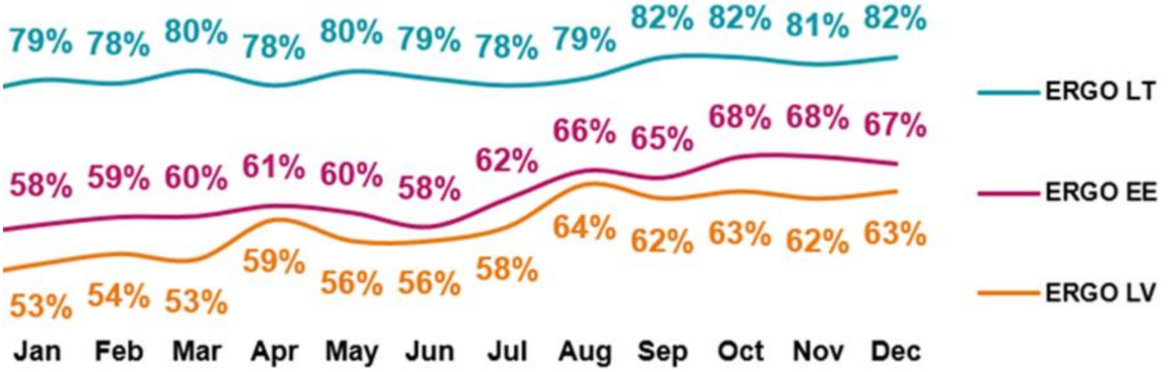
In the third quarter of 2021 the corona situation in the Baltics eased and this gave ERGO the opportunity to start implementing a hybrid work model. During September special actions were made to welcome people back in ERGO offices. As hybrid work is new normality for ERGO, we also continued making our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

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

Customer experience

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

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

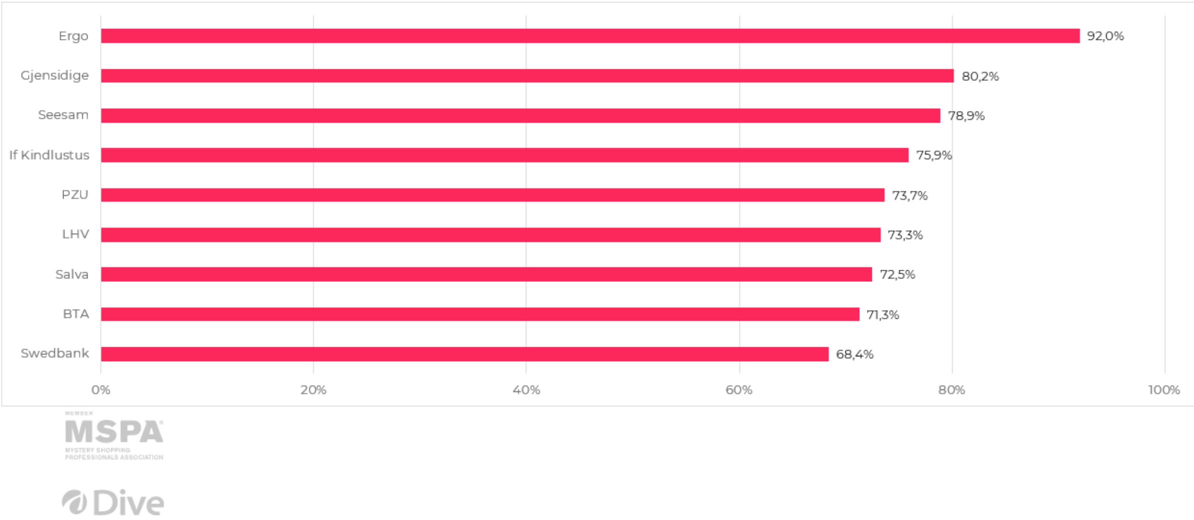


Net Promoters Score 2021, ERGO Baltic

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

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

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



Mystery Shopping 2021 Q4, overall service by Dive Group

We are also truly proud of results received in Lithuania. Second year in a row ERGO in Lithuania became the best non-life insurer in customer service in Lithuania. ERGO collected 95.5%, kept the first place and also significantly improved the results. For three years, ERGO in Lithuania has been implementing a continuous customer service improvement program – the main goal of which is not only to meet customer expectations but also to exceed them.

ERGO is constantly improving insurance products and presenting new ones. Reacting to increasing need of psychological help during pandemic we supplemented Health insurance in Lithuania with Emotional wellness insurance. It covers the costs of psychiatric, psychotherapist, psychologist consultations. This Emotional wellness insurance was offered both for the clients and employees of the company.

At ERGO in Estonia we introduced cancer insurance. Earlier such insurance product was introduced in Lithuania and we used Baltic countries synergy and experience in cooperation.

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

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

Statement of the management's responsibility

The Board of ERGO Life Insurance SE confirms that the separate financial statements for the year ended 31 December 2021 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and that appropriate accounting policies have been applied on a consistent basis. The Board of ERGO Life Insurance SE is responsible for preparing these separate financial statements from the books of primary entry. The Board confirms that these separate financial statements for the year ended 31 December 2021 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgements and estimates have been made by the Board in the preparation of the separate financial statements for the year ended 31 December 2021.

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

Bogdan Benczak
Chairman of the Board

31 March 2022

Separate financial statements

Separate statement of profit or loss

EUR	Note	2021	2020
Revenue			
Gross written premiums		80,721,437	75,196,124
Written premiums ceded to reinsurers		-890,629	-962,514
Total net premiums written		**79,830,808**	**74,233,610**
Change in gross provision for unearned premiums		-2,473,194	-496,897
Reinsurers' share of change in provision for unearned premiums, gross		0	0
Change in provision for unearned premiums, net		**-2,473,194**	**-496,897**
Net earned premiums	**6**	**77,357,614**	**73,736,713**
Fees and commission income	**23**	**602,148**	**573,135**
Net investment income	7	14,388,301	8,193,966
Commission income	9.1	321,240	384,450
Other revenue		696,826	610,671
Total revenue		**93,366,129**	**83,498,935**
Expenses			
Claims and benefits incurred		-67,572,092	-59,329,861
Reinsurers' share of claims and benefits incurred		182,725	-14,968
Net policyholder claims and benefits incurred	**8**	**-67,389,367**	**-59,344,829**
Change in value of financial liabilities from unit-linked contracts	**23**	**-1,265,414**	**-1,129,982**
Acquisition expenses	9	-12,901,157	-11,542,501
Administrative expenses	9	-4,773,680	-4,407,182
Other operating expenses	9	-619,828	-383,423
Investment expenses	9	-364,150	-389,246
Other expenses	9	-813,621	-746,873
Total expenses		**-88,127,217**	**-77,944,036**
Profit before tax		**5,238,912**	**5,554,899**
Income tax expense/benefit	**28**	**-373,400**	**-113,385**
Profit for the year		**4,865,512**	**5,441,514**

Separate statement of comprehensive income

EUR	Note	2021	2020
Profit/loss for the year		**4,865,512**	**5,441,514**
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	-14,932,781	7,017,590
Total other comprehensive expense/income for the year		**-14,932,781**	**7,017,590**
Total comprehensive income/expense for the year		**-10,067,269**	**12,459,104**

The notes on pages 35 to 92 are an integral part of these separate financial statements.

Separate statement of financial position

EUR

Assets

As at 31 December	**Note**	**2021**	**2020**
Property and equipment	10	1,211,279	1,464,176
Intangible assets	12	1,634,909	1,143,254
Deferred acquisition costs	11	4,377,097	4,996,925
Investments in subsidiaries	13	4,677,870	4,677,870
Investments in financial instruments			
Equities and fund units accounted at FVTPL	*15*	*68,517,251*	*57 168 766*
Equities and fund units available for sale	*15*	*25,164,261*	*18 719 434*
Debt and other fixed-income securities	*15*	*203,739,113*	*248 078 322*
Loans	*15*	*12,006,125*	*6 005 617*
Total investments in financial instruments		309,426,750	329,972,139
Reinsurance assets	16	138,453	128,453
Insurance and other receivables	17	12,989,997	8,834,372
Deferred tax asset	28	107,845	123,158
Cash and cash equivalents	18	11,344,030	10,327,609
Total assets		**345,908,230**	**361,667,956**

Equity and liabilities

As at 31 December	**Note**	**2021**	**2020**
Equity			
Issued capital	19	4,380,213	4,380,213
Capital reserve	20	15,869,501	15,869,501
Fair value reserve	21	28,964,871	43,897,652
Retained earnings		21,892,722	24,027,209
Total shareholders' equity		**71,107,307**	**88,174,575**
Liabilities			
Insurance contract provisions	22	248,530,340	246,127,191
Reinsurance payables		246,157	303,600
Financial liabilities from investment contracts	23	16,685,935	17,515,299
Lease-related liabilities	27	1,004,666	1,166,282
Insurance payables	24	4,437,406	4,301,229
Other payables and accrued expenses	25	3,896,419	4,079,780
Total liabilities		**274,800,923**	**273,493,381**
Total equity and liabilities		**345,908,230**	**361,667,956**

The notes on pages 35 to 92 are an integral part of these separate financial statements.

