ERGO Life Insurance SE

Independent Auditor's Report,
Annual Management Report and Financial Statements
for the Year Ended 31 December 2018

ANNUAL REPORT

Company name:	**ERGO Life Insurance SE**
Registry number:	**110707135**
Address:	**Geležinio Vilko St. 6A, LT-03507 Vilnius**
	Republic of Lithuania
Telephone:	**+370 5 268 30 11**
Fax:	**+372 5 268 3015**
E-mail:	**info@ergo.lt**
Website:	**www.ergo.lt**
Core business:	**Life insurance**
Beginning of financial year:	**1 January 2018**
End of financial year:	**31 December 2018**
Chairman of the management board and Managing Director:	**Bogdan Benczak**
Auditor:	**KPMG Baltics, UAB**

Contents

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Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

Report on the Audit of the Separate Financial Statements

Opinion

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

- the separate statement of financial position of the Company as at 31 December 2018,
- the separate income statement of the Company for the year then ended,
- the separate statement of comprehensive income of the Company for the year then ended,
- the separate statement of changes in equity of the Company for the year then ended,
- the separate statement of cash flows of the Company for the year then ended, and
- the notes to the separate financial statements of the Company, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Company code: 111494971
VAT code: LT114949716

Measurement of life insurance provision

The amount of life insurance provision as at 31 December 2018: EUR 187,311 thousand (as at 31 December 2017: EUR 182,431 thousand); change in life insurance provision for the year ended 31 December 2018: expenses of EUR 4,880 thousand (year ended 31 December 2017: income of EUR 9,361 thousand).

Refer to page 36 "Life insurance provision" (accounting policy) and Note 22.1 "Life insurance provision" on page 69 (financial disclosures).

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

Completeness and quality of data used in the Company's actuarial calculations were also our area of focus. Due to the above factors, we considered measurement of the life insurance provision to be our key audit matter.	• Assessing the reasonableness of the discount rates used by the Company against observable market rates; • Examining the changes in the insurance liability during the year, starting from the opening balance and considering all inflows and outflows which affect the amounts of the liability; Assessing the Company's disclosures regarding life insurance provision against the requirements of the relevant financial reporting standards.

Other Information

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

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

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

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

- The information given in the Company's annual management report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- The Company's annual management report has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed in 2003 for the first time to audit the Company's separate financial statements. Our appointment to audit the Company's separate financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 15 years.

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

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

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

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
29 March 2019

ANNUAL MANAGEMENT REPORT

2018

Review of operations

Strong owner

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

ERGO Insurance Group is one of the largest insurance groups in Germany and Europe. It operates in more than 30 countries and concentrates on Europe and Asia. ERGO offers a comprehensive spectrum of insurance, provision and services. About 42,000 people work for the Group, either as salaried employees or as registered sales representatives.

At the end of 2018, the share capital of ERGO Life Insurance SE (hereinafter in the report ERGO Life Insurance SE, ERGO, the company) was EUR 4,380,213. The sole shareholder of ERGO Life Insurance SE is ERGO International AG, registry code HRB 40871, address ERGO-Platz 1, 40198 Düsseldorf, Germany.

Information about the company's Management Board:

Bogdan Benczak. Chairman of the Management Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn).

Tarmo Koll. Member of the Management Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn).

Tadas Dovbyšas. Member of the Management 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).

Marek Ratnik. Member of the Management 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).

Ingrida Kirse. Member of the Management Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko g. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn).

Information about the company's Supervisory Board:

- Piotr Maria Śliwicki. Chairman of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Chairman of the Management Board of STU ERGO Hestia SA, Chairman of the Management Board of STUnŻ ERGO Hestia SA.
- Małgorzata Makulska. 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), Vice-chairman of the Management Board of STU ERGO Hestia SA, Vice-chairman of the Management Board of STUnŻ ERGO Hestia SA.
- Grzegorz Szatkowski. Chairman of Supervisory Board of Marina Sp. z o.o. and of Centrum Pomocy Osobom Poszkodowanym Sp. z o.o.; member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: A. H. Tammsaare tee 47, Tallinn), Vice-chairman of the Management Board of STU ERGO Hestia SA, Vice-chairman of the Management Board of STUnŻ ERGO Hestia SA.
- Dr Maximilian Happacher. Chairman of Supervisory Board of Victoria Lebensversicherung AG, of ERGO Insurance NV, of ERGO Lebensversicherung AG, and of ERGO Pensionskasse AG; member of the Supervisory Board of STUnŻ ERGO Hestia S.A., of ERGO Pensionsfonds AG, of Plc Insurance company ERGO, of Protektor Lebensversicherungs-AG, of Versorgungsausgleichskasse Pensionskasse VVaG, and of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius), member of the Management Board of ERGO Insurance Company S.A. and of ERGO China New Life Insurance Co.Ltd.

Cooperation with the world's strongest re-insurers

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

ERGO Life Insurance SE: the year 2018 in figures

Gross premium income	EUR 70.69 million
Total assets	EUR 316.30 million
Investments in financial instruments	EUR 286.90 million
Insurance contract provisions	EUR 208.06 million
Equity	EUR 60.37 million
Profit for the year	EUR 2.70 million
Total comprehensive income / expense	EUR 0.08 million
Return on equity	4.35%
Insurance contracts in force	137,176
Offices	10 in Lithuania, 23 in Latvia, 21 in Estonia
Employees	220

Economic environment

In its 2019 Economic Forecast, the European Commission expects Europe's economic expansion to continue in 2019, i.e. for the seventh consecutive year. However, if compared to the previous year, the slow-down in growth rates is expected, which will be mainly driven by increasing instability. In the context of the European Union, instability continues to be affected by Brexit.

Estonia

The main drivers of economic growth in 2018 were large internal consumption and increase in wages.

Internal consumption and favourable labour market are expected to remain the key drivers of economic growth for the next two years; however, due to deterioration of foreign economic environment, the growth might slow-down. Due to stabilisation of global prices of raw materials and split of the effect of increase in excise duties, 2019 might witness rapid increase in public expenditures and slow-down of inflation, which has been rapidly increasing during the recent years.

The main risk factor in Estonia is the dependency of small and open economy from external conditions.

Latvia

The primary driving forces behind economic growth are rapid wage growth and a steep recovery in the investments from the European Union structural funds, which has also led to buoyant private consumption. Despite rapid wage growth, inflation remained moderate.

Growth which started in 2018 continues in 2019, although at a slower pace. This is due to decreasing investments and labour shortages. Wage growth continues, which in turn, together with the increase in energy and food products prices, increases inflation. As a result of cooling off of internal demand, the exports will become the key component of economic growth in the upcoming years.

Lithuania

In 2018, the economic growth was wide-reaching and included all sectors (except for agricultural sector).

Un 2019, economic growth is expected, which will be mainly driven by high private consumption, which is encouraged by the amendments to the Law on Value Added Tax. The growth of investments is probably largely affected by the support from the structural funds of the European Union. However, the Lithuanian economy cannot ignore the slowing down of economic growth of its main trading partners, which in turn impedes the growth rates in Lithuania as well, which becomes average.

Depopulation remains the main problem in the Baltic region.

Regulatory environment

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

Lithuania has successfully implemented EU directives on insurance mediation (IMD I, II) into its national law. Due to the merge of the mentioned EU directives into one, some changes in insurance legal environment shall have to be made. In 2016, the European Commission adopted new rules to widen the IMD's scope to all sellers of insurance products, including insurance companies that sell directly to consumers. They will come into force as of 1 October 2018. In accordance with the new requirements, respective local laws (incl. the Law on Insurance of the Republic of Lithuania, regulations of the Lithuanian Central Bank, etc.) will be adjusted / prepared and approved. Therefore, implementation of this directive will be a focal point. Under this new framework, known as the insurance distribution directive (IDD) (also known as Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)), consumers and retail investors buying insurance products will benefit from:

- greater transparency in the price and costs of insurance products;
- a simple, standardised insurance product information document (IPID) providing clearer information on non-life insurance products, so that consumers can make more informed decisions;
- where insurance products are offered in a package with another product or service, for example when a new car is sold together with motor insurance, consumers will have the choice to buy the main product or service without the insurance policy;
- rules on transparency and business conduct to help consumers avoid buying products that do not meet their needs.

In the event of any IDD breaches, EU Member States shall ensure that competent authorities have the power to impose, in accordance with national law, at least the following administrative sanctions and other measures:

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

Furthermore, in January 2012, the European Commission proposed a comprehensive reform of data protection rules in the EU. In May 2016, the EU General Personal Data Regulation and EU Directive on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data were approved and came into force. On 27 April 2016, Regulation 2016/679 of the European Parliament and of the Council (EU) on the protection of individuals with regard to processing of personal data and on the free movement of such data came into force repealing Directive 95/46/EB (General Data Protection Regulation) (hereinafter – Regulation (EU) 2016/679). Regulation (EU) 2016/679 is a European Union legal act of direct application. In Lithuania, as in other European Union member states, it has been applied as of 25 May 2018. With the Regulation in place, EU citizens will be in better control of their personal data, and their safety will increase both online and offline.

As of 25 May 2018, the Law on Legal Protection of Personal Data has been amended.

Infringements of provisions listed in Art. 83 of the General Personal Data Protection regulation shall be subject to administrative fines of up to EUR 10,000,000–20,000,000, or in the case of an undertaking, up to 2–4% of the total worldwide annual turnover of the preceding financial year, whichever is higher.

The objective of this new set of rules is to give back control to citizens over their personal data, and to simplify the regulatory environment for business. The data protection reform is a key enabler of the Digital Single Market which the Commission has prioritised. The reform will allow European citizens and businesses to fully benefit from the digital economy.

The Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) [1][1] that introduce a key information document (KID – a simple document giving key facts to investors in a clear and understandable manner) covering not only collective investment schemes but also other “packaged” investment products offered by banks or insurance companies, was approved in November 2014 and had to be fully implemented by the end of 2017.

The competent authorities shall have the power to impose, in accordance with national law, at least the following administrative sanctions and measures:

- administrative fines of at least:

(i) in the case of a legal entity:

— up to EUR 5,000,000, or, in the Member States whose currency is not the euro, the corresponding value in the national currency on 30 December 2014, or up to 3% of the total annual turnover of that legal entity according to the last available financial statements approved by the management body, or

— up to twice the amount of the profits gained or losses avoided because of the infringement where those can be determined.

[1] Packaged retail investment and insurance products (PRIIPs) are at the core of the retail investment market. They are investment products that banks typically offer to consumers, for example, when they want to save for a specific objective such as a house purchase or for a child’s education. PRIIPs cover a range of investment products which, taken together, make up a market in Europe worth up to EUR 10 trillion.

