ERGO Insurance SE

ANNUAL REPORT 2019

ANNUAL REPORT

Company name:	**ERGO Insurance SE**
Registry number:	**10017013**
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Website:	**www.ergo.ee**
Core business:	**non-life insurance**
Beginning of financial year:	**1 January 2019**
End of financial year:	**31 December 2019**
Chairman of the management board:	**Bogdan Benczak**
Auditor:	**KPMG Baltics OÜ**
Accompanying documents:	**1. Independent auditors' report** **2. Profit allocation proposal** **3. Information on the sole shareholder** **4. List of business activities**

Contents

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholder of ERGO Insurance SE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ERGO Insurance SE (the Company), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 23 to 86, present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

<table>
<tr><td colspan="2">Valuation and completeness of the provision for claims outstanding</td></tr>
<tr><td colspan="2">The gross carrying amount of the provision for claims outstanding as at 31 December 2019 was EUR 95,201 thousand and the expense recognised in profit or loss from the change in the provision for claims outstanding was EUR 15,603 thousand.

We refer to the financial statements: Notes 1 and 2 (accounting policies), Note 21 (financial disclosure).</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The provision for claims outstanding as at 31 December 2019 comprises of the provision for incurred but not reported claims of EUR 15,048 thousand, the provision for reported but not settled claims of EUR 75,930 thousand and the provision for indirect claims handling costs EUR 4,223 thousand.

Provisions have been recognised to cover the future claims arising from the insurance contracts issued by the Company (provision for claims</td><td>In auditing the provisions relating to the insurance business we engaged actuaries as part of our audit team. Together with actuaries we, among other things, performed the following procedures:

• assessed whether the methods to calculate the provisions used by the management are appropriate and compliant with the financial reporting framework;</td></tr>
</table>

outstanding). The Company performs the liability adequacy test to assess the adequacy of provisions. As at 31 December 2019, no additional unexpired risk provision was recognised as a result of the test. Actuarial models which take into account inputs such as premiums earned, the loss ratio, the length of the claim reporting period and the estimated amount of the expected loss, are used for both calculating the provisions and carrying out the liability adequacy test. We have assessed this area as a key audit matter, as calculating provisions is subject to uncertainty and judgment. Estimation uncertainty arises mainly from the rate of occurrence and the speed of settlement of large claims and the development of long-term claims. We have also assessed the completeness and quality of data used by the Company in the calculation of provisions as a key audit matter.	• assessed how management derives the key assumptions and whether those methods are appropriate; • assessed the reliability and completeness of the previous year provisions by taking into account the actual claims paid and changes in claims provisions during current financial year; • compared the key inputs with historical information; • tested whether the general controls over the IT environment are effective; • carried out alternative calculations of provisions for selected insurance classes; • tested based on a sample whether claim data corresponds to the data in the claim file; • assessed the completeness of underlying data used by comparing it to the information retrieved from the Company's databases; • assessed whether the disclosures made in the financial statements (including in respect of the sensitivity of estimation results to the key assumptions applied) are sufficient and appropriate.

Other Information

Management is responsible for the other information. The other information comprises the [information included in the X report, but does not include the financial statements and our auditors' report thereon.]

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

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

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 22 April 2018 to audit the financial statements of ERGO Insurance SE for the year ended [end of reporting period]. Our total uninterrupted period of engagement is 17 years, covering the periods ending 31 December 2003 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- we have not provided to the Company the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit and audit related services, we have not provided additional services to the Company.

KPMG Baltics OÜ
Licence No 17

/signed digitally/

Name

Certified Public Accountant, Licence No 459

Tallinn, 02 April 2020

Review of operations

A strong owner

Through their parent, ERGO Group AG, the ERGO insurance companies in the Baltics represent a major global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims.

Reliability is confirmed by the ratings given to ERGO Group's owner and parent: Munich Re's rating is Aa3 or excellent (by Moody's); ERGO Group's rating is AA– (by Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list. ERGO Group serves 37.9 million customers in over 30 countries, mostly in European and Asian markets. ERGO Group is the largest health and legal expenses insurer in Europe.

Partnerships with the world's strongest reinsurance providers

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

ERGO Insurance SE: the year 2019 in figures

Gross premium income	193.3 million euros
Total assets	278.4 million euros
Investments in financial instruments	193.7 million euros
Insurance contract provisions	171.9 million euros
Equity	67.1 million euros
Comprehensive income	11.9 million euros
Return on equity	18.2%
Insurance contracts in force	891,675
Offices	15 in Estonia, 22 in Latvia, 60 in Lithuania
Employees	966

Economic environment

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

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

Estonia

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

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

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

Latvia

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

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

Lithuania

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

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

According to forecasts, inflation will decrease.

Legal environment

Personal Data Protection Act amendments and implementation act

In the European Union, the protection of personal data is governed by the General Data Protection Regulation (GDPR), which is directly applicable in all member states (took effect on 25 May 2018). The GDPR gives people more control over the processing of their personal data. Although it is a directly applicable Community act, member states retain discretion with regard to certain matters relating to the processing of personal data. The Personal Data Protection Act, which took effect on 15 January 2019, specified, in accordance with the GDPR, the general principles of processing personal data.

The act established specific requirements for the processing of personal data for journalistic purposes and the needs of scientific and historical research, exercise of the rights of a data subject, processing of the personal data of children and debtors, and processing of personal data after the data subject's decease. Personal data may be processed and disclosed in the media without the person's consent for journalistic purposes if this is in the public interest and in accordance with the principles of journalistic ethics. For scientific and historical research or official statistics, personal data may be processed without the consent of the person, using a pseudonym or an equivalent form of data protection. The act also established the principles that law enforcement agencies must follow in processing personal data. Data controllers must inform persons of any breaches related to their personal data. They must also inform the Data Protection Inspectorate. The act introduced increased liability for violations of personal data processing requirements. For example, failure to comply with the requirements is punishable with a fine of up to 20 million euros or up to 4% of the company's total worldwide turnover in the previous financial year, whichever is bigger.

On 15 March 2019, the Personal Data Protection Act Implementation Act was published in the State Gazette. It set out the purposes, grounds and permitted scope of the processing of personal data. It also updated database regulations: the provisions governing the purposes of processing and the composition of personal data were supplemented and the statutory data retention period was limited. The establishment of statutes for databases was transferred from the level of the government to the level of a minister where possible.

