ERGO Life Insurance SE

Independent Auditor's Report, Annual Management Report and Separate Financial Statements for the Year Ended 31 December 2022

FINANCIAL STATEMENTS

Company name:	**ERGO Life Insurance SE**
Registry number:	**110707135**
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	Republic of Lithuania
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E-mail:	**info@ergo.lt**
Website:	**www.ergo.lt**
Core business:	**Life insurance**
Beginning of financial year:	**1 January 2022**
End of financial year:	**As at 31 December 2022**
Chair of the Board and Managing Director:	**Ursula Clara Deschka**
Auditor:	**Ernst & Young Baltic UAB**

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

INDEPENDENT AUDITOR'S REPORT

To the shareholder of ERGO Life Insurance SE

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ERGO Life Insurance SE, a company registered in accordance with the corporate law of the European Union (hereinafter the Company), which comprise the separate statement of financial position as of 31 December 2022, separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 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 (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matters	How the matter was addressed in the audit
Estimates used in the calculation of insurance contract provisions	
Insurance contract provisions as at 31 December 2022 were 234 million euro, which represents approximately 92% of the Company's liabilities (Note 21). The Company uses actuarial models to support the valuation of the insurance contract provisions.	Our audit procedures included, among others, the following: We assessed the accounting policies over the calculation of insurance contract provisions.

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Key audit matters	How the matter was addressed in the audit
Estimates used in the calculation of insurance contract provisions	
Complex models are employed that rely on input data, parameter assumptions and model design. Economic and actuarial assumptions, such as investment return, mortality, disability-morbidity and lapse rates, and expense assumptions (as disclosed in Note 3 (o) and Note 5 (a)) are key inputs used to estimate these provisions. According to IFRS 4 Insurance contracts requirements, the Company's management performs a liability adequacy test (LAT) to ensure that insurance contract provisions are adequate compared to the expected cash outflows. LAT comprises assumptions that are similar to those employed for the valuation models mentioned above and hence require making significant judgments. This area involves significant management estimates and judgements over uncertain future outcomes, primarily the timing and ultimate full settlement of long-term policyholder liabilities. Due to materiality of the amounts, complexity of models used in calculations and involved management judgement, we considered it a key audit matter.	We obtained an understanding of the significant processes and performed tests of key controls and relevant IT general controls for selected IT systems over recognition of insurance contract premiums, recognition of claims paid, calculation of insurance contract provisions, classification of insurance contracts. By testing on a sample basis input data from insurance policies and claim documents, we have assessed whether the data used for the measurement of insurance contract provisions are complete and accurate. We tested the completeness of policies included in the calculations of reserves by selecting a sample of active policies at financial year-end and checking whether they were included in the reserve calculations. We assessed the accuracy of assumptions by comparing the historical data with actual data used by the Company. We involved our internal actuarial specialists to assist us in: 1. Assessment of the models for calculating insurance provisions. 2. Evaluation of key actuarial judgements used to calculate insurance contract provisions, as well as the assessment of accuracy of the methods used by re-performing the calculation of a sample insurance contract provisions and comparing our calculation results with those of the Company. 3. Performing analytical roll-forward procedures, such as comparison of insurance contract provisions per product group to prior year and validation of inflows and outflows affecting the life insurance provision. 4. Assessment of the validity of the LAT performed by the management. Our work on the liability adequacy tests included a review of the projected cash flows and of the assumptions adopted in the context of both the Company and industry experience and specific product features. We also assessed the adequacy of the disclosures regarding these provisions in Note 21 Insurance contract provisions and reinsurance assets, in Note 5 (a) Insurance risks and Note 3 (o) Insurance contracts liabilities.

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Other information

Other information consists of the information included in the Company's 2022 Annual Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor
In accordance with the decision made by shareholder we have been appointed to carry out the audit of the Company's financial statements for the first time on 27 December 2018. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by Shareholders has been renewed and the period of total uninterrupted engagement is 3 years.

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

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

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

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

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

Jonas Akelis
Auditor's licence
No. 000003

4 April 2023

ANNUAL MANAGEMENT REPORT

2022

Review of operations

Strong owner

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

COOPERATION WITH THE WORLD'S LEADING RE-INSURERS

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.

At the end of 2022, the share capital of ERGO Life Insurance SE (hereinafter in the report ERGO Life Insurance SE, ERGO, the company) was EUR 4,380,213. The sole shareholder of ERGO Life Insurance SE is ERGO International AG, registry code HRB 40871, address ERGO-Platz 1, 40198 Düsseldorf, Germany.

Information about the company's Board:

Ursula Clara Deschka. Chair of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

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

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

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

Information about the company's Supervisory Board:

1. Dr. Oliver Martin Willmes. Chair of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Chair of the Member board at Ergo International AG, Dusseldorf; Member of the Board of Directors at DAS UK Holdings Limited, Bristol; Member of the Board of Directors at Ergo Insurance N.V., Brussels; Chair of the Board of Directors at Ergo Insurance Company Single Member S.A., Athens; Member of Supervisory Board at HDFC Ergo General Insurance Company Limited, Mumbai; Member of Supervisory Board at Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA, Sopot; Member of Supervisory Board at Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia SA, Sopot; Member of the Board of Directors at DAS Legal Expenses Insurance Company Limited, Bristol.
2. Christine Kaaz. Member of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Member of the Board of Directors at Ergo Insurance Company Single Member S.A., Athens; Member of Supervisory Board at Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA, Sopot; Member of the Board of Directors at DAS UK Holdings Limited, Bristol; Member of the Board of Directors at DAS Legal Expenses Insurance Company Limited, Bristol .
3. Ilona Mihele. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Member of the Board of Directors at Ergo Insurance N.V., Brussels; Member of the Board of Directors at Ergo Insurance Company Single Member S.A., Athens; Chair of the Board of Directors at Ergo Danismanlik A.S., Istanbul; Member of the Board of Directors at DAS UK Holdings Limited, Bristol; Member of the Board of Directors at Munich Health Daman Holding Ltd., Abu Dhabi; Member of the Board of Directors at DAS Legal Expenses Insurance Company Limited, Bristol.
4. Dr Maximilian Happacher, Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn); Chair of the Board of Directors at Ergo Insurance N.V. Brussels; Member of the Board of Management at Ergo China Life Insurance Co., Ltd., Jinan; Member of the Supervisory Board at Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia SA, Sopot.
5. Dr. Dirk Christoph Schautes. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Member of the Management Board at Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA, Sopot; Member of the Board of Management at Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia SA, Sopot; Member of the Supervisory Board Ergo Technology & Services SA, Warsaw.

Cooperation with the world's strongest re-insurers

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

ERGO Life Insurance SE: Result for 2022

Gross premium income	EUR 82.05 million
Total assets	EUR 280.54 million
Investments in financial instruments	EUR 250.58 million
Insurance contract provisions (Excluding unit-linked contracts provision)	EUR 183.85 million
Equity	EUR 26.01 million
Profit for the year	EUR 2.66 million
Total comprehensive income/expense	EUR -41.59 million
Return on equity	5.48 %
Insurance contracts in force	90,021
Offices	8 in Lithuania, 21 in Latvia, and 1 in Estonia
Employees (FTEe)	in total – 249, of which 103 in Lithuania, - 112 in Latvia and 34 in Estonia

Economic environment

According to the estimates of the European Commission made in February 2023, European economy is anticipated to start on similar note in 2023 than previously forecasted. Following a strong recovery by 5.3% in 2021, the EU economy is projected to grow by 3.5% in 2022, and by 0.8% in 2023 and 1.6% in 2024.

Compared to previous forecast from autumn 2022 inflation projections have been revised slightly upwards. Inflation in EU is projected to fall from 9.2% in 2022 to 6.4% in 2023 and 2.8% in 2024. While easing of energy inflation brings some relief, real wages are set to continue falling in short term and recoup part of the lost purchasing power only since end of the year 2022, as wage growth outpaces declining inflation.

Estonia

In Estonia GDP is forecasted to have contracted by 0.3% in 2022. 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. However labour market remained strong in late 2022 and early 2023 with only minor increase in the unemployment rate.
GDP is forecasted to return to growth in 2023, reaching only slightly positive rates, given the negative carry-over from previous year. 2024 is projected for more robust expansion to the level of 2.8% driven by a revitalization of export demand and private consumption.

Consumer price inflation peaked in August 2022 and has since slowly decelerated, recording 19.4% on average in 2022. Decrease is expected to continue in 2023, supported by declining commodity and energy prices. Inflation is forecasted to reach 6.2% in 2023 and 2.2% in 2024.

Latvia

Latvia's GDP is projected to grow by 1.8% in 2022 driven mainly by strong growth of private consumption. 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 GDP is forecasted to reach 2.7% as marked slowdown in inflation is set to foster private consumption.

Inflation increased rapidly throughout the year and averaged at 17.2% in 2022, peaking in third quarter. Energy prices are set to continue slightly declining during 2023, however headline inflation is forecasted to remain elevated at 7.9%. In 2024 inflation is expected to slow down to 1.5% as energy prices decline somewhat and growth of other prices slows down, except for services prices inflation, which is set to accelerate as wages partially catch up with price increases of past years.

Lithuania

Lithuania's GDP is projected to slow down to 1.9% in 2022. Economic activity was negatively affected by falling exports to some eastern European countries and contracting private consumption, as high inflation was not compensated by the rise of labour income.
GDP forecast to reach 0.3% in 2023 which is down from forecast in autumn. In 2024 GDP is projected at 2.5% driven by stronger private consumption expenditure.

After peaking in September 2022, inflation has started to decline. Nevertheless, 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. Weaker activity both in the domestic economy and in major trading partners, easing shortages of various production inputs, and a gradual decline in global energy prices are expected to contribute to the declining dynamics of inflation.

Regulatory environment

The main law for insurance industry in Lithuania is the Law on Insurance of the Republic of Lithuania. The latest version of the Law on Insurance which entered into force on 1 January 2016 is largely based on the Directive 2009/138 of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). A substantial amendment to the Law on Insurance came into force as of 1 October 2018 when implementing the Insurance Distribution Directive.

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

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

In 2022, the Bank of Lithuania circulated some useful recommendations and reviews to insurance market participants, e.g. on the assessment of policyholders' requirements and needs when distributing insurance products through e-channels, on the insurance product oversight and governance process, on the continuous monitoring of customer business relationships and operations (transactions), etc. All these recommendations and reviews were subject to an in-depth scrutiny to identify and address potential deficiencies in the processes.

The company also made the necessary amendments concerning the new Technical Standards, in force since 1 January 2023, applicable to the key information documents (KID) for packaged retail and insurance-based investment products (PRIIPs).

The Directive 2019/2161 of the European Parliament and of the Council (Omnibus Directive) came into effect on 28 May 2022, which aims at unifying consumer protection regulation across the countries of the European Union and ensure proper enforcement and modernization of consumer protection rules. For that purpose the Lithuanian Civil Code, the Lithuanian Law on Consumer Protection and the Lithuanian Law on unfair commercial practices were updated. For the purpose of implementing new requirements, the Insurance Company's processes and documents were revised and amended as appropriate

Legal framework on the protection of personal data is substantial in activities of the insurance company because an insurance company is treated as one of the biggest controllers of personal data controlling the category of special personal data (highly sensitive personal data). The Regulation 2016/679 of the European Parliament and of the Council (EU) effective as of 27 April 2016 on the protection of individuals with regard to processing of personal data and on the free movement of such data repealing Directive 95/46/EB (General Data Protection

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

A further legislative package with significant impact on the activities of ERGO Life Insurance SE related to distribution of life insurance products include the Directive 2018/843 of the European Parliament and of the Council (6th AML Directive) and the Law on the Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania, which impose requirements comprising control measures implemented both at the time of concluding contracts (appropriate customer due diligence and customer's money-laundering risk assessment) and conducting monitoring of the business relationship, including payment of insurance claims. The 6th AML Directive has increased transparency of information on ultimate owners/beneficiaries of legal entities. The Directive also introduced some amendments concerning the identification of politically exposed persons and customer due diligence. The Company shall continuously strengthen the AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) area in order to properly manage the relevant risks.

On 10 March 2021, Sustainable Finance Disclosure Regulation (SFDR) came into force. This document aimed at disclosing to customers information about the Company's (ERGO Life Insurance SE) approach to sustainability risks and the maximum adverse effect on sustainability factors to ensure that customers are equipped to make informed investment decisions. To this end, and in line with the requirements of the SFDR, the Sustainability Policy has been published on the Company's website, demonstrating how sustainability risks are integrated into the Company's investment decision-making processes. Following the entry into force of the Regulatory Technical Standards (RTS), the companies disclose information on adverse impacts on sustainability at the corporate level using a single format, including sustainability impact indicators specified therein.
At the end of 2022, the Bank of Lithuania updated requirements for the Compliance Function – the new Compliance Function Guidelines were adopted. On the basis of these Guidelines, the Insurance Company's Compliance Policy was updated.

