ERGO Insurance SE

# Annual Report 2022

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| Legal name: | **ERGO Insurance SE** |
| Commercial Register Code: | 10017013 |
| VAT Code: | EE100295906 |
| LEI Code: | 549300WOSFHL8FRS5V57 |
| Legal Address: | Veskiposti 2/1, 10138 Tallinn, Estonia |
| Phone: | (+372) 610 6500 |
| E-mail: | info@ergo.ee |
| Website: | www.ergo.ee |
| Core Business: | Non-life Insurance |
| Financial Year: | 01.01.2022-31.12.2022 |
| | |
| Chairman of the Management Board: | Ursula Clara Deschka |
| Members of the Management Board: | Marek Ratnik |
| | Tadas Dovbyšas |
| | Maciej Szyszko |
| | |
| Chairman of the Supervisory Board: | Dr Oliver Martin Willmes |
| Members of the Supervisory Board: | Ilona Mihele |
| | Christine Kaaz |
| | Dirk Christoph Schautes |
| | |
| Auditor: | Ernst & Young Baltic AS |
| Accompanying documents: | Independent Auditors´ Report |
| | Profit Allocation Proposal |
| | Information on the Sole Shareholder |
| | List of Business Activities |

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# Management report

## Explanatory note to the management report

### 1. COMPANY OVERVIEW

#### 1.1. Legal Structure

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

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

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

The Group is represented in around 30 countries worldwide, focusing mainly on Europe and Asia. About 37,000 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.

## 1.2. Strategic vision

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

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

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

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

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

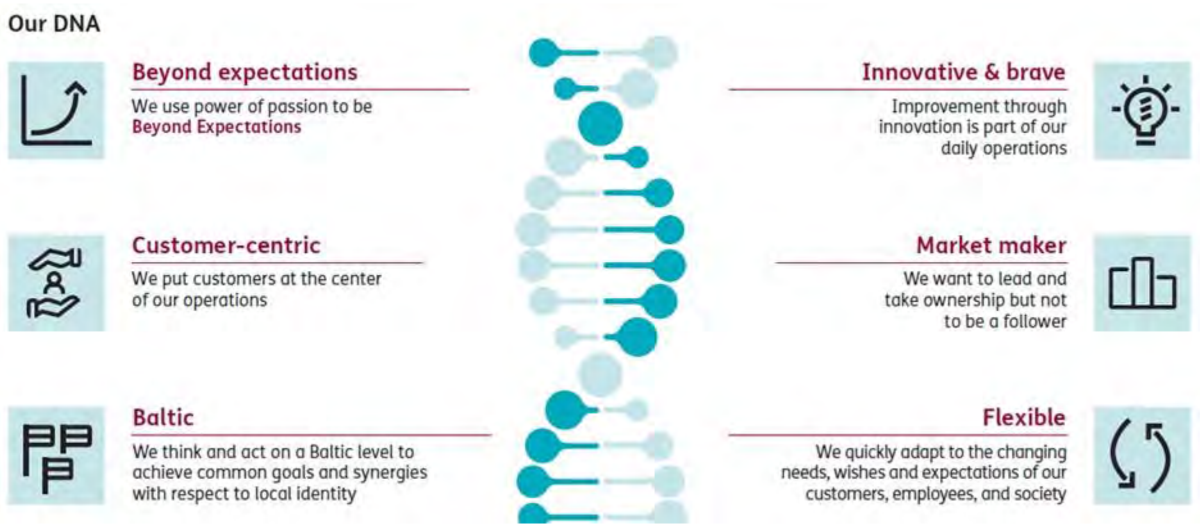
We intend on using all available resources to support our customers – as comprehensively as possible. We intend on making our customers' lives a little bit simpler every single day. We intend on freeing society and customers from risks and opening up new perspectives.

**Our DNA:**

On a daily basis 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 and most humane insurance brand in the Baltics, also greenest in Estonia and Latvia. In the overall ranking, ERGO is ranked 47th in the Baltics among various brands.

**Our engagement**: By ERGOs international engagement survey Pulse our employees' sustainable engagement is extremely high in all Baltics, reaching 90% in 2022. Our people believe in our management - the highest rankings are given to company leadership and direct managers.




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

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

Changes in the structure and operating principles of ERGO 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 2022, the company continued with activities planned in the ERGO Baltic Strategy 2021-2023.

## 1.3. Main achievements / recognitions on company level 2022

| Category | Award-winning performance | Reference | Country |
|---|---|---|---|
| Valued company/ brand | **Brand Capital Research**<br>➢ most loved and humane insurance brand<br>➢ most green insurance brand | Baltic brand awards:<br>https://balticbrands.eu/en | Baltic<br><br>Estonia, Latvia |
| | **Nielsen IQ Brand Study Brand Awareness**<br>➢ First place (92%)<br>➢ 3rd place (84%)<br>➢ 2nd place (92%) | Omnibus Study (CAWI) by Nielsen Consumer LLC | Estonia<br>Latvia<br>Lithuania |
| Sustainable company | **Sustainability awards, index**<br>➢ Annual Sustainability Index, Platinum category<br>➢ Responsible Business Forum: Silver category in CSR<br>➢ TOP10 sustainable company by EAS/Kredex<br>➢ Munich Re Social Engagement Awards winner | https://www.sb-index.com/latvia<br>https://csr.ee/<br>https://eas.ee/ ettevotluseauhind/kestlik-ettevote/<br>Group awards | Latvia<br>Estonia<br>Estonia<br>Lithuania |
| | **Environmental certifications**<br>➢ Environmental ISO Certificate<br>➢ EU Environmental Management and Audit Certificate | Bureau Veritas Certifications | Estonia, Lithuania<br>Latvia |
| Client-centric company | **Mystery Shopping Insurance brands**<br>➢ Best Customer Service / Dive | Customer surveys by https://dive-group.com/ | Estonia, Lithuania |
| | ➢ Car sellers Association, Silver Level Award | https://amtel.ee/ | Estonia |
| Valued Employer | **Humane company**<br>➢ Family Friendly company, gold level<br>➢ Family-friendly workplace, 1st place<br>➢ Family-friendly workplace, nominated | https://tooelu.ee/et/ 126/peresobraliku-tooandja-margis | Estonia<br>Lithuania<br>Latvia |
| | ➢ Equal Opportunity Wings | https://www.lygybesplanai.lt/ equal-opportunity-wings/ | Lithuania |
| | **Best Employer** | https://hr.cv.ee/top-employer-tulemused-2022 | Estonia |

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| ➢ CV-online: 9th place on finance sector<br>➢ In TOP 50 of best employers<br>➢ CV-Online Top of the best employers | https://www.topdarbadevejs.lv/ | Latvia<br>Latvia |

### 1.4. Year 2022 in figures

| Main figures | Total Baltic 2022 |
|---|---|
| Gross premium income | 225.9 million euros |
| Total assets | 350.8 million euros |
| Investments in financial instruments | 218.4 million euros |
| Insurance contract provisions | 212.5 million euros |
| Equity | 68.7 million euros |
| Comprehensive income | -8.8 million euros |
| Return on equity | 7.2% |
| Insurance contracts in force | 1 012 847 |
| Number of ERGO offices | 11 in Estonia, 21 in Latvia, 57 in Lithuania |
| Number of employees | 921 |

# 2. Market and Macro Economical View

## 2.1. Economic environment

European Commission forecast made in February 2023, lifts the outlook for growth and slightly lowers the inflation projections. Growth for 2022 is now estimated at 3.5% in both the EU and the euro area. GDP is projected to expand by 0.8% in 2023 and 1.6% in 2024. Headline inflation is forecast to fall from 9.2% in 2022 to 6.4% in 2023 and 2.8% in 2024 in the EU.

Despite the energy shock and ensuing record high inflation, the slowdown in the third quarter turned out milder than previously estimated and in the fourth quarter, the EU economy managed a broad stagnation, instead of the 0.5% contraction expected in autumn. While uncertainty surrounding the forecast remains high, risks to growth are broadly balanced.

**Estonia**

Estonian GDP is estimated to have contracted by 0.3% in 2022. The Estonian economy was hit early on by the rapid rise in energy prices and suffered from a strong pass-through to other inflation components. Private consumption therefore slowed markedly during 2022. Industrial production turned strongly negative in the last months of 2022, reflecting lower demand for key industry sectors (wood and metal industry). The labour market nevertheless remained strong in late 2022 and early 2023, with only a slight uptick in the unemployment rate.

The rise in interest rates is set to heavily affect consumption and construction activity, given the prevalence of flexible interest rates in Estonian loan contracts. GDP, however, is forecast to return to growth in 2023 as the current headwinds, notably inflation, weak external demand, and low confidence, are expected to gradually subside and fiscal policy turns expansionary. For 2023 (as a whole), GDP growth is projected to reach only slightly positive rates, given the negative carry-over from the previous year. Next year is set for a more robust expansion, projected at 2.8%, driven by a revitalisation of export demand and private consumption, and a resilient labour market.

Consumer price inflation peaked in August 2022 and has since slowly decelerated, recording 19.4% on average in 2022. The deceleration is expected to continue in 2023, driven by declining commodity and energy prices. In addition, inflation indexation clauses are typically not used in Estonia for wage setting or price-setting contracts, which should support a relatively rapid deceleration in inflation. Overall, inflation is forecast to reach 6.2% in 2023 and 2.2% in 2024.

**Latvia**

Real GDP is estimated to have grown by 1.8% in 2022, driven primarily by strong growth in private consumption, which was still regaining the ground lost during the acute phase of the pandemic. However, the inflation surge in the second half of the year, which weighed on household disposable income, combined with an investment slowdown, resulted in negative economic growth in the third quarter. As these factors persist throughout the winter, growth is expected to remain lacklustre at the start of 2023. Thereafter, with inflation moderating, domestic consumption is set to pick up. Additionally, EU funded investments, including those financed by the RRF, are projected to pick up, providing a further boost to economic growth in the second half of 2023. However, given the decline in activity in second half of 2022 and, hence, the negative carry-over, yearly growth in 2023 is expected to be almost flat.

In 2024, growth is forecast to pick up to 2.7%. A marked slowdown in inflation is set to foster private consumption. Export growth is projected to pick up as the inflation slowdown elsewhere in the EU boosts foreign demand.

Consumer price inflation increased rapidly throughout the year and averaged at 17.2% in 2022. Energy prices are set to continue slightly declining during 2023. In 2023, headline inflation is forecast to remain elevated at 7.9% as the energy price shock works its way through the other inflation components. In 2024, inflation is expected to slow down to 1.5%.

**Lithuania**

In 2022 economic growth in Lithuania slowed down to 1.9%. Quarterly growth was subdued throughout the year and turned negative in the fourth quarter (at -

1.7%). Economic activity was dampened by falling exports to some eastern European countries and contracting private consumption, as high inflation was not compensated by the rise of labour income.

In the near term, economic activity is set to continue to be impacted by economic and geopolitical uncertainty, the deteriorating financial situation of companies and weakening purchasing power of households. Only moderate quarterly growth is forecast for the entire 2023. Overall, growth is expected to reach 0.3% in 2023, down from the 0.5% growth forecast in autumn. In 2024, growth is projected at 2.5%, driven by stronger private consumption expenditure. Additionally, increased EU funds absorption, notably of the RRF, is set to support aggregate investment in both 2023 and 2024.

Following its peak in September 2022, headline HICP inflation has started declining on the back of plunging global oil prices and domestic efforts to curb the energy price increase for consumers, including the VAT rate cut on heat energy. Following 18.9% inflation in 2022, the rate of price growth is projected to decrease to 8.7% in 2023 and 2.1% in 2024.

## 2.2. Legal environment

*The changes of the Law Obligations Act*

From 01.01.2022, the amendments to the Law of Obligations Act came into force. A new chapter was established: the transfer of digital content and the contract for the provision of digital services. The changes mainly concerned the purchase of software, smartphone applications, computer games and other digital content, where consumer rights will be more protected. It does not directly apply to financial services (including insurance

*The changes of the Funded Pensions Act*

Amendments to the Funded Pensions Act entered into force on 01.01.2022. According to the amendments to the law, it was made possible to partially withdraw money from the second pillar at retirement age. From 01.01.2022, there is also an option to choose a fund pension in the third pillar. The person chooses himself how long and with what frequency payments are made to him from the third pillar fund or funds.

*The changes of the Income Tax Act*

Amendments to the Income Tax Act entered into force on 01.01.2022. The interest rate for tax debts before the special situation was restored. For tax debts, the interest rate of 0.03% per day (11% per year) was valid until 31.12.2021.

*The reform of the system of child leave and family allowances*

From 01.04.2022, the reform of the system of child leave and family allowances entered into force. The changes increased the opportunities for parents to reconcile work and family life, creating more opportunities for the system of parental leave and benefits and encouraging the sharing of care burden between mother and father

*The changes the instructions for carrying out fit and proper procedures*

From 30.05.2022, the new specified version of the instructions for carrying out fit and proper procedures established by the Financial Supervision Authority came into force. The purpose of the guidelines for carrying out the fit and proper procedure is to explain the procedures and principles of the suitability procedure carried out by the Financial Supervision Authority

*Financial Supervision Authority's advisory guide*

As from 04.07.2022 came into effect the Financial Supervision Authority's advisory guide "Guidelines on the principles of the risk-based approach to the prevention of money laundering and terrorist financing and the stages of conducting supervision based on risk sensitivity in accordance with Article 48(10) of Directive (EU) 2015/849.

*The changes of the Insurance Activity Act and the Law of Obligations*

On 12.12.2022, amendments to the Insurance Activity Act and the Law of Obligations entered into force, which raised the minimum levels of the minimum capital requirement of insurers.

The changes are based on the EU notification, which adjusts the insurance directive amounts due to inflation. The limits must be reviewed every five years. During the first review, the period under review was from December 31, 2015 to December 31, 2020.

According to the amendments to the Obligations Act, it was established that a health insurance contract can now also be concluded for a fixed period, if the policyholder is a natural person and the insurer has given the policyholder the opportunity to familiarize himself with the terms of both the open-ended and the fixed-term insurance contract and enabled the policyholder may, if he so wishes, conclude an insurance contract without a fixed term. If the policyholder is a legal entity, it is always allowed to conclude either a fixed-term or open-ended insurance contract.

## 2.3. Insurance Market

Non-life Insurance market volume in Estonia in 2022 grew by 17.2%, reaching 461 million euros. ERGO’s market share declined by 1.3 pp to 15.9% though maintaining third position. Compared to previous year Watercraft Insurance property and Carriers liability insurance decreased (-80.8% and -6.0% respectively) while Travel and Property insurance lines had highest growths (85.5% and 23.6% respectively). ERGO improved market position in Travel, Guarantee and Goods in transit lines.

In Latvia non-life Insurance market volume increased by 20.9% to 389 million euros. ERGO’s market share decreased by 1.2 pp to 9.6% while keeping the fourth position. Motor liability, Motor own damage and Travel insurance markets grew by 33.2%, 21.4% and 48.4% respectively. ERGO improved market positions in Motor own damage, Railway and Travel Insurance.

In 2022 Lithuania non-life Insurance market had highest growth in Baltics by 22.9% arriving at 818 million euros. ERGO’s share slightly decreased by 0.2 pp to 14.6% with same, third market position as year before. Alike in other countries Travel had the highest growth (65.5%) while Motor liability, Motor own damage and Property Insurance markets grew by 21.7%, 22.0% and 24.3% respectively. ERGO improved market position in Travel Insurance.

# 3. Sustainability overview

## 3.1. Our dedication

At ERGO, we understand that protecting the environment and addressing climate change is crucial for our future, and it is also a vital part of our corporate governance. That is why we have set an ambitious objective to significantly reduce carbon emissions in our business operations, insurance, and investments as part of our "Climate Ambition 2025" initiative. Our goal is to achieve net-zero emissions across all areas by 2050 at the latest.

In addition to our internal efforts, we also strive to contribute to society by helping to mitigate the impact of climate change. Together with Munich Re, we promote international afforestation projects and assist start-ups with innovative business ideas on climate protection.

At ERGO, we are committed to following the ten principles of the United Nations Global Compact. This includes our dedication to preserving and promoting fundamental values, such as human rights, humane working conditions, environmental protection, and anti-corruption efforts, within our sphere of influence.

We also comply with domestic and international environmental protection laws, as well as other binding obligations and self-commitments to environmental protection. We 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).

We believe in creating a work environment that fosters performance, motivation, and individual diversity. We offer flexible working hours, development opportunities, and strive to inspire our employees through automated processes and agile working methods as we move forward with the process of digital transformation.

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

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

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

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

## 3.2. Governance

### 3.2.1. Economical Liability

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

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

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

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

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

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

### 3.2.2. Digitalization and Data Protection

ERGO places a strong emphasis on driving forward the digital transformation in our corporate strategy. We recognize the potential of digitalization to meet the evolving needs and expectations of our customers, and to maintain our long-term success.

To streamline our operations, we have integrated several robots into our processes over the last two years, enabling quicker claims handling, improved NPS processes, more efficient pricing and controlling. We are also proud to offer opportunities to interns who have contributed to programming some of these robots, and many of them have continued to work with ERGO.

At ERGO, we place a high priority on protecting our customers' data. We collect data in a transparent manner and only to the extent necessary for specific purposes. We have developed in-house guidelines and adopted voluntary industry commitments to supplement legal requirements. Regular employee training is also conducted to ensure compliance with data protection requirements and raise awareness about data protection issues.