Amendments to the Insurance Activities Act

On 1 January 2019, sections 213(11) and 213(12) of the Insurance Activities Act entered into force. The sections provide that an insurer must disclose its solvency and financial condition report as well as submit regular supervisory reports to the Financial Supervision Authority within 14 weeks after the end of a financial year and within 5 weeks after end of each quarter. The leading firm of the group must disclose the group solvency and financial condition report as well as submit regular group supervisory reports to the group's supervisor within 20 weeks after the end of a financial year.

On 2 March 2019, amendments to the Insurance Activities Act entered into force, which enable insurers to also operate as commercial associations. Previously, insurers had to operate as limited companies defined as *aktsiaselts* (AS). The amendments created a legal basis for the establishment of mutual insurers in Estonia, which was last allowed in 1940. A cooperative insurer is subject to the same rules as an insurer operating as a limited company (AS). A cooperative insurer must apply for authorisation for insurance activities from the Financial Supervision Authority and its share capital must be equal to that of an insurer operating as a limited company (AS). For example, where a cooperative insurer provides life, liability, credit or guarantee insurance, its share capital must be at least 3 million euros. Where it provides other non-life insurance, its share capital must be at least 2 million euros. There are no legal restrictions on the membership of a cooperative insurer. Anyone can gain and terminate their membership on the terms and conditions agreed in the articles of association. Cooperative insurers can decide whether they only insure their members' risks or also those of other people and companies, except when providing compulsory liability insurance.

The amendments to the Insurance Activities Act that took effect on 15 March 2019 specified the requirements governing insurers in processing, transmitting and maintaining the confidentiality of personal data. An insurer has the right to process personal data (except personal data of special categories) in order to assess the insurance risk of a policyholder and persons related to the policyholder and perform other activities necessary to enter into an insurance contract, including make individual decisions based on automatic processing, unless otherwise stated in the act. An insurer is allowed to process health data if it has a statutory obligation to enter into an insurance contract, if it is otherwise necessary to determine the insurer's obligation to execute the insurance contract and the scope of the contract and to take recourse action if the policyholder’s death is the insured event, or if determining the insurer's obligation to execute the insurance contract and the scope of the contract and taking recourse action requires the processing of data concerning the data subject's state of health or disability. The law also specified when insurers may exchange customers’ personal data: they may do it if the customer has provided inaccurate information about material circumstances during pre-contractual negotiations, has deliberately caused an insured event or has provided incorrect information about the essential facts of an insured event.

Financial Supervision Authority guidelines entering into force in 2019

On 30 September 2019, the Financial Supervision Authority (FSA) guideline setting out requirements for supervised entities’ outsourcing activities entered into force. The guideline was laid down by decision No 1.1-7/84 of the FSA's management board of 25 October 2006 and amended by its decision No 1.1-7/92 of 5 August 2019.

The outsourcing guideline provides supervised entities with general recommendations and guidance regarding outsourcing, which are consistent with relevant international standards and practice as well as the recommendations of international organisations. In applying the guideline, entities have to consider the significance of the activity to be outsourced for their economic activity.

In outsourcing less essential activities with lower potential risks, the requirements of the guideline may be applied in a smaller scope, depending on the service provider, the circumstances and the risks involved (e.g. when the service provider is controlled by the supervised entity or is subject to public oversight; in the latter case the nature and scope of the oversight are also taken into account).

On 14 October 2019, the FSA's guideline setting out requirements for insurance marketing took effect. The guideline was laid down by decision No 1.1-7/135 of the FSA's management board of 14 October 2019. The guideline explains the insurance marketing requirements of the Insurance Activities Act, seeking to safeguard the interests of customers, persons wishing to sign an insurance contract and policyholders. The guideline applies to the development of services, disclosure of information about insurance contracts, identification of the policyholder's insurable interest and requirements for insurance contracts and management of conflicts of interest. It creates preconditions for increasing the transparency of the insurance service, ensuring the clarity and legibility of insurance offers, thereby giving customers a better opportunity to assess whether the insurance contract meets their insurable interest and requirements. This, in turn, gives customers better opportunities to make an informed decision and helps prevent potential disputes.

Financial performance of ERGO Insurance SE

ERGO Insurance SE’s gross premium income for 2019 was 193.3 million euros. In terms of premium income, ERGO Insurance SE holds the third position both in the Estonian and the Baltic non-life insurance market. Claims and benefits incurred totalled 125.4 million euros, accounting for 64.9% of gross premium income. The net expense ratio was 29.5% (2018: 29.5%) and the net loss ratio was 64.2% (2018: 64.3%). The net combined ratio for 2019 was 93.7% (2018: 93.8%). ERGO Insurance SE ended 2019 with total comprehensive income of 11.9 million euros (2018: 7.1 million euros). The insurance result was a profit of 11.5 million euros, net investment income amounted to 0.1 million euros and other activities generated a profit of 0.3 million euros. Income tax expense amounted to 0.8 million euros. The comprehensive result was also influenced by a 0.8-million-euro increase in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 278.4 million euros (2018: 234.5 million euros). Investments in financial instruments amounted to 193.7 million euros (2018: 168.1 million euros), debt securities accounting for 86.6% (2018: 87.0%), loans for 0.7% (2018: 0.8%) and equities and fund units for 12.6% (2018: 12.2%) of the total. Altogether, investments in financial instruments accounted for 69.6% (2018: 71.1%) of total assets. Insurance provisions totalled 171.9 million euros (2018:153.0 million euros), accounting for 81.3% (2018: 85.3%) of total liabilities and 61.7% (2018: 65.3%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 38.3 million euros (2018: 24.3 million euros), providing the company with an adequate liquidity buffer.