In response to Russia's armed aggression on Ukrainian territory, during 2022, the EU imposed quite a few international sanctions against the Russian Federation. Given the relevance of the topic, the Lithuanian Law on International Sanctions was also updated and the Resolution of the Lithuanian Government concerning the implementation of international sanctions was adopted. The Insurance Company has put in place an internal control system, appointed the responsible persons and established procedures for the proper implementation of international sanctions.

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2022 was EUR 82.05 million. In terms of premium income, ERGO Life Insurance SE maintained the fifth position in the Lithuanian and the fifth position in the Baltic life insurance market. Claims and benefits incurred and changes in liabilities totalled EUR 56.86 million. ERGO Life Insurance SE ended 2022 with total comprehensive loss of EUR -41,59 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 280.545 million (2021: EUR 345.91 million). Investments in financial instruments amounted to EUR 250.58 million (2021: EUR 309.42 million), debt securities accounted for 54.23% (2021: 66.55%), loans for 7.74% (2021: 3.92%), equities and fund units for 27.36% (2021: 29.53%) of the total. Altogether, investments in financial instruments accounted for 89.32% (2021: 88.50%) of total assets. Insurance provisions totalled EUR -233.69 million (2021: EUR -248.5 million), accounting for 91.81% (2021: 90.44%) of total liabilities and 83.30% (2021: 71.85%) of total assets.

Insurance activities

Gross premium income by insurance class

in EUR	**2022**		**2021**		**Change**	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %
Life insurance contracts	46,642,937	56.8	45,854,489	56.8	788,448	0
Health insurance contracts	35,409,213	43.2	34,866,948	43.2	542,265	0
Total from insurance activities	**82,052,150**		**80,721,437**		**1,330,713**	

In 2022, ERGO Life Insurance SE generated premium income of EUR 82.05 million, an increase of 1.6% on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 46.64 million or 56.8% and EUR 35.41 million or 43.2% of the portfolio respectively.

Claims and benefits paid by insurance class

in EUR	**2022**		**2021**		**Change**	
	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %	Insurance gross claims and benefits	Share of class, %
Life insurance contracts	40,433,867	58.5	40,966,084	62.2	-532,217	-3.7
Health insurance contracts	28,656,116	41.5	24,857,230	37.8	3,798,886	3.7
Total from insurance activities	**69,089,983**		**65,823,314**		**3,266,669**	

Claims and benefits paid in 2022 totalled EUR 69.09 million (2021: EUR 65.82 million). The largest share of claims was settled in life insurance: EUR 40.43 million or 58.5 of claims paid.

The next-largest class was health insurance, where claims and benefits paid totalled EUR 28.66 million or 41.5%.

Investment activities

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

Income on assets with interest rate risk amounted to EUR 3.7 million. Realisation of equities, fund units and bonds resulted in a loss of EUR 0.04 million . Dividend income was EUR 1.59 million. The fair value reserve decreased by EUR 44.26 million.

Development

Overview and key focus areas

Insurance premiums written by ERGO Life Insurance SE during the reporting year amounted to EUR 82.05 million, i.e. 1.65 per cent more than in 2022 (2021: EUR 80.72 million). In terms of premiums written in the separate life insurance groups, the most rapid increase was in health insurance premiums in Estonia. In life insurance, the most rapid increase was in life risk insurance, unit-linked life insurance and additional (health) insurance.

Fast and fair insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR -69.1 million (2021: EUR -65.8 million).

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

In 2023, we plan to grow and strengthen our position in the market. At the end of 2022, ERGO Life Insurance held -9% of the life insurance market share of the Baltic States.

Legal structure of the company

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

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

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

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

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

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

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

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

Information on own shares

In 2022, the Company did not hold, acquire and transfer its own shares.

Strategic vision

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

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

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

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

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

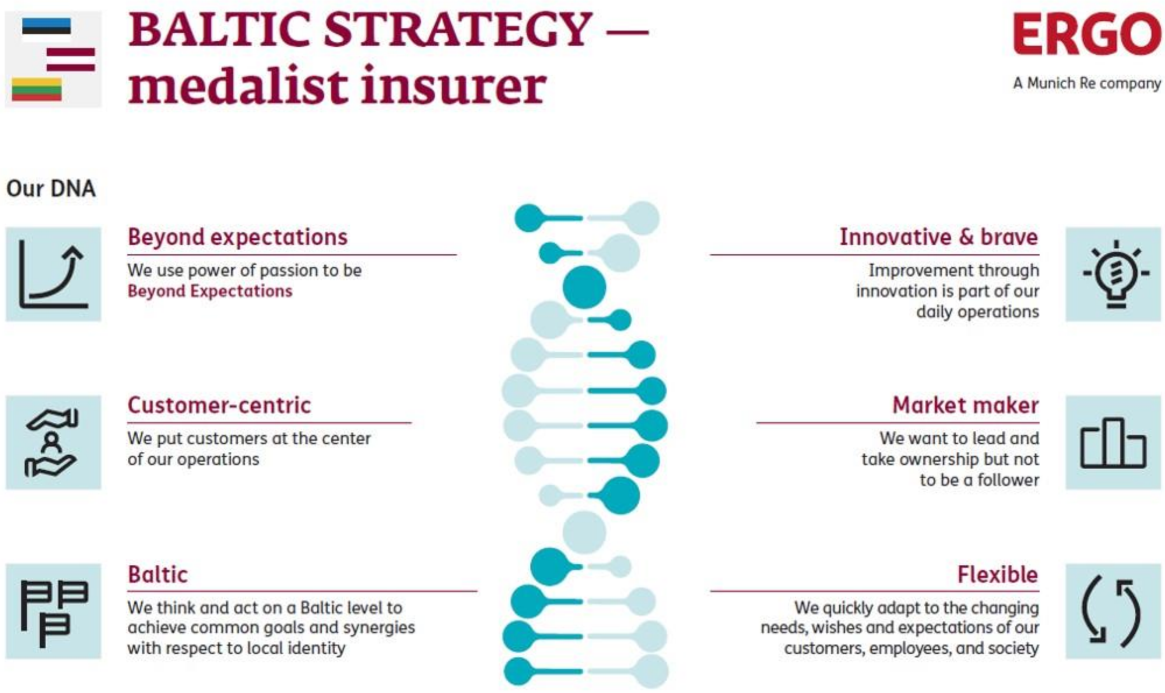
We intend on using all available resources to support our customers – as comprehensively as possible. We intend on making our customers' lives a little bit simpler every single day. We intend on freeing society and customers from risks and opening up new perspectives.

Our people, **our DNA**:

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

Our Brand: According to a study by Brand Capital, the largest brand and lifestyle research company in the Baltics, ERGO is the most beloved 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 Life Insurance SE stem from the strategic framework of the ERGO Group with the main objective being customer satisfaction. The ERGO Group is strongly focused on innovation and digitisation. The focus still remains on providing a customer-centric approach, digital development and the transition to common systems and operations across the Baltics.

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

Changes in the structure and operating principles of ERGO so far support the way of thinking of a company considering the personal needs of customers by providing them with clear added value. In the year 2022, the company continued with activities planned in the ERGO Baltic Strategy 2021-2023.

Main achievements / recognitions on company level 2022

Category	Award-winning performance	Country
Valued company/brand	**Brand Capital Research**	Baltic
	➢ most loved and humane insurance brand	
	➢ most green insurance brand	Estonia, Latvia
	Nielsen IQ Brand Study Brand Awareness	
	➢ First place (92%)	Estonia
	➢ 3rd place (84%)	Latvia
	➢ 2nd place (92%)	Lithuania
Sustainable company	**Sustainability awards, index**	
	➢ Annual Sustainability Index, Platinum category	Latvia
	➢ Responsible Business Forum: Silver category in CSR	Estonia
	➢ TOP10 sustainable company by EAS/Kredex	
	➢ Munich Re Social Engagement Awards winner	Estonia Lithuania
	Environmental certifications	
	➢ Environmental ISO Certificate	Estonia, Lithuania
	➢ EU Environmental Management and Audit Certificate	Latvia
Client-centric company	**Mystery Shopping Insurance brands**	
	➢ Best Customer Service / Dive	Estonia, Lithuania
	➢ Car sellers Association, Silver Level Award	Estonia
	Humane company	
Valued Employer	➢ Family friendly company, gold level	Estonia
	➢ Family-friendly workplace, 1st place	Lithuania
	➢ Family-friendly workplace, nominated	Latvia
	➢ Equal Opportunity Wings	Lithuania
	Best Employer	
	➢ CV-online: 9th place on finance sector	Estonia
	➢ In TOP 50 of best employers	Latvia
	➢ CV-Online Top of the best employers	Latvia

Sustainability overview

Our dedication

At ERGO, we understand that protecting the environment and addressing climate change is crucial for our future, and it’s also a vital part of our corporate governance. That’s 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.

Economical Liability

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

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

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

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

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

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

Digitalization and data protection

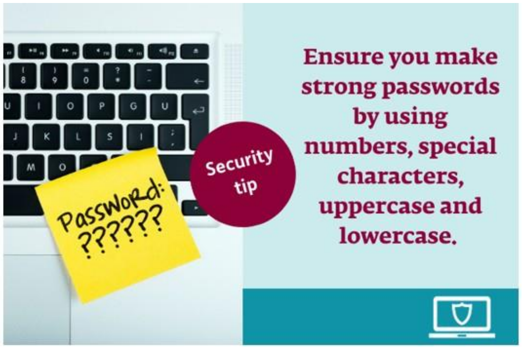
ERGO places a strong emphasis on driving forward the digital transformation in our corporate strategy. We recognize the potential of digitalization to meet the evolving needs and expectations of our customers, and to maintain our long-term success.

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.

**NPS (Net Promoter Score – "Customer Opinion" survey). Calculation formula: Customer Satisfaction Index (NPS) = % Fans - % Detractors.*

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.

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.



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.

Social responsibility

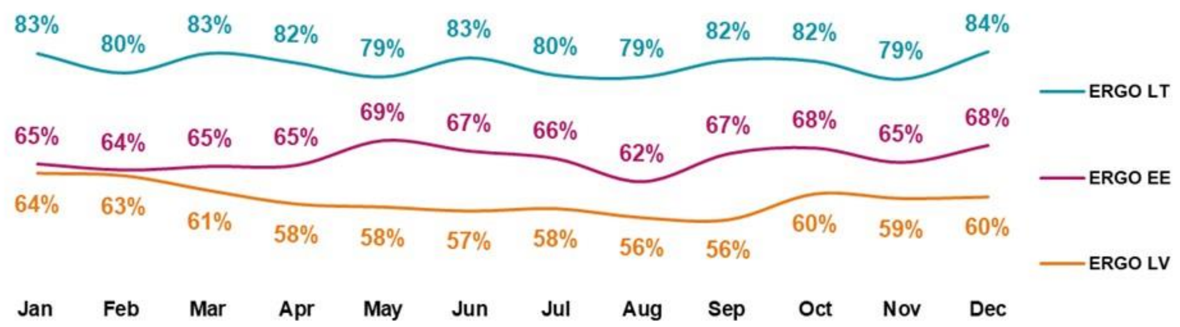
Customer orientated services and products

At ERGO, we believe in a customer-centric approach and it’s 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.

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 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 insurance companies was held already three years in a row.

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.

ERGO Lithuania celebrated its 10th year of collaboration with the Vilnius International Film Festival “Kino pavasaris” (Cinema Spring) in 2022. The festival features award-winning quality films that highlight current social issues. This year, the films were also equipped with Ukrainian subtitles, and ERGO employees had the opportunity to participate in the program introduction and discuss the films with industry professionals at the festival.

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 is very known and appreciated in Estonia.

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 received funding and were carried out.

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. More than 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.

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.

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 intranet and in special 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 teams and individuals of different sports activities were announced. 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 lively, 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 to our employees, for example, in 2022, 687 employees were insured in Lithuania.

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	

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.

Environmental Management

Our parent companies, Munich Re and ERGO Group, have announced their Strategy Ambition 2025 Shape – Scale – Succeed (*liet. Stiprėjame patys – Auginame kitus – Tampame sėkmingi*), 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.

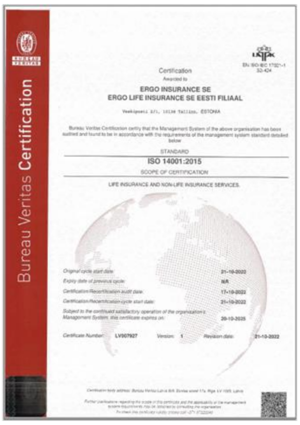
To achieve this, we are measuring our 'carbon footprint', monitoring it, and looking for ways to reduce CO2 emissions. Our Management Board has approved the Environmental Management and Energy Policy and established an Environmental Management Team to implement an Environmental Management System. The 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.