This year, in collaboration with the Estonian Traffic Insurance Fund, we also launched and communicated actively a digital platform for reporting traffic accidents, which reduces time and paper costs and is a smart and modern step towards digitizing traffic insurance.

We are increasingly moving towards cloud-based services, and the use of Microsoft Azure helps us to reduce our direct environmental impact as we continuously monitor our environmental footprint. We are continuously expanding and developing our online channels to offer convenient web-based services even in the more traditional insurance industry.



### 3.2.3. Human Rights

Safeguarding human rights is an integral part of ERGO's value-based corporate governance. We uphold this commitment through the Munich Re Policy Statement on Human Rights, which is also applicable to ERGO. Our dedication to the protection of human rights is reflected in our adherence to 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 guide us in preserving, promoting, and implementing fundamental values related to human rights, humane working conditions, environmental protection, and anti-corruption efforts within our sphere of influence. In 2022 ERGO has been nominated for Family Friendly Company and Workplace.


## 3.3. Social responsibility

### 3.3.1. Customer orientated services and products

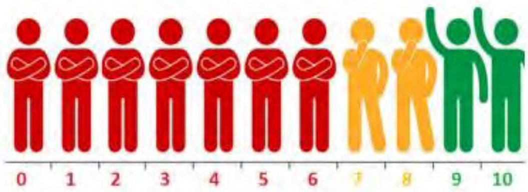
At ERGO, we believe in a customer-centric approach and it is ingrained in our DNA and strategy. We strive to support our customers in every phase of their lives, and our role is to evaluate and assess present and potential risks, and most importantly, to protect against them.

Our insurance solutions cater to our customers' needs and respond to changes and developments in society. We focus on prevention, which helps to reduce environmental problems as every loss event has a negative impact on the environment. As part of our job, we conduct risk visits to prevent possible damage at the client's property.

During the claims handling process, we promote environmentally friendly solutions. For instance, for several years, we have been running a campaign to promote cycling among our clients. Additionally, we offer an innovative spot repair possibility for vehicles at the bodywork stage if the collision caused only minor defects. We believe in constant improvement, and customer feedback is our guiding map.

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

Our internal and pan Baltic cumulative 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 2022, ERGO Baltic

In the first quarter 2022, market research firm Dive conducted a sector-specific study on insurance companies, and based on mystery shopping exercises, ERGO Insurance in Estonia and Lithuania was found to have the best customer service in the insurance industry. We are especially proud, that in Lithuania the first position among non-life insurance companies was held already three years in a row.

In Estonia, the study was conducted in the form of telephone interviews, with the aim of assessing the quality of service in the sale of home insurance. This year, ERGO in Estonia scored 92.5%, which is a 2.5% improvement over the previous year and represents a lead of over 3% compared to the second-ranked competitor.

According to the study, we excelled in identifying customer needs, consistently requesting proper customer identification, and our service representatives' communication skills were also deemed first-class


Our quarterly Mystery Shopping survey / reports by Dive Group in Estonia show, that our service is very stable in all service channels and our quarterly average results keep even exceeding 92% level. For the last quarter of 2022, we also purchased additional survey from Dive Group to measure our service level with competitors. Based on the results received, ERGOS position was exceeding others more than 9.7% (ERGO 92.3%).

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

Mystery Shopping 2022 Q4, overall service by Dive Group

### 3.3.2. Sponsorships / social responsibility actions 2022

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.

In 2022, the world was transformed due to the Ukrainian war. ERGO was one of the first companies to take a direct anti-war stance and supported Ukraine financially through the Red Cross. In addition to company-level support, ERGO employees actively supported Ukraine.

As part of the employer's commitment, each employee is allotted one day per year for charitable purposes. In light of the situation in Ukraine, many ERGO employees chose to use their charitable day to organize support for Ukrainian war refugees or humanitarian aid.

To promote a broader preventive mindset, we launched the ERGO Estonia prevention awards campaign "Parim heategu on ennetustegu". During the campaign, we collected and highlighted 10 distinctive preventive actions from important fields such as education, health, mental well-being, etc., and the people who carry them out. In recognition and promotion of these actions, we carried out a wider promotional campaign in collaboration with Postimees and awarded the grand prize of €3000 to "Fuudish", a "food police" initiative.

In Estonia we made donation to Ukraine Rescue Union instead of Christmas gifts.



ERGO supports healthy lifestyles and a green mindset. For the fourth summer in a row, we offered Estonian comprehensive car insurance customers who brought their cars in for repair the opportunity to choose a free bicycle instead of a replacement car. While in previous years the condition for choosing a bike was a minimum of a five-day repair time, this year we gave the option to choose a bike for those who preferred a more sustainable and quality bodywork repair over a lengthy and environmentally costly one. Nearly 10 percent of customers chose a bike instead of a replacement car. To further bring a green mindset to the forefront, we expanded the campaign's social aspect and provided our advice and experience to our partner companies on the journey to #bicycle-rich.

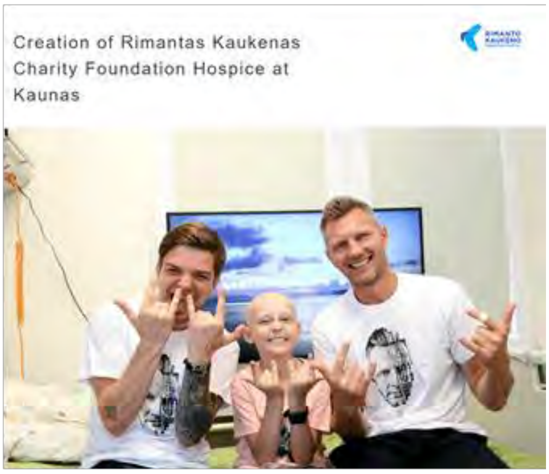

For the seventh consecutive year, ERGO Estonia allocated €25,000 to support young athletes in Estonia, with 67 aspiring athletes applying for the funding this year. The support for young athletes was awarded in collaboration with the Estonian Olympic Committee and was shared between 11 athletes. The scholarship was awarded to high jumper Karmen Bruus, figure skater Niina Petrõkina, badminton player Kristin Kuuba, sprinter Karl Erik Nazarov, wrestler Viktoria Vesso, alpine skier Tormis Laine, triple jumper Viktor Morozov, mountain biker Joosep Mesi, cross-country skier Henri Roos, and rowers Johann Poolak and Mikhail Kushteyn. The scholarship is very known and appreciated in Estonia.


Together with several responsible companies, ERGO Estonia supported the "Drive sober" campaign, targeting two main groups: young reckless drivers and middle-aged family people who often do not realize the critical impact of a small amount of alcohol on driving. The campaign stood out and resonated with the target audience with its striking slogans, which directly reminded them of the cause-and-effect relationship between alcohol consumption and driving.

ERGO Latvia, in partnership with "Safe Driving School," initiated an educational campaign titled "Mission: Safe Road to School" to enhance the knowledge of road traffic regulations among students and decrease the number of child injuries. The project videos are accessible on social media platforms, providing a comprehensive analysis of school surroundings and recommendations for safe commuting. To aid schools, ERGO created a brochure that outlines crucial tips for a secure route to school and includes information on saving for a child's future. In 2022, we also continued our long-term cooperation with the Rescue Board, and ERGO Estonia now offers accident insurance to volunteer firefighters.

ERGO Latvia continued also to provide educational scholarships to orphans this year. Since the establishment of the ERGO scholarship in 2001, over 90 young students have received over 300,000 euros in total. This year, two new students were added to the group of ERGO scholarship recipients, and a total of 16 young people will receive scholarships for this academic year.

ERGO is an active member of our large insurance group, and in 2022 we participated in a social inclusion competition initiated and funded by Munich Re. ERGO employees were able to submit various projects aimed at preventing risks and climate change, promoting clean environment, health, diversity, and inclusion. Seven different projects were set up at the Baltic level, including projects for children's water safety, volunteer firefighters, environmental protection, support for visually impaired and disabled children. Two Lithuanian projects also received funding and were carried out.


In cooperation with Delfi, ERGO Lithuania joined a social campaign "NežVairuok" aimed at traffic safety, calling on customers not to use their mobile phones while driving. For the second year in a row, ERGO Lithuania supported the charity event "Let's do it by the sea", with over 250 ERGO employees and their family members registered to participate. The event is aimed at preserving the coastal environment and cleaning up the beach.

The walking challenge, which involved collecting steps that led to the planting of real trees, began in Lithuania as part of ERGO's 30th anniversary celebration.

In April 2022, ERGO volunteers, #walk15 members, State Forest Management Centre foresters, local communities, and businesses in Lithuania planted trees with renewed enthusiasm. The trees grown during the challenge were planted in areas specifically designated for this purpose in Smiltynės (Klaipėda), Vainagiais (Šiauliai district), and Vaišvydavas (Kaunas district) on the State Forest Management Centre's territory. A total of 35,000 trees were planted during the challenge, with the participation of nearly 5,000 people and 618 teams, and 858 volunteers who helped us plant the trees. All the step collectors covered a distance that could circle the entire planet 40 times, all for the sake of health and a cleaner environment.


### 3.3.3. People Management

ERGO is committed to ensuring that its employees can achieve a healthy balance between their personal and work-related commitments. Our organizational culture has always placed great emphasis on this aspect, and we have implemented numerous tools and initiatives to support our employees in achieving work-life balance. We have created an inspiring working environment that enables everyone to grow both personally and professionally, while also acknowledging the challenges that our employees may face outside working hours. Our flexible approach to workload, remote work, and working time provides our employees with better opportunities to balance their careers with their private lives.

We are proud to have been recognized as a Family-Friendly Company and Family-friendly workplace in Latvia and Lithuania. In 2022, we were ranked among the TOP 50 best employers in Latvia and Lithuania and were also nominated as a top-of-mind employer by CV-Online.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In Estonia, we have participated in the family- and employee-friendly employer programme for the past two years and were nominated at the highest level - gold level in 2022. ERGO's approach has been presented as a best practice in this area. Thanks to our organization-wide approach and the establishment of 10 work streams, we have made significant progress in various areas, such as internal communication, onboarding, flexible work arrangements, employee training and development, health support, and more.

Our goal is to continue these actions and initiatives, and our employees can read about them in our internal magazine, which also features inspiring stories that showcase our humane approach.

Moving to a new, environmentally friendly head office in Estonia was a significant step in improving our working conditions, and we will continue to prioritize the well-being of our employees. Modern working environment is offering relaxation and creative areas, rooms for team building and private work.

ERGO recognizes that its most valuable resource is its engaged workforce - employees who are not only experts in the insurance industry but also embody our values and prioritize customer satisfaction. We are proud to provide a dynamic working environment for our 1268 employees across the Baltic region.

The results of our engagement Pulse Survey at the end of 2022 demonstrate the exceptional level of engagement among our employees, with an impressive 90% engagement rate. Additionally, we are pleased to report that ERGO employees are exceptional in providing feedback, as evidenced by the remarkable 94% participation rate in the survey.


These results reflect our continued efforts to foster a workplace culture that encourages open communication, collaboration, and personal growth. We value the contributions of our employees and recognize that their dedication is essential to achieving our business goals. As we move forward, we remain committed to supporting our employees and providing them with the tools and resources they need to excel in their roles and deliver exceptional service to our customers.

After years of COVID-19 restrictions, arranging team-building events for our employees became essential. The reunions were highly anticipated, and the participation rate was unprecedentedly high. Employee summer events were held in all Baltic countries during the summer. During the events, the best colleagues, teams, and projects of 2021 were also awarded. There were also several events for our children, special team building actions and celebrations. Also, we are participating in the student fairs to introduce ERGO to young people, talk about various career opportunities at ERGO, and be visible among young people

Starting from June 1st, ERGO employees can balance their personal and professional lives by going on a "workation" to combine work and vacation. Workation is a period when an employee works remotely from a foreign country. Employees can take up to 28 calendar days of workation per year in European countries, excluding Russia, Ukraine, and Belarus, to ensure their safety and IT support. Last year, 20 employees used the workation solution.

To ensure a smooth onboarding process and provide professional support, ERGO launched a mentorship program in the second quarter. In early May, ERGO's first official mentors completed a three-day basic training. From June onwards, all new employees are supported by a personal mentor. In Estonia, there are 18 mentors, and so far, 33 mentees have been supported, with additional support provided by 12 internal trainers. In Lithuania, there are 35 mentors for new employees, eight for career growth, and 22 internal trainers. In Latvia, the mentor program will start in 2023.

ERGO Group created a digital diversity map in May 2019 to provide a clear overview of diversity indicators such as the average age of employees, gender, and the proportion of women in leadership positions. To make the topic of diversity and inclusion more tangible and livelier, ERGO companies in different countries shared their opinions on what diversity and inclusion mean to them in short self-recorded video clips. This year, all Baltic countries also participated in this initiative, preparing three remarkable videos.

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 years.

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 of our corporate success. Compensation schemes are established, implemented, and applied in line with the company's business and risk management strategy.

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 2022, one employee received as much as 61 hours of online and other training during the year. A significant portion of the training activities comprise IDD and mandatory trainings to ensure compliance with legal requirements as well as to promote high awareness of governance topics.

We are especially proud that 67% of our managers are women. Also, statistics by age groups show that we are a valued employer for all age groups. The health and safety of our employees are very important to us; therefore, we conduct risk assessments and action plans based on this. We provide health insurance and sports compensation to our employees, and there are several opportunities for physical training. In ERGO's main office, there is also a sports club. For example, in 2022, 208 employees used the health insurance offered by the company, and 71 chose sport compensation in Estonia.

In a competitive environment, employer branding becomes more and more important in order to attract people with similar values. To achieve this, we have published a career mini-site in Estonia, which provides insight into our values and strengths, as well as our collective efforts as a company, working environment, and our people. The mini-site can be found on our website or through a direct link at ergodna.ee. Additionally, our job ads have been renewed to better reflect our sustainable approach. Create your world. In ERGO.

### 3.3.4. Diversity / Main HR Statistics

| ERGO HR & Diversity statistics | Total Baltic 2022 | | |
|---|---|---|---|
| Total number of staff | | 1268 | |
| Gender balance (nr/%) | Male: | 258 | 20.3% |
| | Female: | 1010 | 79.7% |
| Managers on Level 1-3 (nr/%) | Male: | 58 | 32.9% |
| | Female: | 118 | 67.1% |
| Average age (years) | Male: | 42 | |
| | Female: | 43 | |
| Average tenure (years) | | 8 | |
| Training hours per employee | | 61 | |
| Employees on maternity leave | | 76 | |

## 3.4. Environmental responsibility

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

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

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

We will achieve this by focusing on the main factors driving our emissions – energy consumption and business travel.

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

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

We raise awareness about digital waste and encourage people to delete data that is no longer required, with the aim of sensitising employees to the fact that data storage uses electricity and creates carbon emissions. Also, we promote climate-neutral travel by preferring bicycles – running social campaigns for clients and employees. In organising tenders and making decisions, we make an effort to ensure minimal impact on our ecological footprint.

Caring for the environment begins with awareness and small actions, and to ensure that no hazards go unnoticed, ERGO has opened an environmental register through which all employees can report environmental risks they have noticed.

ERGO's broader ESG mindset and actions have been recognized, with the company being awarded the Responsible Business Forum's silver badge in the second quarter and being ranked in the top ten in the "Sustainable Company" category at the annual business awards competition organized by EAS and Kredex in the third quarter. Out of 130 applicants, being in the top ten is a significant achievement, and ERGO is currently the only insurance company in Estonia with the Responsible Business badge. A similar recognition of sustainable companies also exists in Lithuania, where ERGO has been awarded the highest platinum level.

A safe and modern working environment is an integral part of ERGO's work life, and on October 10th, 2022, ERGO Estonia's head office moved to a new, environmentally-friendly premises - the Avala office centre, which is one of the most environmentally-friendly office buildings in the Baltics. As a company with a sustainable mindset, we carried out the relocation process with a focus on extensive recycling. Furniture that was not going to the new office found new owners through organized recycling.

All of the Avala office buildings are LEED Gold certified and draw energy from Tallinn's biggest (24,000m2) solar park, which covers one-third of the energy needs of the entire quarter. The cutting-edge roofs are covered with the environmentally-friendly IKO Carrara membrane, whose unique air-cleansing surface is capable of neutralizing the equivalent of the annual emissions of 3,750 cars in its lifetime. The quarter also provides recharging for up to 150 electric cars and secure storage for bicycles. Additionally, there are several high-tech solutions in place to save energy, such as smart elevators, automated systems that control lighting, heating, and ventilation, and respond to requirements.

### 3.4.1. Direct Environmental Aspects

Our parent companies, Munich Re and ERGO Group, have announced their Strategy Ambition 2025 Shape – Scale – Succeed, which includes the Climate Ambition 2025. The main goal of this initiative is to reduce current CO2 emissions by 12% per employee by 2025. ERGO Baltic has also committed to this goal and wants to be part of the international initiative to take action to reduce carbon emissions in our organization.

To achieve this, we are measuring our 'carbon footprint', monitoring it, and looking for ways to reduce CO2 emissions.