Insurance activities

Gross premium income by insurance class

In euros	2019		2018		Change in	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, pp
Motor liability insurance	74,969,228	38.8%	76,769,383	41.8%	-1,800,155	-3.0
Accident insurance	7,655,800	4.0%	7,072,364	3.9%	583,436	0.1
Travel insurance	5,174,394	2.7%	3,891,252	2.1%	1,283,142	0.6
Technical risks insurance	6,083,564	3.2%	5,631,412	3.1%	452,152	0.1
Individuals' property insurance	13,435,221	7.0%	12,264,580	6.7%	1,170,641	0.3
Legal persons' property insurance	11,209,609	5.8%	10,089,344	5.5%	1,120,265	0.3
Agricultural risks insurance	2,691,625	1.4%	2,080,900	1.1%	610,725	0.3
Motor own damage insurance	48,442,571	25.1%	45,940,594	25.0%	2,501,977	0.1
Liability insurance	8,264,961	4.3%	6,964,465	3.8%	1,300,496	0.5
Goods in transit insurance	1,501,021	0.8%	1,411,263	0.8%	89,758	0.0
Carrier's liability insurance	2,650,453	1.4%	2,712,156	1.5%	-61,703	-0.1
Watercraft insurance and watercraft owner's liability insurance	1,900,403	1.0%	588,725	0.3%	1,311,678	0.7
Guarantee insurance	3,628,448	1.9%	2,884,438	1.6%	744,010	0.3
Railway rolling stock insurance	85,473	0.0%	1,141,415	0.6%	-1,055,942	-0.6
Assistance insurance	2,937,420	1.5%	1,885,399	1.0%	1,052,021	0.5
Financial risks insurance	590,173	0.3%	508,851	0.3%	81,322	0.0
Loss of employment insurance	341,432	0.2%	211,881	0.1%	129,551	0.1
Legal expenses insurance	1,637,973	0.9%	1,822,300	1.0%	-184,327	-0.1
Total from insurance activities	**193,199,769**	100.0%	**183,870,722**	100.0%	**9,329,047**	-0.1
Legal persons' property insurance	109,099	0.0%	-43,731	0.0%	152,830	0.0
Total from reinsurance activities	**109,099**	0.0%	**-43,731**	0.0%	**152,830**	0.0
Total	**193,308,868**	100.0%	**183,826,991**	100.0%	**9,481,877**	

In 2019, ERGO Insurance SE generated premium income of 193.3 million euros, a 5.2% increase on 2018. The largest classes were motor third party liability (hereafter 'motor liability') and comprehensive motor vehicle (motor hull, hereafter 'motor own damage') insurance, which generated premium income of 75.0 million euros and 48.4 million euros, accounting for 38.8% and 25.1% of the total portfolio, respectively. Individuals' property insurance contributed 13.4 million euros, i.e. 7.0% and legal persons' property insurance 11.3 million euros, i.e. 5.8%. Premiums written in liability insurance and accident insurance totalled 8.3 million euros and 7.7 million euros, respectively, and their respective contributions were 4.3% and 4.0%. The total contribution of other insurance classes, which each accounted for less than 3.1%, was 29.2 million euros, i.e. 15.1%.

Compared to 2018, the share of motor own damage insurance increased by 0.1 percentage points and its premium income grew by 2.5 million euros, i.e. 5.4%. In addition to motor own damage insurance, rapid growth was achieved in watercraft insurance and watercraft owner's liability insurance and liability insurance where premium income grew by 222.8% and 18.7%, respectively, i.e. 1.3 million euros year on year each.

Claims and benefits paid by insurance class

In euros	2019		2018		Change in	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Motor liability insurance	45,329,374	41.3%	41,230,687	41.2%	4,098,687	0.1
Accident insurance	3,184,553	2.9%	3,182,803	3.2%	1,750	-0.3
Travel insurance	2,721,918	2.5%	2,363,377	2.4%	358,541	0.1
Technical risks insurance	3,936,010	3.6%	3,474,976	3.5%	461,034	0.1
Individuals' property insurance	6,906,179	6.3%	5,481,143	5.5%	1,425,036	0.8
Legal persons' property insurance	5,805,326	5.3%	5,662,136	5.7%	143,190	-0.4
Agricultural risks insurance	1,857,719	1.7%	3,657,238	3.7%	-1,799,519	-2.0
Motor own damage insurance	31,666,571	28.8%	28,557,330	28.5%	3,109,241	0.3
Liability insurance	2,119,534	1.9%	2,185,548	2.2%	-66,014	-0.3
Goods in transit insurance	337,395	0.3%	299,950	0.3%	37,445	0.0
Carrier's liability insurance	1,221,918	1.1%	1,400,219	1.4%	-178,301	-0.3
Watercraft insurance and watercraft owner's liability insurance	230,849	0.2%	169,389	0.2%	61,460	0.0
Guarantee insurance	1,768,209	1.6%	86,168	0.1%	1,682,041	1.5
Railway rolling stock insurance	329,279	0.3%	230,303	0.2%	98,976	0.1
Assistance insurance	1,542,482	1.4%	1,106,087	1.1%	436,395	0.3
Financial risks insurance	98,824	0.1%	354,250	0.4%	-255,426	-0.3
Loss of employment insurance	58,145	0.1%	21,442	0.0%	36,703	0.0
Legal expenses insurance	668,112	0.6%	672,361	0.7%	-4,249	-0.1
Total	**109,782,395**	100.0%	**100,135,407**	100.0%	**9,646,988**	

Claims and benefits paid in 2019 totalled 109.8 million euros (2018: 100.1 million euros). Claims incurrence trends did not change significantly. The largest share of claims was settled in motor liability insurance: 45.3 million euros, i.e. 41.3% of claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 31.7 million euros, i.e. 28.8%.

Investing activities

Strategic investment management is the responsibility of the company's asset and liability management team, which includes specialists from Estonia and Germany who are responsible for assets and liabilities. In line with the investment management system, tactical investment management has been 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 Insurance SE.

In 2019, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 50.1% (2018: 48.3%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) credit rating, 18.1% (2018: 16.6%) were rated AA or Aa, 13% (2018: 15.5%) had an A rating, 16.3% (2018: 16%) had a BBB or Baa rating, and 2.5% (2018: 3.6%) were rated BB or Ba.

At the year-end, investments consisted of investments in associates and subsidiaries of 0.69 million euros (2018: 0.64 million euros), most of which (0.64 million euros) were classified as assets held for sale, debt securities of 167.8 million euros (2018:146.3 million euros), loans of 1.4 million euros (2018: 1.4 million euros), and equities and fund units of 24.5 million euros (2018: 20.4 million euros). There were no investments in term deposits.

Income on assets with interest rate risk amounted to 0.31 million euros (2018: 0.48 million euros). Realisation of equities and fund units generated a gain of nil euros (2018: a loss of 0.15 million euros) and realisation of debt securities produced a gain of 0.05 million euros (2018: 0.27 million euros). Dividend income amounted to 0.12 million euros (2018: 0.21 million euros). The fair value reserve increased by 0.8 million euros (2018: decreased by 1.16 million euros). Thus, the overall yield of the investment portfolio was 0.52% (2018: -0,22%). Investment management expenses accounted for 0.19% of the carrying value of managed investments (2018: 0.22%).