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.



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 emissions 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

Main activities and actions

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.

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.

Sales support & service

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. Therefore we reviewed and updated our life insurance policies and also expanded the scope of offered insurance services as well as offered new insurance products. One of the means for ordinary people to learn more about their needs regarding insurance is to educate them. So, we start with informing the parents who are expecting a child – the idea is to show the scope of insurance products we have and help them to choose the most suitable option.

Different researches show that financial literacy of people in Lithuania is on a rather low level. With that in mind ERGO initiated financial literacy lessons for elementary school pupils. We also constantly publish articles in media and so educate the society, prepare special newsletters to our brokers.

In terms of 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 be met at summer outdoor events, exhibitions or even in the Ice arena.

Pandemic changed the way employees value their working place or employer. So it is important for employers to have decent incentive programmes to motivate employees. Beside different options offered by the market, life and health insurance products serve as good basis. Employers also become more and more conscious how important it is to secure and be able to help in case of accident, employee's injury or even death. We offer different products packages that employers are able to choose from.

ERGO health insurance app that we offered to the market a few years ago continues to be extremely popular among our clients and a very convenient way of handling a health claim. The app is used by as much as around 85% of our clients. Even more than 97% of health insurance claims are handled using this particular app. Every year we expand the number of partners – health services providers – so that our clients received health services in the most convenient way.

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

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

Statement of the management's responsibility

The Board of ERGO Life Insurance SE confirms that the separate financial statements for the year ended 31 December 2022 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and that appropriate accounting policies have been applied on a consistent basis. The Board of ERGO Life Insurance SE is responsible for preparing these separate financial statements from the books of primary entry. The Board confirms that these separate financial statements for the year ended 31 December 2022 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgements and estimates have been made by the Board in the preparation of the separate financial statements for the year ended 31 December 2022.

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

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Ursula Clara Deschka
Chair of the Board

4 April 2023

Separate financial statements

Separate statement of profit or loss

in EUR	Note	2022	2021
Revenue			
Gross written premiums		82,052,150	80,721,437
Written premiums ceded to reinsurers		-1,060,797	-890,629
Total net premiums written		**80,991,353**	**79,830,808**
Change in gross provision for unearned premiums		732,686	-2,473,194
Reinsurers' share of change in provision for unearned premiums, gross		0	0
Change in provision for unearned premiums, net		**732,686**	**-2,473,194**
Net earned premiums	**6**	**81,724,039**	**77,357,614**
Fees and commission income	**22**	**523,305**	**602,148**
Net investment income	7	5,023,911	7,806,120
Fair value gains and losses	7.1	-10,222,315	6,787,697
Reinsurance commission income	9.1	368,588	321,240
Other revenue	9.2	609,202	491,310
Total revenue		**78,026,730**	**93,366,129**
Expenses			
Claims and benefits incurred		-57,008,375	-67,572,092
Reinsurers' share of claims and benefits incurred		139,305	182,725
Net policyholder claims and benefits incurred	**8**	**-56,869,070**	**-67,389,367**
Change in value of financial liabilities from unit-linked contracts	**22**	**2,229,781**	**-1,265,414**
Acquisition expenses	9	-13,302,190	-12,901,157
Administrative expenses	9	-5,416,221	-4,773,680
Other operating expenses	9	-459,748	-619,828
Investment expenses	9	-391,111	-364,150
Other expenses	9	-986,354	-813,621
Total expenses		**-75,194,913**	**-88,127,217**
Profit before tax		**2,831,817**	**5,238,912**
Income tax expense/benefit	**27**	**-169,895**	**-373,400**
Profit for the year		**2,661,922**	**4,865,512**

Separate statement of comprehensive income

in EUR	Note	2022	2021
Profit/loss for the year		**2,661,922**	**4,865,512**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in the value of available-for-sale financial assets	20	-44,255,024	-14,932,781
Total other comprehensive expense/income for the year		**-44,255,024**	**-14,932,781**
Total comprehensive income/expense for the year		**-41,593,102**	**-10,067,269**

The notes on pages 39 to 99 are an integral part of these separate financial statements.

Separate statement of financial position

in EUR

Assets

As at 31 December 2022	**Note**	**2022**	**2021**
Property and equipment	10	1,689,677	1,211,279
Intangible assets	12	2,571,532	1,634,909
Deferred acquisition costs	11	3,917,349	4,377,097
Investments in subsidiaries	13	4,677,870	4,677,870
Investments in financial instruments			
Equities and fund units accounted at FVTPL	*14*	*61,106,858*	*68,517,251*
Equities and fund units available for sale	*14*	*15,637,968*	*25,164,261*
Debt and other fixed-income securities	*14*	*152,127,594*	*203,739,113*
Loans	*14*	*21,704,023*	*12,006,125*
Total investments in financial instruments		250,576,443	309,426,750
Reinsurance assets	15	160,593	138,453
Insurance and other receivables	16	11,671,981	12,989,997
Deferred tax asset	27	101,506	107,845
Cash and cash equivalents	17	5,178,003	11,344,030
Total assets		**280,544,954**	**345,908,230**

Equity and liabilities

As at 31 December 2022	**Note**	**2022**	**2021**
Equity			
Issued capital	18	4,380,213	4,380,213
Capital reserve	19	15,869,501	15,869,501
Fair value reserve	20	-15,290,153	28,964,871
Retained earnings		21,054,644	21,892,722
Total shareholders' equity		**26,014,205**	**71,107,307**
Liabilities			
Insurance contract provisions	21	233,687,557	248,530,340
Reinsurance payables		219,598	246,157
Financial liabilities from investment contracts	22	11,269,699	16,685,935
Lease-related liabilities	26	1,418,798	1,004,666
Insurance payables	23	4,213,106	4,437,406
Other payables and accrued expenses	24	3,721,991	3,896,419
Total liabilities		**254,530,749**	**274,800,923**
Total equity and liabilities		**280,544,954**	**345,908,230**

The notes on pages 39 to 99 are an integral part of these separate financial statements.

Separate statement of changes in equity

in EUR	Issued capital	Capital reserve	Fair value reserve	Retained earnings	Total shareholders' equity
As at 31 December 2021	**4,380,213**	**15,869,501**	**43,897,651**	**24,027,210**	**88,174,575**
Distribution of dividends	0	0	0	-7,000,000	-7,000,000
Total transactions with owner	**0**	**0**	**0**	**-7,000,000**	**-7,000,000**
Profit/(loss) for the year	0	0	0	4,865,512	4,865,512
Other comprehensive income (loss)	0	0	-14,932,781	0	-14,932,781
Total comprehensive income	**0**	**0**	**-14,932,781**	**4,865,512**	**-10,067,269**
As at 31 December 2021	**4,380,213**	**15,869,501**	**28,964,871**	**21,892,722**	**71,107,307**
Distribution of dividends	0	0	0	-3,500,000	-3,500,000
Total transactions with owner	**0**	**0**	**0**	**-3,500,000**	**-3,500,000**
Profit/(loss) for the year	0	0	0	2,661,922	2,661,922
Other comprehensive income (loss)	0	0	-44,255,024	0	-44,255,024
Total comprehensive income	**0**	**0**	**-44,255,024**	**2,661,922**	**-41,593,102**
As at 31 December 2022	**4,380,213**	**15,869,501**	**-15,290,153**	**21,054,644**	**26,014,205**

The notes on pages 39 to 99 are an integral part of these separate financial statements.

Separate statement of cash flows

in EUR

(Inflow + , outflow –)	Note	2022	2021
Net cash flows from operating activities		**-11,869,593**	**-8,878,023**
Premiums received in direct insurance		83,019,318	81,827,990
Claims and benefits incurred, and handling costs paid		-70,907,077	-67,300,395
Settlements with reinsurers		-626,323	-194,668
Paid in operating expenses[1]		-20,927,473	-19,910,00
Other income and expenses		1,559,867	1,312,477
Taxes paid		-3,987,905	-4,613,427
Net cash flows from in investing activities		**9,725,960**	**17,384,899**
Acquisition of equities and fund units		-15,433,589	-16,392,820
Disposal of equities and fund units		4,101,616	0
Acquisition of debt and other fixed-income securities		-18,711,865	-26,725,218
Disposal of debt securities		44,408,218	61,476,206
Interest received		4,795,992	5,573,857
Dividends received		1,585,274	320,970
Paid on acquisition of property and equipment and intangible assets		-1,774,922	-1,073,367
Loans granted		-9,500,000	-6,000,000
Proceeds from sale of property and equipment and intangible assets		255,236	205,271
Net cash flows from in financing activities		**-4,022,394**	**-7,490,455**
Dividends paid		-3,500,000	-7,000,000
Lease liabilities paid		- 522,394	- 490,455
Net cash inflow/(outflow)		**-6,166,027**	**1,016,421**
Cash and cash equivalents at the beginning of the year	**17**	**11,344,030**	**10,327,609**
Increase (decrease) in cash and cash equivalents		-6,166,027	1,016,421
Cash and cash equivalents at the end of year	**17**	**5,178,003**	**11,344,030**

[1] The Company also recorded low-value or short-term lease payments under this caption in the amount of EUR 55,462 as at 31 December 2022 (EUR 58,891 as at 31 December 2021).

The notes on pages 39 to 99 are an integral part of these separate financial statements.

Notes to the separate financial statements

Note 1. Reporting entity

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

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

The separate financial statements of ERGO Life Insurance SE for 2022 include the financial data of ERGO Life Insurance SE’s head office in Lithuania and the financial information of its Latvian and Estonian branches.

These separate financial statements were authorised for issue by the management board on 4 April 2023. Under the Law on Companies of the Republic of Lithuania, the annual report and the financial statements that have been prepared by the management board and approved by the supervisory board must also be approved by the shareholders’ general meeting. Shareholders may decide not to approve the financial statements and may demand that a new set of financial statements be prepared.

Note 2. Basis of preparation

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

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

(a) Basis of accounting

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

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Use of judgements and estimates

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

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

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

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

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

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

- Note 14. Investments in financial instruments
- Note 11. Deferred acquisition costs
- Note 16. Insurance and other receivables
- Note 21. Insurance contract provisions
- Note 27. Income tax

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

(e) Geopolitical risk

ERGO Life Insurance SE, including the branches (hereinafter ERGO or the Company), monitors the geopolitical situation in Eastern Europe and carefully assesses all circumstances that could impact the Company's activities and risk profile, including operational and cyber risks. We have carried out several analyses of the potential impact of the conflict situation on the Company's business.

Underwriting risk

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

Market risk

In 2022, ERGO had limited market risk exposure in an asset portfolio. The direct impact came through the bonds of a European Union based subsidiary of the Company registered in Russia held by the Company at the beginning of the year. The share of this investment in total investment property held by ERGO as of 31 December 2021 was 0.1995%. Although coupons of bonds were duly paid (on 21 March 2022) in the contractual currency (EUR), this investment was subject to impairment as market value declined after 24 February 2022. As a result of the protracted military conflict in Ukraine, the subsequent decision was made to sell the said bonds at the expense of incurring investment losses. As at 31 December 2022, these bonds were no longer in the ERGO's asset portfolio.

Operational risks

The most significant operational risks derive from sanction management and information and cyber security.

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

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

(i) Measurement of fair value

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

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

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

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

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

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

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

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

Note 3. Significant accounting policies

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

(a) Classification of insurance contracts

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

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

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

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

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

The process of classifying insurance contracts.

Insurance risk is assumed significant if sum insured at policy inception exceeds 5% of 1st year premium. If there is a significant insurance risk associated with a contract, it is classified as an insurance contract and accounted for in accordance with IFRS 4.

If there is no significant insurance risk, the product is classified as an investment product. If the product has any elements of the benefit driven by discretionary participation, the product is classified as an investment product with discretionary participation features. Such products are accounted for under IFRS 4. If the investment product does not have any elements of the benefit driven by discretionary participation, the product is classified as an investment product without discretionary participation features. Such products are accounted under IAS 39.

(b) Revenue

Insurance gross premiums

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

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy becomes effective.
Under Article 128 of the Estonian Insurance Activities Act, an insurance undertaking who enters into pension contracts shall submit upon preparing the financial statements in an annex thereof the pension contracts report. ERGO Life Insurance SE Estonian branch concluded such contracts until 2022 and reported accordingly.

The Estonian pension reform enforced on 1st January 2021 changed the process of joining and leaving the second pillar. The policyholders who decided to stop making payments into the second pillar and to withdraw everything that has been saved up in it so far had to submit the respective application by 31 March 2021. Accordingly, in September, the Company paid out surrender values to policyholders who chose the third option. The remaining second-pillar portfolio was transferred to the Ministry of Finance in January 2022, and the Company's license to distribute annuities under Article 128 of the Estonian Insurance Activities Act was terminated.