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2018 was EUR 70.69 million. In terms of premium income, ERGO Life Insurance SE maintained the fifth position in the Lithuanian and the fourth position in the Baltic life insurance market. Claims and benefits incurred and changes in liabilities totalled EUR 55.3 million. ERGO Life Insurance SE ended 2018 with total comprehensive income of EUR 2.7 million. Net investment income amounted to EUR 3.4 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 316.30 million (2017: EUR 312.01 million). Investments in financial instruments amounted to EUR 286.90 million (2017: EUR 277.96 million), debt securities accounted for 76.2% (2017: 76.2%), loans for 2.2% (2017: 2.2%) and equities and fund units for 21.6% (2016: 16.4%) of the total. Altogether, investments in financial instruments accounted for 89.1% (2017: 89.1%) of total assets. Insurance provisions totalled EUR 208.06 million(2017: EUR 240.09 million), accounting for 82.3% (2017: 82.30%) of total liabilities and 65.4% (2017: 65.4%) of total assets.

Insurance activities

Gross premium income by insurance class

In euros	**2018**		**2017**		**Change**	
	Gross premiums written	Share of class, %	Gross premiums written	Share of class, %	Gross premiums written	Share of class, pp
Life insurance contracts	41,449,790	58.6	40,684,949	58.8	764,841	-0.2
Health insurance contracts	29,240,405	41.4	28,483,864	41.2	756,541	0.2
Total from insurance activities	***70,690,195***	***100.0***	***69,168,813***	***100.0***	***1,521,382***	
Total	**70,690,195**	**100.0**	**69,168,813**	**100.0**	**1,521,382**	

In 2018, ERGO Life Insurance SE generated premium income of EUR 70.69 million, a 2.2% increase on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 41.45 million or 58.6% and EUR 29.24 million or 41.4% of the portfolio respectively.

Claims and benefits paid by insurance class

In euros	**2018**		**2017**		**Change**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Life insurance contracts	24,664,191	54.3	34,504,428	62.0	-9,840,237	-7.7
Health insurance contracts	20,793,195	45.7	21,154,285	38.0	-361,090	7.7
Total	**45 457 386**		**55,658,713**		**-10,201,327**	

Claims and benefits paid in 2018 totalled EUR 45.46 million (2017: EUR 55.66 million). The largest share of claims was settled in life insurance: EUR 24.66 million or 54.3% of claims paid. The decrease, if compared to 2017, was driven by a large number of expired endowment insurance contracts in the Lithuanian portfolio. The next-largest class was health insurance, where claims and benefits paid totalled EUR 20.79 million or 45.7%.

Investing activities

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

In 2018, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the rated debt securities portfolio was as follows: 25.2% (2017: 23.8%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) rating, 33.2% (2017: 32.5%) were rated AA or Aa, 26.2% (2017: 24.4%) had an A rating, and 15.3% (2017: 19.2%) were rated BBB or Baa. At the year-end, the investment portfolio comprised investments in associates of EUR 4.7 million (2017: EUR 19.2 million), debt securities of EUR 213 million (2017: EUR 211.7 million), loans of EUR 6.0 million (2017: EUR 6.0 million), and equities and fund units of EUR 27.0 million (2017: EUR 24.0 million). There were no term deposits.

Income on assets with interest rate risk amounted to EUR 4.9 million. Realisation of equities and units resulted in a loss of EUR 0.01 million and realisation of debt securities in a gain of EUR 0.2 million. Dividend income was EUR 0.83 million. The fair value reserve decreased by EUR 2.62 million.

Development

ERGO Life Insurance SE further increased its financial capacity and stability

Insurance premiums written by ERGO Life Insurance SE during the reporting year amounted to EUR 70.69 million, i.e. 0.9 per cent more than in 2017 (2017: EUR 65 million). In terms of premiums written in the separate insurance groups, the most rapid increase was in health insurance premiums. In life insurance, the most rapid increase was in annuities insurance, unit linked life insurance and additional (health) insurance.

Fast and proper insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR 45.5 million (2017: EUR 55.7 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.

Sales and customer service

The strategic focus of ERGO includes strong client relations, client-centeredness, innovation, simplicity and transparency.

In an extremely competitive environment, focus on efficiency is of utmost importance. This is assured by automatization and digitalisation of internal processes and innovations.

ERGO Life Insurance SE updates the conditions of its insurance services by considering its past experience and the growing needs of its clients. Considering the requirements of the new EU directive on insurance mediation, the company reviewed the conditions of its insurance products and their distribution, especially for unit linked insurance products.

In 2018, ERGO offered a new universal health insurance product for Latvian citizens and 11 new investment directions. This product is also distributed in Lithuania where it has successfully replaced capital endowment products. By choosing investment directions, ERGO seeks to present ample investment possibilities to its clients in all key global financial markets. The new investment directions are chosen by ERGO experts after consideration of many important criteria, e.g., size of funds, management fees and ratings assigned by Morningstar, a global leader of investment research.

The conditions of additional insurance were reviewed. The scope of additional accident insurance was broadened, and the list of critical illnesses was extended for both children and adults.

The company focuses on long-term life insurance business in the Baltics and holds strong positions in voluntary pension insurance and pension annuity. ERGO offers to its clients various independent saving instruments for pension, a variety of services related insurance risks and hedging against those risks, and for the retired members of pillar II pension funds it provides pension annuity service in all Baltic States.

We are proud of

A well-loved brand. ERGO in Latvia was in the TOP 5 of the most loved brands among the companies of the insurance and banking sector.

Best value for money. Based on the data of trademark analysis performed by DDB Brand Capital in 2018, ERGO is recognised as an insurance company providing the best value for money in Lithuania.

The Secret Buyer research conducted in non-life insurance sector in 2018 revealed that our client service is rapidly improving and we are moving towards full satisfaction of client expectations. The overall service result improved by 9.2 percentage points from 75.2% in 2017 up to 84.4% in 2018.

Silver category rating. ERGO in Latvia for the second year participated in the Sustainability Index Initiative and was awarded the Silver Rating. The initiative was organised by the Institute of Corporate Social Responsibility and Sustainability, the Employers Confederation of Latvia and Free Trade Union Confederation of Latvia.

Family-friendly workplace. ERGO in Latvia was awarded the status of a family-friendly workplace. The awards have been organised for 11 years now, and this year ERGO was among the 38 winning companies.

A top employer. For the first time ever ERGO competed for the title of the best employer and was in the high 14th place.

Best client service in Estonia and Latvia. Based on the survey of insurance client service carried out by Dive Group at the end of the previous year, ERGO in Estonia and ERGO in Latvia were named as the best online service (by e-mail) providers.

Good service month. ERGO in Estonia once again successfully participated in the Good Service Month! Campaign – took home the 9th place and was the best among insurance companies.

Sponsorship and social responsibility

ERGO in all Baltic countries is implementing a wide range of social responsible projects.

Velomarathon and ERGO social responsibility initiative One-Half Metres. For the seventh year in a raw ERGO Lithuania is the main sponsor of the biggest cycling event Velomarathon. In 2018, in order to draw attention to road safety of cyclists, ERGO together with the Lithuanian Police Department, Lithuanian Cyclists' Community, Kaunas municipality, representatives of Velomarathon and other institutions carried out the initiative One-Half Metres aimed at motivating car drivers to bypass or to overtake cyclists at the specific distance of one-half metres. Each year ERGO employees and family members are encouraged to participate in Velomarathon. This excellent event helps to strengthen ERGO community and encourage employees to participate in physical activities and spend their free time with family. In 2018 the team of ERGO amateur cyclists comprised of more than 200 adults and children was the biggest team in Velomarathon and received t-shirts of the most civic-minded team signed by the President of Lithuania Dalia Grybauskaitė and the cup of the Mayor of Vilnius.

Kino Pavasaris. For the sixth year already, ERGO has been the main sponsor of one of the largest cultural events in Lithuania, the Vilnius International Film Festival Kino Pavasaris. The film festival which has been around for more than 20 years attracted more than 116 thousand viewers in 2018.

Conscious parenting campaign. ERGO in Lithuania encourages conscious parenting and gave the opportunity for parents of new-borns of up to 6 months to purchase life insurance for one year for 1 cent. The campaign was aimed at encouraging early financial responsibility of parents so that they could feel safe in case of an accident.

Healthy lifestyle. ERGO encourages its employees to be more active and lead a healthy lifestyle. For this purpose “Health months” are organised when employees are provided with products for healthy teas – ginger, lemons and honey. During the warm season ERGO offices in the big cities purchased bicycles and scooters which the employees can use during lunch breaks or trips to clients. Next year the initiative is planned to be continued in other Lithuanian cities as well.

In Latvia, employees initiated spring, autumn and winter team sport events. Using a sports app, employees competed in jogging, hiking, cycling and gymnastics.

In December Latvia hosts a running competition for Santas which has been organised by ERGO for more than five years. The funds collected during the competition are donated to ill children. Each spring ERGO employee team participates in Riga marathon.

In Lithuania and Latvia ERGO sponsors employee teams who play volleyball, basketball, football.

Bicycle school. ERGO in Latvia organises a bicycle school for children under 12 years old, which offers wide opportunities to improve cycling skills. Those who have completed the track successfully are entitled to take an exam and, if successfully passed, are given the certificate. Bicycle schools are open in different cities of Latvia from June until the end of September.

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

Olympic Games. ERGO has given support to Estonian participation in the Olympic Games and continues its long-term cooperation with the Estonian Olympic Committee. ERGO has insured the athletes' travels to competitions and their vehicles.

Violence-free school. ERGO in Estonia continues its support to the programme Violence-Free School. Because of the support granted by ERGO, during one academic year five schools are entitled to join the programme. The programme Violence-Free School helps prevent or reduce violence in Estonian schools.

Family day. In Latvia, ERGO family day was organised for the 6th time on Children's Day. In 2018, around 100 children of ERGO employees took part in the event: they visited ERGO office and got to know more about the jobs of their parents, insurance, active and healthy lifestyle.

Youth. For the second year in a row ERGO participated in the Arvamusfestival in Estonia and sponsored the health zone which hosted discussions on health-related topics.

Scholarships for education seekers. ERGO in Latvia provides scholarships to young people who have lost their parents and need support in order to obtain higher education. In total, over 17 years, ERGO has supported education of 78 young people.

Nature. Together with those who share the same ideas, ERGO in Latvia planted 2.8 thousand pine trees. Over the past eight years of ERGO's participation in planting the forest, about 27 thousand pine trees and spruces were planted.