Development

SALES AND SERVICE OFFERING

ERGO's strategic focus areas are strong customer relations, a customer-focused approach, innovation, simplicity and transparency.

According to a sector study conducted by Dive Eesti, a customer service improvement company specializing in mystery shopping, ERGO is the insurer that offers the best service quality in Estonia.

ERGO also has the highest net promoter score among insurance companies operating in Estonia, according to a nation-wide survey conducted by Kantar Emor from 18 March to 8 April 2019.

Car repair companies have the smoothest cooperation with Swedbank P&C Insurance AS, ERGO Insurance SE and the Estonian branch of Lietuvos Draudimas (PZU). The recognition of AMTEL (Estonian Union of Vehicle Traders and Servicing and Repair Companies) is an important achievement, which supports ERGO’s reputation as the provider of the best claims handling service.

The role of ERGO’s customer contact centre has changed slightly. Its purpose is to handle incoming customer contacts and provide the best customer service. We strive to resolve all inquiries at the first contact and wish to provide added value through additional and cross-sales. Similarly to other sales groups, the contact centre has its sales goals.

SERVICES

New general terms and conditions for ERGO Insurance SE insurance contracts (KT.0948.18) entered into force in Estonia on 7 February 2019. They apply to all new insurance offers and contracts as well as any new policies issued under existing contracts from 7 February 2019.

Starting from 1 January, Luminor Bank's credit card comes with automatic ERGO travel insurance also in Estonia. On 1 October 2018, Luminor Bank and ERGO in the Baltics began offering customised travel insurance to Luminor’s credit card holders.

In February, ERGO launched business insurance in Estonia, where a single policy can be used for up to six different insurance classes. This is the first comprehensive solution for business customers. The provision of the service began in April.

Our Latvian entity upgraded ERGO's mobile health insurance application. Now it can be used to check the scope of insurance cover, the application is available to non-residents, customers can log in via a bank link and register a claim, and it contains a health insurance card, which can be conveniently presented to partners.

In March, our Latvian entity refreshed the design of its e-office at mansergo.lv, which is fully integrated into ERGO’s Latvian website ergo.lv. The renewed website is equally convenient for PCs, tablets and mobile devices. The new modern e-office supports our goal to be the best insurer in the Latvian market in terms of digital solutions. On mansergo.lv, customers can view their current and past insurance policies as well as the status and history of their claims.

Our Lithuanian entity improved its employee liability insurance: the terms and conditions were updated, risk analysis was simplified and contract renewal was automated.

On 1 March, our Lithuanian entity renewed its motor own damage insurance and ERGO roadside assistance service.

In Estonia, we changed the pricing of motor own damage and motor liability insurance. In contracts signed based on offers made from 26 June 2019, the motor own damage premium does not depend on the number of instalments. From May, motor liability insurance can be supplemented with legal expenses cover.

Also, all supplements to motor liability insurance can now be conveniently purchased at the e-office. In October, the pricing of motor liability insurance was adjusted: passenger car insurance premiums for private customers under 30 and legal entities were slightly lowered. All passenger car insurance premiums were favourably affected by the change in the impact of engine capacity.

The terms and conditions of home insurance MAKSI offered in the Estonian market were updated. Contracts with renewed terms and conditions have been issued since 13 June.

There has been an upsurge in measles in Europe as well as in Lithuania. ERGO was the first in the Lithuanian market to expand accident insurance to cover measles.

In July, a new feature of the claims management tool ERGO Smart* was launched in Lithuania. The customer who registers a claim via ERGO Smart, will immediately see the amount due to them provided it does not exceed 500 euros. If the customer accepts the amount, the money is transferred to the customer's account the next day.

A new service was launched in Lithuania in the second half of 2019, which provides insurance cover against malignant tumours. ERGO is the first insurer in Lithuania to include such a timely insurance option in its portfolio.

Due to the closure of the Estonian branch of Danske Bank A/S, the branch's portfolio of lease vehicles was transferred to the Lithuanian branch of Danske Bank A/S. The transfer of ownership was registered in the Traffic Register using a bulk change.

At the beginning of 2020, ERGO and the Estonian start-up Rentin began offering a completely new service – rental agreement insurance. This is a solution not yet available in the Estonian market.

MARKETING

Marketing activities were active in 2019. In addition to regular sales campaigns, we supported our goals with a number of other promotional campaigns and events.

In March, ERGO placed 23rd in Latvia's TOP 50 employers list prepared by CV-Online Latvia.

In Estonia, we participated in March in a fair for university students to introduce ERGO and our internship and employment opportunities.

Our Estonian entity promoted vehicle e-insurance at Tallinn Motor Show. This is a pay-as-you drive motor liability insurance solution.

In April, a life and accident insurance campaign was carried out in Estonia, which focused, among others, on customers that had only one of the two insurance contracts. The purpose was to explain the need for the other contract.

ERGO’s largest marketing campaign in the first half-year was carried out in Estonia to raise awareness of legal expenses insurance. The purpose was to increase the number of queries and secure contracts. The campaign made active use of social and digital media solutions. For example, a video clip promoting legal expenses insurance was made.

In early May, supplementary motor liability insurance covers were made available on ERGO’s Estonian website and e-office. This was supported by an active online campaign and collaboration with Radio Elmar.

In Lithuania, accident insurance was expanded to cover measles. The service was actively promoted from 16 April to 31 August.

ERGO organised an information campaign in Latvia in May and June to draw attention to the need to improve the legislation relating to electric and motor scooters. A campaign promoting consideration of others in traffic was conducted in cooperation with the Road Traffic Safety Council, the police and the NGO City for People.

In June, the bollards in EuroPark car parks in Riga, Latvia, were padded to prevent cars from being scratched. The aim was to raise awareness of ERGO's motor liability insurance services.

In early summer, a campaign aimed at schoolchildren called It Is Easy to Catch a Rabbit was launched in Lithuania (“to catch a rabbit” means to fall in Lithuanian). It was the first ERGO campaign where the pictures of the children of ERGO staff were used in posters.

In September, a home insurance campaign was launched in Lithuania, which lasted for five months. The aim was to refute the notion that property insurance is expensive. Customers signing a property insurance contract could choose one of three other insurance products offered as a gift.

In the third quarter, an online motor liability insurance campaign, business insurance campaign and life and accident insurance campaign were organised in Estonia.

In September, our Estonian entity began working with a new sales partner Tipit. Tipit is a reference platform, which can be used to recommend life insurance to a friend or acquaintance. In November, the option of recommending home insurance was added and both services were actively promoted until the end of the year.