Reinsurance premiums

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

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

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

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

Fees and commission income

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

Investment income

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

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

(c) Expenses

Claims and benefits incurred

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

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

Reinsurers' share of claims and benefits incurred

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

Operating expenses

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

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

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

Allocation of expenses

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

(d) Lease accounting

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

(i) *The Company as a lessee*

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

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

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

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

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

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

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

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

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

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

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

(e) Operating profit

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

(f) Property and equipment

(i) Recognition and measurement

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

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

Computer equipment	3–5 years
Cars, office and communications equipment	5 years
Furniture	6–7 years
Buildings	50 years

Depreciation is charged on the difference between cost and residual value. If residual value cannot be estimated reliably or is insignificant, it is presumed to be equal to zero. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Intangible assets

(i) Recognition and measurement

Items of intangible assets are recognised if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets comprise acquired software and licences.

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Software	3–12 years

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

(h) Deferred acquisition costs

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

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

(i) Cash and cash equivalents

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

(j) Investment is subsidiaries and associates

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

(k) Assets held-for-sale

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

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

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

(l) Financial instruments

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

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

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

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

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

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

(ii) Non-derivative financial assets. Measurement

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

(iii) Non-derivative financial liabilities. Measurement

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

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

(iv) Derivatives

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

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

(m) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

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

— indications that a debtor or issuer will enter bankruptcy;

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

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

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

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

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

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

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

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

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

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

(ii) Non-financial assets

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

(n) Fair value measurement

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

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

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

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

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

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

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

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

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

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

(o) Insurance contract liabilities

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

Insurance contract liabilities consist of:

Life insurance provision

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

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

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

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

Unearned premium provision

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

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

Outstanding claim provision

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

Provision for bonuses

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

Unexpired risk provision

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

Unit-linked contracts provision

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

Insurance liability valuation

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

Liability adequacy test

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

Cash inflows comprise estimated future investment income.

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

(p) Financial liabilities

(i) Financial liabilities from investment contracts

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

(ii) Other financial liabilities

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

(r) Provisions and contingent liabilities

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

(s) Vacation pay liability and other liabilities to employees

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

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

(t) Taxes

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

- Insurance Supervisory Commission maintenance fee of 0.221% as from May 2021 from insurance premiums written in Lithuania;
- Social insurance contributions of 1.77% in Lithuania, 24.09% in Latvia and 33.00% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT, less input VAT;
- Real estate tax up to 1% in Lithuania, up to 0.5% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

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

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

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

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

In Latvia and Estonia, income tax is not levied on companies' profits. A new income tax legislation came in effect in Latvia on 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2022 was 20/80 of the amount distributed as the net dividend (20/80 in 2021). In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2022 was 20/80 of the amount distributed as the net dividend (20/80 in 2021).

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

(u) Foreign currency transactions

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

(v) Capital management

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

- The sum of eligible basic own funds shall not be smaller than the floor of the minimum capital requirement, which is EUR 6.7 million.
- The sum of eligible own funds shall not be smaller than the solvency capital requirement.

The Company has sufficient own funds which consists from ordinary share capital, share premium account related to ordinary share capital, retained earnings and revaluation reserve. According to the Solvency II rules, as at 31 December 2022, the eligible own funds exceed the solvency capital requirement by 2.02 times (2.21 times as at 31 December 2021).

(z) Offsetting and comparative figure

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

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

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

1. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs, which have been adopted by the company as of 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 January 1 2022, with earlier application permitted. Accordingly, 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 costs 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, including 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 June 30 2021 (Amendment)

The Amendment applies to annual reporting periods beginning on or after April 1 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 June 30 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 January 1 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if the information is available without the use of hindsight. Under IFRS 4 Insurance Contracts, effective from January 1 2018, insurance companies have an option to adopt IFRS 9 together with IFRS 17 from January 1 2023.

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 account for more than 90% of the carrying amount of its total liabilities.

On transition date all debt and other fixed-income securities passed SPPI* test. SPPI test failed equities and fund units available for sale are reclassified to fair value through P&L. The transition impact of 2,187,119 euros consist of 125,885 euros related to the introduction of the Expected Credit Loss component in OCI and 2,313,004 euros of unrealised gains.

*-The solely payments of principal and interest

IFRS 17: Insurance Contracts

The standard is effective, for annual periods beginning on or after January 1 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. Detailed assessment is provided in the chapter „ii. Transition “.

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.

i. Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It will introduce a model that measures groups of contracts based on Company's estimates of the present value of future cash flows that would be expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. GMM (General Measurement Method) shall be applied for products without discretionary participation features and VFA (Variable Fee Approach) shall be applied in case of such features are present. Method and LoB (Line of Business) mapping is provided in the table below.

Under IFRS 17, insurance revenue in each reporting period will represent the changes in the liabilities for remaining coverage that relate to services for which ERGO Life Insurance SE expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components would no longer be included in insurance revenue and insurance service expenses.

Insurance finance income and expenses, disaggregated between profit or loss and OCI for life risk and life savings contracts, are presented separately from insurance revenue and insurance service expenses.

The Company shall apply the PAA (Premium Allocation Approach) to simplify the measurement of contracts in the health and reinsurance segment as the corresponding business qualifies for the PAA. When measuring liabilities for remaining coverage, the PAA is similar to the Company's current accounting treatment. Discounting would not be applied when measuring liabilities for incurred claims as they are expected to occur in one year or less from the date on which the claims are incurred.

Under IFRS 4, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ("deferred acquisition costs") until those costs were included in profit or loss and OCI. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts will be recognised as separate assets and would be tested for recoverability. These assets will be presented in the carrying amount of the related portfolio of contracts and would be derecognised once the related contracts have been recognised.

Income and expenses from reinsurance contracts other than insurance finance income and expenses will be presented as a single net amount in profit or loss. Under IFRS 4, amounts recovered from reinsurers and reinsurance expenses are presented separately.

The Company will measure owner-occupied properties and the Company's own shares held that will be underlying items of direct participating contracts as assets at FVTPL to reduce accounting mismatches with the measurement of related contracts; instead of measurement at cost less accumulated depreciation less any impairment losses.

ii. Transition

Changes in accounting policies resulting from the adoption of IFRS 17 would be applied using a full retrospective approach to the extent practicable. To be more precise, health products shall be in scope. Under the full retrospective approach, at January 1 2022 company:

- identifies, recognises and measures each group of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- identifies, recognises and measures any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that the recoverability assessment was not applied before 1 January 2022;
- derecognises previously reported balances that would not have existed if IFRS 17 had always been applied. These include some deferred acquisition costs for insurance contracts, insurance receivables and payables, and provisions for levies that are attributable to existing

insurance contracts. Under IFRS 17, they are included in the measurement of the insurance contracts;

- ➢ recognises any resulting net difference in equity. The carrying amount of goodwill from previous business combinations would not be adjusted.

For the life risk, life savings and participating segments, ERGO Life insurance SE would apply the modified retrospective approach in IFRS 17 to identify, recognise and measure certain groups of contracts on January 1 2022, because it is impracticable to apply the full retrospective approach.
The Company intends to consider the full retrospective approach impracticable for contracts in these segments under any of the following circumstances:

- The effects of retrospective application are not determinable because the information required would not be collected (or would not be collected with sufficient granularity) and would be unavailable because of system migrations, data retention requirements or other reasons. Such information includes for certain contracts:
  - ➢ expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts;
  - ➢ information about historical cash flows and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis;
  - ➢ information required to allocate fixed and variable overheads to groups of contracts, because company's previous accounting policies did not require such information; and
  - ➢ information about changes in assumptions and estimates, which might not have been documented on an ongoing basis.
- The full retrospective approach requires assumptions about what company management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight. Such assumptions and estimates includes for certain contracts:
  - ➢ expectations at contract inception about policyholders' shares of the returns on underlying items at contract inception required for identifying direct participating contracts;
  - ➢ assumptions about discount rates, because the company had not been subject to any accounting or regulatory framework that required insurance contracts to be measured on a present value basis before 2007;
  - ➢ changes in local currencies resulting in absence of corresponding discount rates on pre-euro currency; and
  - ➢ assumptions about the risk adjustment for non-financial risk, because company had not been subject to any accounting or regulatory framework that required an explicit margin for nonfinancial risk before 2016.

The detailed decision regarding the current valuation methods is as follows (unaudited):

IFRS 17 LoB	IFRS 4 LoB	Method choice for gross portfolios	Method choice for ceded portfolios
Medical expense insurance	Medical expense insurance	PAA	N/A
Health insurance	Accidental death and disability riders – not unit-linked	GMM	PAA
Health insurance	Non-accidental riders – not unit-linked	GMM	PAA
Term life insurance	Term life insurance – not unit-linked	GMM	PAA
Unit-linked insurance with significant insurance risk	Accidental death and disability riders –unit-linked	VFA	PAA
Unit-linked insurance with significant insurance risk	Non-accidental riders –unit-linked	VFA	PAA
Unit-linked insurance with significant insurance risk	Term life insurance –unit-linked	VFA	PAA
Unit-linked insurance with significant insurance risk	Unit-linked insurance with significant insurance risk savings part	VFA	PAA
Unit-linked insurance with insignificant insurance risk	Unit-linked insurance with insignificant insurance risk savings part	IFRS9	N/A
Capital endowment and term fix products with guaranteed investment return; significant insurance risk	Capital endowment and term fix products with guaranteed investment return	VFA	PAA
Capital endowment and term fix products with guaranteed investment return; insignificant insurance risk	Capital endowment and term fix products with guaranteed investment return	IFRS9	N/A
Deferred annuities	Deferred annuities	VFA	N/A
Immediate annuities	Immediate annuities	VFA	N/A

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 therefore not disclosed in these financial statements; 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 5. Risk management

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

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

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

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

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

(a) Insurance risks

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

Insurance risk management is an integral part of the Company's risk management system. To ensure a balanced insurance portfolio, the Company has established pricing and underwriting guidelines, which are updated on a regular basis. Insurance premiums and provisions are calculated on the basis of carefully selected actuarial assumptions. The milestones for evaluating underwriting portfolio risks differ depending on product group. The latter is described in more details in subsequent chapters.

Policies for mitigating insurance risk

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

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

The Company manages its insurance risk through strict underwriting policy, group-wide new product approval procedures and follow-up of current products, continuous check-up of consistency in reserving and underwriting rates.

The Company uses several methods to assess and monitor insurance risk. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing.

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

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

Insurance risk management strategy

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

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

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

Another challenging point to forecast is lapse due to different trends depending on company's strategy. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is of minor importance.

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

Expense risk is of minor importance due to rather constant expenses for annuity products. Lapse risk is not relevant as no such option present for products currently in company's portfolio.

Annuities after second pillar accumulation are highly influenced by legal environment. Changes in Estonia's legislation resulted in surrender of 63% of corresponding portfolio in September 2021. Remaining part of this portfolio was transferred to State in January, 2022. As soon as the portfolio was transferred immediate annuities were not sensitive to lapse risk anymore; longevity risk decreased as well. It is not allowed to choose private company as second pillar annuity's payer since July 2020 in Lithuania, therefore this portfolio is currently in run-off. Annuities after second pillar accumulation are still distributed in Latvia. Due to the definition of annuity structure and clients' preferences, the latter product underwritten until end of the year 2022 has very small portion of uncertainty, therefore corresponding risk capital is mainly linked with investment return. Legal changes in force starting 1st of January, 2023 result in increase of risk capital within this product as annuity value needs to be fixed within all contract's period, no pay-out decrease is possible anymore.

3 Unit-linked products. The products are sensitive to mortality, disability-morbidity, lapse, expense and catastrophe risks. The products have longer duration than other non-annuity products, therefore main underwriting risks for unit-linked business are expense and lapse. Significance of mortality and disability-morbidity risks is increasing due to increasing share of risk riders within this product.

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

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

Insurance contract groups

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

Insurance with guaranteed investment return

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

1. Capital endowment. These products include both savings element and death risk part. To be more precise, if the policy is not lapsed, the agreed insured amount is paid in death case or after policy termination, whichever occurs first.
2. Term fix. The purpose of this product is scholarship for the beneficiary's child. The product also covers both savings element and death risk part. However, if the policy is not lapsed and death of the insured person occurs, the insured amount is paid only after policy termination due to product origin. This group of products is rather often equipped with

orphan's pension risk rider which ensures orphan pension's payments in case of insured person's death until policy termination.