In various regions of Lithuania ERGO employees participated in the annual DAROM initiative and cleaned the territories, parks and forests near ERGO offices.

Initiatives. ERGO in Lithuania joined the social campaign "For a Safe Lithuania" initiated by the President of the Republic of Lithuania Dalia Grybauskaitė and gifted the opportunity to go to a summer camp to eleven children from disadvantaged backgrounds.

ERGO collaborates with the organisation SOS Children's Villages and its day care centres. In December ERGO invited the children of three day care centres to the theatre where they not only saw a performance but were also invited go backstage and meet the cast.

Christmas spirit initiative. In December for the fourth year in a row the employees of ERGO in Lithuania organised a Christmas spirit initiative during which funds and things are collected for disadvantaged families and the people in need. The employees themselves select and decide to whom they will donate the funds and things collected and together visit those families or establishments.

The roles and responsibilities of the members of the management board are as follows.

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

Statement of the management's responsibility

The Board of Directors of ERGO Life Insurance SE confirm that the separate financial statements for the year ended 31 December 2018 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and that appropriate accounting policies have been applied on a consistent basis. Board of Directors of ERGO Life Insurance SE are responsible for preparing these separate financial statements from the books of primary entry. The Board of Directors confirm that these separate financial statements for the year ended 31 December 2018 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the separate financial statements for the year ended 31 December 2018.

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

Bogdan Benczak
Chairman of the Board

29 March 2019

Separate financial statements

Separate income statement

In euros	Note	**2018**	**2017 (restated)**
Income			
Gross premiums written		70,690,195	69,168,813
Written premiums ceded to reinsurers		-992,675	-873,787
Total net premiums written		**69,697,520**	**68,295,026**
Change in gross provision for unearned premiums		-272,570	-249,498
Reinsurers' share of change in provision for unearned premiums		0	0
Net change in provision for unearned premiums		**-272,570**	**-249,498**
Net earned premiums	**6**	**69,424,950**	**68,045,528**
Fee and commission income	**23**	**531,813**	**459,080**
Net investment income	7	3,417,509	6,403,497
Other income		705,123	886,435
Total income		**74,079,395**	**75,794,540**
Expenses			
Claims and benefits incurred		-53,570,250	-54,236,057
Reinsurers' share of claims and benefits incurred		76,951	2,643
Net policyholder claims and benefits incurred	**8**	**-53,493,299**	**-54,233,414**
Change in value of financial liabilities from investment contracts	**23**	**971,469**	**-504,542**
Acquisition costs	9	-10,669,556	-11,162,508
Administrative expenses	9	-4,267,175	-3,830,984
Other operating expenses	9	-921,579	-532,625
Investment expenses	9	-501,912	-477,477
Other expenses	9	-2,409,327	-1,001,941
Total expenses		**-71,291,379**	**-71,743,491**
Operating profit/loss		**2,788,016**	**4,051,049**
Profit before income tax		**2,788,016**	**4,051,049**
Income tax expense/benefit	**28**	**87,335**	**333,795**
Profit for the year		**2,700,681**	**3,717,254**

Separate statement of comprehensive income

In euros	Note	**2018**	**2017**
Profit/loss for the year		**2,700,681**	**3,717,254**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in the value of available-for-sale financial assets	21	-2,622,127	-4,373,967
Total other comprehensive expense/income for the year		**-2,622,127**	**-4,373,967**
Total comprehensive income/expense for the year		**78,554**	**-656,713**

The notes on pages 25 to 76 are an integral part of these separate financial statements.

Separate statement of financial position

In euros

Assets

As at 31 December	**Note**	**2018**	**2017**
Property and equipment	10	301,087	530,483
Intangible assets	12	869,214	1,111,301
Deferred acquisition costs	11	5,646,084	6,967,293
Investments in subsidiaries	13	4,677,870	4,677,870
Investments in associates	14	0	1,394,593
Asset held for sale	14	622,281	0
Investments in financial instruments			
Equities and fund units accounted at FVTPL	*15*	*40,500,616*	*36,093,602*
Equities and fund units available for sale	*15*	*27,256,978*	*23,952,111*
Debt and other fixed-income securities	*15*	*213,138,002*	*211,702,795*
Loans	*15*	*6,002,247*	*6,214,779*
Total investments in financial instruments		286,897,843	277,963,287
Reinsurance assets	16	149,133	139,650
Insurance and other receivables	17	10,284,380	10,079,957
Deferred tax assets	28	100,758	129,687
Cash and cash equivalents	18	6,753,999	9,020,015
Total assets		**316,302,649**	**312,014,136**

Equity and liabilities

As at 31 December	**Note**	**2018**	**2017**
Equity			
Share capital	19	4,380,213	4,380,213
Capital reserve	20	15,869,501	15,869,501
Fair value reserve	21	23,603,596	26,225,722
Retained earnings		16,513,180	17,312,500
Total equity		**60,366,490**	**63,787,936**
Liabilities			
Insurance contract provisions	22	208,057,862	204,088,883
Reinsurance payables		286,159	157,401
Financial liabilities from unit-linked contracts		23,210,828	20,460,092
Financial liabilities from investment contracts	23	17,289,789	15,713,855
Insurance payables	24	4,148,569	4,688,056
Other payables and accrued expenses	25	2,942,952	3,117,913
Total liabilities		**255,936,159**	**248,226,200**
Total equity and liabilities		**316,302,649**	**312,014,136**

The notes on pages 25 to 76 are an integral part of these separate financial statements.

Separate statement of cash flows

In euros

(Inflow + , outflow –)	Note	2018	2017
Net cash from operating activities		**1,097,802**	**4,195,944**
Insurance premiums received		75,375,187	75,228,679
Claims, benefits and handling costs paid		-46,094,480	-57,088,049
Settlements with reinsurers		-538,431	-607,807
Paid in operating expenses		-16,622,225	-15,574,973
Other income and expenses		519,689	334,642
Acquisition of equities and fund units		-48,992,807	-18,698,792
Disposal of equities and fund units		11,915,656	104,798
Acquisition of debt and other fixed-income securities		-4,844,298	-6,704,984
Disposal of debt securities		27,192,959	23,649,631
Interest received		4,909,767	5,124,642
Dividends received		829,498	525,364
Taxes paid		-2,552,713	-2,097,207
Net cash used in investing activities		**-3,363,818**	**-942,444**
Acquisition of an associate		0	0
Loans to group companies		0	500,000
Repayment of loans to group companies		0	0
Interest received from group companies		0	0
Proceeds from other investments		0	0
Dividends paid		-3,500,000	-1,000,000
Paid on acquisition of property and equipment and intangible assets		-297,443	-477,592
Proceeds from sale of property and equipment and intangible assets		433,625	35,148
Net cash inflow/ (outflow)		**-2,266,016**	**3,253,500**
Cash and cash equivalents at beginning of year		**9,020,015**	**5,766,515**
Decrease in cash and cash equivalents		-2,266,016	3,253,500
Cash and cash equivalents at end of year	**18**	**6,753,999**	**9,020,015**

The notes on pages 25 to 76 are an integral part of these separate financial statements.

Separate statement of changes in equity

In euros	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2016	**4,380,213**	**15,869,501**	**30,599,689**	**14,595,246**	**65,444,649**
Dividend distribution	0	0	0	-1,000,000	-1,000,000
Total transactions with owner	**0**	**0**	**0**	**-1,000,000**	**-1,000,000**
Profit/(loss) for the year	0	0	0	3,717,254	3,717,254
Other comprehensive income	0	0	-4,373,967	0	-4,373,967
Total comprehensive income	**0**	**0**	**-4,373,967**	**3,717,254**	**-656,713**
Balance at 31 December 2017	**4,380,213**	**15,869,501**	**26,225,722**	**17,312,500**	**63,787,936**
Dividend distribution	0	0	0	-3,500,000	-3,500,000
Total transactions with owner	**0**	**0**	**0**	**-3,500,000**	**-3,500,000**
Profit/(loss) for the year	0	0	0	2,700,681	2,700,681
Other comprehensive expense	0	0	-2,622,127	0	-2,622,127
Total comprehensive income	**0**	**0**	**-2,622,127**	**2,700,681**	**78,554**
Balance at 31 December 2018	**4,380,213**	**15,869,501**	**23,603,595**	**16,513,181**	**60,366,490**

The notes on pages 25 to 76 are an integral part of these separate financial statements.

Notes to the separate financial statements

Note 1. Reporting entity

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

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

The separate financial statements of ERGO Life Insurance SE for 2018 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 29 March 2019. Under the Law on Companies of the Republic of Lithuania, the annual report and the financial statements that have been prepared by the management board and approved by the supervisory board must also be approved by the shareholders' general meeting. Shareholders may decide not to approve the financial statements and may demand that a new set of financial statements be prepared.

Note 2. Basis of preparation

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

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

(a) Basis of accounting

The separate financial statements of ERGO Life Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2018.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Use of judgements and estimates

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

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

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

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

Estimates are also used in determining the fair value of financial instruments (see accounting policies (l) and (m)), impairment of financial assets (see accounting policies (l)) and deferred tax asset (see accounting policies (s)).

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

- Note 15 Investments in financial instruments
- Note 16 Reinsurance assets
- Note 17 Insurance and other receivables
- Note 22 Insurance contract provisions
- Note 28 Income tax

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

(i) Measurement of fair values

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

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

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

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

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

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

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

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

Note 3. Significant accounting policies

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

(a) Classification of insurance contracts

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

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

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. See note 23 for investment contracts.

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

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

(b) Revenue

Insurance gross premiums

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

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

According to Estonian Insurance Activity Act § 128 an insurance undertaking who enters into pension contracts shall submit upon the preparation of the annual report in an annex to its annual accounts the pension contracts report. ERGO Life Insurance SE Estonian branch enters into pension contract in terms of Funded Pension Act. ERGO Life Insurance SE Estonian branch pension contracts income is disclosed in Annex 1 to these financial statements.

Reinsurance premiums

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

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

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

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

Fees and commission income

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

Investment income

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

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

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

Other income

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

(c) Expenses

Claims and benefits incurred

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

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

Reinsurers' share of claims and benefits incurred

Reinsurance claims and benefits are recognised when the related gross insurance claim or benefit is recognised according to the terms of the relevant contract.

Operating expenses

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

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

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

Allocation of expenses

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

(d) Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

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

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

(iii) Lease payments

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

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

(e) Operating profit

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

(f) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

(g) Intangible assets

(i) Recognition and measurement

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

Development expenditure of internally generated software is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Software	3–5 years

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

(h) Deferred acquisition costs

Acquisition costs are costs incurred in connection with the acquisition of new insurance and investment 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.