In August and September, a campaign Bicycle Instead of a Replacement Car was mounted in Estonia. Motor own damage insurance customers whose car was in the repair shop for five or more days were offered a bicycle instead of a replacement car. Those who chose the bicycle, received it as a gift. The campaign was conducted primarily on social media and became one of ERGO’s most successful social media campaigns ever conducted in Estonia.

In October, ERGO was recognised as the most beloved insurer in the Baltics. According to the largest brand and lifestyle survey in the Baltics, ERGO ranks 48th among all brands.

In the fourth quarter, a new motor own damage insurance sales campaign was carried out in Latvia with a message that it is no longer necessary to have an alarm system in order to insure a car.

In October, the autumn home insurance sales campaign began, which lasted until November. It included informing customers about the fact that home insurance now comes with free legal advice on home-related matters.

In November, ERGO organised for the first time a Black Friday blitz campaign. Only on Black Friday, legal expenses insurance was offered at a 50% discount.

At Christmas, there was an online travel insurance campaign in Latvia, which increased policy sales by 138% and premium income by 140% compared to the same period last year.

In Estonia, ERGO and its sponsorship partner Voluntary Rescue Association organised a Christmas campaign Give Your Loved Ones a Sense of Security, which included elements of both a sales campaign and strong social communication. Videos promoting preventive measures were made, smoke detectors were distributed to large families and 100 carbon monoxide detectors were donated via social media to those who need them to give them and their families a sense of security.

SPONSORING AND SOCIAL RESPONSIBILITY

In Estonia, ERGO continued active cooperation with the Voluntary Rescue Association and helped cover fire engine insurance premiums. We donated carbon monoxide detectors to the Voluntary Rescue Association to distribute to people during home visits. In addition, we supported the following events in the first half of the year: maritime rescue exercises organised by the Voluntary Rescue Association where also an ERGO employee participated; the start-up and tech event Latitude59 organised during the STARTER Tallinn Spring 2019 Demo Day where ERGO awarded a special prize to Verum Solutions, a company developing a solution for German insurers to help detect insurance fraud; motivation training Tiger Training 2019 organised for young athletes on 21 May by ERGO and the Estonian Olympic Committee.

In March, our Estonian entity and the Estonian Olympic Committee announced a competition for the Young Athlete grant of 25,000 euros. In total, ten grants worth 2,500 euros were awarded.

ERGO also started cooperation with the Lithuanian Olympic Committee. Together we organised an Olympic Day, where the ERGO team participated in various competitions.

In March, the largest film festival in the Baltics, the Vilnius International Film Festival Kino Pavasaris took place in Lithuania. This time, films were shown in 19 cities across Lithuania, with 1,300 screenings attended by 126,500 people. This was the eighth time ERGO sponsored this event and, for the first time, we offered cinema-goers ‘ERGO’s contingency insurance’: if the ticket holder cannot go to the cinema due to unforeseen circumstances, they can exchange their tickets.

On 21 May, ERGO celebrated World Day for Cultural Diversity by launching an interactive website dedicated to the ERGO Group staff and environment.

Under the Munich Re Code of Conduct, employees who become aware of a material breach of law or internal regulations must report this to their immediate superior and the local compliance manager or local auditor. If it is not possible or practical to do this at the local level, ERGO Group has a secure whistle-blower portal for reporting the breach directly to ERGO Group.

Every summer, ERGO organises a social campaign for cyclists in Lithuania. This year, it was “Įžiebk dviratį” (Light Up Your Bike), which focused on the visibility of cyclists in the dark. In co-operation with the local cyclist community, problem areas were mapped, a survey was carried out and an experiment was conducted to determine how well drivers notice cyclists in the dark.

In June, ERGO sponsored the Latvian Beach Volleyball Championship ERGO OPEN 2019, which lasted all summer. ERGO has been the main sponsor of the competition for seven years.

In Latvia, the Road Traffic Safety Council and the police organised a social responsibility campaign Celebrate but After that Sleep! promoting safe and responsible driving, which was supported by ERGO.

For the second year in a row, ERGO’s Lithuanian entity sponsored the 300-kilometre electric car race from Vilnius to Palanga. ERGO’s two-member team took part in the competition, winning the Economy Driving Award.

ERGO joined Delfi’s nežVAIRUOK (Don’t Mess Around!) initiative in Lithuania, which focuses on driving while using the mobile phone and encourages people not to do it.

On June 11, ERGO’s Latvian entity was recognised as a family-friendly enterprise for the second year in a row. With the Family-friendly Enterprise Award, the Latvian Ministry of Social Affairs recognises companies that appreciate family values and implement family-friendly business policies. This year, 38 companies, including the Latvian branches of both ERGO Insurance SE and ERGO Life Insurance SE, received the award.

On 13 June, our Latvian entity received a Gold Award in the Sustainability Index assessment. Based on internationally recognised methodology, the Sustainability Index is a strategic management tool that helps companies evaluate their performance in five key business areas: strategic planning, market relationships, work environment, social inclusion and the environment. The year before, ERGO’s Latvian entity received a Silver Award. In addition to being awarded a Gold Award, ERGO was also recognised as a company promoting gender equality.

In Lithuania, ERGO is a major sponsor of Velomarathon, the largest cycling event in the Baltics. The event attracts both young and old amateur and professional cyclists. ERGO has been the main partner of the event for eight years already. In 2019, ERGO and its partners launched the 'Įžiebk dviratį' initiative to draw public attention to cyclists’ visibility in the dark. More and more of our employees take part in Velomarathon: this year, 236 of them participated and ERGO was awarded the title of the largest cycling team for the third year in a row.

In 2019, ERGO in the Baltics shifted its focus on becoming an environmentally friendly company. For this, we will gradually change our internal operating policies and the objectives and focus areas of our sponsorship and socially responsible activities. We began to use reusable dishes instead of disposable ones at the head office of our Estonian entity and pens made of recycled material across the Baltics. In October, we conducted a pan-Baltic environmental campaign Caring for the Future is Our Nature to raise the public's awareness of how much we value a green mindset and what we do as a company to be more environmentally friendly, both internally and externally.

At the same time we supported a number of environmental activities, projects and events in the Baltics. In Estonia, we supported the social campaign Don't Drink Plastic, which calls for reducing the use of disposable plastic. Our Lithuanian and Estonian entities supported environmental hackathon Climathon, held in Vilnius and Tallinn in October. Overall, Climathon was held in more than a hundred cities around the world. Besides sponsoring the event, ERGO contributed by being on the jury and presenting the ERGO Special Award in Estonia.