Our Management Board has approved the Environmental Management and Energy Policy and established an Environmental Management Team to implement an Environmental Management System. The team has already completed many tasks within the new system at ERGO, such as tracking and converting our water, electricity, heating, waste, and travel data into CO2 emissions, developing action plans to reduce CO2 emissions, identifying and monitoring environmental risks within our organization, and educating all employees on how to consider environmental aspects in their daily activities.


Performance,
Credibility,
Transparency

During 2022, ERGO Baltics successfully certified its sites in accordance with ISO 14001 and EMAS in 2022, which confirm the companies' significant achievements and responsibilities in the environmental and sustainability fields. Certifications were issued in the following time frame: Lithuania - ISO 14001:2015, January 24th, 2022; Latvia - EMAS, April 29th, 2022; Estonia - ISO 14001:2015 and ISO 14064:2018, October 17th, 2022.

The EU Eco-Management and Audit Scheme (EMAS) is a premium management instrument developed by the European Commission for companies and other organizations to evaluate, report, and improve their environmental performance. ERGO is currently the only EMAS-certified company in Latvia.

ISO 14001:2015 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance. It is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability. ISO 14001:2015 helps an organization achieve the intended outcomes of its environmental management system, which provide value for the environment, the organization itself, and interested parties. Consistent with the organization's environmental policy, the intended outcomes of an environmental management system include enhancement of environmental performance, fulfilment of compliance obligations, and achievement of environmental objectives.

The ISO 14064 standard is part of the ISO 14000 series of International Standards for environmental management. The ISO 14064 standard provides governments, businesses, regions, and other organizations with a complementary set of tools for programs to quantify, monitor, report, and verify greenhouse gas emissions. The ISO 14064 standard supports organizations to participate in both regulated and voluntary programs such as emissions trading schemes and public reporting using a globally recognized standard. ISO 14064-1:2018 specifies principles and requirements at the organization level for quantification and reporting of greenhouse gas (GHG) emissions and removals. It includes requirements for the design, development, management, reporting, and verification of an organization's GHG inventory.

### 3.4.2. Overview of carbon emissions

| **Carbon emissions in kilograms (CO2)** | 2022 | 2021 | 2020 | 2019 (base) |
|---|---|---|---|---|
| Carbon emission in kg (CO2) | 460858 | 398429 | 433264 | 604524 |
| Direct carbon emissions from primary energy consumption – Scope 1[1] | 368423 | 319283 | 339901 | 418205 |
| Indirect carbon emissions from procured energy – Scope 2[2] | 44817 | 43788 | 45604 | 114632 |
| Other indirect carbon emissions – Scope 3[3] | 47619 | 35358[4] | 47759 | 71687 |
| Carbon emissions per employee | 580 | 499 | 555 | 806 |
| Carbon savings per employee since 2019 | 28% | 38% | 31% | |

Key environmental figures for ERGO Lithuania.

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

# 4. Main activities and actions

## 4.1. Marketing, communication, brand image

In the previous year, our marketing and communication efforts were centred around promoting our products and brand, with a particular focus on highlighting our commitment to sustainability. In terms of promotion, we continued to shift towards digital solutions and launched several sales campaigns that were tailored to the needs and expectations of our target groups.

In communication and PR, our goal was to communicate about insurance and prevention in a clear and straightforward manner, using examples, statistics, and potential risks to demonstrate our commitment to making the world a safer place. Our value of "simplify" was also reflected in our internal communication and sales materials for clients and on our homepage. We were very active in external communication, which was reflected in our strong Share of Voice, placing us second in Estonia according to BMMG/Station.


In the third quarter, the annual "Brand Capital" survey, the most comprehensive brand and lifestyle survey in the Baltics, once again recognized ERGO as the most beloved and human insurance brand in the region. ERGO was also recognized as the greenest insurance company in both Estonia and Latvia. This survey, which includes almost 500 brands, has been conducted for the past 18 years, and ERGO has consistently been one of the most recognized brands in the insurance and financial sector. In Estonia, our rankings significantly improved compared to our competitors this year.

According to the Nielsen IQ Brand Study, our brand image is strong. ERGO has one of the highest awareness levels in the industry, with 92% of Estonians being aware of our brand, while in Latvia, we rank third with 84% awareness, and in Lithuania, we rank second in terms of total awareness among insurance companies. At least one in five inhabitants of the Baltic countries consider using ERGO insurance in the future as their first or second choice.

In Estonia, ERGO is associated with attributes such as "the most popular insurance company in the country" and "the brand and the way the company advertises itself." In Latvia, the strength of ERGO lies in the "ease of submitting claim notifications," while in Lithuania, it is associated with "reviews of insurance users and reputation" and "additional bonuses."

## 4.2. Sales support & service

Main sales support campaigns were launched in all Baltic countries for casco products private property, home insurance and civil liability insurance products. From April there was also added instant Covid protection to travel insurance. In 2022 we focused also on our legal protection insurance. With the campaign, we aimed to increase awareness among young people and Estonian families about the necessity of legal assistance and the possibilities of ERGO's legal expenses insurance. The marketing side of the campaign was exceptionally bold and youthful. In addition to the usual marketing support, we created a distinct campaign website, jamamajas.ee, and for the first time, we reached out to young people on TikTok.



Insurance is not the simplest field and that is why one of our tasks is to make it as understandable as possible for the average person. The new general terms and conditions serve this goal. As of June 6th, the updated general terms and conditions for insurance services came into effect. The major changes include making the design simpler, writing the conditions in more understandable language, and adding real-life examples and explanations.

In terms of retail customer service, ERGO's goal is to be conveniently close to the customer. With the easing of the COVID-19 pandemic, there is once again an opportunity to introduce our products outside of our offices. Therefore, ERGO customer advisors can now be seen in shopping centers and at summer outdoor events. In e-channel, we chose not to make any big changes as ERGO is on its way of implementing totally new digital strategy – including developments in all our digital channels.

ERGO Estonia participated in the update of the good practice for vehicle insurance, which helps customers better understand the product. In September, the Estonian Insurance Association (EKsL) updated the good practice for vehicle insurance in collaboration with the Estonian Insurance Brokers Association (EKML) to reflect recent developments in comprehensive insurance, such as claims settlement, insurance validity, and online sales. The good practice also clarifies the identification of customer needs in online sales, as customers often have questions about which insurance solution is right for them, such as how to choose packages or the differences between comprehensive and flexible comprehensive insurance.

ERGO hosted a seminar for business clients on how to navigate rapid inflation in their insurance contracts. It is the responsibility of the customer to provide accurate information, including determining the correct insurance values. However, in conditions of rapid inflation, where prices and asset values are increasing, providing such information can be quite challenging. There is a risk that the insurance contract may not meet the actual needs of the customer, resulting in insufficient insurance benefits. To assist customers in this regard, ERGO shared its knowledge at a morning seminar hosted by the Estonian Chamber of Commerce and Industry.

# 5. Financial performance

## 5.1. Overview

ERGO Insurance SE's gross premium income for 2022 was 225.9 million euros. In terms of premium income, ERGO Insurance SE holds the third position in the Estonian market and in the Baltic non-life insurance market. Claims and benefits incurred totalled 137.8 million euros, accounting for 61.0% of gross premium income. The net expense ratio was 31.4% (2021: 29.8%) and the net loss ratio was 65.4% (2021: 71.3%). The net combined ratio for 2022 was 96.8% (2021: 101,2%). ERGO Insurance SE ended 2022 with total comprehensive loss of 8.8 million euros (2021: loss 3.1 million euros). The insurance result was a profit of 5.9 million euros, net investment income amounted to -0.3 million euros and other activities generated a profit of 0.3 million euros. Income tax expense amounted to 0.7 million euros. The comprehensive result was also influenced by a 14.1-million-euro decrease in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 350.9 million euros (2021: 330.6 million euros). Investments in financial instruments amounted to 218.4 million euros (2021: 210.2 million euros), debt securities accounting for 98.6% (2021: 97.6%), loans for 0.0% (2021: 0.0%) and equities and fund units for 1.4% (2021: 2.4%) of the total. Altogether, investments in financial instruments accounted for 62.2% (2021: 63.6%) of total assets. Insurance provisions totalled 212.5 million euros (2021: 202.2 million euros), accounting for 75.3% (2021: 79.9%) of total liabilities and 60.6% (2021: 61.2%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 38.3 million euros (2021: 36.7 million euros), providing the company with an adequate liquidity buffer.

## 5.2. Gross premiums

Gross premium income by line of business

| *In euros* | 2022 | | 2021 | | Change in | |
|---|---|---|---|---|---|---|
| | Gross written premiums | Share of class, % | Gross written premiums | Share of class, % | Gross written premiums | Share of class, % |
| Motor liability insurance | 77 910 721 | 34.5% | 65 878 352 | 33.0% | 12 032 369 | 46.0% |
| Accident insurance | 10 559 569 | 4.7% | 9 126 799 | 4.6% | 1 432 770 | 5.5% |
| Travel insurance | 4 458 985 | 2.0% | 1 874 738 | 0.9% | 2 584 247 | 9.9% |
| Technical risks insurance | 9 097 390 | 4.0% | 8 040 565 | 4.0% | 1 056 825 | 4.0% |
| Individuals' property insurance | 19 257 149 | 8.5% | 16 559 758 | 8.3% | 2 697 391 | 10.3% |
| Legal persons' property insurance | 13 607 730 | 6.0% | 11 549 941 | 5.8% | 2 057 789 | 7.9% |
| Agricultural risks insurance | 2 203 909 | 1.0% | 1 690 065 | 0.9% | 513 844 | 2.0% |
| Motor own damage insurance | 56 398 527 | 25.0% | 49 848 132 | 25.0% | 6 550 395 | 25.1% |
| Liability insurance | 11 536 227 | 5.1% | 9 956 713 | 5.0% | 1 579 514 | 6.0% |
| Goods in transit insurance | 2 381 016 | 1.1% | 2 126 760 | 1.1% | 254 256 | 1.0% |
| Carrier's liability insurance | 2 926 946 | 1.3% | 2 923 796 | 1.5% | 3 150 | 0.0% |
| Watercraft insurance and watercraft owner's liability insurance | 3 507 497 | 1.6% | 9 626 024 | 4.8% | -6 118 527 | -23.4% |
| Guarantee insurance | 5 581 982 | 2.5% | 5 266 745 | 2.6% | 315 237 | 1.2% |
| Railway rolling stock insurance | 132 021 | 0.1% | 111 061 | 0.1% | 20 960 | 0.1% |
| Assistance insurance | 3 179 512 | 1.4% | 2 120 255 | 1.1% | 1 059 257 | 4.1% |
| Financial risks insurance | 1 016 595 | 0.5% | 847 224 | 0.4% | 169 371 | 0.6% |
| Loss of employment insurance | 422 657 | 0.2% | 377 127 | 0.2% | 45 530 | 0.2% |
| Legal expenses insurance | 1 508 204 | 0.7% | 1 533 554 | 0.8% | -25 350 | -0.1% |
| ***Total from insurance activities*** | **225 686 637** | **99.9%** | **199 457 609** | **99.8%** | **26 229 028** | **100.3%** |
| Legal persons' property insurance | 221 977 | 0.1% | 323 090 | 0.2% | -101 113 | -0.4% |
| Liability insurance | 38 400 | 0.0% | 27 000 | 0.0% | 11 400 | 0.0% |
| ***Total from reinsurance activities*** | **260 377** | **0.1%** | **350 090** | **0.2%** | **-89 713** | **-0.3%** |
| **Total** | **225 947 014** | **100.0%** | **199 807 699** | **100.0%** | **26 139 315** | **100.0%** |

In 2022, ERGO Insurance SE generated premium income of 225.9 million euros, a 13.1% increase on 2021. The largest classes were motor liability insurance and motor own damage insurance, which generated premium income of 77.9 million euros and 56.4 million euros, accounting for 34.5% and 25.0% of the total portfolio, respectively. Individuals' property insurance contributed 19.3 million euros i.e., 8.5% and legal persons' property insurance 13.6 million euros i.e., 6.0%. Premiums written in liability insurance, accident insurance, and technical risk insurance totalled 11.5 million euros, 10.6 million euros and 9.1 million euros, respectively, and their respective contributions were 5.1%, 4.7% and 4.0%. The total contribution of other insurance classes, which each accounted for less than 3.0%, was 27.5 million euros i.e., 12.2%.

Compared to 2021, the share of motor liability insurance increased by 1.1 percentage points and its premium income grew by 12.0 million euros i.e., 18.3%. In addition to that, good growth was achieved in travel insurance where premium income grew by 2.6 million euros i.e., 137.8%.

## 5.3. Claims

Claims and benefits paid by line of business

| *In euros* | 2022 | | 2021 | | Change in | |
|---|---|---|---|---|---|---|
| | Claims and benefits paid | Share of class, % | Claims and benefits paid | Share of class, % | Claims and benefits paid | Share of class, % |
| Motor liability insurance | 46 946 796 | 33.0% | 42 771 805 | 31.6% | 4 174 991 | 60.9% |
| Accident insurance | 4 669 621 | 3.3% | 4 646 460 | 3.4% | 23 161 | 0.3% |
| Travel insurance | 1 272 575 | 0.9% | 847 520 | 0.6% | 425 055 | 6.2% |
| Technical risks insurance | 5 523 497 | 3.9% | 4 928 553 | 3.6% | 594 944 | 8.7% |
| Individuals' property insurance | 11 133 899 | 7.8% | 11 133 513 | 8.2% | 386 | 0.0% |
| Legal persons' property insurance | 10 797 519 | 7.6% | 13 756 226 | 10.2% | -2 958 707 | -43.2% |
| Agricultural risks insurance | 1 005 178 | 0.7% | 1 212 208 | 0.9% | -207 030 | -3.0% |
| Motor own damage insurance | 38 203 034 | 26.9% | 34 791 704 | 25.7% | 3 411 330 | 49.8% |
| Liability insurance | 3 346 714 | 2.4% | 3 856 907 | 2.8% | -510 193 | -7.4% |
| Goods in transit insurance | 600 617 | 0.4% | 623 678 | 0.5% | -23 061 | -0.3% |
| Carrier's liability insurance | 1 547 516 | 1.1% | 1 779 431 | 1.3% | -231 915 | -3.4% |
| Watercraft insurance and watercraft owner's liability insurance | 9 447 629 | 6.6% | 10 116 351 | 7.5% | -668 722 | -9.8% |
| Guarantee insurance | 506 662 | 0.4% | 1 168 563 | 0.9% | -661 901 | -9.7% |
| Railway rolling stock insurance | 23 544 | 0.0% | 107 541 | 0.1% | -83 997 | -1.2% |
| Assistance insurance | 1 685 672 | 1.2% | 1 439 042 | 1.1% | 246 630 | 3.6% |
| Financial risks insurance | 4 888 291 | 3.4% | 1 751 391 | 1.3% | 3 136 900 | 45.8% |
| Loss of employment insurance | 96 334 | 0.1% | 114 834 | 0.1% | -18 500 | -0.3% |
| Legal expenses insurance | 569 112 | 0.4% | 366 762 | 0.3% | 202 350 | 3.0% |
| **Total** | **142 264 210** | **100.0%** | **135 412 489** | **100.0%** | **6 851 721** | **100.0%** |

Claims and benefits paid in 2022 totalled 142.3 million euros (2021: 135.4 million euros). There were few significant increases in claims and benefits paid in 2022. Compared to 2021 financial risk insurance claims grew by 3.1 million euros i.e., 179.1%, motor liability insurance and motor own damage insurance claims both grew by 9.8% i.e., 4.2 million euros and 3.4 million euros, respectively. The largest share of claims was settled in motor liability insurance: 46.9 million euros i.e., 33.0% of all the claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 38.2 million euros i.e., 26.9%.

## 5.4. Investments

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

In 2022, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 47.1% (2021: 41.8%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) credit rating, 24.3% (2021: 20.7%) were rated AA or Aa, 12.6% (2021: 14.8%) had an A rating, 15.5% (2021: 22.1%) had a BBB or Baa rating, and 0,5% (2021: 0.5%) were rated BB or Ba.

At the year-end, investments consisted of investments in associates and subsidiaries of 0.05 million euros (2021: 0.05 million euros), debt securities of 215.3 million euros (2021:205.2 million euros), loans of 0 million euros (2021: 0 million euros), and equities and fund units of 3.1 million euros (2020: 5 million euros). There were no investments in term deposits.

Income on assets with interest rate risk amounted to 1 million euros (2021: -0.37 million euros). Realisation of debt securities produced a loss of 1 million euros (2021: gain of 0.39 million euros). The fair value reserve decreased by 14.1 million euros (2021: increased by 0.001 million euros). Thus, the overall yield of the investment portfolio was negative 6.7% (2021: -0.12%). Investment management expenses accounted for 0.15% of the carrying value of managed investments (2021: 0.15%).