(i) Cash and cash equivalents

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

(j) Investment is subsidiaries and associates

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

(k) Assets held-for-sale

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

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

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(l) Financial instruments

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

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

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

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument.

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

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

(ii) Non-derivative financial assets – Measurement

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

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

<u>Loans and receivables</u>

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

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

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

(iii) Non-derivative financial liabilities – Measurement

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

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

(iv) Derivative financial instruments

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

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

(m) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

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

— indications that a debtor or issuer will enter bankruptcy;

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

(ii) Non-financial assets

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

(n) Fair value measurement

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

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

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

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

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

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

(o) Insurance contract liabilities

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

Insurance contract liabilities consist of:

Life insurance provision

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

Discount rate is guaranteed rate in range from 0.3% to 4%, depending on the type and time of issue of the contract and the currency of the insured amount.

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

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

Provision for unearned premiums

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

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

Provision for claims outstanding

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

Provision for bonuses

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

Provision for unexpired risks

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

Insurance liability valuation

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

Liability adequacy test

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

Cash inflows comprise estimated future investment income.

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

(p) Financial liabilities

(i) Financial liabilities from unit-linked investment contracts

This class includes investment contracts the financial liabilities of which are determined based on the market values of the securities linked to the investment contracts. Such financial liabilities are classified as at fair value through profit or loss upon acquisition. The Company has designated the liabilities to the category of *at fair value through profit or loss* because this eliminates or significantly reduces the accounting mismatch for assets and liabilities which would arise if gains and losses on the said assets and liabilities were recognised using different accounting policies.

(ii) Financial liabilities from health insurance contracts

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

(iii) Other financial liabilities

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

(r) Provisions and contingent liabilities

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

(s) Vacation pay liability and other liabilities to employees

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

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

(t) Taxes

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

- Insurance Supervisory Commission maintenance fee of 0.234% from insurance premiums written in Lithuania;
- Social insurance contributions of 30.98% 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 Latvia and Lithuania was 15% (the same as in the previous year). Activity in the Republic of Estonia is not subject to corporate income tax.

Due to the tax reform in Latvia that has come into force as of 1 January 2018, the calculation method of corporate income tax changed significantly. In general, the approach is similar to the one currently applied in Estonia – instead of the current year profit being taxed (until 31 December 2017), the tax is applied only when dividends are distributed, i.e., the profit leaves the company (starting from 1 January 2018). In addition, a monthly tax is paid on certain non-business expenses.

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

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

(u) Foreign currency transactions

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

(v) Capital management

As of 1 January 2016, the Company assesses capital adequacy based on Solvency II rules. Solvency II entails rules for calculating capital requirements and qualifying capital, risk management and internal control requirements, regulates the reporting of the risk and capital situation.

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

(a) Changes in accounting policies

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

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Company has prepared an analysis of the expected impact of IFRS 15 on its financial statements. The major part of the Company's revenue is received from insurance contracts and financial instruments or is related to services when revenue is recognised at the time of service provision. Due to the nature of the Company's activities and the type of revenue it earns IFRS 15 had no material impact.

The following new standards and amendments with effective date of 1 January 2018 did not have any impact on these financial statements:

- IFRS 15 – Revenue from Contracts with Customers;
- Clarifications to IFRS 15 – revenue from contracts with customers;
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 Transfers of Investment Property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Annual Improvements to IFRSs 2014-2016.

(b) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2018 and have not been applied in preparing these separate financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

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

This Standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking an ‘expected credit loss’ (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

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

The Company meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

(ii) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of as Lease*.

Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of premises (see Note 27). The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Company estimates that it will recognise additional right-of-use assets of EUR 1.323.462 thousand as at 1 January 2019, also corresponding lease liabilities will be recognised.

- *Leases in which the Company is a lessor*

No significant impact is expected for other leases in which the Company is a lessor.

(iii) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017. Effective for annual periods beginning on or after 1 January 2019. These amendments are not yet endorsed by the EU.)

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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

(iv) IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

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

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

The Company plans to adopt the new standard on the required effective date together with IFRS 9. The Company started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

(v) IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. This interpretation is not yet endorsed by the EU.)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company does not operate in a complex multinational tax environment / does not have material uncertain tax positions.

(vi) Annual Improvements to IFRS 2015-2017 Cycle (issued o 12 December 2017. Effective for annual periods beginning on or after 1 January 2019. These annual improvements are not yet endorsed by the EU.)

The *Improvements to IFRSs (2015-2017)* contains four amendments to standards. The main changes were to:

- clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 *Business Combinations*;
- clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 *Joint Arrangements*;
- clarify that the entity should always account for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes are expected to have a material impact on the financial statements of the Company.

(vii) Other Standards

The following amended standards are not expected to have a significant impact on the Company's financial statements:

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Amendments to References to Conceptual Framework in IFRS Standards.

Note 5. Risk management

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

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

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

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

(a) Insurance risks

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

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

Policies for mitigating insurance risk

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

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

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

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

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

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

Insurance risk management strategy

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

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

1. Products with guaranteed investment return in savings phase. The group of products is sensitive to mortality, lapse, expense and catastrophe risks. The impact from changes in the lapse rate is assessed by the Company on the regular basis (at least annually); the comparison of actual surrenders and modelled is performed and significant fluctuations (if any) analysed in the details. Proper expense evaluation is considered a challenging aspect as well due to long-term projections which lead to expense estimation for the next 40 years. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is considered to be of minor importance. In response to particularly low return on investments in the market, the distribution of products with guaranteed investment return in saving phase was terminated in Estonia in 2017 and in Lithuania in 2018. The distribution of these products is planned to be terminated also in Latvia in the near future.

2. Pension annuities in annuity payment phase (product with guaranteed investment return). The group of products is sensitive to longevity, lapse and expense risks. Longevity risk is constantly growing due to increasing volume of pension annuities in annuity payment phase portfolio. Also, current Company's experience cannot be considered sufficient to have prudent actual longevity estimates. Expense and lapse risks are of minor importance due to lapse restrictions (the latter option is possible only for Estonia's pension annuities paid under the Funded Pension Act) as well as rather constant expenses for annuity products.

3. Unit-linked products. Due to absence or immaterial risk drivers for mortality, disability-morbidity, the impact of underwriting risk is minor importance for unit-linked products.

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

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

Insurance contract groups

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

Insurance with investment return

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

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

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

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

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

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

Due do portfolio diversification, concentration risk is reduced.

Insurance linked to investment units

The group of products is currently the most popular in the market; however, it takes a rather small part of the Company's current portfolio. This product group is almost not sensitive to market risks; 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 equity. 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 2018

In euros	**Change in assumptions**	**Increase/ (decrease) in gross liabilities**	**Increase/ (decrease) in net liabilities**	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
Mortality rate	+ 10%	-19,176	-19,176	-27,732	**-39,097**
Lapse and surrenders rate	+ 10%	-173,996	-173,996	84,360	**121,079**
Discount rate	+ 1%	-3,570,286	-3,570,286	1,287,105	**983,331**
Mortality rate	- 10%	22,707	22,707	27,734	**37,005**
Lapse and surrenders rate	- 10%	193,256	193,256	-84,349	**-121,185**
Discount rate	- 1%	7,965,351	7,965,351	-1,298,671	**-1,840,762**

As at 31 December 2017

In euros	**Change in assumptions**	**Increase/ (decrease) in gross liabilities**	**Increase/ (decrease) in net liabilities**	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
Mortality rate	+ 10%	-26,386	-26,386	-31,308	**-33,780**
Lapse and surrenders rate	+ 10%	-92,516	-92,516	95,962	**121,667**
Discount rate	+ 1%	-2,435,883	-2,435,883	1,325,563	**809,445**
Mortality rate	- 10%	29,663	29,663	31,310	**32,465**
Lapse and surrenders rate	- 10%	106,682	106,682	-95,949	**-121,726**
Discount rate	- 1%	5,977,750	5,977,750	-1,337,413	**-1,776,508**

Pricing risks

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

Therefore, there exists the risk that rates will become insufficient due to the changed assumptions. This risk is mitigated by checking the validity of assumptions applied in regular analyses.

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

Claim handling risks

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

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

Provisioning risks

Main risks in technical provision evaluation arise due to the fact that major part of portfolio has guaranteed outgoes, rather long-term, future projections of 40 years must be done; however, premium rates for existing business cannot be revised. Therefore, future reserving parameters are revised on an annual basis and if new trends are determined, the parameters are updated correspondingly.

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 2018, tactical decisions were made and implemented by MEAG (MEAG Munich ERGO Asset Management GmbH), an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management team (AL Team) which, in addition to asset manager, consists of the Company's actuaries, investment officers, risk manager, head of planning and controlling department and Management Board member. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Market risk

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

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

(a) Interest rate risk

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

The Company's investments comprise mostly fixed-income securities, the market value of which is influenced by changes in interest rates. As at 31 December 2018, the weighted average purchase yield to maturity of fixed-income portfolio was 2.71% (31 December 2017: 2.79%).

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

In euros	**2018**	**2017**
	Carrying amount	**Carrying amount**
Fixed-income debt securities		
Interest rate 0.00−2.50%	81,530,354	71,157,654
Interest rate 2.51−3.50%	17,208,951	18,154,407
Interest rate 3.51−4.50%	50,064,862	53,972,813
Interest rate 4.51−5.50%	34,752,456	36,680,204
Interest rate 5.51−6.50%	24,013,663	26,019,760
Interest rate 6.51−7.50%	499,750	526,956
Interest rate 7.51−8.50%	286,840	302,686
Total fixed-income debt securities	**208,356,877**	**206,814,480**
Floating rate debt securities	4,781,125	4,888,305
Loans		
Interest rate 2.51−3.50%	6,002,247	6,214,779
Total loans	**6,002,247**	**6,214,779**
No interest	74,511,593	69,065,728
Total	**293,651,842**	**286,983,292**

(b) Other price risk

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

If as at 31 December 2018 the value of investments in equity and fixed income funds had increased/decreased by 10%, the Company's equity would have increased/decreased by EUR 2.1 million (2017: EUR 1.8 million).