Separate statement of changes in equity

EUR	Issued capital	Capital reserve	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 31 December 2019	**4,380,213**	**15,869,501**	**36,880,061**	**18,585,696**	**75,715,471**
Distribution of dividends	0	0	0	0	0
Total transactions with owner	**0**	**0**	**0**	**0**	**0**
Profit/(loss) for the year	0	0	0	5,441,514	5,441,514
Other comprehensive income (loss)	0	0	7,017,590	0	7,017,590
Total comprehensive income	**0**	**0**	**7,017,590**	**5,441,514**	**12,459,104**
Balance as at 31 December 2020	**4,380,213**	**15,869,501**	**43,897,651**	**24,027,210**	**88,174,575**
Distribution of dividends	0	0	0	-7,000,000	-7,000,000
Total transactions with owner	**0**	**0**	**0**	**-7,000,000**	**-7,000,000**
Profit/(loss) for the year	0	0	0	4,865,512	4,865,512
Other comprehensive income (loss)	0	0	-14,932,781	0	-14,932,781
Total comprehensive income	**0**	**0**	**-14,932,781**	**4,865,512**	**-10,067,269**
Balance as at 31 December 2021	**4,380,213**	**15,869,501**	**28,964,871**	**21,892,722**	**71,107,307**

The notes on pages 35 to 92 are an integral part of these separate financial statements.

Separate statement of cash flows

EUR

(Inflow + , outflow –)	Note	2021	2020
Net cash flows used in operating activities		**-9,858,933**	**4,163,595**
Premiums received in direct insurance		81,827,990	81,857,920
Claims and benefits incurred, and handling costs paid		-67,300,395	-55,418,718
Settlements with reinsurers		-194,668	-679,222
Paid in operating expenses[1]		-20,890,910	-18,627,360
Other income and expenses		1,312,477	298,256
Taxes paid		-4,613,427	-3,267,280
Net cash flows used in investing activities		**17,384,899**	**-2,905,157**
Acquisition of equities and fund units		-16,392,820	-10,887,887
Disposal of equities and fund units		0	645,388
Acquisition of debt and other fixed-income securities		-26,725,218	-9,922,736
Disposal of debt securities		61,476,206	13,159,296
Interest received		5,573,857	2,571,136
Dividends received		320,970	2,129,959
Paid on acquisition of property and equipment and intangible assets		-7,073,367	-806,035
Proceeds from sale of property and equipment and intangible assets		205,271	205,722
Net cash flows from/used in financing activities		**-6,509,545**	**492 491**
Dividends paid		-7,000,000	0
Payments made for the principal portion of lease liabilities		490 455	492 491
Net cash inflow/(outflow)		**1,016,421**	**1,750,930**
Cash and cash equivalents at the beginning of the year		**10,327,609**	**8,576,679**
Increase (decrease) in cash and cash equivalents		1,016,421	1,750,930
Cash and cash equivalents at the end of year	**18**	**11,344,030**	**10,327,609**

[1] The Company also recorded low-value or short-term lease payments under this caption in the amount of EUR 78,578 as at 31 December 2021 (EUR 53,820 as at 31 December 2020).

The notes on pages 35 to 92 are an integral part of these separate financial statements.

Notes to the separate financial statements

Note 1. Reporting entity

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

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

The separate financial statements of ERGO Life Insurance SE for 2021 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 31 March 2022. 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 2021.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Use of judgements and estimates

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

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

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

Key sources of uncertainty estimates in the separate financial statements are related to insurance provisions. The Company employs a responsible actuary. Estimation and recognition of insurance provisions and deferred acquisition costs are described in policies (h) and (o), respectively.

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

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

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

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

(e) Geopolitical risk

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

Underwriting risk

ERGO does not run direct business in the conflict area (Russia, Ukraine, also Belarus). However, the Company carefully reviewed the insurance products it sells and implemented additional preventive measures to reduce the further possible risk exposure in Ukraine, Russia, and Belarus (i.e. underwriting limitations).

Market risk

ERGO has limited market risk exposure in an asset portfolio. The direct impact comes through holding the bonds of a European Union based subsidiary of the Company registered in Russia. The share of this investment in total investment assets held by ERGO as of 31.01.2022 is 0,1995%.

Although coupons of bonds were paid duly (on March 21, 2022) and in contractual currency (EUR), this investment is subject to impairment as market value declined after February 24, 2022. Also, there are indirect investments through investment funds that form an immaterial share of total investment assets (0,0055%).

Operational risk

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

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

(i) Measurement of fair value

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

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

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

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

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

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

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

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

Note 3. Significant accounting policies

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

(a) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

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

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

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

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

The process of classifying insurance contracts.

If there is a significant insurance risk associated with a contract, it is classified as an insurance contract and accounted for in accordance with IFRS 4.

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

(b) Revenue

Insurance gross premiums

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

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy becomes effective.
Under Article 128 of the Estonian Insurance Activities Act, an insurance undertaking who enters into pension contracts shall submit upon preparing the financial statements in an annex thereof the pension contracts report. ERGO Life Insurance SE Estonian branch enters into a pension contract in terms of Funded Pension Act. Therefore, the ERGO Life Insurance SE Estonian branch pension contracts report is disclosed in Annex 1 to these separate financial statements.

The Estonian pension reform enforced on 1st January 2021 changed the process of joining and leaving the second pillar. The policyholders who decided to stop making payments into the second pillar and to withdraw everything that has been saved up in it so far had to submit the respective application by 31 March 2021. Accordingly, in September, the Company paid out surrender values to policyholders who chose the third option. The remaining second pillar portfolio was transferred to the Ministry of Finance in January 2022.

Reinsurance premiums

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

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

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

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

Fees and commission income

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

Investment income

Interest income is recognised in profit or loss using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument but not considering future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been reduced due to impairment, interest income on them is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Net realised gains and losses recorded in the separate statement of profit or loss include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

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

(c) Expenses

Claims and benefits incurred

Claims and benefits incurred from insurance activities consist of claims paid in the financial year, associated claims handling costs and changes in the provision for claims outstanding.

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

Reinsurers' share of claims and benefits incurred

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

Operating expenses

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

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

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

Allocation of expenses

Expenses are first allocated on the basis of cost centres that are divided into categories according to their function: administration, sales, investment, and claims handling. If a cost centre is related to more than one function, expenses are re-allocated.

(d) Lease accounting

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

(i) *The Company as a lessee*

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

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

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

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

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

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

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

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

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

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

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

(e) Operating profit

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

(f) Property and equipment

(i) Recognition and measurement

Items of property, plant, and equipment are be recognised as assets when it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

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

Items of intangible assets are recognised if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Software	3–5 years

Intangible assets are amortised on the assumption that their residual value is zero. Internally generated goodwill and the costs attributable to the development of brands are recognised as an expense as incurred. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Deferred acquisition costs

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

Acquisition costs of life insurance are capitalized and amortized over the lifetime of the contracts, capitalized or amortized in proportion to the premium income (FAS 60) or in proportion to the projected gross profit margins calculated from the respective contracts for the relevant life of the contract. The second option applies to contracts where the investment risk is borne by the policyholder. The first option applies to other contracts. The amortization amount takes into account the actuarial interest rate and changes in the withdrawal or cancellation of contracts from the portfolio. In health insurance, deferred acquisition costs are amortized over the average term of the insurance policies (from one to five years) using the straight-line method. The carrying amount of deferred acquisition costs is reviewed regularly for impairment through a liability adequacy test in accordance with IFRS 4.

(i) Cash and cash equivalents

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

(j) Investment is subsidiaries and associates

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

(k) Assets held-for-sale

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

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

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

(l) Financial instruments

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

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

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

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

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

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

(i) Non-derivative financial assets. Measurement

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

(iii) Non-derivative financial liabilities. Measurement

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

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

(iv) Derivatives

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

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

(m) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

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

— indications that a debtor or issuer will enter bankruptcy;

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

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

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

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

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

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

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

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

(n) Fair value measurement

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

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

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

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

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

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

Investments are classified into fair value levels as per classification policy of Munich Re on the Group level.

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

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

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

(o) Insurance contract liabilities

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

Insurance contract liabilities consist of:

Life insurance provision

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

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

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

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

Unearned premium provision

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

The unearned premium provision is calculated in health insurance under the 365-day *pro rata temporis* method. Calculations are made separately for each individual contract. The provision for a contract makes up the same percentage of gross premiums written under the contract as the post-reporting date term of the contract makes up of the entire term of the contract. In the separate statement of financial position, the unearned premiums provision is recognised within the life insurance provision.