3. Deferred annuity. The product is constructed for future additional pension accumulation and is considered as the third pillar. The product has main outgo after policy maturity; however, if death of the insured person occurs earlier, paid premiums less taxes are paid to policy's beneficiaries.
4. Immediate annuity. The product differs from the first three in the way that there is only one single premium and the insured person starts getting annuity payments immediately after the policy has become effective. The insured person can choose annuity with guaranteed period (5 or more years) or without it. In case a non-zero guaranteed period is chosen and death of the insured person occurs prior to the end of the guaranteed period, annuity payments continue to be paid to the policy's beneficiaries or there is a lump sum payment for them.

All these insurance sub-groups are very sensitive to the decrease in market investment return. Taking into account market situation before the year 2022, meeting the requirement of guaranteed investment return became challenging. For this reason, distribution of products with guaranteed investment return in savings phase was terminated before 2021. Although, if investigating new bond emissions, significant improvement in investment returns in the market was present within the year 2022 in comparison with emissions of 2021, it was accompanied by extremely high inflation. The inflation triggers significant decrease of value of money by the passage of time, therefore, understanding potential consecutive reputational risks, renewal of distribution of savings products with guaranteed investment return is not planned. Sensitivity to other main risks differs per types of insurance.

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

Lapse risk. Taking into account current market trends, sensitivity of capital endowment, term fix, deferred annuity products to the decrease in lapse risk is downgrading and being replaced by lapse increase risk. Lapse risk for immediate annuities is not relevant for products currently in the Company's portfolio.

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

Due do portfolio diversification, concentration risk is reduced.

Insurance linked to investment units

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

Risk-based insurance without savings part

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

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

Sensitivities

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

As at 31 December 2022 (unaudited) *in EUR*	**Change in assumptions**	**Increase/(decrease) in gross liabilities**	**Increase/(decrease) in net liabilities**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in deferred acquisition costs**
Mortality rate	+10%	-33,279	-33,279	-14,335	-20,437
Lapse and surrenders rate	+10%	-92,697	-92,697	46,540	68,239
Discount rate	+1%	-3,156,988	-3,156,988	950,496	379,331
Mortality rate	-10%	35,373	35,373	14,336	18,724
Lapse and surrenders rate	-10%	103,281	103,281	-46,536	-68,119
Discount rate	-1%	5,975,252	5,975,252	-959,045	-1,070,514

As at 31 December 2021 (unaudited) *in EUR*	**Change in assumptions**	**Increase/(decrease) in gross liabilities**	**Increase/(decrease) in net liabilities**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in deferred acquisition costs**
Mortality rate	+10%	-32,960	-32,960	-17,445	**-25,513**
Lapse and surrenders rate	+10%	-102,953	-102,953	53,919	**81,062**
Discount rate	+1%	-3,139,593	-3,139,593	1,069,563	**511,467**
Mortality rate	-10%	35,324	35,324	17,446	**23,451**
Lapse and surrenders rate	-10%	115,203	115,203	-53,913	**-81,430**
Discount rate	-1%	6,325,171	6,325,171	-1,079,183	**-1,261,190**

Pricing risks

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

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

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

Claim handling risks

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

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

Provisioning risks

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

Reinsurance strategy

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

(b) Market, credit and liquidity risks

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

The Company manages its asset risk by preparing a new investment policy on an annual basis. Implementation of the strategy and adherence to restrictions is monitored by a multi-level structure. In 2022, tactical decisions were made and implemented by GIM – Group Investment Management department of Munich RE. The compliance of investments with the adopted strategy is monitored by the asset and liability management team (AL Team) which, in addition to asset manager, consists of the Company's actuaries, investment officers, risk manager, head of planning and controlling department and the member of the Board. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Market risk

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

The significant market risks are evaluated within the Standard Formula.

Additionally, exposure to fluctuations in market value is assessed on an ongoing basis using one internal model. Net Loss Limit (NLL) monitors the probability of achieving a result that surpasses the minimum investment result fixed by the actuaries. 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.

Clearly defined processes ensure that the company can respond timely to any significant capital market developments.

(a) Interest rate risk

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

The Company's investments comprise mostly fixed-income securities, the market value of which is influenced by changes in interest rates. As at 31 December 2022, the weighted average purchase yield to maturity of fixed-income portfolio was 2,15% (2.27% as at 31 December 2021).

If as at 31 December 2022 the entire yield curve would have increased/decreased by 100 basis points then fair value reserve would have decreased/increased by EUR 10,2 million (2021: EUR 16,9 million). Reduced impact is related to smaller fixed income portfolio and lower modified duration of the portfolio.

Year 2022 was quite extraordinary in terms of interest rate risk because European Central Bank increased policy rates four times and 250bps while market rates increased even more. Consequently Company witnessed decline in fair value reserve by EUR 44,1 million.

In order to manage interest rate risk Company has adopted cash flow matching principle i.e. liabilities maturing in 10 years are covered with 10 year bond. Therefore changes in fair value reserve and equity do not convey entire economic situation of the company as it describes movements only on asset side but not in liabilities. In order to understand Company's financial situation one should look at Solvency II balance sheet where both assets and liabilities are marked-to-market (unaudited information).

According to unaudited information difference between Solvency II assets and liabilities (i.e. economic own funds of the Company) was EUR 59,4 million at the year-end (2021: EUR 62,7 million) while Solvency II ratio has been also rather stable – 202% in 2022 and 221% at the end of 2021.

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

in EUR	2022 Carrying amount	2021 Carrying amount
Fixed-income debt securities		
Interest rate 0.00-2.50%	84,631,460	101,867,896
Interest rate 2.51-3.50%	10,584,013	14,043,346
Interest rate 3.51-4.50%	24,765,790	39,838,963
Interest rate 4.51-5.50%	17,785,417	27,689,966
Interest rate 5.51-6.50%	14,145,455	20,063,116
Interest rate 6.51-7.50%	0	0
Interest rate 7.51-8.50%	215,459	235,826
Total fixed-income debt securities	**152,127,594**	**203,739,113**
Loans		
Interest rate 2.51-3.50%	21,704,023	12,006,125
Total loans	**21,704,023**	**12,006,125**
Equities, fund units and cash		
No interest	81,922,829	101,735,080
In total	**255,754,446**	**317,480,318**

(b) Other price risk

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

If as at 31 December 2022 the value of investments in equity and fixed income funds had increased/decreased by 10%, the Company’s equity would have increased/decreased by EUR 1,6 million (2021: EUR 2.5 million).

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

Investments in financial instruments and cash by issuer's domicile

in EUR

As at 31 December	2022	2021
Debt and other fixed-income securities		
Austria	7,922,871	10,490,449
Australia	4,059,076	2,957,872
Belgium	11,136,304	14,752,914
Great Britain Virgin Islands	188,628	209,652
Cayman Islands	291,649	309,484
Canada	3,825,946	2,202,371
Chile	920,474	1,093,306
Czech Republic	0	0
Estonia	3,384,797	3,844,258
Finland	2,056,765	2,299,602
France	21,157,974	33,100,921
Germany	14,075,943	18,584,369
Hungary	3,319,213	4,520,179
Indonesia	290,704	316,602
Ireland	6,189,256	7,820,019
Israel	2,313,490	3,987,604
Italy	6,979,560	12,361,541
Kazakhstan	1,271,110	1,546,622
Latvia	3,004,750	4,359,561
Lithuania	3,050,986	4,788,730
Luxembourg	13,188,463	17,441,746
Mexico	481,451	570,931
Netherlands	10,152,746	10,125,550
New Zealand	0	0
Norway	1,595,228	1,823,483
Peru	864,342	1,054,523
Poland	2,223,073	5,279,309
Portugal	3,049,564	3,710,250
Slovakia	1,758,540	2,683,719
Slovenia	3,478,853	4,717,021
Spain	9,035,781	16,150,108
Sweden	1,300,664	1,439,170
Switzerland	144,046	0
Great Britain	1,960,999	3,129,351
USA	7,283,819	6,067,897
Japan	170,529	0
European Investment Bank	0	0
Total debt and other fixed-income securities	***152,127,594***	***203,739,113***
Equities and fund units		
Ireland	1,215,968	11,642,677
Germany	829,617	1,629,667
Estonia	7,842,236	7,083,034
Finland	185,769	115,410
Luxembourg	5,564,378	4,693,472

in EUR		
As at 31 December	**2022**	**2021**
Total equities and fund units	***15,637,968***	***25,164,261***
Loans Estonia	21,704,023	12,006,125
Total loans	***21,704,023***	***12,006,125***
Unit-linked		
Ireland	10,714,516	12,035,259
Finland	4,028,088	3,857,588
Luxembourg	46,364,254	52,624,404
Total Unit-linked	***61,106,858***	***68,517,251***
Cash		
Estonia	545,252	6,097,185
Latvia	2,848,640	2,914,549
Lithuania	1,784,111	2,332,296
Total cash	***5,178,003***	***11,344,030***
Total investments in financial instruments and cash	**255,754,446**	**320,770,780**

(c) Currency risk

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

Most of the Company's liabilities in different currencies are covered with assets denominated in the same currencies. Currency risk is countered by monitoring that no uncovered currency exposure exceeds 10% of asset manager assets.

The following assets and liabilities are exposed to currency risk.

in EUR	**As at 31 December 2022**	**As at 31 December 2021**
	USD	**USD**
Insurance and other receivables	2,349	2,562
Investments in financial instruments – available-for-sale debt securities	0	0
Other liabilities from direct insurance business	0	0
Reinsurance payables	0	0
In total	**2,349**	**2,562**

Credit risk

The credit risk of investments is the risk that the issuer of a security will not honour/fulfil its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The following table describes the Company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of fixed-income securities was A (A in 2021). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion. The financial instruments and cash presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies. A rating of a parent company is presented for cash and cash equivalents.

in EUR 2022	Standard& Poor's / Moody's	AAA / Aaa	AA / Aa	A / A	BBB / Baa	BB / Ba	Not rated / Not rated	Amount
Debt and other fixed-income securities		38,680,855	45,437,595	28,527,095	39,482,049	0	0	**152,127,594**
Proportion of debt securities and other fixed income securities		*25%*	*30%*	*19%*	*26%*	*0%*	*0%*	*100%*
Equities and fund units accounted at FVTPL		0	0	0	0	0	76,744,827	**76,744,827**
Loans		0	0	0	0	0	21,704,023	**21,704,023**
Cash and cash equivalents		0	3,525,529	1,100,536	548,619	0	3,319	**5,178,003**
Proportion of cash and cash equivalents		*0%*	*68%*	*21%*	*11%*	*0%*	*0%*	*100%*

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

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 *in EUR*	Not due	Less than 30 days past due	Overdue 30–60 days	Overdue 60–180 days	In total
Receivables from policyholders	8,895,195	786,662	257,191	526,298	**10,465,346**
Receivables from intermediaries	2,563	43	0	0	**2,606**
Receivables from reinsurers	4,430	0	0	0	**4,430**
Other receivables	893,811	107,283	27,200	171,305	**1,199,599**
In total	**9,795,999**	**893,988**	**284,391**	**697,603**	**11,671,981**

As at 31 December 2021 *in EUR*	Not due	Less than 30 days past due	Overdue 30–60 days	Overdue 60–180 days	In total
Receivables from policyholders	8,996,627	636,039	295,545	264,681	**10,192,892**
Receivables from intermediaries	1,831	44	22	35	**1,932**
Receivables from reinsurers	6,069	0	0	0	**6,069**
Other receivables	2473475	117,008	27,201	171,420	**2,789,104**
In total	**11,478,002**	**753,091**	**322,768**	**436,136**	**12,989,997**

In its insurance activities, the Company's main credit risk is payment default by a policyholder. The Company's credit risk arises principally from its insurance receivables. In each business line, risk management measures are applied to protect the Company's financial position. The Company has rules in place for consistently monitoring and managing overdue receivables. Receivables that are more than 180 days overdue are written down. Impairment of receivables from policyholders is presented in Note 16.

To mitigate the risk arising from reinsurance, the Company enters into obligatory reinsurance contracts only with such reinsurers whose equity amounts to at least EUR 250 million and rating is above A– (according to Standard & Poor's). Facultative reinsurance contracts are concluded with such reinsurers only that have been included in the list approved by the relevant department of ERGO group. In addition, premiums ceded to any one reinsurer may not exceed 10% of ERGO's annual gross premium income.

Liquidity risk

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

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

The debt securities portfolio is composed by taking into account liability cash flows with the aim to build asset portfolio with similar cash flow structure. In addition, a large share of the Company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the Company's liquid funds totalled EUR 190. 81 million (2021: EUR 248.96 million), including available-for-sale securities of EUR 152.10 million (2021: EUR 203.7 million), equities and fund units of EUR 11.83 million (2021: EUR 21.87 million), loans of EUR 21.70 million (2021: EUR 12.01 million), and cash and cash equivalents of EUR 5.18 million (2021: EUR 11.34 million).