In late November, Estonia, Latvia and Lithuania took part in ERGO's digital waste clean-up initiative. The goal was to delete unnecessary computer files. For every deleted gigabyte, ERGO donated 10 euros to charity. A total of 9,056 gigabytes of data was deleted worldwide.

The Latvian Ministry of the Environment and Regional Development thanked ERGO for supporting environmentally-friendly modes of transport and its successful participation in the events of European Mobility Week 2019. Inspired by the idea of Mobility Week, ERGO in Latvia offered secure bicycle parking to visitors at concert venues in several cities.

In December, our Latvian entity organised its annual meeting with the children of children's homes who have received a scholarship from ERGO to continue their studies. The purpose is to meet scholarship recipients in the autumn, discuss their school life and encourage young people to pursue their goals. Within 18 years, ERGO has supported 86 young people in Latvia in their undergraduate and postgraduate studies. ERGO has contributed over 300,000 euros to the project.

Latvia's annual charity event, Santa Claus Fun Run in Riga attracted 1,500 people. ERGO was represented with the biggest, 100-strong team, which contributed their fair share to charity.

Organisation and management

ERGO will continue to harmonise processes and develop a new business model in the Baltics. The aim is to benefit from Baltic synergies and experience, while respecting local customs and fully seizing local opportunities. The changes made to ERGO's organisation and operating principles support the vision of being a company that takes into account each customer's individual needs and offers its customers clear added value. To support and facilitate this, in the fourth quarter ERGO prepared a strategy for the Baltics for 2019-2022.

In April, Remigiusz Jagnyziak, Head of Corporate Development and Strategy in the Baltics, and Tadas Šuliauskas, Information Security Officer in the Baltics, joined the company.

There were changes in ERGO Group. Oliver Willmes, previously responsible for the strategy of ERGO International, was elected as new Chairman of the Board of ERGO International.

A new Supervisory Board was elected for Munich Re, half of which is made up of ten employee representatives from various ERGO markets.

In July, Tarmo Koll left the management of ERGO Insurance SE. Maciej Szyszko took over the post of Chief Financial Officer and Member of the Management Board of ERGO in the Baltics after the official approval of the Financial Supervisory Authority.

Organisation of work and staff events

In line with the strategy and the new organisational structure, our goal is to harmonise and simplify various processes throughout the Baltics. As a result, several common platforms and systems were implemented in the first quarter. The IT support system Jira and Microsoft Outlook services, including Skype, are now used in all countries.

In Latvia, we opened a playroom for the children of ERGO employees where they can spend time after school or when they accompany their parents to work. The room has child-friendly furniture made of environmentally-friendly materials and two workstations for parents. There is also a children's library at ERGO in Latvia where all employees could bring the books they like. In the autumn, a children's playroom was opened at ERGO head office in Vilnius, where employees' children can play, watch TV or do their homework until their parents finish work.

In March, ERGO hosted a gala in all three Baltic countries to recognise its best employees and outstanding projects.

In April, ERGO's Estonian team participated in the activities of a sports month at work organised by the Estonian Olympic Committee and SportID. Throughout the month, various small sports competitions were held and professionals in the field gave tips for an active and healthy lifestyle. In May, there was a sport event in Latvia where employees competed in step counting, running, cycling, etc. Employees were also encouraged to participate in the Tet Riga Marathon.

ERGO's Latvian team arranged a sports event in the autumn to promote a healthy lifestyle and physical activity. A total of 60 employees took part in an Endomondo challenge. The previous challenge ended in October but the new one lasted longer – from October to March. The Endomondo challenge is a fun training programme for employees.

In May, our Latvian team organised its annual forest planting event during which they planted 2,800 pine trees. The event has been held for nine years and during this time, ERGO employees in Latvia have planted nearly 27,000 pine and spruce trees. Following the example of their Latvian colleagues, a small group from our Estonian entity participated in a tree planting event organised by the State Forest Management Centre.

For the seventh time, our Latvian team hosted a Family Day in June in connection with International Children's Day. Nearly a hundred children of ERGO staff visited the head office to see where their parent works, learn what insurance and safety are all about and do other exciting things. This year, the theme of the day was safe summer.

A company retreat was organised for the employees of our Latvian and Estonian entities in August. A similar event took place in Lithuania in June.

In early June, 70 employees of our Estonian, Latvian, Lithuanian and Polish entities gathered at the ERGO Explorers seminar in Tallinn, Estonia, to share their experience and knowledge, learn from it, and develop the best possible solutions and later implement them. The end of 2019 marked also the end of the ERGO Explorers programme, which was held for the second time. At the end of the programme, all participants presented projects created by their teams that will hopefully continue to add value to ERGO's business.

The second quarter featured activities promoting an active lifestyle. Bicycles and helmets were purchased for 11 ERGO offices in Lithuania. Employees can use them, for example, when visiting customers or simply going out for lunch.

From September, our Lithuanian team organises the so-called apple days when apples or other fruits are made available in the office. The purpose of monthly apple days is to encourage employees to take healthy breaks at the office.

Sorting bins were introduced at our Latvian office. The bins are becoming increasingly popular at our Lithuanian entity and we are negotiating their introduction at the Estonian entity.

The Latvian office hosted a staff charity fair in November and the Estonian team held a charity cake sale in December. The amounts raised for charity exceeded 200 euros in Latvia and 150 euros in Estonia.

In 2019, there were 314 staff training days at ERGO's Lithuanian entity, with approximately 2,515 training hours attended by 4,645 people.

ERGO Insurance SE's business and future outlook

ERGO Insurance SE's business is determined by the strategic framework of ERGO Group: the main priority is always customer satisfaction. Globally, ERGO Group is also strongly focused on innovation and digitalisation.

More than ever, our focus is on a customer-centric approach, digital development, and the transition to pan-Baltic systems and operations.

In October 2019, the Estonian Chamber of Commerce and Industry recognised ERGO Insurance SE as the second most competitive financial brokerage company after Swedbank, making ERGO the most competitive insurance company in the Estonian market.