Outstanding claim provision

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

Provision for bonuses

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

Unexpired risk provision

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

Unit-linked contracts provision

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

Insurance liability valuation

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

Liability adequacy test

The insurance portfolio is assessed performing the liability adequacy test by estimating the future cash flows under insurance contracts and comparing them against the carrying amounts of liabilities after the deduction of deferred acquisition costs. Corresponding asset portfolio is taken into account as well.

Cash inflows comprise estimated future investment income.

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

(p) Financial liabilities

(i) Financial liabilities from investment contracts

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

(ii) Other financial liabilities

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

(r) Provisions and contingent liabilities

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

(s) Vacation pay liability and other liabilities to employees

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

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

(t) Taxes

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

- Insurance Supervisory Commission maintenance fee of 0.234% as from May 2021 from insurance premiums written in Lithuania;
- Social insurance contributions of 1.77% in Lithuania, 24.09% in Latvia and 33.00% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT, less input VAT;
- Real estate tax up to 1% in Lithuania, up to 0.5% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

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

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

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

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

In Latvia and Estonia, income tax is not levied on companies' profits. A new income tax legislation came in effect in Latvia on 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2021 was 20/80 of the amount distributed as the net dividend (20/80 in 2020). In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2021 was 20/80 of the amount distributed as the net dividend (20/80 in 2020).

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

(u) Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates of the European Central Bank at the dates of the transactions. At the reporting date, assets and liabilities denominated in a foreign currency are retranslated using the exchange rates of the European Central Bank ruling at that date. Exchange gains and losses are recognised in profit or loss in the period in which they arise.

(v) Capital management

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

- The sum of eligible basic own funds shall not be smaller than the floor of the minimum capital requirement, which is EUR 6,2 million.
- The sum of eligible own funds shall not be smaller than the solvency capital requirement.

The Company has sufficient own funds which consists from ordinary share capital, share premium account related to ordinary share capital, retained earnings and revaluation reserve. According to the Solvency II rules – as at 31 December 2021, the eligible own funds exceed the solvency capital requirement by 2,21 times (2,18 times as at 31 December 2020).

(z) Offsetting and comparative figure

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

Where necessary, comparative figures have been adjusted to correspond to current year disclosures.

Note 4. New and revised International Financial Reporting Standards and new interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC)

1. Changes in accounting policy and disclosures

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

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

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

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

IFRS 16 Leases Covid 19 Related Rent Concessions (Amendment)

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

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

The Company's lease contracts met the required conditions. The positive impact on the Income Statement in the year 2021 was EUR 30,122 (2020 was EUR 9,617).

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

IFRS 9 Financial Instruments

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

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

It is hard to predict the structure of the Company's portfolio on January 1, 2023. However, as of December 31, 2021, all debt and other fixed-income securities passed the SPPI test. SPPI test failed equities and fund units available for sale will be reclassified to fair value through P&L. Accumulated unrealized gains related to equities and fund units will possibly cover expected credit loss recognized under IFRS 9; therefore, the standard's first implementation will have rather a neutral impact to the Company's financial statements.

IFRS 17: Insurance Contracts

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

The Company expects that the new standard, when initially applied, will have a material impact on its financial statements because the Company's core business is life insurance. There will be changes in valuation models, the classification of insurance contracts (profitable and onerous) and the insurance portfolio's aggregation requirements. Reliable impact estimate is not available yet.

Currently, the company is working on the transition calculations and will perform subsequent measurement calculations during 2022.

The different measurement models are determined for various business lines – Variable Fee Approach, General Measurement Model, and Premium Allocation Approach.

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

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

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

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 5. Risk management

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

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

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

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

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

(a) Insurance risks

The insurance environment is regulated by the law of obligations and insurance activities legislation. As the Baltic countries are members of the EU, all legislation and regulations have to comply with relevant EU directives. From 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 <u>Products with guaranteed investment return in savings phase</u>. The group of products is sensitive to mortality, lapse, expense and catastrophe risks. The portfolio is mainly under run-off with very small volumes of new business and end of term of current policies. Risk capital for this product group remains on approximately the same level with slight decrease over time and more volatility is experienced if there are significant down / up movements of risk-free rate. Proper cost evaluation is

considered challenging aspect also due to long term projections which lead to expense estimation for the next 40 years.

Another challenging point to forecast is lapse due to different trends depending on company's strategy. Most recent analysis showed lapse increase for products in paid-up phase is still higher than modelled. In response, upon acceptance from company's CFO the lapse rates were increased from July, 2021. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is of minor importance.

2 Pension annuities in annuity payment phase (product with guaranteed investment return). The group of products is sensitive to longevity, lapse and expense risks. Longevity risk is constantly growing due to increasing volume of pension annuities in annuity payment phase portfolio. Also, Company's current experience cannot be considered sufficient in order to have prudent actual longevity estimates.

Expense and lapse risks are of minor importance due to lapse restrictions (the latter option is possible only for Estonia's pension annuities paid under Funded Pension Act) as well as rather constant expenses for annuity products.

Annuities after second pillar accumulation are highly influenced by legal environment. Changes in Estonia's legislation resulted in surrender of 63% of corresponding portfolio in September 2021. Remaining part of this portfolio was transferred to State in January, 2022. As soon as the portfolio was transferred immediate annuities were not sensitive to lapse risk anymore; longevity risk decreased as well. It is not allowed to choose private company as second pillar annuity's payer since July 2020 in Lithuania, therefore this portfolio is currently in run-off. Annuities after second pillar accumulation are still distributed in Latvia. Due to the definition of currently allowed annuity structure and clients' preferences, the latter product has very small portion of uncertainty, therefore corresponding risk capital is mainly linked with investment return.

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

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

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

Insurance contract groups

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

Insurance with investment return

The group takes the majority of the Company's life 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 before 2021. 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 2021

EUR	**Change in assumptions**	**Increase/(decrease) in gross liabilities**	**Increase/(decrease) in net liabilities**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in deferred acquisition costs**
Mortality rate	+10 proc.	-32,960	-32,960	-17,445	**-25,513**
Lapse and surrenders rate	+10 proc.	-102,953	-102,953	53,919	**81,062**
Discount rate	+1 proc.	-3,139,593	-3,139,593	1,069,563	**511,467**
Mortality rate	-10 proc.	35,324	35,324	17,446	**23,451**
Lapse and surrenders rate	-10 proc.	115,203	115,203	-53,913	**-81,430**
Discount rate	-1 proc.	6,325,171	6,325,171	-1,079,183	**-1,261,190**

As at 31 December 2020

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

Pricing risks

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

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

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

Claim handling risks

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

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

Provisioning risks

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

Reinsurance strategy

The Company reinsures a certain part of the risks for which it provides insurance cover under insurance contracts. The purpose of reinsurance is to reduce the Company's share of losses and to limit the potential net loss through the diversification of risks. The main contract form in reinsurance is obligatory proportional reinsurance. Risks exceeding the limits of obligatory reinsurance contracts or falling outside their scope are reinsured on a facultative basis.

(b) Market, credit and liquidity risks

ERGO pursues an investment strategy that is largely based on the characteristics of the maturity and currency structure of its liabilities. In addition to return, safety and creditworthiness, investment decision considers liquidity, diversification and above all, the structure of the insurance liabilities. The principles of managing the risks related to financial assets are embedded in the Company's risk management policy and observed in the predetermined risk appetite, strategic investment of assets and specific risk management processes.

The Company manages its asset risk by preparing a new investment policy on an annual basis. Implementation of the strategy and adherence to restrictions is monitored by a multi-level structure. In 2019, tactical decisions were made and implemented by MEAG (MEAG Munich ERGO Asset Management GmbH), an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management team (AL Team) which, in addition to asset manager, consists of the Company's actuaries, investment officers, risk manager, head of planning and controlling department and the member of the Board. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Market risk

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

Exposure to fluctuations in market value is assessed on an ongoing basis using an NNL model. Under this model, Net Loss Limit (NLL), monitors the probability of achieving a result that surpasses the minimum investment result fixed by the actuaries. Clearly defined processes ensure that the Company can respond timely to any significant capital market developments.

(a) Interest rate risk

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

The Company's investments comprise mostly fixed-income securities, the market value of which is influenced by changes in interest rates. As at 31 December 2021, the weighted average purchase yield to maturity of fixed-income portfolio was 2.27% (2.38% as at 31 December 2020).

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

EUR	**2021**	**2020**
	Carrying amount	**Carrying amount**
Fixed-income debt securities		
Interest rate 0.00-2.50%	101,867,896	116,027,485
Interest rate 2.51-3.50%	14,043,346	21,569,993
Interest rate 3.51-4.50%	39,838,963	50,690,701
Interest rate 4.51-5.50%	27,689,966	35,526,168
Interest rate 5.51-6.50%	20,063,116	23,564,021
Interest rate 6.51-7.50%	0	445,348
Interest rate 7.51-8.50%	235,826	254,606
Total fixed-income debt securities	**203,739,113**	**248,078,322**
Loans		
Interest rate 2.51-3.50%	12,006,125	6,005,617
Total loans	**12,006,125**	**6,005,617**
No interest	101,735,080	86,215,809
In total	**317,480,318**	**340,299,748**

(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 of equities and funds available for sale (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 2021 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 2.5 million (2020: EUR 1.9 million).