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

Investments in financial instruments and cash by issuer's domicile

In euros

As at 31 December	**2018**	**2017**
Debt and other fixed-income securities		
Austria	13,924,560	14,164,488
Australia	1,589,976	330,150
Belgium	14,638,162	14,264,035
Canada	1,688,424	0
Chile	1,145,614	1,173,908
Czech Republic	256,719	897,629
Denmark	208,601	217,652
Estonia	2,194,587	2,273,925
Finland	2,681,383	2,704,233
France	37,192,380	37,462,277
Germany	23,818,707	24,169,518
Hungary	895,781	728,637
Indonesia	493,108	0
Ireland	7,034,248	7,681,600
Israel	2,410,276	2,407,549
Italy	11,604,209	13,402,088
Latvia	4,279,624	4,995,282
Lithuania	6,935,503	8,111,051
Luxembourg	4,404,740	2,751,996
Mexico	2,390,952	3,645,489
Netherlands	12,406,020	12,583,925
New Zealand	649,663	0
Norway	1,008,641	506,560
Peru	1,224,105	1,255,685
Poland	5,665,443	4,830,198
Slovakia	4,447,462	4,047,039
Slovenia	4,563,428	4,580,677
Spain	17,921,231	16,783,859
Sweden	0	0
Switzerland	729,431	739,430
Great Britain	6,435,174	6,471,061
USA	3,515,231	3,561,909
European Investment Bank	14,784,618	14,960,945
Total debt and other fixed-income securities	***213,138,002***	***211,702,795***
Equities and fund units		
Ireland	19,590,340	18,311,115
Germany	0	63,524
Estonia	6,300,171	4,695,051
Finland	46,873	84,238
Lithuania	110,846	111,011
Luxembourg	1,208,748	623,343
Norway	0	46,515

In euros

As at 31 December	**2018**	**2017**
Sweden	0	17,314
Total equities and fund units	***27,256,978***	***23,952,111***
Loans Estonia	6,002,247	6,214,779
Total loans	***6,002,247***	***6,214,779***
Unit-linked		
Ireland	1,525,400	95,494
Denmark	0	0
Estonia	0	2,821,003
Finland	1,132,728	823,925
Latvia	0	0
Lithuania	11,219,764	10,393,933
Luxembourg	26,622,724	18,653,881
Norway	0	451,794
Germany	0	2,658,453
Sweden	0	195,119
Total Unit-linked	***40,500,616***	***36,093,602***
Deposit		
Latvia	0	0
Total deposit	*0*	***0***
Cash		
Estonia	1,220,093	1,607,184
Latvia	3,719,826	3,901,541
Lithuania	1,814,080	3,511,290
Total cash	***6,753,999***	***9,020,015***
Total investments in financial instruments	**293,651,842**	**286,983,302**

(c) Currency risk

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

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

The following assets and liabilities are exposed to currency risk.

In euros	**As at 31 December 2018**	**As at 31 December 2017**
	USD	**USD**
Insurance and other receivables	2,573	3,554
Investments in financial instruments – available-for-sale debt securities	0	331,076
Other liabilities from direct insurance business	0	0
Reinsurance payables	(1,423)	(30)
Total	**1,150**	**334,600**

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 (2017: A+). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion. The financial instruments and cash presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies.

Rating		2018		2017	
Standard & Poor's	**Moody's**	**Carrying amount in euros**	**%**	**Carrying amount in euros**	**%**
AAA	Aaa	53,758,966	**18.3**	50,481,478	**17.6**
AA	Aa	70,767,034	**24.1**	68,890,103	**24.0**
A	A	55,903,149	**19.0**	51,692,967	**18.0**
BBB and below	Baa	32,708,853	**11.2**	40,638,237	**14.2**
Not rated	Not rated	80,513,840	**27.4**	75,280,507	**26.2**
Total		**293,651,842**	**100**	**286,983,292**	**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 2018 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	7,919,591	1,093,559	214,183	186,649	**9,413,982**
Receivables from intermediaries	9	6	0	17	**32**
Receivables from reinsurers	35,527	31,345	0	0	**66,872**
Other receivables	269,137	206,480	27,816	73,430	**576,863**
Total	**8,224,264**	**1,331,390**	**241,999**	**260,096**	**10,057,749**

As at 31 December 2017 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	8,270,690	955,363	189,839	189,909	**9,605,801**
Receivables from intermediaries	14	1,409	17	68	**1,508**
Receivables from reinsurers	33,951	0	26,686	0	**60,637**
Other receivables	176,573	18,343	142	42,763	**237,821**
Total	**8,481,228**	**975,115**	**216,684**	**232,740**	**9,905,767**

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

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 253.08 million (2017: EUR 250.68 million), including available-for-sale securities of EUR 213.1 million (2017: EUR 211.7 million), equities and fund units of EUR 27.23 million (2017: EUR 23.95 million), loans of EUR 6.00 million (2017: EUR 6.21 million), and cash and cash equivalents of EUR 6.75 million (2017: EUR 9.0 million).

Investments in financial instruments and cash (by maturity):

As at 31 December		
In euros	**2018**	**2017**
Carrying amount	**293,651,842**	**286,983,302**
Total contractual cash flows	**314,907,092**	**314,545,288**
No maturity	74,511,593	69,065,728
Up to one year	7,703,728	9,374,599
2-3 years	12,087,911	22,248,209
4-5 years	34,250,016	34,502,163
6-10 years	58,609,204	75,237,990
11-15 years	51,061,751	45,094,507
16 and more	76,682,889	59,022,092

At the year-end, the weighted average duration of fixed income portfolio was 9 years (2017: 9.3 years). There were no non-cash movements in the portfolio.

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

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

Strategic risk

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

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

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

- Capital markets – Baltic Life insurance business is dependent on capital market developments. Baltic Life insurance entity’s investment portfolio is not able to provide returns, which would meet guaranteed interests it is obliged to offer to clients. Guarantees given in the past are significantly higher than existing capital markets can provide.
- Political environment – political environment in the Baltic States is currently stable.
- Shifting regulation – current government pays a lot of attention to monitoring the implementation of EU regulation, e.g. Insurance Distribution (IDD) and General Data Protection Regulation (GDPR). These require additional resources, proper analysis, trainings and communication. Failure to be in compliance with the regulations leads to high penalties and reputational impact.
- Competitive insurance market environment – markets continue to be competitive, especially considering clear indications of the market softening. Declined market demand and as a result possible tariff’s decrease would end in difficulties to generate positive underwriting results.
- Demographical situation – reduced migration due to potential market softening and decline in the economic growth, also continuing population aging might trigger a need for different products we offer as well as number of possible clients will decrease constantly.
- The possible impact to the business model of the Company by the changed customers’ behaviour and needs in terms of digitalization.

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

Operational risk

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

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

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

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

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

The Internal Control System embraces a process which, starting from the Company's risk strategy and risk-bearing capacity is intended first to link operational risk identification, analysis and assessment with control identification and assessment using the Group-wide control environment as a basis. Then, the net risks are compared, for example, with the limit system and excessive risks managed as necessary through reduction, transfer and/or intensive monitoring. Significant operational risks and 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 CobIT, an internationally recognized framework for IT governance, which breaks down tasks in IT into processes and controls. IT control assessment consists of evaluation of general controls – controls linked to individual applications, and to entity level control evaluation – controls performed for the Company. Besides that, IT related operational risks are managed is scope of IT risk management framework.

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

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

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

Reputational risk

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

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

ERGO has defined three sub-categories of reputational risk:

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

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

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

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

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

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

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

Note 6. Premium income

The following table outlines gross and net premiums for 2018 and 2017 by insurance class.

In euros	2018				2017 (restated)			
	Gross premiums written	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross premiums written**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, Riders (supplementary insurance)	2,290,217	-599,299	0	1,690,918	3,799,636	-539,157	0	3,260,479
Life, Unit-linked	9,771,872	0	0	9,771,872	7,445,132	0	0	7,445,132
Life, Endowment	13,552,235	-15,070	0	13,537,165	15,305,499	-19,659	0	15,285,840
Life, Pension	11,604,347	0	0	11,604,347	12,091,341	0	0	12,091,341
Life, Term Life	4,231,119	-378,306	0	3,852,812	2,043,341	-314,971	0	1,728,370
Health insurance	29,240,405	0	-272,570	28,967,835	28,483,864	0	-249,498	28,234,366
Total	**70,690,195**	**-992,675**	**-272,570**	**69,424,950**	**69,168,813**	**-873,787**	**-249,498**	**68,045,528**

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

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

Distribution of gross premiums written by currency

In euros	2018	2017
EUR	70,651,950	69,127,406
USD	38,245	41,407
Total	**70,690,195**	**69,168,813**

Distribution of gross premiums written by country

In euros	2018	2017
Latvia	38,708,232	34,901,437
Lithuania	26,193,215	29,058,488
Estonia	5,788,748	5,208,888
Total from insurance activities	**70,690,195**	**69,168,813**

Note 7. Investment income

In euros	2018	2017
Interest income on		
Available-for-sale debt securities	4,909,410	5,123,755
Loans	45	74
Term deposits	311	813
Total interest income	**4,909,766**	**5,124,642**
Dividend income	829,498	525,364
Net realised gains on available-for-sale financial instruments	127,886	781,700
Fair value gains and losses on financial assets at FVPL (designated as such upon initial recognition)	-2,462,525	-40,882
Investments in associates	12,884	12,673
Total	**3,417,509**	**6,403,497**

Note 8. Claims and benefits

The following table shows claims paid and incurred in 2018 and 2017 by insurance class.

In euros	2018				2017 (restated)			
	Claims paid[1]	Change in provision	Reinsu-rers' share of claims	Net claims incurred	Claims paid[1]	Change in provision	Reinsu-rers' share of claims	Net claims incurred
Life, Riders (supplementary insurance)	-858,889	-91,931	46,636	-904,184	-509,938	64,119	0	-445,819
Life, Endowment	-13,951,729	619,066	0	-13,332,664	-25,339,091	10,785,444	1,366	-14,552,281
Life, Pension	-8,433,194	-3,914,344	0	-12,347,537	-8,658,168	-3,031,686	0	-11,689,854
Life, Term Life	-240,460	172,028	30,317	-38,115	-271,362	-29,205	1,276	-299,291
Life, Unit-Linked	-1,790,754	-504,465	0	-2,295,218	-312,134	-89,691	0	-401,825
Health insurance	-21,848,081	23,236	0	-21, 824,845	-22,153,196	-360,711	0	-22,513,907
Change in unit-linked reserve	0	-2,750,736	0	-2,750,736	0	-4,330,437	0	-4,330,437
Total	**-47,123,107**	**-6,447,145**	**76,953**	**-53,493,299**	**-57,243,889**	**3,007,833**	**2,642**	**-54,233,414**

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

Catastrophes and major losses in 2018

In 2018 there were no major loss events, nor were there any natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