Key financial indicators

In thousands of euros, except for ratios *As at 31 December or for the year*	2019	2018
For the year		
Gross written premiums	**193,309**	**183,827**
Gross earned premiums	**190,033**	**177,018**
Gross claims and benefits incurred	**125,386**	**112,128**
Gross expenses	**54,812**	**50,859**
Gross loss ratio	**66.0%**	**63.3%**
Net loss ratio	**64.2%**	**64.3%**
Gross expense ratio	**28.8%**	**28.7%**
Net expense ratio	**29.5%**	**29.5%**
Gross combined ratio	**94.8%**	**92.1%**
Net combined ratio	**93.7%**	**93.8%**
Claims handling ratio	**9.8%**	**10.4%**
Claims paid ratio	**56.8%**	**54.5%**
As at the year-end		
Total assets	**278,431**	**234,529**
Ratio of investments to total assets	**69.6%**	**71.7%**
Ratio of equity to total assets	**24.1%**	**23.5%**
Ratio of insurance provisions to total assets	**61.7%**	**65.3%**
Profitability indicators		
Insurance result (technical result)	**11,461**	**10,544**
Investment result	**938**	**-689**
Profit for the financial year	**11,092**	**8,228**
ROE	**18.2%**	**15.9%**
ROA	**4.3%**	**3.7%**
ROI	**0.5%**	**-0.2%**

Explanation of figures and ratios

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

Conclusion

The management board of ERGO Insurance SE is pleased to report that in 2019 the company developed in line with the insurance market and achieved its main business goals and targets.

Bogdan Benczak

Chairman of the Management Board

/signed digitally/

Financial statements

Income statement

In euros	Note	2019	2018
Income			
Gross written premiums	3	193,308,868	183,826,991
Written premiums ceded to reinsurers	3	-8,433,993	-7,884,786
Change in gross provision for unearned premiums	21	-3,276,180	-6,808,551
Reinsurers' share of change in provision for unearned premiums	15	446,895	168,288
Net earned premiums		**182,045,590**	**169,301,942**
Reinsurance commission income	4	1,119,186	914,055
Investment income	5	475,812	813,895
Other income	6	1,720,769	1,994,951
Total income		**185,361,357**	**173,024,843**
Expenses			
Claims and benefits incurred	7	125,385,922	112,127,566
Reinsurers' share of claims and benefits incurred	7	-8,493,675	-3,314,266
Net policyholder claims and benefits incurred		**116,892,247**	**108,813,300**
Acquisition costs	8	44,031,720	40,649,475
Administrative expenses	8	8,622,979	8,095,401
Other operating expenses	8	2,157,004	2,113,715
Investment expenses	8	349,419	341,696
Other expenses	8	1,385,814	2,134,044
Total expenses		**173,439,183**	**162,147,631**
Operating profit		**11,922,174**	**10,877,212**
Share of profit of equity-accounted investees	13	0	77,245
Other finance costs	13	0	-1,924,852
Profit before income tax		**11,922,174**	**9,029,605**
Income tax expense	27	**-830,357**	**-801,393**
Profit for the year		**11,091,817**	**8,228,212**

Statement of comprehensive income

In euros	Note	2019	2018
Profit for the year		**11,091,817**	**8,228,212**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in value of available-for-sale financial assets	20	811,531	-1,161,010
Total other comprehensive income/expense for the year		**811,531**	**-1,161,010**
Total comprehensive income for the year		**11,903,348**	**7,067,202**

The notes on pages 27 to 86 are an integral part of these financial statements.

Statement of financial position

In euros

As at 31 December	Note	2019	2018
Assets			
Deferred tax assets	27	273,452	215,412
Property and equipment[1]	10	12,544,919	6,933,663
Intangible assets			
Deferred acquisition costs	11	8,635,680	7,934,493
Other intangible assets	12	7,373,533	5,724,931
Investments in associates and subsidiaries	13	50,000	50,000
Assets held for sale	13	637,372	637,372
Investments in financial instruments			
Equities and fund units	14	24,487,062	20,440,287
Debt and other fixed-income securities	14	167,814,219	146,295,885
Loans	14	1,380,000	1,380,000
Total investments in financial instruments		193,681,281	168,116,172
Reinsurance assets	15	16,512,924	9,230,307
Insurance and other receivables	16	27,032,980	25,943,332
Cash and cash equivalents	17	11,689,236	9,743,461
Total assets		**278,431,377**	**234,529,143**
Equity and liabilities			
As at 31 December	**Note**	**2019**	**2018**
Equity			
Share capital	18	6,391,391	6,391,391
Capital reserve	19	3,072,304	3,072,304
Fair value reserve	20	882,201	70,670
Retained earnings (prior years)		45,615,531	37,387,319
Profit for the year		11,091,817	8,228,212
Total equity		**67,053,244**	**55,149,896**
Liabilities			
Insurance contract provisions	21	171,924,447	153,044,740
Reinsurance payables	22	3,512,993	3,129,520
Insurance payables	23	15,814,346	10,752,095
Other payables and accrued expenses[1]	24	14,121,854	6,452,892
Subordinated loan	28	6,004,493	6,000,000
Total liabilities		**211,378,133**	**179,379,247**
Total equity and liabilities		**278,431,377**	**234,529,143**

[1] In connection with the application of IFRS 16, right-of-use assets which do not meet the criteria for investment property are recognised within *Property and equipment* and lease liabilities are recognised within *Other payables and accrued expenses*.

The notes on pages 27 to 86 are an integral part of these financial statements.

Statement of cash flows

In euros

(Inflow + , outflow –)	**Note**	**2019**	**2018**
Net cash from/used in operating activities		**7,005,329**	**-1,272,991**
Insurance premiums received		184,548,137	173,840,606
Claims, benefits and handling costs paid		-107,225,434	-96,744,943
Settlements with reinsurers		-5,044,266	-3,478,440
Settlements with holders of reinsurance policies		0	-13,811
Paid in operating expenses[1]		-55,488,834	-55,957,670
Other income and expenses		15,586,304	9,736,766
Acquisition of equities and fund units		-4,324,428	-11,315,224
Disposal of equities and fund units		719,123	8,317,955
Acquisition of debt and other fixed-income securities		-108,766,760	-95,374,438
Disposal of debt and other fixed-income securities		84,961,037	68,015,281
Interest received		3,114,578	2,741,814
Dividends received		56,801	110,358
Corporate income tax paid		-944,245	-986,359
Paid in investment expenses		-186,684	-164,886
Net cash used in investing activities		**-3,587,190**	**-883,616**
Paid on acquisition of property and equipment and intangible assets		-3,622,741	-947,616
Proceeds from sale of property and equipment and intangible assets		35,551	64,000
Net cash used in financing activities		**-1,472,364**	**0**
Payments for the principal portion of lease liabilities	26	-1,472,364	0
Net cash flow		**1,945,775**	**-2,156,607**
Cash and cash equivalents at beginning of year		**9,743,461**	**11,900,068**
Increase/decrease in cash and cash equivalents		1,945,775	-2,156,607
Cash and cash equivalents at end of year	17	**11,689,236**	**9,743,461**

[1] The company has classified interest paid and lease payments made for short-term leases and leases of low-value assets as cash flows from operating activities. Information under IAS 17, which also includes payments made for the principal portion of lease liabilities, were recognised in the same item *Paid in operating expenses*.