# Key financial indicators

| *In thousands of euros, except for ratios*<br>*As at 31 December or for the year* | **2022** | **2021** |
|---|---|---|
| ***For the year*** | | |
| Gross written premiums | **225 947** | **199 808** |
| Gross earned premiums | **211 172** | **197 619** |
| Gross claims and benefits incurred | **137 785** | **149 113** |
| Gross expenses | **63 612** | **57 023** |
| Gross loss ratio | **65.2%** | **75.5%** |
| Net loss ratio | **65.4%** | **71.3%** |
| Gross expense ratio | **30.1%** | **28.9%** |
| Net expense ratio | **31.4%** | **29.8%** |
| Gross combined ratio | **95.4%** | **104.3%** |
| Net combined ratio | **96.7%** | **101.2%** |
| Claims handling ratio | **8.1%** | **8.5%** |
| Claims paid ratio | **63.0%** | **67.8%** |
| ***As at the year-end*** | | |
| Total assets | **350 852** | **330 601** |
| Ratio of investments to total assets | **62.3%** | **63.6%** |
| Ratio of equity to total assets | **19.6%** | **23.5%** |
| Ratio of insurance provisions to total assets | **60.6%** | **61.2%** |
| ***Profitability indicators*** | | |
| Insurance result (technical result) | **5 972** | **-2 180** |
| Investment result | **-14 411** | **-262** |
| Profit for the financial year | **5 270** | **-3 074** |
| ROE | **7.2%** | **-3.9%** |
| ROA | **1.5%** | **-1.0%** |
| ROI | **-6.7%** | **-0.1%** |

## Explanation of figures and ratios

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

# Conclusion

The management board of ERGO Insurance SE is pleased to report that in 2022 the company developed in line with the insurance market and achieved its main business goals and targets.

**Ursula Clara Deschka**
Chairman of the Management Board
/signed digitally/

# Financial statements

## Income statement

| *In euros* | Note | 2022 | 2021 |
|---|---|---|---|
| ***Income*** | | | |
| Gross written premiums | 3 | 225 947 014 | 199 807 699 |
| Written premiums ceded to reinsurers | 3 | -28 995 076 | -11 262 904 |
| Change in gross provision for unearned premiums | 21 | -15 136 595 | -1 849 973 |
| Reinsurers' share of change in provision for unearned premiums | 15 | 401 403 | 242 280 |
| **Net earned premiums** | | **182 216 746** | **186 937 102** |
| Reinsurance commission income | 4 | 6 354 354 | 1 342 111 |
| Investment regular income and extraordinary result | 5 | 22 793 | 42 389 |
| Other income | 6 | 3 340 828 | 2 147 477 |
| **Total income** | | **191 934 719** | **190 469 079** |
| ***Expenses*** | | | |
| Claims and benefits incurred | 7 | 137 784 927 | 149 112 620 |
| Reinsurers' share of claims and benefits incurred | 7 | -18 436 656 | -16 015 151 |
| **Net policyholder claims and benefits incurred** | | **119 348 271** | **133 097 469** |
| Change in other technical provisions | 21 | -361 753 | 338 829 |
| Acquisition costs | 8 | 49 213 529 | 45 752 624 |
| Administrative expenses | 8 | 12 319 325 | 9 564 952 |
| Other operating expenses | 8 | 2 079 500 | 1 705 493 |
| Regular investment expenses | 8 | 315 617 | 315 537 |
| Other expenses | 8 | 3 084 142 | 2 065 668 |
| **Total expenses** | | **185 998 631** | **192 840 572** |
| **Operating profit/loss** | | **5 936 090** | **-2 371 493** |
| **Profit/loss before income tax** | | **5 936 090** | **-2 371 493** |
| **Income tax expense** | 27 | **-666 498** | **-702 099** |
| **Profit/loss for the year** | | **5 269 592** | **-3 073 592** |

## Statement of comprehensive income

| *In euros* | Note | 2022 | 2021 |
|---|---|---|---|
| **Profit/loss for the year** | | **5 269 592** | **-3 073 592** |
| Change in the value of available-for-sale financial assets | 20 | -14 118 217 | 11 000 |
| **Other comprehensive income/expense for the year** | | **-14 118 217** | **11 000** |
| **Total comprehensive income/expense for the year** | | **-8 848 625** | **-3 062 592** |

The notes on pages 43 to 104 are an integral part of these financial statements.

# Statement of financial position

*In euros*

| As at 31 December | Note | 31.12.2022 | 31.12.2021 |
|---|---|---|---|
| **Assets** | | | |
| Deferred tax assets | 27 | 235 870 | 150 622 |
| Property and equipment[1] | 10 | 11 399 042 | 11 173 565 |
| Intangible assets | | | |
| Deferred acquisition costs | 11 | 10 621 734 | 8 565 201 |
| Other intangible assets | 12 | 29 284 979 | 20 561 329 |
| Investments in subsidiaries | 13 | 50 000 | 50 000 |
| Investments in financial instruments | | | |
| Equities and fund units | 14 | 3 141 410 | 5 020 584 |
| Debt securities | 14 | 215 250 396 | 205 205 711 |
| Total investments in financial instruments | | 218 391 806 | 210 226 295 |
| Reinsurance assets | 15 | 32 465 740 | 28 681 148 |
| Insurance and other receivables | 16 | 33 667 485 | 35 252 112 |
| Cash and cash equivalents | 17 | 14 735 663 | 15 940 539 |
| **Total assets** | | **350 852 319** | **330 600 811** |
| **Equity and liabilities** | | | |
| **As at 31 December** | **Note** | **31.12.2022** | **31.12.2021** |
| **Equity** | | | |
| Share capital | 18 | 6 391 391 | 6 391 391 |
| Capital reserve | 19 | 3 072 304 | 3 072 304 |
| Fair value reserve | 20 | -12 709 509 | 1 408 708 |
| Retained earnings (prior years) | | 66 676 207 | 69 749 799 |
| Profit/loss for the year | | 5 269 592 | -3 073 592 |
| **Total equity** | | **68 699 985** | **77 548 610** |
| **Liabilities** | | | |
| Insurance contract provisions | 21 | 212 516 348 | 202 220 790 |
| Reinsurance payables | 22 | 8 565 568 | 4 251 455 |
| Insurance payables | 23 | 24 761 423 | 18 499 915 |
| Other payables and accrued expenses[1] | 24 | 14 605 599 | 16 069 502 |
| Subordinated loans | 28 | 21 703 396 | 12 010 539 |
| **Total liabilities** | | **282 152 334** | **253 052 201** |
| | | | |
| **Total equity and liabilities** | | **350 852 319** | **330 600 811** |

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

The notes on pages 43 to 104 are an integral part of these financial statements.

# Statement of cash flows

*In euros*

| *(Inflow + , outflow –)* | Note | 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | **4 812 564** | **5 348 820** |
| Insurance premiums received | 3 | 216 623 121 | 194 611 327 |
| Claims, benefits, and handling costs paid | 7 | -136 125 896 | -130 712 678 |
| Settlements with reinsurers | | 884 909 | -2 456 668 |
| Settlements with holders of reinsurance policies | | -73 648 | -8 701 |
| Paid in operating expenses[1] | 8 | -64 982 907 | -59 966 329 |
| Other income and expenses | 6 | 10 971 441 | 5 385 335 |
| Acquisition of equities and fund units | 14.1 | 0 | -9 923 844 |
| Disposal of equities and fund units | 14.1 | 2 071 434 | 0 |
| Acquisition of debt and other fixed income securities | 14.2 | -69 448 924 | -101 106 084 |
| Disposal of debt and other fixed income securities | 14.2 | 43 294 414 | 107 980 231 |
| Interest received | 5 | 2 339 766 | 2 540 434 |
| Dividends received | 5 | 62 424 | 36 683 |
| Corporate income tax paid | | -609 400 | -801 539 |
| Paid in investment expenses | 7 | -194 170 | -229 347 |
| **Cash flows used in investing activities** | | **-13 796 377** | **-4 612 193** |
| Other sale of investment | | -425 | 0 |
| Acquisition of property and equipment and intangible assets | 10, 12 | -13 695 028 | -4 617 005 |
| Proceeds from sale of property and equipment and intangible assets | 10, 12 | -100 924 | 4 812 |
| **Cash flows used in financing activities** | | **7 778 937** | **4 249 662** |
| Received subordinated loan | 28 | 9 500 000 | 6 000 000 |
| Payments for the principal portion of lease liabilities | 26 | -1 721 063 | -1 750 338 |
| **Net cash outflow/ inflow** | | **-1 204 876** | **4 986 289** |
| **Cash and cash equivalents at beginning of year** | 17 | **15 940 539** | **10 954 250** |
| Decrease/ increase in cash and cash equivalents | | -1 204 876 | 4 986 289 |
| **Cash and cash equivalents at end of year** | 17 | **14 735 663** | **15 940 539** |

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

The notes on pages 43 to 104 are an integral part of these financial statements.

# Statement of changes in equity

| *In euros* | Note | Share capital | Capital reserve | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2020** | | **6 391 391** | **3 072 304** | **1 397 708** | **69 749 799** | **80 611 202** |
| Profit for the year | 27 | 0 | 0 | 0 | -3 073 592 | -3 073 592 |
| Other comprehensive income | 20 | 0 | 0 | 11 000 | 0 | 11 000 |
| **Total comprehensive income for the year** | | **0** | **0** | **11 000** | **-3 073 592** | **-3 062 592** |
| **Balance at 31 December 2021** | | **6 391 391** | **3 072 304** | **1 408 708** | **66 676 207** | **77 548 610** |
| Profit for the year | 27 | 0 | 0 | 0 | 5 269 592 | 5 269 592 |
| Other comprehensive income | 20 | 0 | 0 | -14 118 217 | 0 | -14 118 217 |
| **Total comprehensive income for the year** | | **0** | **0** | **-14 118 217** | **5 269 592** | **-8 848 625** |
| **Balance at 31 December 2022** | | **6 391 391** | **3 072 304** | **-12 709 509** | **71 945 799** | **68 699 985** |

The notes on pages 43 to 104 are an integral part of these financial statements.

# Notes to the financial statements

## Note 1. Significant accounting policies

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

The financial statements of ERGO Insurance SE for 2022 comprise the financial information of ERGO Insurance SE's head office in Estonia and its Latvian and Lithuanian branches.

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

These financial statements were authorised for issue by the management board on 01 April 2023. Under the Estonian Commercial Code, the annual report including the financial statements that has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report and may demand that a new annual report be prepared.

**Going concern**

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

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

**(a) Statement of compliance**

The financial statements of ERGO Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Commission to be effective for the year 2022.

**(b) Basis of preparation**

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

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

***Use of significant estimates and judgements***

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

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

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

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

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

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

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

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

**(c) Branches**

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

**(d) Investments in subsidiaries and associates**

Subsidiaries are entities over which the company has control.

Generally, parent company should prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. However, it might be excepted if following conditions are met:

- other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- company's debt or equity instruments are not traded in a public market;

- company does not plan to issue any class of instruments in a public market;
- company's ultimate or any intermediate parent of the parent produces financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10.

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

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

**(e) Classification of insurance contracts**

***Non-life insurance***

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

**Incoming reinsurance**

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

**(f) Recognition and measurement of insurance contracts**

***Insurance premiums***

**Premium income**

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

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

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

**Provision for unearned premiums**

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

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

***Claims and provisions for claims outstanding and unexpired risks***

**Claims and benefits incurred**

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

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

**Provision for claims outstanding**

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

The provision for claims outstanding comprises of the following components:

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

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

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

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

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

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

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

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

**Provision for unexpired risks**

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

**Outgoing reinsurance**

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

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

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

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

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

**Liability adequacy test**

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

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

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

Cash inflows comprise estimated future investment income.

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

**(g) Other income**

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

**(h) Income tax**

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

In 2022, the tax rate for dividends distributed in Estonia and Latvia was 20% and the amount of tax payable was calculated as 20/80 of the amount distributed as the net dividend.

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

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

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

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

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

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

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

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

**(i) Foreign currency transactions**

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

**(j) Property and equipment**

(i) Owned assets

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

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

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

(ii) Leased assets

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

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

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

- there is an identified asset which the lessee has the right to use;

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

*The company as lessor*

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

*The company as a lessee*

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

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

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

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

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

Detailed information about leases is disclosed in note 26 Leases.

(iii) *Subsequent costs*

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

(iv) Depreciation

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

The estimated useful lives are as follows:

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

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

**(k) Intangible assets**

(i) Deferred acquisition costs – insurance contracts

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

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

(ii) Other intangible assets

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

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

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

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

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

**(l) Financial assets**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(m) Derivative financial instruments**

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

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

**(n) Receivables**

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

**(o) Cash and cash equivalents**

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

**(p) Impairment of assets**

(i) Financial assets

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

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

- The market price is at least 20% below the purchase price or
- The market price remains below the purchase price for at least six months.

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

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

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

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

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

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

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

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

(ii) Non-financial assets

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

**(q) Employee benefits**

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

**(r) Allocation of expenses**

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

**(s) Subordinated loans**

The subordinated loan is a debt obligation that has a lower payment priority than more senior debt. Thus, the claims of more senior debt holders must be satisfied before the holders of subordinated loans can be paid.

In the Statement of financial position Subordinated loans are presented as a liability.

The company follows strictly the terms and conditions of the subordinated loan agreements.

**(t) Other provisions**

Other provisions are recognised when:

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

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

**(u) Dividends**

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

**(v) Events after the reporting period**

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2022) and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

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

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs, which have been adopted by the Company as of January 1, 2022.

**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 previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly 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 any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes 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. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

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

**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 amendments do not impact the Company's financial statements as there are no Covid-19-related reductions in lease payments.

**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.

The company's portfolio on January 1, 2023, consists of debt and other fixed-income securities only. All securities passed the SPPI test. The only transition impact of 98,050 euros is related to the introduction of the Expected Credit Loss component in OCI.

**IFRS 17: Insurance Contracts**

The standard is effective, for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

IFRS 17, with the objective to provide an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features. The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and by a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss based on insurance contract services provided over the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining coverage period. Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement but are recognized directly on the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income will be based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, IFRS 17 requires extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or fair value approach. Both provide transitional reliefs.

Finally, in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. 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.

One of the key principles in IFRS 17 is that an insurance company shall divide the contracts into groups of contracts and then recognise and measure those groups of contracts. Moreover, the company is required to determine whether any contracts form an onerous group of contracts, and it is required to recognise onerous contracts earlier than non-onerous contracts. A contract should be determined onerous as soon as its onerousness has been identified, the earliest being the date the contract is issued. This requirement is different against IFRS 4 and ERGO Insurance SE has set up an onerous contract testing to determine the onerous groups of contracts and comply with this requirement.

For the measurement of liabilities under IFRS 17 three different models are introduced: the general measurement model (GMM), the variable fee approach (VFA) and the premium allocation approach (PAA). Two are mandatory (GMM & VFA) and one is optional (PAA). For contracts with a coverage period of one year or less, or where it is a reasonable approximation to the GMM, a simplified premium allocation approach (PAA) may be used. This approach allows for allocating the premium over the coverage period. For contracts with direct participation features, a modified version of the GMM, the variable fee approach (VFA) must be applied. In ERGO Insurance SE VFA is not relevant, PAA eligibility is tested, and GMM and PAA are both applied.

The detailed decision regarding the current methods is as follows:

| **IFRS 17 insurance class** | **IFRS 4 insurance class** | **Method choice for gross portfolios** | **Method choice for ceded portfolios** |
|---|---|---|---|
| Medical expense insurance | Travel insurance | PAA | PAA |
| Income protection insurance | Accident insurance | PAA | PAA |
| Motor vehicle liability insurance | Motor liability insurance | PAA | PAA |
| Motor vehicle liability insurance | Carrier's liability insurance | PAA | PAA |
| Other motor insurance | Motor own damage insurance | GMM | PAA |
| Other motor insurance | Railway rolling stock insurance | PAA | PAA |
| Marine and transport insurance | Watercraft insurance | PAA | PAA |
| Marine and transport insurance | Watercraft owner's liability insurance | PAA | PAA |
| Fire and other damage to property insurance | Individuals' property insurance | GMM | PAA |
| Fire and other damage to property insurance | Legal persons' property insurance | GMM | PAA |
| Fire and other damage to property insurance | Agricultural risks insurance | PAA | PAA |
| Engineering insurance | Technical risks insurance | GMM | PAA |
| General liability insurance | Employers' liability insurance | PAA | PAA |
| General liability insurance | General third party liability insurance | GMM | GMM |
| General liability insurance | Professional liability insurance | PAA | PAA |
| Credit and suretyship insurance | Guarantee insurance | GMM | GMM |
| Legal expenses insurance | Legal expenses insurance | PAA | PAA |
| Assistance | Assistance insurance | PAA | PAA |

The quantifiable impact that the initial application of IFRS 17 is expected to have on the entity's financial statements is not assessed reliably yet; the company is finalizing transition calculations.

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

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

Management has assessed the effect of the amendments and considers it insignificant.

**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, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

Management has assessed the effect of the amendments and considers it insignificant.

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

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. 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.

Management has assessed the effect of the amendments and considers it insignificant.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU.

Management has assessed the effect of the amendments and considers it insignificant.

**IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU.

Management has assessed the effect of the amendments and considers it insignificant.

**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.

Management has assessed the effect of the amendments and considers it insignificant.