In euros	Note	2018	2017
Acquisition costs		**10,669,556**	**11,162,508**
Service fees and commissions		5,225,275	5,385,320
Salaries		2,195,052	2,381,523
Social security charges		630,155	680,880
Marketing expenses		554,790	563,743
Depreciation and amortisation		273,781	494,040
IT costs		518,129	486,913
Rental and utilities charges		388,018	409,979
Office expenses		173,146	146,700
Training and other staff costs		49,646	64,635
Communications expenses including mobile phone charges		59,337	62,813
Other labour costs		55,512	54,210
Business travel expenses		46,098	41,820
Costs of company cars		41,584	37,476
Miscellaneous expenses		459,033	352,456
Administrative expenses		**4,267,175**	**3,830,984**
Salaries		2,090,496	1,830,570
Social security charges		565,791	539,084
IT costs		368,692	361,751
Depreciation and amortisation		215,259	282,868
Rental and utilities charges		276,599	254,676
Other labour costs		123,122	98,224
Business travel expenses		117,560	84,665
Training and other staff costs		91,092	58,534
Office expenses		64,979	54,971
Communications expenses including mobile phone charges		41,162	34,537
Costs of company cars		26,006	24,723
Miscellaneous expenses		286,417	206,382
Other operating expenses		**921,579**	**532,625**
Change in deferred acquisition costs		1,321,209	943,921
Reinsurance commission and reinsurers' share of deferred acquisition	9.1	-399,630	-411,296
Investment expenses		**501,908**	**477,477**
Services purchased		422,760	398,904
Salaries		44,540	42,876
Social security charges		15,055	14,421
Rental and utilities charges		13,463	17,627
Training and other staff costs		701	1,242
Business travel expenses		1,495	1,044
Communications expenses including mobile phone charges		266	320
Other labour costs		485	212
Office expenses		257	169
IT costs		59	2
Miscellaneous expenses		2,829	660

In euros	2018	2017
Other expenses	**2,409,327**	**1,001,941**
Decrease in value of asset held for sale (see note 14)	1,172,177	0
Expenses related to currency revaluation	114,664	380,071
Change in lump sum allowance	140,998	114,940
Write-off of property and equipment	85,633	3,470
Exp. Fr. Arranging (re-)insurance contract	1,070	920
Write-off of intangible assets	705,338	462,775
Write-off of office plant & equipment	89,124	0
Miscellaneous expenses	100,323	39,765

9.1 Commission income

In euros	2018	2017
Reinsurance commissions	102,221	96,404
Participation in reinsurers' profit	297,409	314,892
Reinsurers' share of deferred acquisition costs	0	0
Total	**399,630**	**411,296**

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 2018, the cost of fully depreciated items still in use was EUR 623,103 (31 December 2017: EUR 918,411). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

In euros

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2016	**18,935**	**210,909**	**0**	**978,243**	**1,208,087**
Value adjustment	0	0	0	0	0
Additions	0	0	0	68,877	68,877
Sales	0	0	0	-90,989	-90,989
Write-off	0	0	0	-8,695	-8,695
As at 31 December 2017	**18,935**	**210,909**	**0**	**947,436**	**1,177,280**
Value adjustment	0	0	0	0	0
Additions	0	0	0	75,678	75,678
Sales	0	0	0	-34,841	-34,841
Write-off	0	-74,909	0	-263,979	-338,888
As at 31 December 2018	**18,935**	**136,000**	**0**	**724,294**	**879,229**
Accumulated depreciation					
As at 31 December 2016	**0**	**0**	**0**	**611,192**	**611,192**
Depreciation for the year	0	0	0	135,279	135,279
Sales	0	0	0	0	0
Write-off	0	0	0	-99,674	-99,674
As at 31 December 2017	**0**	**0**	**0**	**646,797**	**646,797**
Depreciation for the year	0	0	0	110,240	110,240
Sales	0	0	0	-30,043	-30,043
Write-off	0	0	0	-148,842	-148,842
As at 31 December 2018	**0**	**0**	**0**	**578,142**	**578,142**
Carrying amount					
As at 1 January 2017	**18,935**	**210,909**	**0**	**367,051**	**596,895**
As at 31 December 2017	**18,935**	**210,909**	**0**	**300,649**	**530,493**
As at 31 December 2018	**18,935**	**136,000**	**0**	**146,152**	**301,087**

Note 11. Deferred acquisition costs

In euros	2018	2017
Balance as at 1 January	**6,967,293**	**7,911,214**
Amortised portion	-2,558,154	-2,281,890
Addition from new contracts	1,236,945	1,376,837
Reduction after liability adequacy test	0	-38,868
Balance as at 31 December	**5,646,084**	**6,967,293**

Note 12. Other intangible assets

In euros	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 1 January 2017			
Purchase of software and licences	978,187	0	978,187
Addition internally generated	362,799	0	362,799
Write off internally generated	-509,910	0	-509,910
Write-off of software and licences	-1,510,741	-290	-1,511,031
As at 31 December 2017	**3,487,711**	**566,167**	**4,053,878**
Purchase of software and licences	910,408	17,750	928,158
Addition internally generated	0	0	0
Write off internally generated	0	0	0
Write-off of software and licences	-1,142,981	-55,159	-1,198,140
As at 31 December 2018	**3,255,138**	**528,758**	**3,783,896**
Accumulated amortisation			
As at 1 January 2017	**2,966,502**	**382,700**	**3,349,202**
Amortisation for the year	530,109	111,520	641,629
Write-off	-1,048,049	-205	-1,048,254
As at 31 December 2017	**2,448,562**	**494,015**	**2,942,577**
Amortisation for the year	390,693	53,720	444,413
Write-off	-436,078	-36,230	-472,308
As at 31 December 2018	**2,403,177**	**511,505**	**2,914,682**
Carrying amount			
As at 1 January 2017	**1,200,874**	**183,757**	**1,384,631**
As at 31 December 2017	**1,039,149**	**72,152**	**1,111,301**
As at 31 December 2018	**851,961**	**17,253**	**869,214**

In 2017, two software projects (*D6 Project*, *Life Strategy Project*) were put into operation. Their costs were capitalised in 2016–2017, a 5-year useful life was set by a separate deed of putting the projects into operation.

At the end of the 2018, the Company decided to write off old IT developments with the carrying amount of EUR 706,903 (including D6 Project of EUR 103,692 and Life Strategy Project of EUR 211,174) because it was determined that they can no longer be used.

Note 13. Investments in subsidiaries

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

In euros

Carrying amount of investment in subsidiary	
As at 31 December 2016	**4,677,870**
Acquired assets	0
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2017	**4,677,870**
Acquired assets	0
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2018	**4,677,870**

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2018 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
6,527,501	**135,576**	**6,391,925**	**821,589**	**509,322**

Note 14. Investments in associates

Investment in an associated company: 32 per cent of the shares of the company CJSC ERGO Ins. Co, the acquisition cost of shares amounted to EUR 1,794,459 as at 31 December 2018 (EUR 1,394,594 as at 31 December 2017). CJSC ERGO Ins. Co in Belarus is engaged in insurance activities, its office is registered at Pionierskaja 2, Minsk, Belarus.

As part of the development of the new strategy for ERGO International AG in 2017, all foreign activities were comprehensively reviewed. According to that, criteria were defined, such as strategic importance, market attractiveness, profitability, and market positioning in order to assess the entity's performance and benefit to the Group.

As CJSC ERGO Ins. Co did not meet the specified criteria, the sole shareholder of ERGO Life Insurance SE decided to sell its participation in CJSC ERGO Ins. Co.

CJSC ERGO Ins. Co. sales negotiations started at 21 December 2018. The final price offer was received by ERGO on 14 February 2019. The company plans to complete the sale process in the second quarter of 2019.

As the successful completion of the sales transaction in 2019 is very likely, participation in CJSC ERGO Ins. is reclassified to non-current asset held for sale. Non-current asset held for sale is reflected at fair value of EUR 622,281. The difference between fair value and book value is recognised as an impairment loss in other expenses.

In euros

Carrying amount of investment in associate	
As at 31 December 2016	**930,069**
Acquired assets	464,524
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2017	**1,394,593**
Acquired assets	399,865
Transferred assets -	0
Impairment loss recognised during reclassification to non-current asset held for sale	-1,172,177
Reclassified assets +/-	-622,281
As at 31 December 2018	**0**
Carrying amount	
Investments in associates as at 31 December 2017	**1,394,593**
Investments in associates as at 31 December 2018	**0**
Held for sale asset as at 31 December 2018	**622,281**

The main financial information (not audited) of CJSC ERGO Ins. Co as at 31 December 2018 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
11,592,630	**6,366,478**	**5,221,072**	**9,333,707**	**237,224**

Note 15. Investments in financial instruments

In euros

As at 31 December	Note	2018	2017
Available-for-sale financial assets			
Equities and fund units	15.1	27,256,978	23,952,111
Debt and other fixed-income securities	15.2	213,138,002	211,702,795
Total available-for-sale financial assets		**240,394,980**	**235,654,906**
Investments accounted at FVTPL			
Equities and fund units	15.1	40,500,616	36,093,602
Total investments accounted at FVTPL		**40,500,616**	**36,093,602**
Derivative financial instruments	15.2	**0**	**0**
Loans and receivables			
Loans	15.3	6,002,247	6,214,779
Term deposits with credit institutions	15.3	0	0
Total loans and receivables		**6,002,247**	**6,214,779**
Total		**286,897,843**	**277,963,287**

15.1. Equities and fund units accounting

In euros	**As at 31 December 2018**		**As at 31 December 2017**	
	Cost	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	5,633,408	5,664,987	1,057,492	1,032,198
Units in listed debt funds	13,769,373	13,967,390	17,775,550	18,253,823
Unlisted equities	1,391,480	1,352,080	3,973,477	4,666,090
Property funds	5,000,001	6,272,521	0	0
Unit-linked	39,453,912	40,500,616	30,756,768	36,093,602
Total	**25,794,263**	**67,757,594**	**22,806,519**	**60,045,713**

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

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

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

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

In euros	**As at 31 December 2018**		**As at 31 December 2017**	
	Amortised cost	**Fair value**	**Amortised cost**	**Fair value**
Fixed-income debt securities				
Government bonds	151,134,821	171,852,474	149,050,048	172,047,034
Financial institutions' bonds	12,761,649	13,482,848	9,482,967	10,319,878
Other debt securities	22,482,689	23,021,555	23,478,498	24,447,568
Total fixed-income debt securities	**186,379,159**	**208,356,877**	**182,011,513**	**206,814,480**
Financial institutions' bonds	4,639,913	4,781,125	4,631,538	4,888,315
Total floating rate debt securities	**4,639,913**	**4,781,125**	**4,631,538**	**4,888,315**
Total	**191,019,072**	**213,138,002**	**186,643,051**	**211,702,795**

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 2018, the portfolio did not include any debt securities measured at cost or using valuation models.