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

Investments in financial instruments and cash by issuer's domicile

EUR

As at 31 December	2021	2020
Debt and other fixed-income securities		
Austria	10,490,449	15,177,386
Australia	2,957,872	2,264,328
Belgium	14,752,914	18,601,237
Great Britain Virgin Islands	209,652	210,962
Cayman Islands	309,484	312,120
Canada	2,202,371	2,292,187
Chile	1,093,306	2,113,175
Czech Republic	0	189,189
Estonia	3,844,258	2,232,902
Finland	2,299,602	2,689,803
France	33,100,921	41,003,566
Germany	18,584,369	22,941,584
Hungary	4,520,179	5,258,015
Indonesia	316,602	534,585
Ireland	7,820,019	9,438,256
Israel	3,987,604	5,372,354
Italy	12,361,541	13,694,495
Kazakhstan	1,546,622	2,115,875
Latvia	4,359,561	5,764,507
Lithuania	4,788,730	4,184,751
Luxembourg	17,441,746	20,266,720
Mexico	570,931	2,217,431
Netherlands	10,125,550	14,219,511
New Zealand	0	0
Norway	1,823,483	1,876,107
Peru	1,054,523	2,585,948
Poland	5,279,309	6,736,045
Portugal	3,710,250	223,223
Slovakia	2,683,719	4,505,777
Slovenia	4,717,021	5,386,285
Spain	16,150,108	20,222,721
Sweden	1,439,170	1,473,441
Switzerland	0	0
Great Britain	3,129,351	4,574,418
USA	6,067,897	7,399,418
European Investment Bank	0	0
Total debt and other fixed-income securities	***203,739,113***	***248,078,322***
Equities and fund units		
Ireland	11,642,677	9,818,570
Germany	1,629,667	1,156,449
Estonia	7,083,034	6,343,769
Finland	115,410	105,945
Luxembourg	4,693,472	1,294,701

EUR		
As at 31 December	**2021**	**2020**
Total equities and fund units	***25,164,261***	***18,719,434***
Loans Estonia	12,006,125	6,005,617
Total loans	***12,006,125***	***6,005,617***
Unit-linked		
Ireland	12,035,259	7,712,417
Finland	3,857,588	2,527,626
Luxembourg	52,624,404	46,928,723
Total Unit-linked	***68,517,251***	***57,168,766***
Cash		
Estonia	6,097,185	1,500,083
Latvia	2,914,549	4,628,750
Lithuania	2,332,296	4,198,776
Total cash	***11,344,030***	***10,327,609***
Total investments in financial instruments	**320,770,780**	**340,299,748**

(c) Currency risk

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

Most of the Company's liabilities in different currencies are covered with assets denominated in the same currencies. Currency risk is countered by monitoring that no uncovered currency exposure exceeds 5% of total assets.

The following assets and liabilities are exposed to currency risk.

EUR	**As at 31 December 2021**	**As at 31 December 2020**
	USD	**USD**
Insurance and other receivables	2,562	1,911
Investments in financial instruments – available-for-sale debt securities	0	0
Other liabilities from direct insurance business	0	0
Reinsurance payables	0	0
In total	**2,562**	**1,911**

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 (A in 2020). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion. The financial instruments and cash presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies. A rating of a parent company is presented for cash and cash equivalents.

2021	Standard& Poor's	AAA	AA	A	BBB	BB	Not rated	Amount
EUR	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**Not rated**	
Debt and other fixed-income securities		48,356,489	62,032,904	46,735,831	46,613,889	,0	0	**203,739,113**
Proportion of debt securities and other fixed income securities		*24%*	*30%*	*23%*	*23%*	*0%*	*0%*	*100%*
Equities and fund units accounted at FVTPL		0	0	0	0	0	68,517,251	**68,517,251**
Loans		0	0	0	0	0	12,006,125	**12 006 125**
Cash and cash equivalents		0	6,219,137	3,375,828	1,723,745	0	25,320	**11,344,030**
Proportion of cash and cash equivalents		*0%*	*55%*	*30%*	*15%*	*0%*	*0%*	*100%*

2020	Standard& Poor's	AAA	AA	A	BBB	BB	Not rated	Amount
EUR	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**Not rated**	
Debt and other fixed-income securities		58,870,979	77,955,819	54,465,219	56,786,305	,0	,0	**248,078,322**
Proportion of debt securities and other fixed income securities		*24%*	*31%*	*22%*	*23%*	*0%*	*0%*	*100%*
Equities and fund units accounted at FVTPL		0	0	0	0	0	57 168 766	**57,168,766**
Loans		0	0	0	0	0	6 005 617	**6,005,617**
Cash and cash equivalents		0	7,887,383	230,965	2,191,688	,0	17,573	**10,327,609**
Proportion of cash and cash equivalents		*0%*	*76%*	*2%*	*21%*	*0%*	*0%*	*100%*

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

As at 31 December 2021					
EUR	**Not due**	**Less than 30 days past due**	**Overdue 30–60 days**	**Overdue 60-180 days**	**In total**
Receivables from policyholders	8,996,627	636,039	295,545	264,681	**10,192,892**
Receivables from intermediaries	1,831	44	22	35	**1,932**
Receivables from reinsurers	6,069	0	0	0	**6,069**
Other receivables	2,473,475	117,008	27,201	171,420	**2,789,104**
In total	**11,478,002**	**753,091**	**322,768**	**436,136**	**12,989,997**

As at 31 December 2020					
EUR	**Not due**	**Less than 30 days past due**	**Overdue 30–60 days**	**Overdue 60-180 days**	**In total**
Receivables from policyholders	7,004,797	594,910	134,215	291,146	**8 025 068**
Receivables from intermediaries	3,451	102	0	49	**3 602**
Receivables from reinsurers	58,024	12,328	0	1,444	**71 796**
Other receivables	240,278	306,141	13,412	174,075	**733 906**
In total	**7,306,550**	**913,481**	**147,627**	**466,714**	**8 834 372**

In its insurance activities, the Company's main credit risk is payment default by a policyholder. The Company's credit risk arises principally from its insurance 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 248.96 million (2020: EUR 283.13 million), including available-for-sale securities of EUR 203.7 million (2020: EUR 248.1 million), equities and fund units of EUR 21.87 million (2020: EUR 18.72 million), loans of EUR 12.01 million (2020: EUR 6.00 million), and cash and cash equivalents of EUR 11.34 million (2020: EUR 10.33 million).

Investments in financial instruments and cash (by maturity):

As at 31 December		
EUR	**2021**	**2020**
Total contractual cash flows	**320,770,780**	**340,299,748**
No maturity	105,025,542	86,215,809
Up to one year	9,911,367	8,243,828
2-3 years	18,553,789	30,955,388
4–5 years	28,360,328	25,415,993
6–10 years	72,511,175	83,758,102
11-15 years	42,555,049	48,620,803
16 years and more	43,853,529	57,089,825

At the year-end, the weighted average duration of fixed income portfolio was 9 years (2020: 9 years). There were no non-cash movements in the portfolio.

Financial liabilities (based on maturities):

As at 31 December 2021 *EUR*	**Up to 1 year**	**Between 2 and 5 years**	**6 to 10 years**	**More than 10 days**	**In total**
Insurance contract provisions	49,056,725	55,369,170	46,262,738	46,010,391	**196,699,024**
Reinsurance payables	246,157	0	0	0	**246,157**
Financial liabilities from unit-linked contracts	6,430,720	7,271,499	13,094,434	25,034,663	**51,831,316**
Financial liabilities from investment contracts	8,822,222	3,584,469	2,080,163	2,199,081	**16,685,935**
Lease-related liabilities	421,436	583,230	0	0	**1,004,666**
Insurance payables	4,437,406	0	0	0	**4,437,406**
Other payables and accrued expenses	3,896,419	0	0	0	**3,896,419**
In total	**73,311,085**	**66,808,368**	**61,437,335**	**73,244,135**	**274,800,923**

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

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

Strategic risks

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

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

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

- Capital markets – Baltic Life insurance business is dependent on capital market developments. Baltic Life insurance entity's investment portfolio is not able to provide returns, which would meet guaranteed interests it is obliged to offer to clients. Guarantees given in the past are significantly higher than existing capital markets can provide: average guaranteed rate as at 31 December 2021 is 2,15%, meanwhile AAA-rated euro-zone bonds have return below zero for more than 16 years if referring to the situation as at the same date.
- Political environment – political environment in the Baltic States is currently stable.
- Transposition of EU legal framework to the individual member state level – current government pays a lot of attention to monitoring the implementation of EU regulation, e.g. Insurance Distribution and General Data Protection Regulation. These require additional resources, proper analysis, trainings and communication. Failure to be in compliance with the regulations leads to high penalties and reputational impact.
- Competitive insurance market environment – markets continue to be competitive, especially considering clear indications of the market softening. 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 different products we offer as well as number of possible clients will decrease constantly.