## Note 2. Risk profile

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

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

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

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

## 2.1. Insurance risks

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

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

## Policies for mitigating insurance risks

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

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

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

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

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

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

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

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

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

## Insurance risk management strategy

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

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

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

## General insurance contracts

### *Liability insurance*

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

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

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

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

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

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

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

*Property insurance*

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

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

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

*Marine and transport insurance*

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

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

## Pricing risks

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

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

## Claims handling risks

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

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

## Provisioning risks

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

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

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

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

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

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

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

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

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

## Concentration risks

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

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

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

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

| *In euros* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross provisions** | **Reinsurers' share** | **Net provisions** | **Gross provisions** | **Reinsurers' share** | **Net provisions** |
| Estonia | 63 726 597 | 11 663 860 | 52 062 737 | 64 027 943 | 9 639 578 | 54 388 365 |
| Latvia | 42 492 577 | 7 561 592 | 34 959 173 | 48 350 424 | 12 130 939 | 36 238 851 |
| Lithuania | 106 297 174 | 13 240 288 | 93 028 698 | 89 842 423 | 6 910 631 | 82 912 426 |
| Total | 212 516 348 | 32 465 740 | 180 050 608 | 202 220 790 | 28 681 148 | 173 539 642 |

## Impact of catastrophic events

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

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

## Reinsurance strategy

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

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

Breakdown of reinsurance retention by insurance class

| Class of insurance | 2022 | 2021 |
|---|---|---|
| Motor liability insurance, Property, and technical risks insurance | 1 000 000 | 1 000 000 |
| Liability, marine and travel insurance , accident, livestock, motor own damage and surety insurance | 500 000 | 500 000 |

## Claims development

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

Various factors may distort current estimates of provisions and cumulative prior year provisions. While the information in the table provides a historical perspective of the adequacy of claims outstanding estimates, it does not provide a basis for extrapolating surpluses or shortfalls of the past on current claims outstanding balances. The company believes that the estimates of claims outstanding as at the end of 2022 are adequate. However, due to the inherent uncertainties of the provisioning process, it cannot be guaranteed that the balances will prove adequate.

***Analysis of claims development – gross (as at 31 December 2022)***

| *In euros* | | *Year of loss incurrence* | | | | | |
|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims** | **Note** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| At end of year of incurrence | | 91 153 852 | 103 750 661 | 115 357 775 | 119 504 390 | 149 529 901 | 131 430 123 |
| One year later | | 89 481 530 | 106 020 656 | 115 304 000 | 114 586 983 | 149 769 785 | |
| Two years later | | 89 422 538 | 105 525 465 | 112 873 248 | 113 411 779 | | |
| Three years later | | 89 343 458 | 106 418 086 | 113 408 739 | | | |
| Four years later | | 88 417 289 | 106 074 711 | | | | |
| Five years later | | 87 949 175 | | | | | |
| Cumulative payments until 31 December 2022 | 21 | 85 054 815 | 96 118 828 | 102 762 735 | 106 979 742 | 130 063 085 | 86 401 658 |
| **Provision for claims outstanding (incl. IBNR) at 31 December 2022** | **21** | **2 894 360** | **9 955 883** | **10 646 004** | **6 432 037** | **19 706 701** | **45 028 465** |

At 31 December 2022, the provision for claims outstanding for earlier years of loss incurrence amounted to 19,428,279 euros (2021: 17,251,598 euros).

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

Results of the sensitivity analysis for claims

| | **As at 31 December 2022** | | **As at 31 December 2021** | |
|---|---|---|---|---|
| | Change in net loss ratio in percentage points | Impact on profit and equity in euros | Change in net loss ratio in percentage points | Impact on profit and equity in euros |
| Motor liability insurance | 4.4 | -2 630 680 | 4.3 | -2 780 968 |
| Motor own damage insurance | 0.5 | -224 050 | 0.6 | -287 339 |
| Individuals' property insurance | 0.6 | -106 007 | 0.7 | -105 398 |
| Legal persons' property insurance | 3.5 | -334 821 | 3.9 | -361 578 |

Sensitivity analysis involves applying various methods to assess the volatility of estimates used for creating provisions for claims and its impact on the net loss ratio and net profit or loss. A 5% decrease in premium income for 2022 would have had a -1.1 million euro impact on the company's insurance result.

## Liability adequacy test

The company has assessed the insurance liabilities recognised in the statement of financial position as at 31 December 2022 using the liability adequacy test.

As a result, the company reduced the deferred acquisition costs by 633,759 euros (2021: 669,513 euros). More information regarding deferred acquisition costs presented in Note 11. Unexpired risks provision was released. Detailed information on insurance provisions is provided in note 21.

*In euros*

| | **As at 31 December 2022** | | **As at 31 December 2021** | |
|---|---|---|---|---|
| Class of insurance | Reduction of deferred acquisition costs after liability adequacy test | Additional unexpired risks provision | Reduction of deferred acquisition costs after liability adequacy test | Additional unexpired risks provision |
| Commercial property insurance | -633 759 | 0 | -644 217 | 0 |
| Watercraft insurance and watercraft owner's liability insurance | 0 | 0 | -25 296 | 371 321 |
| Other classes of insurance | 0 | 0 | 0 | 0 |
| **Total** | **-633 759** | **0** | **-669 513** | **371 321** |

## 2.2. Market, credit, and liquidity risk management

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

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

### Credit risk

The credit risk of investments is the risk that the issuer of a security will not honour its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The table below describes the company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of the company's fixed-income securities was A+ (2021: A). The company believes that its credit risk exposure to other financial assets is low due to their small proportion.

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

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

***Credit risk***

| 2022 | Standard & Poor's | AAA | AA | A | BBB | BB | Without rating | Total |
|---|---|---|---|---|---|---|---|---|
| *In euros* | Moody's | Aaa | Aa | A | Baa | Ba | Without rating | |
| Debt securities at fair value | | 101 376 267 | 52 380 181 | 27 180 444 | 33 286 276 | 1 027 228 | 0 | **215 250 396** |
| Proportion of debt securities | | 47.10% | 24.33% | 12.63% | 15.46% | 0.48% | 0.00% | **100.00%** |
| Reinsurance assets | | 0 | 25 846 045 | 4 571 954 | 0 | 0 | 2 047 741 | **32 465 740** |
| Proportion of reinsurance assets | | 0.00% | 79.60% | 14.08% | 0.00% | 0.00% | 6.32% | **100.00%** |
| Cash and cash equivalents | | 0 | 13 067 933 | 1 555 180 | 0 | 0 | 112 550 | **14 735 663** |
| Proportion of cash and cash equivalents | | 0.00% | 88.68% | 10.55% | 0.00% | 0.00% | 0.77% | **100.00%** |

| 2021 | Standard & Poor's | AAA | AA | A | BBB | BB | Without rating | Total |
|---|---|---|---|---|---|---|---|---|
| *In euros* | Moody's | Aaa | Aa | A | Baa | Ba | Without rating | |
| Debt securities at fair value | | 85 875 265 | 42 428 017 | 30 370 254 | 45 439 326 | 1 092 849 | 0 | **205 205 711** |
| Proportion of debt securities | | 41.85% | 20.68% | 14.80% | 22.14% | 0.53% | 0.00% | **100.00%** |
| Reinsurance assets | | 0 | 23 415 791 | 3 222 434 | 1 960 | 0 | 2 040 963 | **28 681 148** |
| Proportion of reinsurance assets | | 0.00% | 81.64% | 11.24% | 0.01% | 0.00% | 7.11% | **100.00%** |
| Cash and cash equivalents | | 0 | 10 430 306 | 5 440 482 | 0 | 0 | 69 751 | **15 940 539** |
| Proportion of cash and cash equivalents | | 0.00% | 65.43% | 34.13% | 0.00% | 0.00% | 0.44% | **100.00%** |

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

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

| **As at 31 December 2022**<br>*In euros* | Not past due | Less than 30 days past due | 30 to 60 days past due | 60 to 180 days past due | Total |
|---|---|---|---|---|---|
| Receivables from policyholders | 22 753 076 | 1 679 532 | 140 789 | 226 157 | **24 799 554** |
| Receivables from brokers and other intermediaries | 952 132 | 276 066 | 25 919 | 140 937 | **1 395 054** |
| Receivables from reinsurers | 2 332 | 1 313 331 | 0 | 1 848 124 | **3 163 787** |
| Other receivables | 698 288 | 85 462 | 318 728 | 71 362 | **1 173 840** |
| **Total** | **24 405 828** | **3 354 391** | **485 436** | **2 286 579** | **30 532 235** |

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

## Market risk

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

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

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

*(a) Interest rate risk*

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

The company's investments comprise mostly fixed-income securities whose market value is influenced by changes in interest rates. At 31 December 2022, the weighted average yield to maturity of fixed-income available-for-sale debt securities was 3.17% (31 December 2021: -0.18%).

Assets exposed to interest rate risk, by interest rate

| In euros | **As at 31 December 2022** | | **As at 31 December 2021** | |
|---|---|---|---|---|
| | Cost | Fair value | Cost | Fair value |
| **Fixed rate debt securities** | | | | |
| interest rate 0,00% -2,50% | 207 024 339 | 195 772 648 | 176 697 014 | 177 785 931 |
| interest rate 2,51% -3,50% | 8 265 709 | 7 695 143 | 8 899 977 | 8 892 786 |
| interest rate 3,51% -4,50% | 9 823 633 | 9 654 061 | 13 198 802 | 13 201 440 |
| interest rate 4,51% -5,50% | 0 | 0 | 3 307 639 | 3 330 421 |
| interest rate 5,51% -6,50% | 2 177 831 | 2 128 544 | 1 998 643 | 1 995 133 |
| **Total fixed rate debt securities** | **227 291 512** | **215 250 396** | **204 102 075** | **205 205 711** |

If at 31 December 2022 the yield curve had shifted evenly 100 basis points upward or downward across all maturities, the company's equity would have decreased or increased by 499 million euros (2021: 5.1 million euros). There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expense.

*(b) Other price risk*

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

If at 31 December 2022 the value of investments in equity and debt securities funds had increased or decreased by 10%, the company's equity would have increased or decreased by 0.3 million euros (2021: 0.5 million euros). The decrease in risk is attributable to the realisation of investments in equity funds during the financial year.

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

## Investments in financial instruments by issuer's domicile

*In euros*

| As at 31 December | 2022 | 2021 |
|---|---|---|
| **Debt and other fixed-income securities** | | |
| Austria | 4 748 526 | 0 |
| Australia | 2 303 490 | 3 650 296 |
| British Virgin Islands | 1 037 456 | 1 153 087 |
| Belgium | 4 863 258 | 0 |
| Bulgaria | 488 125 | 594 123 |
| Canada | 2 552 756 | 2 158 402 |
| Cayman Islands | 1 069 381 | 1 134 776 |
| Chile | 879 467 | 1 065 712 |
| China | 2 371 346 | 2 502 274 |
| Croatia | 0 | 1 040 051 |
| Czech Republic | 1 839 050 | 0 |
| Denmark | 0 | 1 005 991 |
| Finland | 1 146 869 | 0 |
| France | 31 121 815 | 45 078 994 |
| Germany | 80 375 011 | 64 481 104 |
| Great Britain | 6 083 661 | 3 129 681 |
| Hungary | 1 709 786 | 1 543 389 |
| Ireland | 1 079 610 | 777 948 |
| Israel | 1 936 881 | 1 918 859 |
| Italy | 6 434 067 | 7 271 240 |
| Japan | 3 473 024 | 2 614 554 |
| Kazakhstan | 987 561 | 1 026 051 |
| Lithuania | 494 166 | 1 851 073 |
| Luxembourg | 3 480 571 | 6 121 245 |
| Macedonia | 1 027 228 | 1 092 848 |
| Mexico | 1 687 930 | 2 751 422 |
| Netherlands | 11 420 168 | 5 908 143 |
| Norway | 1 724 103 | 0 |
| Peru | 974 482 | 564 245 |
| Philippines | 1 442 000 | 1 510 855 |
| Poland | 2 442 190 | 1 003 073 |
| Portugal | 3 504 471 | 4 052 442 |
| Romania | 1 026 629 | 1 102 273 |
| Saudi Arabia | 960 636 | 999 595 |
| South Korea | 1 893 360 | 1 018 992 |
| Spain | 11 016 386 | 16 749 578 |
| Sweden | 1 093 003 | 0 |
| Switzerland | 1 151 265 | 1 013 658 |
| United States of America | 12 437 790 | 16 299 274 |
| Venezuela | 972 878 | 1 020 463 |
| ***Total debt and other fixed-income securities*** | ***215 250 396*** | ***205 205 711*** |
| **Equities and fund units** | | |
| Germany | 0 | 910 589 |
| Ireland | 0 | 1 393 053 |
| Lithuania | 43 443 | 43 443 |
| Luxembourg | 3 097 967 | 2 673 499 |
| ***Total equities and fund units*** | ***3 141 410*** | ***5 020 584*** |
| **Total investments in financial instruments** | **218 391 806** | **210 226 295** |

*(c) Currency risk*

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

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

The following assets and liabilities are exposed to currency risk

| *In euros* | As at 31 December 2022 | As at 31 December 2021 |
|---|---|---|
| | USD | USD |
| Insurance and other receivables | 21 691 | 68 162 |
| Investments in financial instruments – available-for-sale debt securities | 1 684 229 | 6 360 074 |
| Reinsurance payables | 38 588 | 90 795 |
| **Total** | **1 744 508** | **6 519 031** |

## Liquidity risk

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

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

The debt securities portfolio is composed by considering the average duration of liabilities and modifying the duration of assets in order to achieve duration matching. In addition, a large share of the company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the company's liquid funds totalled 233.0 million euros (2021: 226.0 million euros) including available-for-sale debt securities of 215.3 million euros (2021: 205.2 million euros), equities and fund units of 3.1 million euros (2021: 5.0 million euros), and cash and cash equivalents of 14.7 million euros (2021: 15.9 million euros).

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio was 2.3 years (2021: 2.5 years).

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

Financial assets and liabilities exposed to liquidity risk by maturity

*In euros*

| As at 31 December 2022 | Note | Without term | Less than 1 year | 1-2 years | 2-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|---|---|
| Net future payment obligations resulting from provisions for claims outstanding | 21 | 0 | 38 513 657 | 22 892 271 | 11 631 557 | 8 456 969 | 6 827 441 | **88 321 895** |
| Of which net insurance pension payments | 21 | 0 | 2 439 896 | 2 859 319 | 3 525 473 | 2 506 157 | 935 565 | **12 266 410** |
| Financial assets (investments in financial instruments and cash and cash equivalents) | 14.2, 17 | 14 735 663 | 80 427 248 | 37 130 030 | 65 059 643 | 32 633 475 | 0 | **229 986 059** |
| Other financial assets | 16 | | 30 532 235 | | | | | **30 532 235** |
| Other financial liabilities | 23, 24, 28 | | 36 249 090 | 6 000 000 | | 6 000 000 | 9 500 000 | **57 749 090** |
| **Net exposure (assets less liabilities)** | | **18 545 467** | **36 196 736** | **8 237 759** | **53 428 086** | **18 176 506** | **-16 327 441** | **114 447 309** |

*In euros*

| As at 31 December 2021 | Note | Without term | Less than 1 year | 1-2 years | 2-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|---|---|
| Net future payment obligations resulting from provisions for claims outstanding | 21 | 0 | 40 902 023 | 26 005 757 | 12 535 232 | 8 960 223 | 7 781 122 | **96 184 357** |
| Of which net insurance pension payments | 21 | 0 | 2 647 952 | 3 069 797 | 3 571 564 | 2 399 246 | 983 699 | **12 672 258** |
| Financial assets (investments in financial instruments and cash and cash equivalents) | 14, 15 | 21 004 566 | 20 090 871 | 62 644 224 | 73 432 432 | 49 038 184 | 0 | **226 210 277** |
| Other financial assets | 16 | 0 | 31 414 613 | 0 | 0 | 0 | 0 | **31 414 613** |
| Other financial liabilities | 23, 24, 28 | 0 | 31 897 824 | 0 | 6 000 000 | 0 | 6 000 000 | **43 897 824** |
| **Net exposure (assets less liabilities)** | | **21 004 566** | **-21 294 363** | **36 638 467** | **54 897 200** | **40 077 961** | **-13 781 122** | **117 542 709** |

## 2.3. Capital management

Management's policy is to maintain a strong capital base so as to protect the interests of investors, creditors, and policyholders and to sustain future development of the business. Management monitors return on equity (the ratio of profit to the period's average equity) on an ongoing basis. The return for 2022 was 7.2% (2021: -3.9%).

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

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

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

## 2.4. Strategic risks

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

The main strategic risks stem from changes of monetary policies worldwide and scarce implementation of the large strategic projects that could jeopardize achievement of strategic results. The new topic recognized as a strategic risk is associated with general energy supply risk.

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

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

## 2.5. Operational risks

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

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

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

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

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

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

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

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

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

## 2.6. Reputational risks

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

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

ERGO has identified two subcategories of reputational risk:

- data and information;
- communication risk.

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

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

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

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

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

## 2.7. Geopolitical risk

Increased uncertainty arises from the development of Russia's military conflict with Ukraine, which has existed since February 24, 2022. This may lead to an intensification of the Western world's confrontation with Russia. It may also pose a major challenge to the European peace order as a whole. In response to the open warfare in the EU has imposed financial sanctions on Russian companies and individuals, including the exclusion of banks from the SWIFT payment system.

Looking at global capital markets, this crisis in particular has the potential to dramatically increase uncertainty and volatility. In addition, the sanctions against Russia and a (threatened) gas supply freeze could have a negative impact on the national economy. Globally noticeable consequences cannot be ruled out. There could be further secondary effects that could have a negative impact on the Company's risk situation.