Investments in financial instruments and cash (by maturity):

As at 31 December

in EUR	**2022**	**2021**
Total contractual cash flows	**255,754,446**	**320,770,780**
No maturity	81,922,829	105,025,542
Up to one year	10,202,284	9,911,367
2–3 years	17,592,306	18,553,789
4–5 years	28,324,034	28,360,328
6–10 years	72,950,973	72,511,175
11–15 years	23,670,929	42,555,049
16 years and more	21,091,091	43,853,529

At the year-end, the weighted average duration of fixed income portfolio was 6,8 years (2021: 9 years). There were no non-cash movements in the portfolio.

Financial liabilities (based on maturities):

As at 31 December 2022 *in EUR*	**Up to 2 year**	**Between 2 and 5 years**	**Between 6 and 10 years**	**More than 10 days**	**In total**
Insurance contract provisions	40,507,782	56,477,158	45,100,258	41,765,200	**183,850,398**
Reinsurance payables	219,598	0	0	0	**219,598**
Financial liabilities from unit-linked contracts	2,309,079	9,941,908	14,316,599	23,269,573	**49,837,159**
Financial liabilities from investment contracts	2,150,638	4,141,045	2,451,073	2,526,943	**11,269,699**
Lease-related liabilities	450,015	682,965	285,818	0	**1,418,798**
Insurance payables	4,213,106	0	0	0	**4,213,106**
Other payables and accrued expenses	3,721,991	0	0	0	**3,721,991**
In total	**53,572,209**	**71,243,076**	**62,153,686**	**67,561,778**	**254,530,749**

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

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

Strategic risks

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

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

The main strategic risks stem from changes in monetary policies that could jeopardize achievement of strategic results. The other critical risks for instance are continuously raising cyber and information security and economic constraints internationally and in Baltics (inflation, constraints in EU). The new topics recognized as a strategic risk are associated with increase of cost of capital as well as general energy supply risk

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

Operational risk

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

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

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

- projects.

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

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

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

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

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

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

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

Reputational risk

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

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

ERGO has defined three sub-categories of reputational risk:

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

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

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

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

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

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

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

Geopolitical risk

Increased uncertainty arouse from the development of Russia's military conflict with Ukraine, which has existed since 24 February 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 Life 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 6. Premium income

The following table outlines gross and net premiums for 2022 and 2021 by insurance class.

in EUR	2022				2021			
	Gross written premiums	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross written premiums**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, supplementary insurance	7,020,030	-538,361	0	6,481,669	6,744,688	-447,825	0	6,296,863
Life, Unit-linked	17,170,200	-9,501	0	17,160,699	14,920,085	-614	0	14,919,471
Life, Endowment	8,431,965	-3,552	0	8,428,413	9,972,873	-4,575	0	9,968,298
Life, Pension	11,123,879	0	0	11,123,879	11,676,748	0	0	11,676,748
Life, Term Life	2,896,863	-509,383	0	2,387,480	2,540,095	-437,615	0	2,102,480
Health insurance	35,409,213	0	732,686	36,141,899	34,866,948	0	-2,473,194	32,393,754
In total	**82,052,150**	**-1,060,797**	**732,686**	**81,724,039**	**80,721,437**	**-890,629**	**-2,473,194**	**77,357,614**

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

Gross and net changes in the provision for unearned premiums are presented in note 21.

Distribution of gross premiums written by currency

in EUR	**2022**	**2021**
in EUR	82,042,768	80,697,600
USD	9,382	23,837
In total	**82,052,150**	**80,721,437**

Distribution of gross premiums written by country

in EUR	**2022**	**2021**
Latvia	44,817,556	45,379,808
Lithuania	30,825,338	30,305,623
Estonia	6,409,256	5,036,006
In total	**82,052,150**	**80,721,437**

Note 7. Investment income

in EUR	**2022**	**2021**
Interest income on		
Available-for-sale debt securities	3,654,352	4,370,155
Loans	442,826	205,587
Term deposits	47	104
Total interest income	**4,097,225**	**4,575,846**
Dividends income	1,585,276	320,970
Net realised gains on available-for-sale financial instruments	-44,526	2,909,304
Investments in associates	0	0
Impairment loses of securities available-for-sale	-614,064	0
In total	**5,023,911**	**7,806,120**

Note 7.1 Fair value gains and losses on financial assets

in EUR	2022	2021
Fair value gains and losses on financial assets at FVTPL (designated as such upon initial recognition)	-10,097,288	6,650,059
Net realised gains on financial assets through FVTPL (designated as such upon initial recognition)	-125,027	137,638
In total	**-10,222,315**	**6,787,697**

Fair value changes were largely caused by ECB's policy shift, which led to four rate hikes during the year and 250 basis points higher policy rates.

Note 8. Claims and benefits incurred

The following table shows claims paid and incurred in 2022 and 2021 by insurance class.

in EUR	2022				2021			
	Claims paid [1]	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**	**Claims paid [1]**	**Change in provision**	**Reinsurers' share of claims**	**Net claims incurred**
Life, supplementary insurance	-1,572,353	-382,333	106,676	-1,848,010	-1,364,344	61,027	133,545	-1,169,772
Life, Endowment	-17,526,745	9,346,792	0	-8,179,953	-13,683,103	4,139,853	0	-9,543,250
Life, Pension	-14,631,376	3,334,570	0	-11,296,806	-20,676,823	8,162,655	0	-12,514,168
Life, Term Life	-345,844	260,389	32,629	-52,826	-250,420	66,009	49,180	-135,232
Life, Unit-Linked	-7,080,083	-609,565	0	-7,689,648	-5,709,295	368,442	0	-5,340,852
Health insurance	-29,962,071	166,087	0	-29,795,984	-25,958,156	-550,088	0	-26,508,244
Change in unit- linked reserve	0	1,994,157	0	1,994,157	0	-12,177,849	0	-12,177,849
In total	**-71,118,472**	**14,110,097**	**139,305**	**-56,869,070**	**-67,642,141**	**70,049**	**182,725**	**-67,389,367**

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

The pension reform in Estonia enforced on 1st January 2021 changed the process of joining and leaving the second pillar. Now the person can choose between three options for using the pillar. The first is to continue saving in the second pension pillar as previously. The second is to stop contributing to the pillar but to keep all of the assets that have been built upon their pension fund account so far. The third option is to stop making payments into the second pillar and to withdraw everything that has been saved up in it so far.

The policyholders who decided to cancel the annuity pension contract had to submit the respective application by 31 March 2021. Accordingly, on 10 September, the Company paid out surrender values of EUR 8,824,164 to policyholders who chose the third option.

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

Catastrophes and major losses in 2022

In 2022, there were no losses incurred due to unforeseen events or natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

in EUR	Note	2022	2021
Acquisition expenses		**13,302,190**	**12,901,157**
Service fees and commissions		6,807,453	7,090,220
Salaries		3,379,046	2,993,347
Social security contributions		519,765	444,831
Marketing expenses		531,573	593,386
Depreciation and amortisation		266,351	229,780
IT costs		769,992	649,385
Rental and utilities		404,951	373,652
Office expenses		87,242	92,064
Training and other staff costs		36,250	44,763
Communications expenses, including mobile phone charges		38,051	39,129
Other labour costs		81,354	70,141
Business trip expenses		12,471	3,825
Costs of company cars		40,551	30,711
Miscellaneous expenses		327,140	245,924
Administrative expenses		**5,416,221**	**4,773,680**
Salaries		3,280,606	3,055,252
Social security contributions		411,814	379,293
IT costs		633,613	451,772
Depreciation and amortisation		357,592	261,313
Rental and utilities		281,317	259,846
Other labour costs		62,893	57,773
Business trip expenses		64,186	14,857
Training and other staff costs		44,626	44,069
Office expenses		45,495	46,049
Communications expenses, including mobile phone charges		14,692	15,298
Costs of company cars		17,198	14,887
Miscellaneous expenses		199,189	170,273
Non-audit services (translation) provided by audit company		3,000	3,000
Other operating expenses		**459,748**	**619,828**
Change in deferred acquisition costs		459,748	619,828
Investment expenses		**391,111**	**364,150**
Services purchased		244,221	300,726
Salaries		49,765	46,498
Social security contributions		16,821	15,716
Rental and utilities		700	487
Training and other staff costs		61	0
Business trip expenses		0	0
Communications expenses, including mobile phone charges		159	125
Other labour costs		534	309
Office expenses		121	25
IT costs		78,454	163
Miscellaneous expenses		275	99

in EUR	2022	2021
Other expenses	**986,354**	**813,621**
Expenses related to currency revaluation	369,236	103,567
Change in lump sum allowance	-58,718	50,778
Write-off of property and equipment	21,439	-14,542
Arranging (re)insurance contract	826	911
Expenses related to lease of premises under IFRS 16	10,164	6,161
Audit and legal services	68,265	69,902
Trademark	165,534	158,815
Miscellaneous expenses*	409,608	438,029

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

9.1 Commission income

in EUR	2022	2021
Reinsurance commissions	99,610	81,338
Participation in reinsurers' profit	268,978	239,902
In total	**368,588**	**321,240**

9.2 Other revenue

Other income contains fees, commissions and charges received 1,063 Eur (2021- 1,156 Eur); income from currency revaluation 398,868 Eur (2021- 129,122 Eur); Gain on disposal of property and equipment 31,080 Eur (2021- 0 Eur) rental income and other income not related to insurance activities - 178,191 Eur (2021- 361,032 Eur).

Note 10. Property and equipment

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

As at 31 December 2022, the cost of fully depreciated items still in use was EUR 535,414 (31 December 2021: EUR 234,234). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

in EUR

Category of assets	Land	Buildings	Equipment and other items	In total
Cost				
As at 31 December 2020	**0**	**2,037,166**	**1,150,393**	**3,187,559**
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	8,753	8,753
Additions under IFRS 16	0	332,917	0	332,917
Terminations and corrections under IFRS 16	0	-10,238	0	-10,238
Disposals	0	0	-22,398	-22,398
Write-off	0	0	-3,755	-3,755
As at 31 December 2021	**0**	**2,359,845**	**1,132,993**	**3,492,838**
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	189,990	189,990
Additions under IFRS 16	0	1,216,823	26,605	1,243,428
Terminations and corrections under IFRS 16	0	-295,089	- 22,423	-317,512
Disposals	0	0	-49,094	-49,094
Write-off	0	0	-2,904	-2,904
As at 31 December 2022	**0**	**3,281,579**	**1,275,167**	**4,556,746**
Accumulated depreciation				
As at 31 December 2020	**0**	**956,663**	**766,720**	**1,723,383**
Depreciation of assets recognised under IFRS 16	0	456,379	28,629	485,008
Depreciation for the year	0	0	99,320	99,320
Disposals	0	0	-22,398	-22,398
Write-off	0	0	-3,755	-3,755
As at 31 December 2021	**0**	**1,413,042**	**868,517**	**2,281,559**
Depreciation of assets recognised under IFRS 16	0	491,547	28,666	520,213
Depreciation for the year	0	0	110,272	110,272
Disposals	0	0	-44,078	-44,078
Write-off	0	0	-897	-897
As at 31 December 2022	**0**	**1,904,589**	**962,480**	**2,867,069**
Carrying amount				
As at 31 December 2020	**0**	**1,080,503**	**383,673**	**1,464,176**
As at 31 December 2021	**0**	**946,803**	**264,476**	**1,211,279**
As at 31 December 2022	**0**	**1,376,990**	**312,687**	**1,689,677**

Note 11. Deferred acquisition costs

in EUR	**2022**	**2021**
Balance as at 1 January	**4,377,092**	**4,996,925**
Amortised portion	-1,938,207	-1,978,027
Addition from new contracts	1,520,718	1,605,136
Reduction after liability adequacy test	-42,254	-246,937
As at 31 December 2022	**3,917,349**	**4,377,097**

Note 12. Other intangible assets

in EUR

	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 31 December 2020	**3,464,350**	**598,567**	**4,062,917**
Purchase of software and licences	1,057,447	0	1,057,447
Addition – internally generated IT projects	134,080	0	134,080
Write off – internally generated IT projects	-222,257	0	-222,257
Write-off of software and licences	0	0	0
As at 31 December 2021	**4,433,620**	**598,567**	**5,032,187**
Purchase of software and licences	1,407,381	0	1,407,381
Addition – internally generated IT projects	113,265	0	113,265
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	0	0	0
As at 31 December 2022	**5,954,266**	**598,567**	**6,552,833**
Accumulated amortisation			
As at 31 December 2020	**2,373,366**	**546,297**	**2,919,663**
Amortisation for the year	455,119	22,496	477,615
Write-off	0	0	0
As at 31 December 2021	**2,828,485**	**568,793**	**3,397,278**
Amortisation for the year	568,342	15,681	584,023
Write-off	0	0	0
As at 31 December 2022	**3,396,827**	**584,474**	**3,981,301**
Carrying amount			
As at 31 December 2020	**1,090,984**	**52,270**	**1,143,254**
As at 31 December 2021	**1,605,135**	**29,774**	**1,634,909**
As at 31 December 2022	**2,557,439**	**14,093**	**2,571,532**

In 2022, on a joint agreement of the Baltic States, in order to improve the efficiency of processes and compatibility between the three countries, .NET project was continued. As at 31 December 2022, the cost of fully amortised assets still in use was EUR 3,204,855 (as at 31 December 2021: EUR 2,592,819).