- The possible impact to the business model of the Company by the changed customers' behaviour and needs in terms of COVID-19 pandemic and digitalisation.
- Regarding geopolitical situation of Russian military invasion of the Republic of Ukraine, ERGO does not run direct business in the conflict area (Russia, Ukraine, also Belarus). However, the Company carefully reviewed the insurance products it sells and implemented additional preventive measures to reduce the further possible risk exposure in Ukraine, Russia, and Belarus (i.e. underwriting limitations).

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

Operational 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 recognised framework for IT governance, which breaks down tasks in IT into processes and controls. IT control assessment consists of evaluation of general controls – controls linked to individual applications, and to entity level control evaluation – controls performed for the Company. Besides that, IT related operational risks are managed is scope of IT risk management framework.

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

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

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

Reputational risk

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

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

ERGO has defined three sub-categories of reputational risk:

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

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

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

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

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

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

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

Note 6. Premium income

The following table outlines gross and net premiums for 2021 and 2020 by insurance class.

EUR	2021				2020			
	Gross written premiums	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross written premiums**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, supplementary insurance	6,744,688	-447,825	0	6,296,863	6,092,914	-510,297	0	5,582,617
Life, Unit-linked	14,920,085	-614	0	14,919,471	12,967,955	-527	0	12,967,428
Life, Endowment	9,972,873	-4,575	0	9,968,298	11,197,289	-7,704	0	11,189,585
Life, Pension	11,676,748	0	0	11,676,748	12,070,807	0	0	12,070,807
Life, Term Life	2,540,095	-437,615	0	2,102,480	2,198,327	-443,986	0	1,754,341
Health insurance	34,866,948	0	-2,473,194	32,393,754	30,668,832	0	-496,897	30,171,935
In total	**80,721,437**	**-890,629**	**-2,473,194**	**77,357,614**	**75,196,124**	**-962,514**	**-496,897**	**73,736,713**

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

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

Distribution of gross premiums written by currency

EUR	**2021**	**2020**
EUR	80,697,600	75,170,410
USD	23,837	25,714
In total	**80,721,437**	**75,196,124**

Distribution of gross premiums written by country

EUR	**2021**	**2020**
Latvia	45,379,808	41,156,881
Lithuania	30,305,623	29,067,073
Estonia	5,036,006	4,972,170
In total	**80,721,437**	**75,196,124**

Note 7. Investment income

EUR	2021	2020
Interest income on		
Available-for-sale debt securities	4,370,155	4,633,594
Loans	71	12
Term deposits	104	213
Total interest income	**4,370,330**	**4,633,819**
Dividends income	320,970	2,139,257
Net realised gains on available-for-sale financial instruments	2,909,304	383,637
Fair value gains and losses on financial assets at FVTPL (designated as such upon initial recognition)	6,650,059	1,209,647
Net realised gains on financial assets through FVTPL (designated as such upon initial recognition)	137,638	118,286
Investments in associates	0	23,112
Impairment loses of securities available-for-sale	0	-313,792
In total	**14,388,301**	**8,193,966**

Note 8. Claims and benefits incurred

The following table shows claims paid and incurred in 2021 and 2020 by insurance class.

EUR	2021				2020			
	Claims paid [1]	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**	**Claims paid [1]**	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**
Life, supplementary insurance	-1,364,344	61,027	133,545	-1,169,772	-1,059,038	-246,226	-18,718	-1,323,982
Life, Endowment	-13,683,103	4,139,853	0	-9,543,250	-14,273,169	3,832,551	0	-10,440,618
Life, Pension	-20,676,823	8,162,655	0	-12,514,168	-12,531,414	-1,597,938	0	-14,129,352
Life, Term Life	-250,420	66,009	49,180	-135,232	-167,592	239,347	3,750	75,505
Life, Unit-Linked	-5,709,295	368,442	0	-5,340,852	-2,903,357	-820,785	0	-3,724,142
Health insurance	-25,958,156	-550,088	0	-26,508,244	-22,744,835	284,127	0	-22,460,708
Change in unit-linked reserve	0	-12,177,849	0	-12,177,849	0	-7,341,532	0	-7,341,532
In total	**-67,642,141**	**70,049**	**182,725**	**-67,389,367**	**-53,679,405**	**-5,650,456**	**-14,968**	**-59,344,829**

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

The pension reform in Estonia enforced on 1st January 2021 changed the process of joining and leaving the second pillar. Now the person can choose between three options for using the pillar. The first is to continue saving in the second pension pillar as previously. The second is to stop contributing to the pillar but to keep all of the assets that have been built upon their pension fund account so far. The third option is to stop making payments into the second pillar and to withdraw everything that has been saved up in it so far.
The policyholders who decided to cancel the annuity pension contract had to submit the respective application by 31st March 2021. Accordingly, on 10th September, the Company paid out surrender values of EUR 8,824,164 to policyholders who chose the third option.

The remaining second pillar portfolio of EUR 4,537,637 was transferred to the Ministry of Finance on 20th January 2022.

Catastrophes and major losses in 2021

In 2021, there were no losses incurred due to unforeseen events or natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

EUR	Note	2021	2020
Acquisition expenses		**12,901,157**	**11,542,501**
Service fees and commissions		7,090,220	5,890,354
Salaries		2,993,347	2,930,045
Social security contributions		444,831	402,566
Marketing expenses		593,386	560,633
Depreciation and amortisation		229,780	200,117
IT costs		649,385	516,504
Rental and utilities		373,652	388,521
Office expenses		92,064	102,816
Training and other staff costs		44,763	64,728
Communications expenses, including mobile phone charges		39,129	41,125
Other labour costs		70,141	64,784
Business trip expenses		3,825	11,603
Costs of company cars		30,711	26,259
Miscellaneous expenses		245,924	342,446
Administrative expenses		**4,773,680**	**4,407,182**
Salaries		3,055,252	2,798,641
Social security contributions		379,293	357,653
IT costs		451,772	318,335
Depreciation and amortisation		261,313	220,499
Rental and utilities		259,846	273,452
Other labour costs		57,773	64,452
Business trip expenses		14,857	22,237
Training and other staff costs		44,069	57,939
Office expenses		46,049	51,626
Communications expenses, including mobile phone charges		15,298	15,857
Costs of company cars		14,887	12,074
Miscellaneous expenses		173,273	210,787
Non-audit services (translation) provided by audit company		0	3,630
Other operating expenses		**619,828**	**383,423**
Change in deferred acquisition costs		619,828	383,423
Investment expenses		**364,150**	**389,246**
Services purchased		300,726	324,207
Salaries		46,498	46,492
Social security contributions		15,716	15,714
Rental and utilities		487	1,624
Training and other staff costs		0	390
Business trip expenses		0	0
Communications expenses, including mobile phone charges		125	235
Other labour costs		309	249
Office expenses		25	200
IT costs		163	35
Miscellaneous expenses		99	100

EUR	2021	2020
Other expenses	**813,621**	**746,873**
Expenses,related,to,currency,revaluation	103,567	145,261
Change,in,lump,sum,allowance	50,778	64,880
Write-off,of,property,and,equipment	-14,542	68,462
Arranging,(re)insurance,contract	911	1,025
Expenses,related,to,lease,of,premises,under,IFRS,16	6,161	8,240
Audit,and,legal,services	69,902	0
Trademark	158,815	0
Miscellaneous,expenses*	438,029	459,005

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

9.1 Commission income

EUR	2021	2020
Reinsurance commissions	81,338	84,978
Participation in reinsurers' profit	239,902	299,472
In total	**321,240**	**384,450**

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 2021, the cost of fully depreciated items still in use was EUR 234,234 (31 December 2020: EUR 546,854). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

EUR

Category of assets	Land	Buildings	Equipment and other items	In total
Cost				
As at 31 December 2019	**18,935**	**2,097,164**	**1,034,266**	**3,150,365**
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	115,339	115,339
Additions under IFRS 16	0	194,247	6,036	200,283
Terminations and corrections under IFRS 16	0	-254,245	0	-254,245
Disposals	-18,935	0	0	-18,935
Write-off	0	0	-5,248	-5,248
As at 31 December 2020	**0**	**2,037,166**	**1,150,393**	**3,187,559**
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	8,753	8,753
Additions under IFRS 16	0	332,917	0	332,917
Terminations and corrections under IFRS 16	0	-10,238	0	-10,238
Disposals	0	0	-22,398	-22,398
Write-off	0	0	-3,755	-3,755
As at 31 December 2021	**0**	**2,359,845**	**1,132,993**	**3,492,838**
Accumulated depreciation				
As at 31 December 2019	**0**	**458,415**	**619,599**	**1,078,014**
Depreciation of assets recognised under IFRS 16	0	498,248	46,168	544,416
Depreciation for the year	0	0	104,826	104,826
Disposals	0	0	0	0
Write-off	0	0	-3,873	-3,873
As at 31 December 2020	**0**	**956,663**	**766,720**	**1,723,383**
Depreciation of assets recognised under IFRS 16	0	456,379	28,629	485,008
Depreciation for the year	0	0	99,320	99,320
Disposals	0	0	-22,398	-22,398
Write-off	0	0	-3,755	-3,755
As at 31 December 2021	**0**	**1,413,042**	**868,517**	**2,281,559**
Carrying amount				
As at 1 January 2020	**18,935**	**1,638,749**	**414,667**	**2,072,351**
As at 31 December 2020	**0**	**1,080,503**	**383,673**	**1,464,176**
As at 31 December 2021	**0**	**946,803**	**264,476**	**1,211,279**