ERGO Insurance SE, including the branches, 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.

# Note 3. Premium income

The following table outlines gross and net premiums for 2022 and 2021 by line of business.

| *In euros* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross written premiums | Reinsurers' share | Net earned premiums[1] | Gross written premiums | Reinsurers' share | Net earned premiums[1] |
| Motor liability insurance | 77 910 721 | 10 838 252 | 60 260 348 | 65 878 352 | 1 280 759 | 65 192 671 |
| Accident insurance | 10 559 569 | 32 489 | 10 060 224 | 9 126 799 | 181 142 | 8 609 098 |
| Travel insurance | 4 458 985 | 54 208 | 3 534 776 | 1 874 738 | 62 558 | 1 941 378 |
| Technical risks insurance | 9 097 390 | 560 793 | 7 940 889 | 8 040 565 | 324 666 | 7 282 228 |
| Individuals' property insurance | 19 257 149 | 200 963 | 17 915 507 | 16 559 758 | 161 000 | 15 604 275 |
| Legal persons' property insurance | 13 607 730 | 3 941 386 | 8 844 805 | 11 549 941 | 3 004 486 | 8 770 971 |
| Agricultural risks insurance | 2 203 909 | 178 729 | 1 703 624 | 1 690 065 | 170 634 | 1 701 630 |
| Motor own damage insurance | 56 398 527 | 7 566 897 | 45 208 090 | 49 848 132 | 27 899 | 48 895 935 |
| Liability insurance | 11 536 227 | 1 770 268 | 9 233 719 | 9 956 713 | 1 826 894 | 8 066 864 |
| Goods in transit insurance | 2 381 016 | 371 135 | 2 021 041 | 2 126 760 | 462 739 | 1 662 029 |
| Carrier's liability insurance | 2 926 946 | 77 413 | 2 803 086 | 2 923 796 | 90 808 | 2 688 910 |
| Watercraft insurance and watercraft owner's liability insurance | 3 507 497 | 248 355 | 4 005 937 | 9 626 024 | 758 860 | 9 188 417 |
| Guarantee insurance | 5 581 982 | 2 832 045 | 2 725 585 | 5 266 745 | 2 687 598 | 2 388 308 |
| Railway rolling stock insurance | 132 021 | 15 057 | 116 586 | 111 061 | 11 766 | 135 234 |
| Assistance insurance | 3 179 512 | 0 | 2 963 740 | 2 120 255 | 0 | 2 030 336 |
| Financial risks insurance | 1 016 595 | 304 816 | 648 573 | 847 224 | 209 603 | 592 865 |
| Loss of employment insurance | 422 657 | 0 | 415 317 | 377 127 | 0 | 384 593 |
| Legal expenses insurance | 1 508 204 | 0 | 1 507 479 | 1 533 554 | 0 | 1 532 229 |
| ***Total from insurance activities*** | **225 686 637** | **28 992 806** | **181 909 324** | **199 457 609** | **11 261 412** | **186 667 971** |
| Legal persons' property insurance | 221 977 | 712 | 271 571 | 323 090 | 0 | 239 900 |
| Liability insurance | 38 400 | 1 558 | 35 849 | 27 000 | 1 492 | 29 231 |
| ***Total from reinsurance activities*** | **260 377** | **2 270** | **307 420** | **350 090** | **1 492** | **269 131** |
| **Total** | **225 947 014** | **28 995 076** | **182 216 746** | **199 807 699** | **11 262 904** | **186 937 102** |

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

Breakdown of gross written premiums by currency

| *In euros* | 2022 | 2021 |
|---|---|---|
| EUR | 225 843 596 | 199 648 183 |
| USD | 103 418 | 159 516 |
| **Total** | **225 947 014** | **199 807 699** |

Breakdown of gross written premiums by country

| *In euros* | 2022 | 2021 |
|---|---|---|
| Estonia | 68 712 563 | 66 203 955 |
| Latvia | 37 197 989 | 34 701 377 |
| Lithuania | 119 776 085 | 98 552 277 |
| ***Total from insurance activities*** | **225 686 637** | **199 457 609** |
| Poland | 260 377 | 350 090 |
| ***Total from reinsurance activities*** | **260 377** | **350 090** |
| **Total** | **225 947 014** | **199 807 699** |

# Note 4. Commission income

| *In euros* | 2022 | 2021 |
|---|---|---|
| Reinsurance commissions | 6 481 976 | 1 431 503 |
| Participation in reinsurers' profit | -14 425 | -15 343 |
| Reinsurers' share of deferred acquisition costs | -113 197 | -74 049 |
| **Total** | **6 354 354** | **1 342 111** |

## Note 5. Investment regular income and extraordinary result

| *In euros* | 2022 | 2021 |
|---|---|---|
| **Regular result from investments** | | |
| Regular income | 1 031 892 | -347 106 |
| **Total regular result from investments** | **1 031 892** | **-347 106** |
| **Extraordinary result from investments** | | |
| Write up /write down | -437 066 | 0 |
| Gains /losses disposal | -572 033 | 389 495 |
| **Total extraordinary result from investments** | **-1 009 099** | **389 495** |
| **Total investment regular income and extraordinary result** | **22 793** | **42 389** |

## Note 6. Other income

| *In euros* | 2022 | 2021 |
|---|---|---|
| Gain on disposal of property and equipment | 300 825 | 10 559 |
| Fees, commissions, and charges received | 862 695 | 666 798 |
| Insurance brokerage income | 232 107 | 187 271 |
| Income from currency revaluation | 1 277 703 | 66 915 |
| Rental income | 56 002 | 236 113 |
| Income from real estate in own use | 170 579 | 158 509 |
| Income from receivables written down | 314 328 | 769 101 |
| Miscellaneous income | 126 589 | 52 211 |
| **Total** | **3 340 828** | **2 147 477** |

# Note 7. Claims and benefits

The following table shows claims paid and incurred in 2022 and 2021 by line of business

| *In euros* | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Claims paid[1] | Change in provision for claims outstanding[2] | Reinsurers' share of claims | Net claims incurred | Claims paid[1] | Change in provision for claims outstanding[2] | Reinsurers' share of claims | Net claims incurred |
| Motor liability insurance | 46 946 796 | 1 602 061 | -6 733 297 | 41 824 889 | 42 771 805 | 2 366 663 | -2 719 403 | 42 419 062 |
| Accident insurance | 4 669 621 | -48 116 | 0 | 4 621 505 | 4 646 460 | 95 625 | 0 | 4 742 086 |
| Travel insurance | 1 272 575 | 320 999 | 373 | 1 584 617 | 847 520 | -50 940 | -725 | 795 854 |
| Technical risks insurance | 5 523 497 | -25 093 | -19 693 | 5 330 328 | 4 928 553 | 1 124 815 | 0 | 6 053 368 |
| Individuals' property insurance | 11 133 899 | 12 184 | 0 | 11 146 083 | 11 133 513 | 519 225 | 0 | 11 652 739 |
| Legal persons' property insurance | 10 797 519 | -6 151 037 | 1 831 104 | 6 594 285 | 13 756 226 | 1 695 587 | -6 934 311 | 8 517 504 |
| Agricultural risks insurance | 1 005 178 | -6 218 | 0 | 998 960 | 1 212 208 | -184 669 | 0 | 1 027 539 |
| Motor own damage insurance | 38 203 034 | 1 010 018 | -5 005 329 | 34 207 721 | 34 791 704 | 1 850 378 | -265 127 | 36 376 955 |
| Liability insurance | 3 346 714 | 249 288 | -59 605 | 3 536 395 | 3 856 907 | -1 290 018 | -96 401 | 2 470 486 |
| Goods in transit insurance | 600 617 | -135 200 | 2 551 | 467 969 | 623 678 | 26 807 | -12 857 | 637 628 |
| Carrier's liability insurance | 1 547 516 | -441 199 | 0 | 1 106 317 | 1 779 431 | -143 291 | 0 | 1 636 140 |
| Watercraft insurance and watercraft owner's liability insurance | 9 447 629 | -3 004 842 | -2 015 166 | 4 427 621 | 10 116 351 | 8 127 982 | -4 638 617 | 13 605 716 |
| Guarantee insurance | 506 662 | -421 037 | 6 768 | 92 394 | 1 168 563 | -623 630 | -440 708 | 104 225 |
| Railway rolling stock insurance | 23 544 | 35 572 | 0 | 59 115 | 107 541 | -105 427 | 0 | 2 114 |
| Assistance insurance | 1 685 672 | 50 601 | 0 | 1 736 275 | 1 439 042 | 39 691 | 0 | 1 478 733 |
| Financial risks insurance | 4 888 291 | 2 466 565 | -6 444 362 | 942 178 | 1 751 391 | 378 902 | -907 002 | 1 223 292 |
| Loss of employment insurance | 96 334 | 13 506 | 0 | 109 840 | 114 834 | -39 831 | 0 | 75 003 |
| Legal expenses insurance | 569 112 | -7 335 | 0 | 561 777 | 366 762 | -87 738 | 0 | 279 025 |
| **Total** | **142 264 210** | **-4 479 283** | **-18 436 656** | **119 348 269** | **135 412 489** | **13 700 131** | **-16 015 151** | **133 097 469** |

[1]Claims paid include insurance indemnities and benefits paid, claims handling costs and income from salvage and subrogation recoveries.
[2]Claims paid and Change in provision for claims outstanding comprise Income Statement position Claims and benefits incurred, 137,784,927 euros in the reporting year (2021: 149,112,620 euro).

## Claims handling costs

| *In euros* | 2022 | 2021 |
|---|---:|---:|
| Salaries | 4 150 242 | 3 950 677 |
| Social security charges | 626 410 | 587 103 |
| Depreciation and amortisation | 346 683 | 512 577 |
| Services purchased | 4 390 760 | 5 038 987 |
| Other labour costs | 88 757 | 89 460 |
| Business travel expenses | 9 564 | 2 382 |
| Costs of company cars | 34 955 | 28 366 |
| Training and other staff costs | 29 912 | 31 057 |
| Rental and utilities charges | -7 134 | -5 774 |
| Office expenses | 194 662 | 184 164 |
| Communications costs including mobile phone charges | 47 586 | 43 592 |
| IT costs | 488 824 | 499 699 |
| Miscellaneous costs | 1 080 644 | 488 638 |
| **Total** | **11 481 865** | **11 450 928** |

The following table provides an overview of income from subrogation and salvage recoveries in 2022 and 2021.

| *In euros* | 2022 | 2021 |
|---|---:|---:|
| Motor liability insurance | 2 198 026 | 2 255 498 |
| Accident insurance | 2 968 | 955 |
| Travel insurance | 4 833 | 6 023 |
| Technical risks insurance | 20 535 | 88 897 |
| Private property Insurance | 1 473 572 | 876 145 |
| Corporate property Insurance | 524 778 | 736 933 |
| Motor own damage insurance | 4 663 103 | 4 512 541 |
| Liability insurance | 89 265 | 83 303 |
| Goods in transit insurance | 25 981 | 47 852 |
| Carrier's liability insurance | 68 175 | 30 219 |
| Watercraft insurance and watercraft owner's liability insurance | 227 462 | 4 700 |
| Guarantee insurance | 120 802 | 148 399 |
| Assistance insurance | 955 | 2 488 |
| Other Property Insurance | 5 920 | -3 988 |
| Legal expenses insurance | 1 717 | 189 253 |
| **Total** | **9 428 092** | **8 979 218** |

## Catastrophes and major losses in 2022

In 2022, there were no natural disasters with a significant impact. The largest loss event reported to the company occurred in Latvia, was related to legal persons' property insurance, and amounted to 4,6 million euros (gross amount).

# Note 8. Expenses

| *In euros* | Note | 2022 | 2021 |
|---|---|---|---|
| **Acquisition costs** | | **49 213 529** | **45 752 624** |
| Salaries | | 13 271 427 | 12 032 264 |
| Social security charges | | 1 689 404 | 1 657 336 |
| Depreciation and amortisation | | 1 679 262 | 2 167 345 |
| Service fees and commissions | | 27 924 060 | 23 258 568 |
| Change in deferred acquisition costs | | -2 056 534 | 269 319 |
| Other labour costs | | 385 000 | 381 257 |
| Business travel expenses | | 60 822 | 21 212 |
| Costs of company cars | | 289 631 | 255 971 |
| Training and other staff costs | | 123 948 | 177 186 |
| Rental and utilities charges | | 1 325 827 | 1 244 460 |
| Office expenses | | 440 123 | 346 438 |
| Communications expenses including mobile phone charges | | 301 995 | 299 766 |
| IT costs | | 1 850 006 | 1 835 198 |
| Marketing expenses | | 980 015 | 971 776 |
| Miscellaneous expenses | | 948 543 | 834 528 |
| **Administrative expenses** | | **12 319 325** | **9 564 952** |
| Salaries | | 5 878 027 | 5 382 098 |
| Social security charges | | 1 099 142 | 1 006 717 |
| Depreciation and amortisation | | 1 589 502 | 668 848 |
| Other labour costs | | 162 469 | 130 212 |
| Business travel expenses | | 90 116 | 23 798 |
| Costs of company cars | | 64 829 | 51 499 |
| Training and other staff costs | | 84 449 | 79 494 |
| Rental and utilities charges | | 641 416 | 582 169 |
| Office expenses | | 95 574 | 92 224 |
| Communications expenses including mobile phone charges | | 39 884 | 39 033 |
| IT costs | | 2 416 387 | 1 477 511 |
| Miscellaneous expenses | | 157 530 | 31 349 |
| **Other operating expenses** | | **2 079 500** | **1 705 494** |
| Membership fee to Traffic Insurance Foundation | | 2 079 500 | 1 705 494 |
| **Regular expenses for investments** | | **315 617** | **315 537** |
| Salaries | | 46 793 | 46 499 |
| Social security charges | | 15 817 | 15 717 |
| Services purchased | | 209 121 | 107 313 |
| Miscellaneous expenses | | 43 886 | 146 008 |

| *In euros* | Note | 2022 | 2021 |
|---|---|---|---|
| **Other expenses** | | **3 084 142** | **2 065 668** |
| Fees to the Financial Supervision Authority and membership fees to professional associations | | 379 554 | 383 213 |
| Insurance brokerage expenses | | 193 345 | 180 312 |
| Audit and legal fees | | 129 732 | 130 735 |
| Business licenses and permits | | 432 721 | 386 517 |
| Interest paid | | 437 755 | 209 369 |
| Real estate related expenses | | 185 537 | 177 432 |
| Write down of other intangible assets | | 256 | 29 443 |
| Interest paid on finance leases | | 49 268 | 30 602 |
| State fees, stamp duties and late payment interest | | 36 000 | 40 449 |
| Foreign exchange loss | | 592 791 | 79 114 |
| Miscellaneous expenses | | 647 183 | 418 482 |

## Note 9. Foreign exchange differences

In the reporting period, the net amount of foreign exchange differences recognised in profit or loss, excluding those arising on financial instruments at fair value through profit or loss, was a gain of 684,912 euros (2021: a loss of 12,199 euros).

## Note 10. Property and equipment

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

At 31 December 2022, the cost of fully depreciated items still in use amounted to 2,269,938 euros (31 December 2021: 2,767,073 euros). ERGO Insurance SE has only such items of property and equipment that are in its own use.

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

Buildings write-offs are related to right-of-use assets. Terminations of rental agreements are reported as write-offs in the table below.

| Asset class | Land | Buildings | Improvements to leased premises | Equipment and other items | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **As at 31 December 2020** | **1 039 288** | **14 474 471** | **789 902** | **4 382 582** | **20 686 243** |
| Additions | 0 | 2 129 628 | 30 421 | 56 475 | 2 216 524 |
| Sales | 0 | 0 | 0 | -40 294 | -40 294 |
| Write-off | 0 | -19 909 | -8 394 | -439 619 | -467 922 |
| **As at 31 December 2021** | **1 039 288** | **16 584 190** | **811 929** | **3 959 144** | **22 394 551** |
| Additions | 0 | 3 994 222 | 392 981 | 388 544 | 4 775 747 |
| Sales | 0 | -345 184 | 0 | -106 129 | -451 313 |
| Write-off | 0 | -2 169 618 | -709 722 | -301 590 | -3 180 930 |
| **As at 31 December 2022** | **1 039 288** | **18 063 610** | **495 188** | **3 939 969** | **23 538 055** |
| **Accumulated depreciation** | | | | | |
| **As at 31 December 2020** | **0** | **5 383 446** | **587 806** | **3 559 113** | **9 530 365** |
| Depreciation for the year | 0 | 1 811 690 | 38 997 | 294 538 | 2 145 225 |
| Sales | 0 | 0 | 0 | -39 782 | -39 782 |
| Write-off | 0 | 0 | -8 394 | -406 428 | -414 822 |
| **As at 31 December 2021** | **0** | **7 195 136** | **618 409** | **3 407 441** | **11 220 986** |
| Depreciation for the year | 0 | 1 778 299 | 39 010 | 261 996 | 2 079 305 |
| Sales | 0 | -168 227 | 0 | -99 738 | -267 965 |
| Write-off | 0 | 0 | -593 467 | -299 846 | -893 313 |
| **As at 31 December 2022** | **0** | **8 805 208** | **63 952** | **3 269 853** | **12 139 013** |
| **Carrying amount** | | | | | |
| **As at 31 December 2021** | **1 039 288** | **9 389 054** | **193 520** | **551 703** | **11 173 565** |
| **As at 31 December 2022** | **1 039 288** | **9 258 402** | **431 236** | **670 116** | **11 399 042** |

## Note 11. Deferred acquisition costs

| *In euros* | 2022 | 2021 |
|---|---|---|
| **Balance as at 1 January** | **8 565 200** | **8 834 520** |
| Amortised portion | -7 695 592 | -7 999 028 |
| Addition from new contracts | 10 385 885 | 8 399 221 |
| Reduction after the liability adequacy test | -633 759 | -669 513 |
| **Balance as at 31 December** | **10 621 734** | **8 565 200** |

# Note 12. Other intangible assets

| *In euros* | **Software and licences** |
|---|---|
| **Cost** | |
| **As at 31 December 2020** | **25 418 303** |
| Addition through purchase of software and licences | 483 444 |
| Addition through internally generated IT projects | 7 951 972 |
| Write-off of software and licences | -12 134 |
| **As at 31 December 2021** | **33 841 585** |
| Addition through purchase of software and licences | 885 082 |
| Addition through internally generated IT projects | 10 169 924 |
| Write-off of software and licences | -74 163 |
| **As at 31 December 2022** | **44 822 428** |
| **Accumulated amortisation** | |
| **As at 31 December 2020** | **11 336 664** |
| Amortisation for the year | 1 955 726 |
| Write-off | -12 134 |
| **As at 31 December 2021** | **13 280 256** |
| Amortisation for the year | 2 329 451 |
| Write-off | -72 258 |
| **As at 31 December 2022** | **15 537 449** |
| **Carrying amount** | |
| **As at 31 December 2021** | **20 561 329** |
| **As at 31 December 2022** | **29 284 979** |

The company is developing an insurance software solution (*Space*) for all three Baltic states.