Cash movements related to available-for-sale debt securities are presented in the separate statement of cash flows. In the reporting period, there were no non-cash movements related to available-for-sale debt securities.

15.3. Loans

Loans by maturity

In euros		
As at 31 December	**2018**	**2017**
1 year	0	4,716
2-3 years	0	0
4-5 years	0	0
5-10 years	6,002,247	6,210,063
Total	**6,002,247**	**6,214,779**

As at 31 December 2018, the following loans were issued:

EUR 6,002,247 (31 December 2017: EUR 6,210,063) to ERGO Insurance SE at 3.37% fixed interest per year. The loan was granted on 21 December 2016 and the repayment term of the loan is 22 December 2026.

Note 16. Reinsurance assets

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

In euros		
As at 31 December	**2018**	**2017**
Provision for unearned premiums	0	0
Provision for claims outstanding – claims incurred and reported	*149,133*	*139,650*
Provision for claims outstanding – IBNR	*0*	*0*
Provision for insurance pension annuities	*0*	*0*
Total provision for claims outstanding	149,133	139,650
Provision for future policy benefits	0	0
Provision for rebates	0	0
Total	**149,133**	**139,650**

Information on reinsurance assets is also provided in note 22.

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

Reinsurance result

In euros	**Note**	**2018**	**2017**
Premiums paid to reinsurers	6	992,676	873,787
Reinsurers' share of change in provision for unearned premiums		0	0
Commissions and profit participation paid by reinsurers	9.1	-399,630	-411,296
Reinsurers' share of claims paid	8	-67,470	-37,233
Reinsurers' share of change in provision for claims outstanding	8	-9,483	34,590
Reinsurers' share of deferred acquisition costs	9.1	0	0
Total		**516,093**	**459,848**

Note 17. Insurance and other receivables

In euros		
As at 31 December	**2018**	**2017**
Receivables from policyholders gross	9,973,186	9,952,344
Impairment of receivables from policyholders	-559,204	-346,543
Receivables from brokers and other intermediaries	32	1,508
Receivables from reinsurers	66,872	60,637
Total insurance receivables	***9,480,886***	***9,667,946***
Other receivables	576,863	237,820
Total other financial assets	***576,863***	***237,820***
Deferred expenses	192,105	147,137
Prepaid taxes	34,525	27,054
Total non-financial assets	***226,631***	***174,191***
Total	**10,284,380**	**10,079,957**

Note 18. Cash and cash equivalents

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

In euros	**31 December 2018**	**31 December 2017**
Cash at bank	6,753,752	9,019,566
Cash in hand	247	449
Total	**6,753,999**	**9,020,015**

Cash and cash equivalents by original currency

As at 31 December	**2018**	**2017**
EUR	6,753,999	9,019,957
USD	0	58
PLN	0	0

Note 19. Shareholders and share capital

	Ordinary shares without par value		**Total share capital**
	Number of shares	**Value in euros**	**In euros**
As at 31 December 2018	15,124	4,380,213	4,380,213
As at 31 December 2017	15,124	4,380,213	4,380,213

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

The sole shareholder of ERGO Life Insurance SE is ERGO International AG (registry number HRB 40871, address Victoriaplatz 2, 40198 Dusseldorf, Germany). The shareholder of ERGO International AG is ERGO Versicherungsgruppe AG.

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

As at 31 December 2018, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of EUR 290 each. The entire share capital has been paid in.

Note 20. Capital reserve

Capital reserve as at 31 December 2018 consists of share premium: EUR 15,129,289, compulsory reserve: EUR 450,591 and other reserves: EUR 289,620 (as at 31 December 2017: EUR 15,129,289, compulsory reserve: EUR 450,591 and other reserves: EUR 289,621).

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

Reserves are formed by distributing profit of the current and previous year by a decision of General Shareholders' Meeting, according to the legislation and legal acts of the Republic of Lithuania as well as the articles of association of the Company. Legal reserves are compulsory reserves formed of the profit for distribution. The Company shall transfer to the compulsory reserve 5% of the profit for distribution until the reserve makes up 10% of the Company's authorised capital. The compulsory reserve may be used only to cover losses of the Company. Part of the compulsory reserve, exceeding 10% of the authorised capital, can be redistributed when distributing profit of the following financial year.

As at the end of 2018, the Company had fully formed its compulsory reserve.

Note 21. Fair value reserve

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

In euros	**2018**	**2017**
At 1 January	**26,225,722**	**30,599,689**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-225,640	-1,218,554
Net change in fair value recognised in other comprehensive income or expense during the year	-2,396,486	-3,155,413
At 31 December	**23,603,596**	**26,225,722**

Note 22. Insurance contract provisions and reinsurance assets

Insurance liability valuation

In euros

As at 31 December	Note	2018	2017
Gross provisions			
Life insurance provision	22.1	187,311,157	182,431,243
Provision for unearned premiums		12,468,670	12,196,100
Bonus provision	22.3	2,651,049	3,099,260
Provision for claims outstanding – claims incurred and reported		*4,451,672*	*5,220,732*
Provision for claims outstanding – IBNR		*995,356*	*975,530*
Provision for claims outstanding – indirect claims handling costs		*179,958*	*166,018*
Total provision for claims outstanding	22.2	5,626,986	6,362,280
Total gross provisions		**208,057,862**	**204,088,883**
Reinsurers' share of provisions			
Life insurance provision		0	0
Provision for unearned premiums		0	0
Bonus provision		0	0
Provision for claims outstanding – claims incurred and reported		*149,133*	*139,650*
Provision for claims outstanding – IBNR		*0*	*0*
Total provision for claims outstanding		149,133	139,650
Total reinsurers' share of provisions		**149,133**	**139,650**
Net provisions			
Life insurance provision		187,311,157	182,431,243
Provision for unearned premiums		12,468,670	12,196,100
Bonus provision		2,651,049	3,099,260
Provision for claims outstanding – claims incurred and reported		*4,302,539*	*5,080,982*
Provision for claims outstanding – IBNR		*995,356*	*975,530*
Provision for claims outstanding – indirect claims handling costs		*179,958*	*122,973*
Total provision for claims outstanding	22.2	5,477,853	6,179,485
Total net provisions		**207,908,727**	**203,906,088**

Life insurance mathematical technical provision

Life insurance mathematical technical provision is calculated on a prospective actuarial basis. Best estimate reserving principles are applied for annuities in annuity payment phase.

Change (increase) in the life insurance mathematical technical provision is influenced by the aging of the available portfolio of contracts, signing of new contracts and discounting rate changes for best estimate evaluation.

Unearned premiums technical provision

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

Outstanding claims technical provision

Technical provision for incurred but not reported claims (IBNR) is taken as the highest amount between estimated amounts by “Chain-Ladder” and “Bornhuetter-Ferguson”, “Average Claim” or “Incremental Loss Ratio” methods. It was proved that the best estimate for IBNR on most of insurance groups is zero. Non-zero IBNR is formed for health and accidental death and disability products.

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

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

Technical provision for rebates

Technical provision for rebates at the end of the period amounted to EUR 2.65 million (31 December 2017: EUR 3.10 million). The total amount relates to rebate of insurance premiums (participation in profit).

Unexpired risk provision

Unexpired risk technical provision was only relevant for health (medical expense) insurance. As at 31 December 2018, premium adequacy test showed no technical provision insufficiency; therefore unexpired risk provision was not formed for any products. As at 31 December 2017, its value for Lithuanian health insurance portfolio was EUR 43,144.19. For other products, premium adequacy test showed no technical provision insufficiency; therefore, unexpired risk provision was not formed.

22.1 Life insurance provision (gross)

In euros	2018	2017
As at 1 January	182,431,243	191,791,558
Premiums received	22,762,648	24,820,350
Liabilities paid for death, maturities, surrenders, benefits and claims	-21,309,081	-37,300,530
Risk premiums	-1,408,904	-1,026,500
Risk free rate change	728,976	-406,010
Alterations of policies	-1,696,491	-736,860
Effect of changed parameters	-	263,340
Investment return	4,452,903	4,883,610
Quarterly corrections (reserve changes due to incorrect product dates, data processing)	-	-499,000
Update to best estimate reserve assessment method	-	108,580
Update to provisioning investment return	1,376,025	378,620
Renewal of policies in Lithuania	32,343	377,080
Data quality improvement	-58,503	-222,995
As at 31 December	**187,311,157**	**182,431,243**

22.2 Provisions for claims outstanding by insurance class

In euros

Insurance class	**Gross provision for claims outstanding**	**Gross provision for claims outstanding**	**Net provision for claims outstanding**	**Net provision for claims outstanding**
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Health insurance	1,720,923	1,701,020	1,720,928	1,701,020
Accident insurance	245,576	191,860	243,893	190,177
Life insurance linked to investment funds	809,627	292,210	809,627	292,210
Life insurance	2,850,860	4,177,190	2,713,405	3,996,078
Total	**5,626,986**	**6,362,280**	**5,487,853**	**6,179,485**

22.3 Bonus provision (gross)

In euros	**2018**	**2017**
As at 1 January	3,099,260	3,574,097
Bonus for new business	762	4,411
Bonus release during the year	-581,784	-618,016
Bonus accumulation during the year	132,811	138,768
As at 31 December	**2,651,049**	**3,099,260**

Note 23. Financial liabilities from investment contracts

As at 31 December	**2018**	**2017**
Financial liabilities from investment contracts		
At beginning of year	**15,713,855**	**10,404,292**
Payments received	5,292,710	6,104,739
Fees and service charges	-531,812	-459,080
Provisions and payments made	-2,213,495	-840,638
Change in value, interest accrued	-971,469	504,542
At end of year	**17,289,789**	**15,713,855**

Note 24. Insurance payables

In euros

As at 31 December	2018	2017
Payables to policyholders	3,209,526	3,713,847
Payables to brokers and other intermediaries	939,043	974,209
Total	**4,148,569**	**4,688,056**

Note 25. Other payables and accrued expenses

In euros

As at 31 December	2018	2017
Payables to suppliers	962,989	522,625
Other payables	5,647	464,867
Total other financial liabilities	***968,636***	***987,492***
Accrued vacation pay payable	288,075	228,858
Personal income tax payable	411,789	382,572
Personal income tax payable for additional reliefs	2,458	171
Social security tax payable	15,424	119,288
Mandatory payment for second pillar pension funds	2,573	2,134
Value added tax payable	81,843	51,689
Payables to employees	53,914	105,722
Other accrued items	1,118,240	1,239,987
Total non-financial liabilities	***1,974,316***	***2,130,421***
Total	**2,942,952**	**3,117,913**