Note 11. Deferred acquisition costs

EUR	2021	2020
Balance as at 1 January	**4,996,925**	**5,380,348**
Amortised portion	-1,978,027	-1,860,212
Addition from new contracts	1,605,136	1,476,789
Reduction after liability adequacy test	-246,937	0
Balance as at December 31	**4,377,097**	**4,996,925**

Note 12. Other intangible assets

EUR

	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 1 January 2020	**2,813,501**	**579,538**	**3,393,039**
Purchase of software and licences	650,849	19,029	669,878
Addition – internally generated IT projects	0	0	0
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	0	0	0
As at 31 December 2020	**3,464,350**	**598,567**	**4,062,917**
Purchase of software and licences	1,057,447	0	1,057,447
Addition – internally generated IT projects	134,080	0	134,080
Write off – internally generated IT projects	-222,257	0	-222,257
Write-off of software and licences	0	0	0
As at 31 December 2021	**4,433,620**	**598,567**	**5,032,187**
Accumulated amortisation			
As at 31 December 2020	**1,995,799**	**525,836**	**2,521,635**
Amortisation for the year	377,567	20,461	398,028
Write-off	0	0	0
As at 31 December 2020	**2,373,366**	**546,297**	**2,919,663**
Amortisation for the year	455,119	22,496	477,615
Write-off	0	0	0
As at 31 December 2021	**2,828,485**	**568,793**	**3,397,278**
Carrying amount			
As at 1 January 2020	**817,702**	**53,702**	**871,404**
As at 31 December 2020	**1,090,984**	**52,270**	**1,143,254**
As at 31 December 2021	**1,605,135**	**29,774**	**1,634,909**

In 2021, on a joint agreement of the Baltic States, in order to improve the efficiency of processes and compatibility between the three countries, .NET project was launched. As at 31 December 2021, the cost of fully amortised assets still in use was EUR 2,592,819 (as at 31 December 2020: EUR 2,284,723).

Note 13. Investments in subsidiaries

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

The company has assessed the impairment of investment into a subsidiary and taking into account the ending equity is higher than the carrying amount of investment in the subsidiary as well as the subsidiary was profitable have concluded that no impairment indications exist.

EUR

Carrying amount of investment in subsidiary	
As at 31 December 2019	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2020	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2021	**4,677,870**

The main financial information (unaudited) of ERGO Invest SIA as at 31 December 2021 was the following (EUR):

Assets	Liabilities	Equity	Revenue	Result of the year
5,249,462,	**171,201**	**5,078,261**	**741,145**	**269,801**

Note 15. Investments in financial instruments

EUR **As at 31 December**	**Note**	**2021**	**2020**
Available-for-sale financial assets			
Equities and fund units	15.1	25,164,261	18,719,434
Debt and other fixed-income securities	15.2	203,739,113	248,078,322
Total available-for-sale financial assets		**228,903,374**	**266,797,756**
Investments accounted at FVTPL			
Equities and fund units	15.1	68,517,251	57,168,766
Total investments accounted at FVTPL		**68,517,251**	**57,168,766**
Derivatives	15.2	**0**	**0**
Loans and receivables			
Loans	15.3	12,006,125	6,005,617
Term deposits in credit institutions	15.3	0	0
Total loans and receivables		**12,006,125**	**6,005,617**
In total		**309,426,750**	**329,972,139**

15.1. Equities and fund units accounting

EUR	**As at 31 December 2021**		**As at 31 December 2020**	
	Cost	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	1,299,620	1,629,667	1,099,907	1,156,451
Units in listed debt funds	11,067,093	11,283,566	9,215,350	9,541,662
Units in unlisted equity and debt funds	1,862,327	1,877,531	1,669,889	1,677,552
Infrastructure debt funds	3,290,462	3,290,462	0	0
Real estate funds	5,727,997	7,083,034	5,000,000	6,343,769
Unit-linked	58,364,502	68,517,251	51,531,880	57,168,766
In total	**81,612,002**	**93,681,512**	**68,517,026**	**75,888,200**

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

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

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

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

EUR	As at 31 December 2021		As at 31 December 2020	
	Cost	**Fair value**	**Cost**	**Fair value**
Fixed-income debt securities				
Government bonds	137,772,723	163,147,074	162,671,830	201,947,783
Financial institutions' bonds	21,062,996	22,022,200	23,436,590	25,280,786
Other debt securities	18,197,760	18,569,839	20,149,014	20,849,753
In total	**177,033,479**	**203,739,113**	**206,257,434**	**248,078,322**

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

EUR	**2021**	**2020**
As at 1 January	**248,078,322**	**227,877,839**
Purchased debt securities	9,631,204	17,488,831
Disposed debt securities	-36,804,290	-1,805,608
Received on maturity date debt securities	-6,098,667	-2,157,841
Amortisation of debt securities	-880,801	-887,324
Change in revaluation reserve	-12,355,589	7,319,191
Net realised gains	2,751,556	131,014
Net realised loss	-1,835	0
Change in interest accrued	-580,788	112,220
As at 31 December	**203,739,113**	**248,078,322**

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 2021 and 2020, the portfolio did not include any debt securities measured at cost or using valuation models.

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

15.3. Loans

Loans by maturity

EUR		
As at 31 December	**2021**	**2020**
5–10 years	12,006,125	6,005,617
In total	**12,006,125**	**6,005,617**

As at 31 December 2021, the following loans were issued:

EUR 6,005,695 (31 December 2020: EUR 6,005,617) 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. As well as, EUR 6,000,430 loan to ERGO Insurance SE at 1.29% fixed interest per year for the period 2021–2026 and variable interest of 1.42%+12-month Euribor from the period

2026–2031. The loan was granted on 22 December 2021 and the repayment term of the loan is 30 December 2031.

Note 16. Reinsurance assets

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

EUR **As at 31 December**	**2021**	**2020**
Provision for claims outstanding – claims incurred and reported	138,453	128,453
Total provision for claims outstanding	138,453	128,453
In total	**138,453**	**128,453**

Information on reinsurance assets is also provided in note 22.

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

Reinsurance result

EUR	**Note**	**2021**	**2020**
Premiums paid to reinsurers	6	890,629	962,515
Reinsurers' share of change in provision for unearned premiums		0	0
Commissions and profit participation paid by reinsurers	9.1	-321,240	-384,449
Reinsurers' share of claims paid	8	-172,725	-17,170
Reinsurers' share of change in provision for claims outstanding	8	-10,000	498
Reinsurers' share of deferred acquisition costs	9.1	0	0
In total		**386,664**	**561,394**

Note 17. Insurance and other receivables

EUR **As at 31 December**	**2021**	**2020**
Receivables from policyholders, gross	10,672,198	8,509,589
Impairment of receivables from policyholders	-479,306	-484,521
Receivables from brokers and other intermediaries	1,932	3,602
Receivables from reinsurers	6,069	71,796
Total insurance receivables	***10,200,893***	***8,100,466***
Other receivables	2,349,947	420,382
Total other financial assets	***2,349,947***	***420,382***
Deferred expenses	328,754	243,377
Prepaid taxes	110,403	70,147
Total non-financial assets	***439,157***	***313,524***
In total	**12,989,997**	**8,834,372**

Note 18. Cash and cash equivalents

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

EUR	2021 As at 31 December	2020 As at 31 December
Cash at bank	11,344,030	10,327,609
Cash on hand	0	0
In total	**11,344,030**	**10,327,609**

Cash and cash equivalents by original currency

As at 31 December	2021	2020
EUR	11 328 157	10 327 609
USD	15 873	0
PLN	0	0

Note 19. Shareholders and issued capital

	Number of shares	Total issued capital
As at 31 December 2020	15,124	4,380,213
As at 31 December 2021	15,124	4,380,213

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

The sole shareholder of ERGO Life Insurance SE is ERGO International AG (registry number HRB 40871, address ERGO-Platz 1, 40198 Dusseldorf, Germany). The shareholder of ERGO International AG is ERGO Versicherungsgruppe AG.

The consolidated financial statements of ERGO Versicherungsgruppe AG, prepared in accordance with International Financial Reporting Standards, are available at www.ergo.de. The parent of ERGO Versicherungsgruppe AG group is Münchener Rückversicherungs-Gesellschaft AG, the shares of which are listed on German stock exchanges.