During reporting year new *Space* functionalities are developed in Lithuania. Latvian roll-out with the limited functionality is carried out in the last quarter of the reporting year. The development is continuing, further implementations are planned for 2023. Work performed during the financial year has been recognised within *Addition through internally generated IT projects.* The purpose of the development project is to implement a technological solution that will enable to harmonise processes and increase their efficiency.

Internally generated software Space

| | Carrying amount |
|---|---|
| 31.12.2022 | 27 791 316 |
| 31.12.2021 | 19 565 315 |

During the financial year, 1,905 euros of assets with a carrying amount were written off (2021: no assets with a carrying amount were written off).

At 31 December 2022, the cost of fully amortised assets still in use was 10,224,309 euros (31 December 2021: 7,581,376 euros).

## Note 13. Investments in subsidiaries

ERGO Insurance SE is the sole shareholder in DEAX Õigusbüroo OÜ, whose share capital amounts to 50,000 euros. Since the business volume of DEAX Õigusbüroo OÜ is insignificant compared to the total assets and revenue of ERGO Insurance SE, the subsidiary is accounted for in the financial statements as of 31 December 2022 using the cost method.

## Note 14. Investments in financial instruments

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

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

According to the hierarchy, at 31 December 2022 the company's available-for-sale debt securities and debt funds of 218,3 million euros (2021: 207,9 million euros) fell into Level 2. The fair value of unlisted securities carrying amount at 31 December 2022: 43,443 euros (2021: 43,443 euros) cannot be measured reliably. Therefore, their level has not been determined. More detailed information on the breakdown of assets between the different levels of the fair value hierarchy is provided in note 25 Fair value of financial instruments.

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

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

## 14.1. Equities and fund units

| *In euros* | As at 31 December 2022 | | As at 31 December 2021 | |
|---|---|---|---|---|
| | Cost | Book value | Cost | Book value |
| Units in listed equity funds | 0 | 0 | 1 998 568 | 2 303 642 |
| Units in infrastructure debt funds | 3 766 361 | **3 097 967** | 2 673 499 | 2 673 499 |
| Unlisted equities | 43 443 | 43 443 | 43 443 | 43 443 |
| **Total** | **3 809 804** | **3 141 410** | **4 715 510** | **5 020 584** |

Equities not listed on a public stock exchange comprise other equities measured at cost of 43,443 euros (2021: 43,443 euros).

Equities and fund units have been classified as available-for-sale financial assets. Unrealised gains and losses on equities and fund units are recognised in other comprehensive income or expense.
Movements in equities and fund units

Sales, interest, and dividend income is recognised in profit or loss.

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

| *In euros* | 2022 | 2021 |
|---|---|---|
| **On 1 January** | **4 977 141** | **0** |
| Purchased equities and fund units | 1 092 862 | 4 672 067 |
| Sold equities and fund units | -2 071 434 | 0 |
| Changes in the fair value reserve | -973 468 | 305 074 |
| Loss on the disposal | -68 141 | 0 |
| Gain on the disposal | 141 007 | 0 |
| **On 31 December** | **3 097 967** | **4 977 141** |

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

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

| *In euros* | As at 31 December 2022 | | As at 31 December 2021 | |
|---|---|---|---|---|
| | Cost | Book value | Cost | Book value |
| **Fixed-income debt securities** | | | | |
| Government bonds | 116 631 600 | 110 531 456 | 66 697 905 | 67 415 714 |
| Financial institutions' bonds | 75 509 230 | 73 402 119 | 99 984 581 | 99 942 978 |
| Corporate bonds | 35 150 682 | 31 316 821 | 37 419 589 | 37 847 019 |
| **Total fixed-income debt securities** | **227 291 512** | **215 250 396** | **204 102 075** | **205 205 711** |

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. At 31 December 2022, the portfolio did not include any debt securities measured at cost or using valuation models.

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

Movements in the debt and other fixed income securities

| *In euros* | 2022 | 2021 |
|---|---|---|
| **On 1 January** | **205 205 711** | **209 459 763** |
| Purchased debt securities | 68 182 464 | 107 888 451 |
| Sold debt securities | -17 940 214 | -107 650 250 |
| Received on maturity date debt securities | -25 254 604 | -2 000 000 |
| Amortisation of debt securities | -1 217 166 | -2 709 160 |
| Changes in the fair value reserve | -13 144 749 | -294 074 |
| Loss on the disposal | -646 105 | -39 250 |
| Gain on the disposal | 1 981 | 428 745 |
| Written down debt securities | -437 067 | 0 |
| Currency revaluation | 608 906 | 197 454 |
| Changes in accrued interest | -108 761 | -75 968 |
| **On 31 December** | **215 250 396** | **205 205 711** |

# Note 15. Reinsurance assets

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

| *In euros* | | |
|---|---|---|
| **As at 31 December** | **2022** | **2021** |
| Provision for unearned premiums | 3 340 630 | 2 939 227 |
| *Provision for claims outstanding – claims incurred and reported* | *24 564 672* | *23 132 871* |
| *Provision for claims outstanding – IBNR* | *2 369 834* | *315 661* |
| *Provision for insurance pension annuities* | *2 190 604* | *2 293 389* |
| Total provision for claims outstanding | 29 125 110 | 25 741 921 |
| **Total** | **32 465 740** | **28 681 148** |

Information on reinsurance assets is also provided in note 21.

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

## Reinsurance result

| *In euros* | **Note** | **2022** | **2021** |
|---|---|---|---|
| Premiums ceded | 3 | -28 995 078 | -11 262 905 |
| Reinsurers' share of the change in the provision for unearned premiums | 3 | 401 402 | 242 281 |
| Commissions and profit participation paid by reinsurers | 4 | 6 467 552 | 1 416 160 |
| Reinsurers' share of claims paid | 7 | 15 053 469 | 13 464 796 |
| Reinsurers' share of the change in the provision for claims outstanding | 7 | 3 383 188 | 2 550 355 |
| Reinsurers' share of deferred acquisition costs | 4 | -113 197 | -74 049 |
| **Total** | | **-3 802 664** | **6 336 638** |

# Note 16. Insurance and other receivables

*In euros*

| As at 31 December | 2022 | 2021 |
|---|---|---|
| Receivables from policyholders | 24 799 554 | 20 798 741 |
| Receivables from brokers and other intermediaries | 1 395 054 | 1 213 253 |
| Receivables from reinsurers | 3 163 787 | 8 217 487 |
| Subrogation and salvage receivables | 0 | 4 486 |
| ***Total insurance receivables*** | ***29 358 395*** | ***30 233 967*** |
| Other receivables | 1 173 840 | 1 180 646 |
| ***Total other financial assets*** | ***30 532 235*** | ***31 414 613*** |
| Prepaid taxes | 512 919 | 1 156 841 |
| Prepaid expenses | 2 622 331 | 2 680 658 |
| ***Total non-financial assets*** | ***3 135 250*** | ***3 837 499*** |
| **Total** | **33 667 485** | **35 252 112** |

# Note 17. Cash and cash equivalents

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

*In euros*

| As at 31 December | 2022 | 2021 |
|---|---|---|
| Demand deposits | 14 735 663 | 15 940 539 |
| **Total** | **14 735 663** | **15 940 539** |

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

| As at 31 December | 2022 | 2021 |
|---|---|---|
| EUR | 14 725 443 | 15 934 913 |
| USD | 10 625 | 6 377 |

## Note 18. Shareholders and share capital

| | | Ordinary shares without par value | Total share capital |
|---|---|---|---|
| | Number of shares | In euros | In euros |
| **As at 31 December 2022** | 384 629 | 6 391 391 | 6 391 391 |
| **As at 31 December 2021** | 384 629 | 6 391 391 | 6 391 391 |

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

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

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

The entire share capital has been paid in.

*Dividends*

Based on the decision of the sole shareholder, in 2022 and 2021 no dividend was declared.

## Note 19. Capital reserve

The capital reserve is created with annual net profit transfers made based on the resolution of the general meeting. Under the articles of association that have been in effect since 17 August 2017, the capital reserve has to amount to one tenth of share capital and pursuant to section 336(2) of the Estonian Commercial Code every year at least one twentieth of net profit for the year has to be transferred to the capital reserve. When the level outlined in the articles of association has been achieved, transfers may be discontinued. At 31 December 2022, the capital reserve of ERGO Insurance SE exceeded the level required by the articles of association.

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

At 31 December 2022, the capital reserve amounted to 3,072,304 euros (31 December 2021: 3,072,304 euros).

## Note 20. Fair value reserve

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

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

| *In euros* | **2022** | **2021** |
|---|---|---|
| **At 1 January** | **1 408 708** | **1 397 708** |
| Derecognised from equity and recognised in profit or loss in connection with sale and impairment | 571 258 | -387 197 |
| Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date | 17 891 | -466 |
| Net change in fair value recognised in other comprehensive income or expense during the year | -14 707 366 | 398 663 |
| **Total change in the value of available-for-sale financial assets** | **-14 118 217** | **11 000** |
| **At 31 December** | **-12 709 509** | **1 408 708** |

# Note 21. Insurance contract provisions and reinsurance assets

| *In euros*<br>As at 31 December | Note | 2022 | Change | 2021 |
|---|---|---|---|---|
| **Gross provisions** | | | | |
| Provision for unearned premiums | | 95 047 098 | 15 136 595 | 79 910 503 |
| *Provision for claims outstanding – claims incurred and reported* | | *80 348 458* | *-4 549 724* | *84 898 182* |
| *Provision for claims outstanding – IBNR* | | *18 863 667* | *898 579* | *17 965 088* |
| *Provision for claims outstanding – indirect claims handling costs* | | *3 777 866* | *-319 506* | *4 097 372* |
| *Provision for insurance pension annuities* | | *14 457 014* | *-508 632* | *14 965 646* |
| Total provision for claims outstanding | | 117 447 005 | -4 479 283 | 121 926 288 |
| Other technical provision | | 22 245 | -361 754 | 383 999 |
| **Total gross provisions** | | **212 516 348** | **10 295 558** | **202 220 790** |
| **Reinsurers' share of provisions** | | | | |
| Provision for unearned premiums | | 3 340 630 | 401 403 | 2 939 227 |
| *Provision for claims outstanding – claims incurred and reported* | | *24 564 672* | *1 431 801* | *23 132 871* |
| *Provision for claims outstanding – IBNR* | | *2 369 834* | *2 054 173* | *315 661* |
| *Provision for insurance pension annuities* | | *2 190 604* | *-102 785* | *2 293 389* |
| Total provision for claims outstanding | | 29 125 110 | 3 383 189 | 25 741 921 |
| **Total reinsurers' share of provisions** | 15 | **32 465 740** | **3 784 592** | **28 681 148** |
| **Net provisions** | | | | |
| Provision for unearned premiums | | 91 706 468 | 14 735 192 | 76 971 276 |
| *Provision for claims outstanding – claims incurred and reported* | | *55 783 786* | *-5 981 525* | *61 765 311* |
| *Provision for claims outstanding – IBNR* | | *16 493 833* | *-1 155 594* | *17 649 427* |
| *Provision for claims outstanding – indirect claims handling costs* | | *3 777 866* | *-319 506* | *4 097 372* |
| *Provision for insurance pension annuities* | | *12 266 410* | *-405 847* | *12 672 257* |
| Total provision for claims outstanding | | *88 321 895* | *-7 862 472* | 96 184 367 |
| Other technical provision | | 22 245 | -361 754 | 383 999 |
| **Total net provisions** | | **180 050 608** | **6 510 966** | **173 539 642** |

## Movements in provisions for unearned premiums

| *In euros* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross provision for unearned premiums** | **Reinsurers' share** | **Net provision for unearned premiums** | **Gross provision for unearned premiums** | **Reinsurers' share** | **Net provision for unearned premiums** |
| At 1 January | 79 910 503 | 2 939 227 | 76 971 276 | 78 060 530 | 2 696 945 | 75 363 585 |
| Premiums written | 225 947 014 | 28 994 364 | 196 952 650 | 199 807 699 | 11 262 904 | 188 544 795 |
| Premiums earned | -210 810 419 | -28 592 961 | -182 217 458 | -197 957 726 | -11 020 622 | -186 937 104 |
| **At 31 December** | **95 047 098** | **3 340 630** | **91 706 468** | **79 910 503** | **2 939 227** | **76 971 276** |

Provisions for unearned premiums by line of business.

*In euros*

| **Insurance class** | **Gross provision for unearned premiums 31 Dec 2022** | **Gross provision for unearned premiums 31 Dec 2021** | **Net provision for unearned premiums 31 Dec 2022** | **Net provision for unearned premiums 31 Dec 2021** |
|---|---|---|---|---|
| Motor liability insurance | 32 094 986 | 25 220 095 | 32 032 218 | 25 220 097 |
| Accident insurance | 4 240 656 | 3 773 801 | 4 240 656 | 3 773 801 |
| Travel insurance | 1 399 774 | 531 347 | 1 399 774 | 529 773 |
| Technical risks insurance | 4 523 222 | 3 907 346 | 4 463 045 | 3 867 336 |
| Individuals' property insurance | 8 339 179 | 7 198 499 | 8 339 179 | 7 198 499 |
| Legal persons' property insurance | 5 206 974 | 4 420 496 | 4 841 303 | 4 070 069 |
| Other property insurance | 1 010 138 | 688 583 | 1 010 138 | 688 583 |
| Motor own damage insurance | 24 387 883 | 20 714 466 | 24 210 115 | 20 586 575 |
| Liability insurance | 5 358 512 | 4 727 997 | 4 942 815 | 4 409 583 |
| Goods in transit insurance | 511 569 | 521 777 | 509 647 | 520 806 |
| Carrier's liability insurance | 1 163 801 | 1 130 225 | 1 163 801 | 1 117 355 |
| Watercraft insurance and watercraft owner's liability insurance | 246 225 | 993 020 | 246 225 | 993 020 |
| Guarantee insurance | 4 719 770 | 4 547 012 | 2 517 814 | 2 493 462 |
| Railway rolling stock insurance | 44 295 | 43 918 | 44 295 | 43 918 |
| Assistance insurance | 1 267 753 | 1 051 983 | 1 267 753 | 1 051 982 |
| Financial risks insurance | 427 189 | 342 832 | 372 518 | 309 311 |
| Loss of employment insurance | 11 354 | 4 014 | 11 354 | 4 014 |
| Legal expenses insurance | 93 818 | 93 092 | 93 818 | 93 092 |
| **Total** | **95 047 098** | **79 910 503** | **91 706 468** | **76 971 276** |

Movements in provisions for claims outstanding.

| *In euros* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross provision for claims outstanding | Reinsurers' share | Net provision for claims outstanding | Gross provision for claims outstanding | Reinsurers' share | Net provision for claims outstanding |
| At 1 January | 121 926 288 | 25 741 921 | 96 184 367 | 108 226 157 | 23 191 565 | 85 034 592 |
| Claims incurred in the reporting period | 141 762 164 | 17 219 940 | 124 542 223 | 157 742 236 | 13 599 524 | 144 142 712 |
| Change in claims incurred in prior periods | -3 977 237 | 1 216 718 | -5 193 954 | -8 629 615 | 2 415 628 | -11 045 243 |
| Claims paid | -142 264 210 | -15 053 469 | -127 210 741 | -135 412 490 | -13 464 796 | -121 947 694 |
| **At 31 December** | **117 447 005** | **29 125 110** | **88 321 895** | **121 926 288** | **25 741 921** | **96 184 367** |

Provisions for claims outstanding by line of business.