Note 26. Fair value of financial instruments

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

In euros		Carrying amount					Fair value			
As at 31 December 2018	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets measured at fair value										
Units in listed equity funds	15.1		5,637,337			5,637,337	5,637,337	0	0	5,637,337
Units in listed debt funds	15.1		13,967,390			13,967,390	13,967,390	0	0	13,967,390
Unlisted equities[1]	15.1		1,352,080			1,352,080	96,202	0	1,255,878	1,352,080
Property funds	15.1		6,272,521			6,272,521	971,313	0	5,301,208	6,272,521
Unit-linked	15.1	40,500,616				40,500,616	1,385,081	0	39,115,535	40,500,616
Government bonds	15.2		171,852,474			171,852,474	171,852,474	0	0	171,852,474
Financial institutions' bonds	15.2		18,263,973			18,263,973	18,263,973	0	0	18,263,973
Other debt securities	15.2		23,021,555			23,021,555	23,021,555	0	0	23,021,555
Financial assets not measured at fair value										
Loans	15.3			6,002,247		6,002,247				
Insurance and other receivables	17			10,284,380		10,284,380				
Cash	18			6,753,999		6,753,999				
Financial liabilities measured at fair value										
Financial liabilities from unit-linked contracts		23,210,828				23,210,828	1,385,081	0	21,825,747	23,210,828
Financial liabilities from investment contracts		17,289,789				17,289,789	0	0	17,289,789	17,289,789
Financial liabilities not measured at fair value										
Reinsurance payables					286,159	286,159				
Insurance payables					4,148,569	4,148,569				
Other payables					968,636	968,636				

In euros As at 31 December 2017	Note	Carrying amount Designated at fair value	Available for sale	Loans and receivables	Other financial liabilities	Total	Fair value Level I	Level II	Level III	Total
Financial assets measured at fair value										
Units in listed equity funds	15.1		1,032,198			1,032,198	1,032,198	0	0	1,032,198
Units in listed debt funds	15.1		18,253,823			18,253,823	18,253,823	0	0	18,253,823
Unlisted equities[1]	15.1		4,666,090			4,666,090	58,656	0	4,607,434	4,666,090
Unit-linked	15.1	36,093,602				36,093,602	97,647	0	35,995,955	36,093,602
Government bonds	15.2		172,047,034			172,047,034	172,047,034	0	0	172,047,034
Financial institutions' bonds	15.2		15,208,193			15,208,193	15,208,193	0	0	15,208,193
Other debt securities	15.2		24,447,568			24,447,568	24,447,568	0	0	24,447,568
Financial assets not measured at fair value										
Loans	15.3			6,214,779		6,214,779				
Insurance and other receivables	17			10,079,957		10,079,957				
Cash	18			9,020,015		9,020,015				
Financial liabilities measured at fair value										
Financial liabilities from unit-linked contracts			20,400,541			20,400,541	97,647	0	20,302,894	20,400,541
Financial liabilities from investment contracts			15,693,062			15,693,062	0	0	15,693,062	15,693,062
Financial liabilities not measured at fair value										
Reinsurance payables					237,745	237,745				
Insurance payables					4,688,056	4,688,056				
Other payables					987,492	987,492				

Note 27. Operating and finance leases

The company as a lessee – operating leases

The Company uses office premises, office equipment and cars under operating leases. In 2018, operating lease expenses on premises totalled EUR 534,905 (2017: EUR 531,289). No operating lease expenses on other assets were incurred (in 2017, no operating lease expenses on other assets were incurred).

All lease contracts can be cancelled by giving a reasonable period of notice.

Note 28. Income tax

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

In 2018, payable corporate income tax for the activity in the Republic of Lithuania is EUR 36,711. Payable corporate income tax for the activity in the Republic of Latvia is EUR 0 (as of 1 January 2018, no corporate income tax is payable).

For calculation of corporate income tax in the Republic of Lithuania in 2018 and 2017, a profit tax rate of 15% was applied.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax recognition relates to expected realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax asset recognised as at 31 December 2018: EUR 100,758 thousand.

In euros

Income tax expense	**2018**	**2017**
Income tax expense	-58,406	-42,966
Change in deferred income tax	-28,929	-290,829
Total income tax expense	**-87,335**	**-333,795**

Recognised deferred income tax asset	**2018**	**2017**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	100,758	129,687
Total	**100,758**	**129,687**

Unrecognised deferred income tax asset	**2018**	**2017**
Tax losses	4,644,325	4,673,254
Total	**4,644,325**	**4,673,254**

Reconciliation of effective tax rate		**2018**		**2017**
Profit before tax		3,960,193		4,051,049
Parent company's domestic tax rate 15%	15%	594,029	15%	607,657
Effect of tax rates in foreign jurisdictions	-9.77%	(387,230)	-2.59%	-105,053
Effect of exempt income	-1.98%	-78,451	-4.54%	-183,666
Non-deductible expenses	1.12%	44,657	0.67%	27,237
Change in unrecognised deferred tax assets		0		0
Recognition of previously unrecognized tax losses	-2.16%	-85,670	-0.31%	-12,380
Effect of income tax of previous years		0		0
Income tax expense for the year	**2.21%**	**87,335**	**8.23%**	**333,795**

Note 29. Transactions with related parties

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

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

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

Compensation of key management personnel

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

	2018	2017
Salaries	90,223	53,394
Social tax	29,395	17,643
Other short-term employment benefits	1,530	1,777
Bonuses	0	0
Total compensation of key management personnel	**119,618**	**72,814**

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

The remuneration, performance bonuses and benefits provided to the members of the management board for the year totalled EUR 208,422 (2017: EUR 50,444). The members of the supervisory board were not remunerated.

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

In euros

As at 31 December Related party	**Receivables 2018**[1]	**Receivables 2017**[1]	**Payables 2018**	**Payables 2017**
Parent of the group – Münchener Rück	0	0	371,412	329,596
Other group companies	6,037,178	6,228,102	339,691	199,183

In euros

Related party	**Services purchased 2018**	**Services purchased 2017**	**Services sold 2018**[2]	**Services sold 2017**[2]
Parent of the group – Münchener Rück	0	220,297	0	120,169
Other group companies	5,163,449	1,707,248	463,931	643,662

[1] Including a loan of EUR 6,000,000 (2017: EUR 6,000,000) provided to ERGO Life Insurance SE.

[2] Including interest of EUR 2,247 (2017: EUR 210,063) on the loan provided to ERGO Life Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	2018	2017
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	553,954	479,509
Reinsurers' share of claims paid	66,952	29,319
Reinsurance commissions and profit participation	172,374	206,703
Other group companies		
Ceded reinsurance premiums	0	0
Reinsurers' share of claims paid	0	0
Reinsurance commissions and profit participation	0	0
Gross premiums from incoming reinsurance	0	0
Commissions to holders of reinsurance policies	0	0

Note 30. Change in presentation of unit-linked contracts in the separate statement of income

During 2018, the Company decided to present unit-linked contracts (with significant insurance risk) classified as insurance contracts without separating impact of investment component in the separate income statement. Consequently, total premiums from the policyholders of unit-linked contracts are included in premiums written and total change of liability for policyholder benefits is included in claims and benefits incurred. Previously risk and management fees were separated and included in fee and commission income and change in value of financial liabilities from unit-linked contracts were reported separately from claims and benefits incurred. The Company decided to change the presentation in order to increase consistency of reporting on result of all its contracts classified as insurance contracts.

The change was applied retrospectively by restating each of the affected separate income statement line items for prior period. The following table summarise the impacts on the Company's separate income statement.

i) Separate income statement

In euros	As previously reported	Adjustments	As restated
Income			
Gross premiums written	65,022,431	4,146,382	69,168,813
Fee and commission income	4,605,462	-4,146,382	459,080
Others	6,166,647	-	6,166,647
Total income	**75,794,540**	**-**	**75,794,540**
Claims and benefits incurred	-52,866,261	-1,369,796	-54,236,057
Change in value of financial liabilities from unit-linked contracts	-1,369,796	1,369,796	0
Others	-17,507,434	-	-17,507,434
Total expenses	**-71,743,491**	**-**	**-71,743,491**
Operating profit/loss	**4,051,049**	**-**	**4,051,049**
Profit before income tax	**4,051,049**	**-**	**4,051,049**
Income tax expense/benefit	**333,795**	**-**	**333,795**
Profit for the year	**3,717,254**	**-**	**3,717,254**

Note 31. Contingencies

As at 31 December 2018 and 2017, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the separate financial statements.

Note 32. Events after the reporting date

There were no material subsequent events that would require adjustment of or disclosure in the separate financial statements.

Signatures to annual report 2018

The management board of ERGO Life Insurance SE has prepared the Company's review of operations and financial statements for 2018.

Bogdan Benczak

Chairman of the management board .... 29 March 2019

Tarmo Koll

Member of the management board .... 29 March 2019

Tadas Dovbyšas

Member of the management board .... 29 March 2019

Marek Ratnik

Member of the management board .... 29 March 2019

Ingrīda Ķirse

Member of the management board .... 29 March 2019

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 year 2018 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 year 2017 expenses are distributed to pension contracts according to the following principles:

- Acquisition expenses comprise 4% from single premiums;
- Administration expenses comprise the same proportion of the total administrative expenses as pension contracts technical reserve from the total amount of life insurance technical reserve.

The following table presents the pension contracts income report for 2018 and 2017 years:

In euros	**2018**	**2017**
Net written premiums	**1,529,832**	**1,127,260**
Gross written premiums	1,529,832	1,127,260
Acquisition fees	526	60
Written premiums ceded to reinsurers	0	0
Net income from investments (+/-)	**142,324**	**65,769**
Income from interests and dividends	214,838	199,271
Profit/loss from change in value of investments	-72,514	-133,502
Profit/loss from investment realisation		
Other financial income/expenses		
Other operating income		
Annuity payments and change in liabilities related to annuities (+/-)	**-1,831,844**	**-986,048**
Annuity payments	**-769,092**	**-669,912**
Reinsurers share of annuity payments	0	0
Paid surrender values	**0**	**0**
Reinsurance share of paid surrender values	0	0
Change in liabilities related to annuities	**-1,062,752**	**-316,136**
Reinsurance part in change in liabilities	0	0
Annuity management fees	-33,679	-20 042
Annuity cancellation fees	-100,568	-105 662
Operation expenses (-)	**-98,818**	**-269,172**
Acquisition expenses	-48,203	-45,088
Acquisition expenses of related parties	0	0
Administrative expenses	-50,615	-224,084
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 (+/-)	**-258,506**	**-62,191**
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.