As at 31 December 2021, 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 2021 consisted of the following: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621 (as at 31 December 2020: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621).

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

Reserves are formed by distributing profit of the current and previous year by a decision of the General Meeting of Shareholders, in line with the legislation and legal acts of the Republic of

Lithuania as well as the Articles of Association of the Company. Legal reserves are compulsory reserves formed of the profit for distribution. The Company shall transfer to the legal reserve 5% of the profit for distribution until the reserve makes up 10% of the Company's issued capital. The legal reserve may be used only for covering losses of the Company. The share of the legal reserve in excess of 10% of the issued capital may be distributed when distributing the profit for the succeeding financial year.

As at the end of 2021, the Company had fully formed its legal reserve.

Note 21. Fair value reserve

The fair value reserve comprises the net change in the fair value of available-for-sale financial assets. When a financial asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

EUR	**2021**	**2020**
As at 1 January	**43,897,652**	**36,880,062**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-2,752,362	-312,408
Derecognised from equity and recognised in profit or loss in connection with redemption and impairment	-7,302	
Net change in fair value recognised in other comprehensive income or expense during the year	-12,173,117	7,329,998
As at 31 December	**28,964,871**	**43,897,652**

Note 22. Insurance contract provisions and reinsurance assets

EUR

As at 31 December	Note	2021	2020
Gross provisions			
Life insurance	22.1	167,171,478	183,535,418
Unearned premium provision		14,850,817	12,377,623
Bonus provision	22.3	1,881,006	2,127,453
Provision for claims outstanding – claims incurred and reported		*11,579,651*	*7,318,229*
Provision for claims outstanding – IBNR		*931,786*	*823,482*
Provision for claims outstanding – indirect claims handling costs		*284,288*	*291,520*
Total provision for claims outstanding	22.2	12,795,725	8,433,231
Unexpired risk provision		0	0
Unit-linked contracts provision		51,831,316	39,653,466
Total gross provisions		**248,530,340**	**246,127,191**
Reinsurers' share of provisions			
Life insurance		0	0
Unearned premium provision		0	0
Bonus provision		0	0
Provision for claims outstanding – claims incurred and reported		*138,453*	*128,453*
Provision for claims outstanding – IBNR		*0*	*0*
Total provision for claims outstanding		138,453	128,453
Unexpired risk provision		0	0
Unit-linked contracts provision		0	0
Total reinsurers' share of provisions		**138,453**	**128 453**
Net provisions			
Life insurance		167,171,478	183,535,418
Unearned premium provision		14,850,817	12,377,623
Bonus provision		1,881,006	2,127,453
Provision for claims outstanding – claims incurred and reported		*11,441,198*	*7,189,776*
Provision for claims outstanding – IBNR		*931,786*	*823,482*
Provision for claims outstanding – indirect claims handling costs		*284,288*	*291,520*
Total provision for claims outstanding	22.2	12,657,272	8,304,778
Unexpired risk provision		0	0
Unit-linked contracts provision		51,831,316	39,653,466
Total net provisions		**248,391,887**	**245,998,738**

Life insurance mathematical technical provision

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

Unearned premium provision

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

Outstanding claim provision

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

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

Part of the provision for outstanding claims consists of outstanding claim settlement costs. This part of the provision is formed for all outstanding claims and is calculated as 10% for health and rider products as well as 1% for life products on the provision for outstanding claims. An exception was made for the Estonian pension annuities portfolio transferred to the Government in January 2022: as both the transfer amount and the transfer date were available at the reporting date, the claims handling costs of 1% would have been significantly overstated and therefore were set equal to zero.

Provision for bonuses

Bonus provision at the end of the period amounted to EUR 1.9 million (31 December 2020: EUR 2.1 million). The total amount relates to rebate of insurance premiums (participation in profit).

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2021 and 2020, there was no any unexpired risk provision formed. As at 31 December 2021, premium adequacy test showed provision insufficiency; therefore, health insurance deferred acquisition costs were reduced by the corresponding amounts. As at 31 December 2020, premium adequacy test showed no provision insufficiency. Deferred acquisition costs were reduced due to the LAT test results. The impact is disclosed in Note 11.

Unit-linked contracts provision

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

22.1 Life insurance provision (gross)

EUR	2021	2020
As at 1 January	**183,525,418**	**185,964,106**
Premiums received	20,028,590	21,666,620
Benefits and claims paid for death, maturities, surrenders	-36,901,643	-26,441,464
Risk premiums	-1,052,414	-1,194,548
Risk free rate change	-41,477	20,543
Policy amendments	-1,447,496	-1,180,662
Return on investments	3,503,771	3,667,354
Quarterly corrections (reserve changes due to incorrect product dates, data processing)	-285,571	39,563
Update to provisioning investment return	-360,082	-
Pension annuities reserve after savings phase	675,258	242,194
Additional Estonian pension annuities reserve	-318,659	843,984
Data quality improvement	-154,221	-102,272
As at 31 December	**167,171,474**	**183,525,418**

22.2 Provisions for claims outstanding by insurance class

Insurance class	**Gross provision for claims outstanding**	**Gross provision for claims outstanding**	**Net provision for claims outstanding**	**Net provision for claims outstanding**
EUR	**2021 As at 31 December**	**2020 As at 31 December**	**2021 As at 31 December**	**2020 As at 31 December**
Health insurance	2,001,015	1,450,927	2,001,015	1,450,927
Accident insurance	79,760	105,335	78,078	103,652
Life insurance linked to investment funds	1,840,471	1,988,848	1,703,701	1,862,078
Life insurance	8,874,479	4,888,121	8,874,478	4,888,121
In total	**12,795,725**	**8,433,231**	**12,657,272**	**8,304,778**

22.3 Bonus provision (gross)

EUR	**2021**	**2020**
As at 1 January	**2,127,453**	**2,397,312**
Bonus for new business	34	89
Bonus release during the year	-321,183	-358,974
Bonus accumulation during the year	74,702	89,026
As at 31 December	**1,881,006**	**2,127,453**

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2020, there was no any unexpired risk provision formed.

Note 23. Financial liabilities from investment contracts

As at 31 December	2021	2020
Financial liabilities from investment contracts		
Opening balance	**17,515,299**	**19,577,873**
Payments received	5,672,826	4,569,677
Fees and service charges	-602,148	-573,135
Provisions and payments made	-7,165,457	-7,183,830
Change in value, interest accrued	1,265,414	1,124,714
Closing balance	**16,685,935**	**17,515,299**

Note 24. Insurance payables

EUR

As at 31 December	2021	2020
Payables to policyholders	3,318,575	3,388,406
Payables to brokers and other intermediaries	1,118,831	912,823
In total	**4,437,406**	**4,301,229**

Note 25. Other payables and accrued expenses

EUR

As at 31 December	2021	2020
Trade payables	655,139	779,840
Other payables	649,201	471,913
Accrued vacation pay payable	453,434	420,132
Personal income tax payable	765,744	614,961
Personal income tax payable for additional reliefs	4,025	955
Social security tax payable	97,021	81,347
Mandatory payment for second pillar pension funds	2,627	2,407
Payable value added tax	187,638	110,823
Payables to employees	225,756	175,026
Other accrued items	855,834	1,422,376
In total	**3,896,419**	**4,079,780**

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. No transfers between levels have occurred.

EUR		Carrying amount					Fair value			
As at 31 December 2021	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**In total**	**Level I**	**Level II**	**Level III**	**In total**
Financial assets measured at fair value										
Units in listed equity funds	15.1		1,629,667			1,629,667	1,629,667	0	0	1,629,667
Units in listed debt funds	15.1		11,283,566			11,283,566	11,283,566	0	0	11,283,566
Units in unlisted equity and debt funds	15.1		1,877,531			1,877,531	1,160,019	717,512		1,877,531
Infrastructure debt funds	15.1		3,290,462			3,290,462	0	0	3,290,462	3,290,462
Real estate funds	15.1		7,083,034			7,083,034	0	0	7,083,034	7,083,034
Unit-linked	15.1	68,517,251				68,517,251	44,337,898	24,179,353		68,517,251
Government bonds	15.2		163,147,073			163,147,073	0	163,147,073	0	163,147,073
Financial institutions' bonds	15.2		22,022,200			22,022,200	0	22,022,200	0	22,022,200
Other debt securities	15.2		18,569,839			18,569,839	0	18,569,839	0	18,569,839
Financial assets not measured at fair value										
Loans	15.3			12,006,125		12,006,125	0	12,006,125	0	12,006,125
Insurance and other receivables	17			12,989,997		12,989,997				
Cash	18			11,344,030		11,344,030				
Financial liabilities measured at fair value										
Financial liabilities from investment contracts		16,685,935				16,685,935	10,566,186	6,119,749	0	16,685,935
Financial liabilities not measured at fair value										
Reinsurance payables					246,157	246,157				
Insurance payables					4,437,406	4,437,406				
Other payables					1,304,340	1,304,340				

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

Note 27. Leases

The Company uses office premises, office equipment and cars under operating leases. In 2021, operating lease expenses on premises totalled EUR 78,578 (2020: EUR 53,820). These lease agreements on initial recognition and analysing new agreements of 2021 were recognised as low-value or short-term leases under IFRS 16. No operating lease expenses on other assets were incurred (in 2020, no operating lease expenses on other assets were incurred).