Note 13. Investments in subsidiaries

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

The Company has assessed the impairment of investment into a subsidiary and having regard to the fact that the Company's equity is higher than the carrying amount of investment in the subsidiary as well as the subsidiary was profitable have concluded that no impairment indications exist.

in EUR

Carrying amount of investment in subsidiary	
As at 31 December 2021	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2021	**4,677,870**
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2022	**4,677,870**

The main financial information (unaudited) of ERGO Invest SIA as at 31 December 2022 was the following (EUR):

Assets	Liabilities	Equity	Revenue	Result of the year
5,522,836	**115,047**	**5,407,789**	**868,434**	**1,575,888**

Note 14. Investments in financial instruments

in EUR			
As at 31 December 2022	**Note**	**2022**	**2021**
Available-for-sale financial assets			
Equities and fund units	14,1	15,637,970	25,164,261
Debt and other fixed-income securities	14,2	152,127,594	203,739,113
Total available-for-sale financial assets		**167,765,564**	**228,903,374**
Investments accounted at FVTPL			
Equities and fund units	14,1	61,106,857	68,517,251
Total investments accounted at FVTPL		**61,106,857**	**68,517,251**
Derivatives	14,2	**0**	**0**
Loans and receivables			
Loans	14,3	21,704,023	12,006,125
Term deposits in credit institutions	14,3	0	0
Total loans and receivables		**21,704,023**	**12,006,125**
In total		**250,576,445**	**309,426,750**

14.1. Equities and fund units accounting

in EUR	**As at 31 December 2022**		**As at 31 December 2021**	
	Cost	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	2,384,363	2,407,364	2,445,085	2,789,686
Units in listed debt funds	1,689,500	1,573,243	11,783,956	12,001,079
Units in unlisted equity and debt funds	2,275	2,244	0	0
Infrastructure debt funds	4,635,523	3,812,882	3,290,462	3,290,462
Real estate funds	6,325,147	7,842,237	5,727,997	7,083,034
Unit-linked	62,206,892	61,106,856	58,364,502	68,517,251
In total	**77,243,700**	**76,744,826**	**81,612,002**	**93,681,512**

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

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

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

in EUR	As at 31 December 2022		As at 31 December 2021	
	Cost	**Fair value**	**Cost**	**Fair value**
Fixed-income debt securities				
Government bonds	124,588,182	112,712,953	137,772,723	163,147,074
Financial institutions' bonds	17,954,979	16,060,127	21,062,996	22,022,200
Other debt securities	26,247,880	23,354,515	18,197,760	18,569,839
In total	**168,791,041**	**152,127,595**	**177,033,479**	**203,739,113**

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

in EUR	2022	2021
As at 1 January	**203,739,113**	**248,078,322**
Purchased debt securities	19,052,370	9,631,204
Disposed debt securities	-16,324,834	-36,804,290
Received on maturity date debt securities	-9,684,010	-6,098,667
Amortisation of debt securities	-821,926	-880,801
Change in revaluation reserve	-43,369,080	-12,355,589
Net realised gains	861,128	2,751,556
Net realised loss	-982,485	-1,835
Change in interest accrued	-342,682	-580,788
As at 31 December -	**152,127,594**	**203,739,113**

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. As at 31 December 2022 and 2021, the portfolio did not include any debt securities measured at cost or using valuation models.

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

14.3. Loans

Loans by maturity

in EUR		
As at 31 December	**2022**	**2021**
3–4 years	6,010,870	0
4 years and more	15,693,153	12,006,125
In total	**21,704,023**	**12,006,125**

As at 31 December 2022, the following loans were issued:

EUR 21,704,023 (31 December 2021: EUR 12,006,125) to ERGO Insurance SE, of which EUR 204,023 were accrued interest. The first loan of EUR 6,000,000 was granted in 2016, matures on

22 December 2026. The second loan of EUR 6,000,000 was granted in 2021 at 1.29% fixed interest per year for the period 2021–2026 and variable interest of 1.42%+12-month Euribor from the period 2026–2031. The loan matures on 30 December 2031. The third loan of EUR 9,500,000 was granted on 27 June 2022 at 3.85% fixed interest per year for the period 2022–2027 and variable interest of 1.98%+12-month Euribor for the period 2027–2032. The loan matures on 22 June 2032.

Note 15. Reinsurance assets

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

in EUR		
As at 31 December	**2022**	**2021**
Provision for claims outstanding – claims incurred and reported	160,593	138,453
Total provision for claims outstanding	160,593	138,453
In total	**160,593**	**138,453**

Information on reinsurance assets is also provided in Note 21

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

Reinsurance result

in EUR	**Note**	**2022**	**2021**
Premiums paid to reinsurers	6	1,060,797	890,629
Reinsurers' share of change in provision for unearned premiums		0	0
Commissions and profit participation paid by reinsurers	9,1	-368,588	-321,240
Reinsurers' share of claims paid	8	-117,165	-172,725
Reinsurers' share of change in provision for claims outstanding	8	-22,140	-10,000
Reinsurers' share of deferred acquisition costs	9,1	0	0
In total		**552,904**	**386,664**

Note 16. Insurance and other receivables

in EUR		
As at 31 December	**2022**	**2021**
Receivables from policyholders, gross	10,917,299	10,672,198
Impairment of receivables from policyholders	-451,953	-479,306
Receivables from brokers and other intermediaries	2,606	1,932
Receivables from reinsurers	4,430	6,069
Total insurance receivables	***10,472,382***	***10,200,893***
Other receivables	726,217	2,349,947
Total other financial assets	***726,217***	***2,349,947***
Deferred expenses	307,315	328,754
Prepaid taxes	166,067	110,403
Total non-financial assets	***473,382***	***439,157***
In total	**11,671,981**	**12,989,997**

Note 17. Cash and cash equivalents

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

in EUR	As at 31 December 2022	As at 31 December 2021
Cash at bank	5,178,003	11,344,030
Cash on hand	0	0
In total	**5,178,003**	**11,344,030**

Cash and cash equivalents by original currency

As at 31 December	2022	2021
in EUR	5,077,285	11,328,157
USD	100,718	15,873
PL	0	0

Note 18. Shareholders and issued capital

	Number of shares	Total issued capital
As at 31 December 2021	15,124	4,380,213
As at 31 December 2022	15,124	4,380,213

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

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

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

As at 31 December 2022, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of EUR 290 each. The entire share capital has been paid in.

Note 19. Capital reserve

Capital reserve as at 31 December 2022 consisted of the following: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621 (as at 31 December 2021: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621).

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

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

As at the end of 2022, the Company had fully formed its legal reserve.

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 EUR	**2022**	**2021**
As at 1 January	**28,964,871**	**43,897,652**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-96,076	-2,752,362
Derecognised from equity and recognised in profit or loss in connection with redemption and impairment	-13,903	-7,302
Net change in fair value recognised in other comprehensive income or expense during the year	-44,145,045	-12,173,117
As at 31 December	**-15,290,153**	**28,964,871**

Note 21. Insurance contract provisions and reinsurance assets

in EUR

As at 31 December	Note	2022	2021
Gross provisions			
Life insurance	21,1	157,396,304	167,171,478
Unearned premium provision		14,118,131	14,850,817
Bonus provision	21,3	1,669,981	1,881,006
Provision for claims outstanding – claims incurred and reported		*9,530,464*	*11,579,651*
Provision for claims outstanding – IBNR		*804,998*	*931,786*
Provision for claims outstanding – indirect claims handling costs		*330,520*	*284,288*
Total provision for claims outstanding	21,2	10,665,982	12,795,725
Unexpired risk provision		0	0
Unit-linked contracts provision		49,837,159	51,831,316
Total gross provisions		**233,687,557**	**248,530,340**
Reinsurers' share of provisions			
Life insurance		0	0
Unearned premium provision		0	0
Bonus provision		0	0
Provision for claims outstanding – claims incurred and reported		*160,593*	*138,453*
Provision for claims outstanding – IBNR		*0*	*0*
Total provision for claims outstanding		160,593	138,453
Unexpired risk provision		0	0
Unit-linked contracts provision		0	0
Total reinsurers' share of provisions		**160,593**	**138,453**
Net provisions			
Life insurance		157,396,304	167,171,478
Unearned premium provision		14,118,131	14,850,817
Bonus provision		1,669,981	1,881,006
Provision for claims outstanding – claims incurred and reported		*9,369,871*	*11,441,198*
Provision for claims outstanding – IBNR		*804,998*	*931,786*
Provision for claims outstanding – indirect claims handling costs		*330,520*	*284,288*
Total provision for claims outstanding	21,2	10,505,389	12,657,272
Unexpired risk provision		0	0
Unit-linked contracts provision		49,837,159	51,831,316
Total net provisions		**233,526,964**	**248,391,887**

Life insurance mathematical technical provision

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

Unearned premium provision

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

Outstanding claim provision

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

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

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

Provision for bonuses

Bonus provision at the end of the period amounted to EUR 1.7 million (31 December 2021: EUR 1.9 million). The total amount relates to rebate of insurance premiums (participation in profit).

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2022 and 2021, there was no unexpired risk provision formed. As at 31 December 2022, premium adequacy test showed provision insufficiency; therefore, health insurance deferred acquisition costs in Lithuania and Latvia were reduced by the corresponding amounts, and as at 31 December 2021 – health insurance deferred acquisition costs in Latvia. Deferred acquisition costs were reduced due to the LAT test results. The impact is disclosed in Note 11.

Unit-linked contracts provision

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

21.1 Life insurance provision (gross)

in EUR	2022	2021
As at 1 January	**167,171,474**	**183,525,418**
Premiums received	18,306,187	20,028,590
Benefits and claims paid for death, maturities, surrenders	-29,127,511	-36,901,643
Risk premiums	-529,031	-1,052,414
Risk free rate change	-87,845	-41,477
Policy amendments	-476,799	-1,447,496
Return on investments	3,248,329	3,503,771
Quarterly corrections (reserve changes due to incorrect product dates, data processing)	-15,645	-285,571
Update to provisioning investment return	-303,816	-360,082
Pension annuities reserve after savings phase	415,451	675,258
Annuities acquisition impact	-571,182	-318,659
Data quality improvement	-633,308	-154,221
As at 31 December 2022	**157,396,304**	**167,171,474**

21.2 Provisions for claims outstanding by insurance class

Insurance class	**Gross provision for claims outstanding**	**Gross provision for claims outstanding**	**Net provision for claims outstanding**	**Net provision for claims outstanding**
in EUR	**As at 31 December 2022**	**As at 31 December 2021**	**As at 31 December 2022**	**As at 31 December 2021**
Health insurance	1,835,048	2,001,015	1,835,048	2,001,015
Accident insurance	133,984	79,760	132,302	78,078
Life insurance linked to investment funds	2,733,240	1,840,471	2,574,330	1,703,701
Life insurance	5,963,710	8,874,479	5,963,709	8,874,478
In total	**10,665,982**	**12,795,725**	**10,505,389**	**12,657,272**

21.3 Bonus provision (gross)

in EUR	Notes	2022	2021
As at 1 January		**1,881,006**	**2,127,453**
Bonus for new business		0	34
Bonus release during the year		-253,009	-321,183
Bonus accumulation during the year		41,984	74,702
As at 31 December		**1,669,981**	**1,881,006**

Unexpired risk provision

Unexpired risk provision was only relevant for health (medical expense) insurance. As at 31 December 2022 and 2021, there was no any unexpired risk provision formed.