*In euros*

| **Insurance class** | **Gross provision for claims outstanding 31 Dec 2022** | **Gross provision for claims outstanding 31 Dec 2021** | **Net provision for claims outstanding 31 Dec 2022** | **Net provision for claims outstanding 31 Dec 2021** |
|---|---|---|---|---|
| Motor liability insurance | 68 231 481 | 66 620 602 | 52 910 415 | 55 909 904 |
| Accident insurance | 1 129 255 | 1 177 371 | 1 129 255 | 1 177 371 |
| Travel insurance | 513 483 | 192 484 | 513 483 | 192 099 |
| Technical risks insurance | 2 541 072 | 2 566 164 | 2 540 080 | 2 566 164 |
| Individuals' property insurance | 2 120 138 | 2 107 954 | 2 120 138 | 2 107 954 |
| Legal persons' property insurance | 9 561 782 | 15 744 502 | 6 293 535 | 7 170 089 |
| Other property insurance | 134 513 | 140 731 | 134 513 | 140 731 |
| Motor own damage insurance | 6 788 849 | 5 778 832 | 4 481 006 | 5 746 773 |
| Liability insurance | 7 731 760 | 7 482 472 | 6 330 622 | 6 104 302 |
| Goods in transit insurance | 338 327 | 473 527 | 324 955 | 458 151 |
| Carrier's liability insurance | 1 049 566 | 1 490 764 | 1 049 565 | 1 490 764 |
| Watercraft insurance and watercraft owner's liability insurance | 10 073 043 | 13 077 886 | 8 482 600 | 11 458 310 |
| Guarantee insurance | 1 280 427 | 1 701 462 | 769 591 | 851 628 |
| Railway rolling stock insurance | 63 747 | 28 175 | 63 747 | 28 175 |
| Assistance insurance | 161 079 | 110 477 | 161 079 | 110 477 |
| Financial risks insurance | 5 403 358 | 2 913 931 | 692 186 | 352 521 |
| Loss of employment insurance | 63 776 | 50 270 | 63 776 | 50 270 |
| Legal expenses insurance | 261 349 | 268 684 | 261 349 | 268 684 |
| **Total** | **117 447 005** | **121 926 288** | **88 321 895** | **96 184 367** |

In motor liability insurance, the provision for claims outstanding also includes the provision for insurance pension annuities. At 31 December 2022, annuity claim files were open for 236 persons: 96 in Estonia, 71 in Latvia and 69 in Lithuania.

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

| *In euros* | Year of incurrence | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2022** | **2021** | **2020** | **2019** | **2018** | **2017 and earlier** | **Total** |
| Gross provision for pension annuities | 113 070 | 500 236 | 568 996 | 1 063 801 | 2 405 935 | 9 804 976 | 14 457 014 |
| Net provision for pension annuities | 113 070 | 500 236 | 568 996 | 1 063 801 | 1 508 611 | 8 511 696 | 12 266 410 |

**Unexpired risks provision**

In accordance with the company's accounting policies, the adequacy of insurance provisions has to be tested with a liability adequacy test. Where the test indicates a shortfall in provisions, the company has to first reduce deferred acquisition costs and then, if necessary, recognise an additional provision for unexpired risks. The liability adequacy test performed as at 31 December 2022 indicated that the provisions made for classes of insurance other than legal person's property insurance were adequate to cover ERGO Insurance SE's obligations while in legal person's property insurance the liability adequacy test determined deficiencies. Based on the test results, deferred acquisition costs were reduced by 633,759 euros. Unexpired risks provision was not built (see notes 2.1 and 11).

# Note 22. Reinsurance payables

| *In euros*<br>**As at 31 December** | **2022** | **2021** |
|---|---|---|
| Payables to reinsurers | 7 522 317 | 3 321 403 |
| Reinsurers' share of deferred acquisition costs | 1 043 251 | 930 052 |
| **Total** | **8 565 568** | **4 251 455** |

# Note 23. Insurance payables

| *In euros*<br>**As at 31 December** | **2022** | **2021** |
|---|---|---|
| Payables to policyholders | 19 557 684 | 14 688 802 |
| Payables to brokers and other intermediaries | 5 104 860 | 3 724 996 |
| Other payables | 98 879 | 86 117 |
| **Total** | **24 761 423** | **18 499 915** |

# Note 24. Other payables and accrued expenses

| *In euros* | | | |
|---|---|---|---|
| **As at 31 December** | **Note** | **2022** | **2021** |
| Other payables | | 1 022 868 | 1 083 159 |
| Payables to suppliers | | 2 229 572 | 4 010 218 |
| Accrued vacation payables | | 1 560 808 | 1 377 188 |
| Payables to employees | | 863 244 | 1 315 499 |
| Lease liabilities | 26 | 5 607 779 | 5 396 915 |
| ***Total other financial liabilities*** | | ***11 284 271*** | ***13 182 979*** |
| Other accrued items | | 1 259 298 | 214 930 |
| Personal income tax payable | | 547 437 | 509 928 |
| Corporate income tax payable | | 285 321 | 604 349 |
| Value added tax payable | | 434 543 | 808 453 |
| Social security tax payable | | 775 256 | 723 981 |
| Income tax payable on fringe benefits | | 0 | 2 895 |
| Social security tax payable on fringe benefits | | 0 | 3 178 |
| Payables to 2nd pillar pension funds (mandatory funded pension) | | 19 473 | 18 809 |
| ***Total non-financial liabilities*** | | ***3 321 328*** | ***2 886 523*** |
| **Total** | | **14 605 599** | **16 069 502** |

# Note 25. Fair value of financial instruments

| *In euros* | | As at 31 December 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| | **Note** | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets measured at fair value*** | | | | | | | |
| Units in listed debt funds | 14.1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Units in infrastructure debt funds | 14.1 | 3 766 361 | 3 097 967 | 0 | 0 | 3 097 967 | 3 097 967 |
| Unlisted equities[1] | 14.1 | 43 443 | N/A[2] | N/A[2] | N/A[2] | N/A[2] | 0 |
| Government bonds | 14.2 | 110 531 456 | 110 531 456 | 0 | 110 531 456 | 0 | 110 531 456 |
| Financial institutions' bonds | 14.2 | 73 402 119 | 73 402 119 | 0 | 73 402 119 | 0 | 73 402 119 |
| Other bonds | 14.2 | 31 316 821 | 31 316 821 | 0 | 31 316 821 | 0 | 31 316 821 |

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

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

[2] Fair value cannot be measured reliably.

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

For level 3 investments company develops unobservable inputs using the best information available in the circumstances, which include the entity's own data, considering all information about market participant assumptions that is reasonably available. The fair value measurement is not noticeably sensitive to changes in used unobservable inputs.

# Note 26. Leases

***The company as a lessee***

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

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

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

**Right-of-use assets**

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

| | Buildings | Equipment and other items |
|---|---|---|
| **2021** | | |
| Balance at 1st January 2021 | 4 817 148 | 179 624 |
| Depreciation charge for the year | 1 662 927 | 53 261 |
| Additions under IFRS 16 | 2 237 325 | 0 |
| Terminations and correction under IFRS16 | -127 606 | -33 193 |
| **Balance at 31st December 2021** | **5 263 940** | **93 170** |
| **2022** | | |
| Depreciation charge for the year | 1 608 168 | 59 858 |
| Additions under IFRS 16 | 4 036 249 | 58 066 |
| Terminations and correction under IFRS16 | -2 211 645 | 0 |
| **Balance at 31st December 2022** | **5 480 376** | **91 377** |

Some office rent agreements were terminated during the year, and some new contracts were concluded. For example, in Estonia, the company rented a new head office. The contract concluded for ten years.

**Movements in the lease liabilities**

| Lease liabilities | 2022 | 2021 |
|---|---|---|
| **At 1 January** | 5 396 915 | 5 040 125 |
| Payments for the principal portion of lease liabilities | -1 721 063 | -1 750 338 |
| Non-monetary movements | 1 931 927 | 2 107 128 |
| **At 31st December** | **5 607 779** | **5 396 915** |

**Maturity analysis of lease liabilities**

| Lease liabilities | 2022 | 2021 |
|---|---|---|
| Less than one year | 1 371 253 | 1 541 119 |
| One to two years | 981 460 | 1 297 384 |
| Two to five years | 1 718 225 | 2 454 574 |
| Five to ten years | 1 536 841 | 103 838 |
| **Total** | **5 607 779** | **5 396 915** |

## Note 27. Income tax

At 31 December 2022, the company's retained earnings totalled 71,945,799 euros (31 December 2021: 66,676,207 euros) and the carrying amount of intangible assets was 29,284,979 euros (31 December 2021: 20,561,329 euros). Thus, distributable profit amounted to 42,660,820 euros (31 December 2021: 46,114,878 euros). The maximum income tax liability that could arise if all of the distributable profit as at the reporting date were distributed as dividends amounts to 8,532,164 euros (31 December 2021: 9,222,976 euros) and the maximum amount that could be distributed as the net dividend is 34,128,656 euros (31 December 2021: 36,891,902 euros).

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

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

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the dividend tax recognised in the income statement for 2023 cannot exceed the company's distributable profit as at 31 December 2022.

On 31 December 2022, ERGO Insurance SE Latvian branch has accumulated losses; therefore, deferred tax liability has not recognized.

*In euros*

| Income tax expense | 2022 | 2021 |
|---|---|---|
| Income tax expense | 751 745 | 588 058 |
| Change in deferred income tax | -85 247 | 114 041 |
| **Total income tax expense** | **666 498** | **702 099** |

*In euros*

| Recognised deferred income tax assets | 2022 | 2021 |
|---|---|---|
| Deductible temporary differences on other liabilities | 235 870 | 150 622 |
| **Total** | **235 870** | **150 622** |

*In euros*

| Reconciliation of accounting profit and income tax expense | 2022 | 2021 |
|---|---|---|
| Consolidated profit before tax | 5 936 090 | -2 371 493 |
| Parent company's domestic tax rate 0% | | |
| Effect of tax rates in foreign jurisdictions | -602 906 | 333 810 |
| Effect of expenses non-deductible for tax purposes | 1 354 651 | 254 248 |
| Change in recognised deferred tax assets | -85 247 | 114 041 |
| **Income tax expense for the year** | **666 498** | **702 099** |

## Note 28. Transactions with related parties

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

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

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

The remuneration, performance bonuses and benefits provided to the members of the management board for the reporting period totalled 821,682 euros (2021: 853,081 euros). The members of the supervisory were not remunerated.

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

*In euros*

| As at 31 December<br>Related party | Receivables 2022[1] | Payables 2022 | Receivables 2021[1] | Payables 2021 |
|---|---|---|---|---|
| Parent of the group – Münchener Rück | 1 303 | 26 752 | 0 | 214 554 |
| Other group companies | 1 671 331 | 27 821 808 | 6 713 797 | 15 212 976 |

*In euros*

| Related party | Services purchased 2022[2] | Services sold 2022 | Services purchased 2021[2] | Services sold 2021 |
|---|---|---|---|---|
| Parent of the group – Münchener Rück | 112 482 | 0 | 111 735 | 0 |
| Other group companies | 8 767 996 | 742 010 | 7 635 376 | 612 439 |

[1] Including a subordinated loan of 21,500,000 euros (2021: 12,000,000 euros) and related interest 203,396 euros (2021: 10,539 euros), total liability 21,703,396 euros (2021: 12,010,539). Loans received from ERGO Life Insurance SE.

[2] Including interest of 437,755 euros (2021: 209,369 euros) on the loan received from ERGO Life Insurance SE.

## Recognised in profit or loss on the basis of reinsurance contracts

*In euros*

| **Reinsurance agreements** | **2022** | **2021** |
|---|---|---|
| **Münchener Rückversicherungs-Gesellschaft AG** | | |
| Reinsurance premiums | 36 930 | 57 811 |
| Reinsurers' share of claims paid | 40 475 | 37 072 |
| Reinsurance commissions and profit participation | 38 294 | 50 173 |
| **Other Group companies** | | |
| Reinsurance premiums | 20 525 066 | 3 189 384 |
| Reinsurers' share of claims paid | 10 978 397 | 8 228 387 |
| Reinsurance commissions and profit participation | 5 112 007 | 93 479 |
| Gross premiums from incoming reinsurance | 260 377 | 350 090 |
| Commissions to holders of reinsurance policies | 8 979 | 15 248 |

# Signatures to annual report 2022

The management board of ERGO Insurance SE has prepared the company's review of operations and financial statements for 2022.

**Ursula Clara Deschka**
Chairman of the Management Board /signed digitally/

**Maciej Szyszko**
Member of the Management Board /signed digitally/

**Tadas Dovbyšas**
Member of the Management Board /signed digitally/

**Marek Ratnik**
Member of the Management Board /signed digitally/

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Translation of the Estonian Original

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholder of ERGO Insurance SE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ERGO Insurance SE, which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ERGO Insurance SE as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) together with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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| Key audit matter | How we addressed the key audit matter |
|---|---|
| **Valuation and completeness of liabilities arising from insurance contracts (Valuation of technical reserves)** | |
| Insurance contract liabilities as at 31 December 2022 were 213 million euro representing 75% of the Company's liabilities as disclosed in Note 21 of the financial statements.<br><br>Subjective valuation insurance contract liabilities represent the single largest liability for the Company. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business.<br><br>According to IFRS 4 Insurance contracts requirements, the Company's management performs a liability adequacy test (LAT) to ensure that insurance contract liabilities are adequate compared to expected cash outflows. LAT comprises assumptions that are similar to those employed for the valuation models as mentioned above and hence require making significant judgments.<br><br>Inappropriate valuation of these liabilities could result in a misstatement to the financial statements of the Company and its overall financial position. Due to the inherent uncertainty of certain components taken into account to calculate the estimates for certain lines of businesses, especially those which are loss making, the selection of methodology, underlying assumptions and input parameters may significantly affect the annual result and the Company's equity position. Consequently, we considered it a key audit matter. | Our audit procedures included, among others, the following:<br><br>We assessed the accounting policies over the calculation of insurance contract liabilities and their accordance to IFRS requirements.<br><br>We understood the significant processes and performed tests of key controls and relevant IT general controls for selected IT systems over recognition of insurance contract premiums, recognition of claims paid and calculation of insurance contract liabilities.<br><br>We involved internal actuarial specialists to assist us in assessment of the models for calculating insurance liabilities and performing LAT test applied by the management.<br><br>By testing on a sample basis input data from insurance policies and claim documents, we have assessed whether the data used for the measurement of insurance contract liabilities are complete and accurate.<br><br>We performed analytical procedures, such as comparison of insurance contract liabilities per products to prior year. We assessed accuracy of assumptions by comparing the historical data with actual data used by the Company.<br><br>We evaluated actuarial judgements such as loss ratios, discount rates, mortality rates, future cash flows used in the models. Furthermore, we have assessed accuracy of the models by reperforming the calculation of a sample insurance reserves and comparing our calculation results with those by the Company.<br><br>We verified the validity of liability adequacy test performed by the management by comparing claims reserves at the end of previous year to the sum of paid claims during the following year and claims reserve at the end of the following year.<br><br>Our work on the liability adequacy tests included review of the assumptions adopted in the context of both the Company and industry experience and specific product features.<br><br>We also assessed the adequacy of the financial statement disclosures in Notes 1 "Significant accounting policies" and 21 "Insurance contract provisions and reinsurance assets". |

***Other information***

Other information consists of ERGO Insurance SE management report but does not consist of the financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

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

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

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

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

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

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

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

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

***Auditor's responsibilities for the audit of the financial statements***

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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

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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***

We were first appointed as auditors of ERGO Insurance SE, as public interest entity, for the financial year ended 31 December 2020 in accordance with the decision made by the General Meeting of Shareholders on 27 December 2018. In accordance with the decision made by the General Meeting of Shareholders on 27 April 2022 we were appointed to carry out the audit resulting in of the Company's financial statements for the year ended 31 December 2022. Our total uninterrupted period of engagement is 3 years, covering the periods ended 31 December 2020 to 31 December 2022.

***Consistency with the additional report submitted to the audit committee***

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

***Non-audit services***

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

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

Tallinn, 4 April 2023

/signed digitally/

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

## Profit allocation proposal

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

1) no transfers be made to the capital reserve because the capital reserve exceeds the level required by the articles of association;
2) no transfers be made to other reserves;
3) the net profit for 2022 of 5,269,592 (five million two hundred sixty-nine thousand five hundred and ninety-two) euros be transferred to retained earnings;

4) no distribution be made to the sole shareholder.

5) As of 1 January 2023, retained earnings amount to 71,945,799 (seventy-one million nine hundred and forty-five thousand seven hundred and ninety-nine) euros.

On behalf of the management board of ERGO Insurance SE

**Ursula Clara Deschka**

Chairman of the Management Board

/signed digitally/

# Information on the sole shareholder

This information is presented as of 01 April 2023.

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

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

Dates of acquisition and subscription of the shares

1. Ordinary shares with no par value:

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

# List of business activities

| Activities during the period 1 January 2022 – 31 December 2022 | Amount in euros |
|---|---|
| Non-life insurance (65121) | 225 986 637 |
| Reinsurance (65201) | 260 377 |

**Activities planned for the period 1 January 2023 – 31 December 2023**

Non-life insurance (65121)

Reinsurance (65201)