Leases as lessee (IFRS 16)

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

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

Right-of-use assets and lease liabilities

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

	Buildings	Equipment and other items	In total
2021			
Balance as at 1 January 2021	1,080,503	77,180	1,157,683
Depreciation for the year	-456,378	-28,629	-485,007
Additions to right-of-use assets	332,917	0	332,917
Disposal of right-of-use assets	-10,238	0	-10,238
Balance as at 31 December 2021	**946,804**	**48,551**	**995,355**

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

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

EUR	**2021**	**2020**
As at 1 January	**1,166,282**	**1,768,921**
Additions	332,916	196,847
Increase in interest	6,161	8,240
Payments	-490,455	-500,731
Write-offs and disposals	-10,238	-306,995
As at 31 December	**1,004,666**	**1,166,282**

Amounts recognised in profit or loss

2021 Leases under IFRS 16	2021
Interest on lease liabilities	6,161
Depreciation for the year	485,007
Expenses relating to short-term leases	69,699
Expenses relating to leases of low-value assets	8,879

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

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 in the range from 0.15% to 0.90% as at 31 December 2021 (2020: in the range from 0.08% to 0.90%). When measuring right-of-use assets, the Company assessed each contract separately.

Minimum lease payments under lease agreements

As at 31 December 2021				
EUR	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**In total**
Lease-related financial liabilities	421,436	583,230	0	1,004,666
In total	421,436	583,230	0	**1,004,666**

As at 31 December 2020				
EUR	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**In total**
Lease-related financial liabilities	386,755	739,088	40,439	1,166,282
In total	**386,755**	**739,088**	**40,439**	**1,166,282**

Note 28. Income tax

Corporate income tax consists of current and deferred tax.

In 2021, payable corporate income tax for the activity in the Republic of Lithuania amounted to EUR 357,643

For calculation of corporate income tax in the Republic of Lithuania in 2021 and 2020, a profit tax rate of 15% was applied.

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

A deferred tax asset is only recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax asset recognised as at 31 December 2021: EUR 107,845.

EUR

Income tax expense	**2021**	**2020**
Income tax expense	-358,087	-126,083
Change in deferred income tax	-15,313	12,698
Total income tax expense	**-373,400**	**-113,385**

Recognised deferred income tax asset	**2021**	**2020**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	107,845	123,158
In total	**107,845**	**123,158**

Unrecognised deferred tax asset	**2021**	**2020**
Tax losses	3,007,709	3,842,209
In total	3,007,709	3,842,209

The company assessed future taxable income and concluded that there would be no material taxable profits which would allow using tax losses carried forward.

Reconciliation of profit for accounting purposes and income tax expenses	**2021**	**2020**
Profit before tax	10,011,949	5,554,899
Parent company's domestic tax rate	1,501,792	833,235
Effect of tax rates in foreign jurisdictions	-192,432	-185,250
Effect of exempt income and taxable expenses	-122,799	-270,472
Non-deductible expenses	21,339	30,065
Unrecognised deferred tax assets movement:	0	0
Recognition of previously unrecognised tax losses	-834,500	-294,193
Effect of income tax of previous years	0	0
Income tax expense for the year	**373,400**	**113,385**

Note 29. Related party transactions

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

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

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

On 15 June 2021, the Company made investments into MEAG alternative investment fund *MEAG Infrastructure Debt Fund II* (LU2182118013). In 2021, investments made amounted to EUR 3,290,462, and number of shares acquired was 3,250,847. The Company made commitment to invest EUR 8,000,000.

MEAG Infrastructure Debt Fund II invests in selected infrastructure projects in Germany, Europe and USA. These projects can be implemented in any segment, e.g. transport, energy supply, renewable energy, communication or social infrastructure. MEAG, together with the experts from

Munich Re, carries out a due diligence process for all projects before deciding to invest in certain assets.

The share of total investments of ERGO/ MunichRE Group of companies into this fund is 14.02%, ERGO Life Insurance SE – 0.6355%.

Remuneration of key management personnel

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

	2021	**2020**
Wages and salaries	181,117	100,440
Social security contributions	4,510	2,501
Other short-term employment benefits	0	0
Bonuses	0	0
Total remuneration of key management personnel	**185,627**	**102,941**

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

The remuneration, performance bonuses and benefits provided to the members of the Board for the year totalled EUR 368,108 (2020: EUR 356,790). The chairman of the Board receives remuneration only as the Company's director. The members of the Supervisory Board were not remunerated.

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

Transactions with related parties are presented below:

EUR

As at 31 December Related parties	**Receivables in 2021**[1]	**Receivables in 2020**[1]	**Payables in 2021**	**Payables in 2020**
Parent of the group – Münchener Rück	0	0	442,774	309,992
Other group companies	12,042,985	6,039,035	108,900	220,727

EUR

Related parties	**Services purchased in 2021**	**Services purchased in 2020**	**Services sold in 2021**[2]	**Services sold in 2020**[2]
Parent of the group – Münchener Rück	550,784	209,128	96,726	78,473
Other group companies	8,154,609	1,314,591	389,496	4,766,809

[1] Including a loan of EUR 12,000,000 (2020: EUR 6,000,000) provided to ERGO Insurance SE.

[2] Including interest of EUR 6,125 (2020: EUR 5,617) on the loan provided to ERGO Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	**2021**	**2020**
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	435,504	517,874
Reinsurers' share of claims paid	101,489	0
Reinsurance commissions and profit participation	122,968	160,868
Other Group companies		
Ceded reinsurance premiums	5,121	0

Note 30. Contingencies

As at 31 December 2021 and 2020, 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.

The company has remaining commitment to invest up to 1 277 449 euros in the Eften Residential real estate fund. The capital will be called if the asset manager allocates another attractive investment opportunity.

The liability is qualified as a contingent liability and is not reflected in the company's financial statements.

The company has remaining commitment to invest up to 4 709 539 euros in the MEAG Infrastructure Debt Fund II. The capital would be called when the asset manager signs a loan agreement with another infrastructure company.

The liability is qualified as a contingent liability and is not reflected in the company's financial statements.

Note 31. Events after the reporting date

After the end of the financial year and until the approval of the financial statements, there were no significant events which should be disclosed in the financial statements except Russian military invasion of the Republic of Ukraine. ERGO Life Insurance SE, including the branches (further ERGO or Company), monitors the geopolitical situation in Eastern Europe and carefully assesses all circumstances that could impact Company activity and risk profile, including operation and cyber risks. We have performed several analyses of the possible impact of the conflict situation on the Company's business.

A detailed assessment of underwriting, market and operational risks is provided in Note 2 (e) Geopolitical risk.

Signatures to annual report 2021

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

Bogdan Benczak

Chairman of the Board .... 31 March 2022

Maciej Szyszko

Member of the Board .... 31 March 2022

Tadas Dovbyšas

Member of the Board .... 31 March 2022

Marek Ratnik

Member of the Board .... 31 March 2022

Ingrida Ķirse

Member of the Board .... 31 March 2022

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.

The pension reform enforced on 1st January 2021 changed the process of joining and leaving the second pillar. The policyholders who decided to stop making payments into the second pillar and to withdraw everything that has been saved up in it so far had to submit the respective application by 31 March 2021. Accordingly, on 10th September, the Company paid out surrender values of EUR 8,824,164 to policyholders who chose the third option. The remaining second pillar portfolio of EUR 4,537,637 was transferred to the Ministry of Finance on 20 January 2022.

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 2021 and 2020 years:

EUR	**2021**	**2020**
Net written premiums	**21,644**	**484,311**
Gross written premiums	21,644	484,311
Acquisition fees	0	0
Written premiums ceded to reinsurers		
Net income from investments (+/-)	**-152,330**	**848,738**
Income from interests and dividends	456,692	228,734
Profit/loss from change in value of investments	-2,046,677	620,004
Profit/loss from investment realisation	1,437,655	
Other financial income/expenses		
Other operating income		
Annuity payments and change in liabilities related to annuities (+/-)	**-969,455**	**-544,400**
Annuity payments	**-9,639,309**	**-860,850**
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	**8,669,854**	**316,450**
Reinsurance part in change in liabilities	0	0
Annuity management fees	106,547	5,879
Annuity cancellation fees	10,689	148,433
Operation expenses (-)	**-83 329**	**-78,367**
Acquisition expenses	-38,628	-38,574
Acquisition expenses of related parties	0	0
Administrative expenses	-44,701	-39,793
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 operating expenses of related parties	0	0
Profit/loss of the reporting period (+/-)	**-1,183,470**	**710,282**
Profit to be 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.