Note 22. Financial liabilities from investment contracts

As at 31 December	2022	2021
Financial liabilities from investment contracts		
Opening balance	**16,685,935**	**17,515,299**
Payments received	4,486,985	5,672,826
Fees and service charges	-523,305	-602,148
Provisions and payments made	-7,150,135	-7,165,457
Change in value, interest accrued	-2,229,781	1,265,414
Closing balance	**11,269,699**	**16,685,935**

Note 23. Insurance payables

in EUR

As at 31 December	2022	2021
Payables to policyholders	3,179,575	3,318,575
Payables to brokers and other intermediaries	1,033,531	1,118,831
In total	**4,213,106**	**4,437,406**

Note 24. Other payables and accrued expenses

in EUR

As at 31 December	2022	2021
Trade payables	935,503	655,139
Other payables	805,370	649,201
Accrued vacation pay payable	491,297	453,434
Personal income tax payable	427,326	765,744
Personal income tax payable for additional reliefs	8,984	4,025
Social security tax payable	101,694	97,021
Mandatory payment for second pillar pension funds	3,318	2,627
Payable value added tax	145,626	187,638
Payables to employees	234,693	225,756
Other accrued items	568,180	855,834
In total	**3,721,991**	**3,896,419**

Note 25. Fair value of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. No transfers between levels occurred.

in EUR		Carrying amount					Fair value			
As at 31 December 2022	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**In total**	**Level I**	**Level II**	**Level III**	**In total**
Financial assets measured at fair value										
Units in listed equity funds	14,1	0	2,407,364	0	0	2,407,364	2,407,364	0	0	2,407,364
Units in listed debt funds	14,1	0	1,573,243	0	0	1,573,243	815,795	757,448	0	1,573,243
Units in unlisted equity and debt funds	14,1	0	2,244	0	0	2,244	0	2,244	0	2,244
Infrastructure debt funds	14,1	0	3,812,882	0	0	3,812,882	0	0	3,812,882	3,812,882
Real estate funds	14,1	0	7,842,237	0	0	7,842,237	0	0	7,842,237	7,842,237
Unit-linked	14,1	61,106,857	0	0	0	61,106,857	38,689,238	22,417,618		61,106,857
Government bonds	14,2	0	112,712,953	0	0	112,712,953	0	112,712,953	0	112,712,953
Financial institutions' bonds	14,2	0	16,060,127	0	0	16,060,127	0	16,060,127	0	16,060,127
Other debt securities	14,2	0	23,354,515	0	0	23,354,515	0	23,354,515	0	23,354,515
Financial assets not measured at fair value										
Loans	14,3	0	0	21,704,023	0	21,704,023	0	21,704,023	0	21,704,023
Insurance and other receivables	16	0	0	11,671,981	0	11,671,981				
Cash	17	0	0	5,178,003	0	5,178,003				
Financial liabilities measured at fair value										
Financial liabilities from investment contracts		11,269,699	0	0	0	11,269,699	7,436,685	3,833,014	0	11,269,699
Financial liabilities not measured at fair value										
Reinsurance payables		0	0	0	219,598	219,598				
Insurance payables		0	0	0	4,213,106	4,213,106				
Other payables		0	0	0	1,740,873	1,740,873				

in EUR **As at 31 December 2021**	**Note**	**Carrying amount** Designated at fair value	Available for sale	Loans and receivables	Other financial liabilities	In total	**Fair value** Level I	Level II	Level III	In total
Financial assets measured at fair value										
Units in listed equity funds	14,1	0	1,629,667	0	0	1,629,667	1,629,667	0	0	1,629,667
Units in listed debt funds	14,1	0	11,283,566	0	0	11,283,566	11,283,566	0	0	11,283,566
Units in unlisted equity and debt funds	14,1	0	1,877,531	0	0	1,877,531	1 160 019	717 512		1,877,531
Infrastructure debt funds	14,1	0	3,290,462	0	0	3,290,462	0	0	3,290,462	3,290,462
Real estate funds	14,1	0	7,083,034	0	0	7,083,034	0	0	7,083,034	7,083,034
Unit-linked	14,1	68,517,251	0	0	0	68,517,251	44,337,898	24,179,353		68,517,251
Government bonds	14,2	0	163,147,073	0	0	163,147,073	0	163,147,073	0	163,147,073
Financial institutions' bonds	14,2	0	22,022,200	0	0	22,022,200	0	22,022,200	0	22,022,200
Other debt securities	14,2	0	18,569,839	0	0	18,569,839	0	18,569,839	0	18,569,839
Financial assets not measured at fair value										
Loans	14,3	0	0	12,006,125	0	12,006,125	0	12,006,125	0	12,006,125
Insurance and other receivables	16	0	0	12,989,997	0	12,989,997				
Cash	17	0	0	11,344,030	0	11,344,030				
Financial liabilities measured at fair value										
Financial liabilities from investment contracts		16,685,935	0	0	0	16,685,935	10,566,186	6,119,749	0	16,685,935
Financial liabilities not measured at fair value										
Reinsurance payables		0	0	0	246,157	246,157				
Insurance payables		0	0	0	4,437,406	4,437,406				
Other payables		0	0	0	1,304,340	1,304,340				

Note 26. Leases

The Company uses office premises, office equipment and cars under operating leases. In 2022, operating lease expenses on premises totalled EUR 58,891 (2021: EUR 78,578). These lease agreements on initial recognition and analysing new agreements of 2022 were recognised as low-value or short-term leases under IFRS 16. No operating lease expenses on other assets were incurred (in 2021, no operating lease expenses on other assets were incurred).

Leases as lessee (IFRS 16)

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

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

Right-of-use assets and lease liabilities

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

	Buildings	**Equipment and other items**	**In total**
2022			
Balance as at 1 January 2022	946,804	48,551	995,355
Depreciation for the year	-491,547	-28,665	-520,212
Additions to right-of-use assets	1,216,823	26,604	1,243,427
Disposal of right-of-use assets	-295,089	-22,425	-317,514
As at 31 December 2022	**1,376,991**	**24,065**	**1,401,056**

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

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.

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

in EUR	2022	2021
As at 1 January	**1,004,666**	**1,166,282**
Additions	1,356,064	332,916
Increase in interest	10,164	6,161
Payments	-522,394	-490,455
Write-offs and disposals	-429,702	-10,238
As at 31 December 2022	**1,418,798**	**1,004,666**

Amounts recognised in profit or loss

2022 Leases under IFRS 16	2022
Interest on lease liabilities	10,164
Depreciation for the year	520,212
Expenses relating to short-term leases	45,804
Expenses relating to leases of low-value assets	13,087

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

In accordance with IFRS 16, in 2019 and in subsequent periods the Company recognises depreciation and interest costs in relation to the mentioned lease instead of recognising operating lease expenses. Interest rate used for discounting lease payments was in the range from 0.16% to 3.17% as at 31 December 2022 (2021: in the range from 0.15% to 0.90%). When measuring right-of-use assets, the Company assessed each contract separately.

Minimum lease payments under lease agreements

As at 31 December 2022 *in EUR*	Up to 1 year	Between 1 and 5 years	Over 5 years	In total
Lease-related financial liabilities	450,015	682,965	285,818	1,418,798
In total	450,015	682,965	285,818	1,418,798

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

Note 27. Income tax

Corporate income tax consists of current and deferred tax.

In 2022, payable corporate income tax for the activity in the Republic of Lithuania amounted to EUR 163,555.

For calculation of corporate income tax in the Republic of Lithuania in 2022 and 2021, a profit tax rate of 15% was applied.

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

A deferred tax asset is only recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax asset recognised as at 31 December 2022: EUR 101,506.

in EUR

Income tax expense	**2022**	**2021**
Income tax expense	-163,555	-358,087
Change in deferred income tax	-6,340	-15,313
Total income tax expense	**-169,895**	**-373,400**

Recognised deferred income tax asset	**2022**	**2021**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	101,506	107,845
In total	**101,506**	**107,845**

Unrecognised deferred tax asset	**2022**	**2021**
Tax losses	2,626,081	3,007,709
In total	2,626,081	3,007,709

The Company's management decided not to recognize deferred tax assets on tax losses as it cannot reliably assess whether these assets will be realized.

Reconciliation of profit for accounting purposes and income tax expenses	**2022**	**2021**
Profit before tax	9,055,031	10,011,949
Parent company's domestic tax rate	1,358,255	1,501,792
Effect of tax rates in foreign jurisdictions	-167,258	-192,432
Effect of exempt income and taxable expenses	-673,099	-122,799
Non-deductible expenses	33,625	21,339
Unrecognised deferred tax assets movement:	0	0
Recognition of previously unrecognised tax losses	-381,628	-834,500
Effect of income tax of previous years	0	0
Income tax expense for the year	**169,895**	**373,400**

Note 28. Related party transactions

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

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

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

On 15 June 2021, the Company made first investment into MEAG alternative investment fund *MEAG Infrastructure Debt Fund II* (LU2182118013). As of 31.12.2022 Company has made investments into the fund in amount of EUR 4 635 522,53 (fair value EUR 3 812 882). Company's total commitment is EUR 8,000,000.

MEAG Infrastructure Debt Fund II invests in selected infrastructure projects in Germany, Europe and USA. These projects can be implemented in any segment, e.g. transport, energy supply, renewable energy, communication or social infrastructure. MEAG, together with the experts from Munich Re, carries out a due diligence process for all projects before deciding to invest in certain assets.

Remuneration of key management personnel

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

	2022	**2021**
Salary	182,794	181,117
Social security contributions	4,552	4,510
Other short-term employment benefits	0	0
Bonuses	0	0
Total remuneration of key management personnel	**187,346**	**185,627**

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

The remuneration, performance bonuses and benefits provided to the members of the Board for the year totalled EUR 352,879 (2021: EUR 368,108). The chair of the Board receives remuneration only as the Company's director. The members of the Supervisory Board were not remunerated.

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

Transactions with related parties are presented below:

in EUR

As at 31 December Related parties	Receivables in 2022[1]	Receivables in 2021[1]	Payables in 2022	Payables in 2021
Parent of the group – Münchener Rück	0	0	471,823	442,774
Other group companies	21,767,624	12,042,985	203,482	108,900

in EUR

Related parties	Services purchased in 2022	Services purchased in 2021	Services sold in 2022[2]	Services sold in 2021[2]
Parent of the group – Münchener Rück	553,113	550,784	107,331	96,726
Other group companies	5,019,295	8,154,609	433,969	389,496

[1] Including a loan of EUR 21,500,000 (2021: EUR 12,000,000) provided to ERGO Insurance SE.

[2] Including interest of EUR 204,023 (2021: EUR 6,125) on the loan provided to ERGO Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	2022	2021
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	424,304	435,504
Reinsurers' share of claims paid	87,314	101,489
Reinsurance commissions and profit participation	139,174	122,968
Other Group companies		
Ceded reinsurance premiums	22,791	5,121

Note 29. Contingencies

As at 31 December 2022 and 2021, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the separate financial statements.

The Company has remaining commitment to invest up to 680 298 euros in the Eften Residential real estate fund. The capital will be called if the asset manager allocates another attractive investment opportunity.

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

The Company has remaining commitment to invest up to 3 364 477 euros in the MEAG Infrastructure Debt Fund II. The capital would be called when the asset manager signs a loan agreement with another infrastructure Company.

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

Note 30. Events after the reporting date

After the end of the financial year and until the approval of the financial statements, there were no significant events, which should be disclosed in the financial statements.

Signatures to annual report 2022

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

Ursula Clara Deschka

Chair of the Board .... 4 April 2023

Maciej Szyszko

Member of the Board .... 4 April 2023

Tadas Dovbyšas

Member of the Board .... 4 April 2023

Marek Ratnik

Member of the Board .... 4 April 2023

Annex 1.

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

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

In 2021 expenses are distributed to pension contracts according to the following principles.

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

The following table presents the pension contracts income report for 2022 and 2021 years:

In euros	**2022**	**2021**
Net written premiums	0	**21 644**
Gross written premiums	0	21 644
0	0	0
Written premiums ceded to reinsurers		
Net income from investments (+/-)	0	**-152 330**
Income from interests and dividends	0	456 692
Profit/loss from change in value of investments	0	-2 046 677
Profit/loss from investment realisation	0	1 437 655
Other financial income/expenses		
Other operating income		
Annuity payments and change in liabilities related to annuities (+/-)	**0**	**-969 455**
Annuity payments	**-4 537 637**	**-9 639 309**
Reinsurers share of annuity payments	0	0
Paid surrender values	**0**	**0**
Reinsurance share of paid surrender values	0	0
Change in liabilities related to annuities	**4 537 637**	**8 669 854**
Reinsurance part in change in liabilities	0	0
Annuity management fees	0	106 547
Annuity cancellation fees	0	10 689
Operation expenses (-)	**0**	**-83 329**
Acquisition expenses	0	-38 628
Acquisition expenses of related parties	0	0
Administrative expenses	0	-44 701
Administrative expenses of related parties	0	0
Investment management expenses	0	0
Investment management expenses of related parties	0	0
Other operating expenses	0	0
Other operating expenses of related parties	0	0
Profit/loss of the reporting period (+/-)	**0**	**-1 183 470**
Profit to be distributed to annuity policyholders and beneficiaries	**0**	**0**

Annex 2.

Profit allocation proposal

The management board of ERGO Life Insurance SE makes the sole shareholder ERGO International AG a proposal that:

(1) no transfers be made to the capital reserve because the capital reserve exceeds the level required by the articles of association;

(2) no transfers be made to other reserves;

(3) dividend distribution in the amount EUR 3,500,000 be made to the sole shareholder.