The notes on pages 27 to 86 are an integral part of these financial statements.

Statement of changes in equity

In euros	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2017	**6,391,391**	**3,072,304**	**1,231,680**	**37,387,319**	**48,082,694**
Profit for the year	0	0	0	8,228,212	8,228,212
Other comprehensive expense	0	0	-1,161,010	0	-1,161,010
Total comprehensive income for the year	**0**	**0**	**-1,161,010**	**8,228,212**	**7,067,202**
Balance at 31 December 2018	**6,391,391**	**3,072,304**	**70,670**	**45,615,531**	**55,149,896**
Profit for the year	0	0	0	11,091,817	11,091,817
Other comprehensive income	0	0	811,531	0	811,531
Total comprehensive income for the year	**0**	**0**	**811,531**	**11,091,817**	**11,903,348**
Balance at 31 December 2019	**6,391,391**	**3,072,304**	**882,201**	**56,707,348**	**67,053,244**

The notes on pages 27 to 86 are an integral part of these financial statements.

Notes to the financial statements

Note 1. Significant accounting policies

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

The financial statements of ERGO Insurance SE for 2019 comprise the financial information of ERGO Insurance SE's head office in Estonia and its Latvian and Lithuanian branches.

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

These financial statements were authorised for issue by the management board on 02 April 2020. Under the Estonian Commercial Code, the annual report including the financial statements that has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report and may demand that a new annual report be prepared.

(a) Statement of compliance

The financial statements of ERGO Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2019.

(b) Basis of preparation

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

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are measured at their fair values:

- financial assets at fair value through profit or loss;
- available-for sale financial assets.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Use of significant estimates and judgements

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

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

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

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

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

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

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

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

Recognition of deferred income tax related to investments in the Latvian branch

In 2018, a new income tax system entered into force in Latvia. The system resembles the Estonian one but upon its application Latvian entities began to recognise deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, deferred tax for investments in subsidiaries, branches, associates and joint ventures is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (for example Estonia and Latvia), except to the extent that the group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. In line with the treatment used in Estonia to date, the deferred tax liabilities are not recognised in such cases.

There is no consensus yet in Estonia as to which treatment is correct. The Ministry of Finance has asked the IFRS Interpretation Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 *Income Taxes*. At the date of release of this report, IFRIC has not yet communicated its opinion.

The company’s management has decided to continue to account for deferred tax liabilities related to investments in branches using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (as in Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in those jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

Taxable temporary differences for which deferred tax liabilities have not been recognised are disclosed in note 27 Income tax. If the company changed the accounting policy and recognised the deferred tax liability on these investments, the liability recognised would be immaterial as at 31 December 2019.

(c) Branches

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

(d) Associates

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

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

(e) Classification of insurance contracts

Non-life insurance

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

Incoming reinsurance

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

(f) Recognition and measurement of insurance contracts

Insurance premiums

Premium income

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

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

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

Provision for unearned premiums

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

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

Claims and provisions for claims outstanding and unexpired risks

Claims and benefits incurred

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

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

Provision for claims outstanding

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

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

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

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

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

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

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

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

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

Provision for unexpired risks

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

Outgoing reinsurance

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

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

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

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

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

Liability adequacy test

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

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

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

Cash inflows comprise estimated future investment income.

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

(g) Other income

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

(h) Operating lease expenses

Till 31 December 2018 operating lease payments were recognised as an expense on a straight-line basis over the lease term. Other payments associated with the leases were recognised in profit or loss as an integral part of lease expense.

(i) Income tax

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

In 2019, the tax rate for dividends distributed in Estonia and Latvia was 20% and the amount of tax payable was calculated as 20/80 of the amount distributed as the net dividend. Because of the specific nature of the taxation concept, the term *tax base of assets and liabilities* does not have economic substance and deferred income tax liabilities and assets do not arise.

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

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

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

(j) 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.

(k) Property and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

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

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

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

The company as lessor

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

The company as a lessee

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

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

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

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

In euros	Buildings	Equipment and other items	Total
Minimum amount of future lease payments at 31 December 2018	6,478,425	415,653	**6,894,078**
Leases not recognised in the statement of financial position	-263,843	0	**-263,843**
- low-value assets	*-234,743*	*0*	***-234,743***
- short-term leases	*-29,100*	*0*	***-29,100***
Effect of discounting	137,186	2,653	**139,839**
Lease liabilities at 1 January 2019	**6,077,396**	**413,000**	**6,490,396**

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

Detailed information about leases is disclosed in note 26 Leases*.*

(iii) Subsequent costs

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

(iv) Depreciation

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

The estimated useful lives are as follows:

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

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

(l) Intangible assets

(i) Deferred acquisition costs – insurance contracts

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

The deferral calculations for acquisition costs are performed separately for each class of business. Deferred acquisition costs are recalculated at each reporting date.

(ii) Other intangible assets

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

(m) Financial assets

Financial assets comprise investments in equity and debt instruments, trade and other receivables, cash and cash equivalents, loans provided and derivative financial instruments.
Financial assets are classified into four categories, depending on the purpose of acquisition:

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

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

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

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

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

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

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

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

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

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

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

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

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

(n) Derivative financial instruments

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

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

(o) Receivables

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

(p) Cash and cash equivalents

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

(r) Impairment of assets

(i) ***Financial assets***

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

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

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

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

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

(ii) ***Non-financial assets***

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

(s) Employee benefits

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

(t) Allocation of expenses

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

(u) Other provisions

Other provisions are recognised when:

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

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

(v) Dividends

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

(w) Events after the reporting period

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2019) and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

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

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

The following new standards, interpretations and amendments are not yet effective for the annual period ended 31 December 2019 and thus have not been applied in preparing these financial statements. The company plans to adopt these pronouncements when they become effective.

IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

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

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. Under IFRS 4 *Insurance Contracts*, effective from 1 January 2018, insurance companies have an option to adopt IFRS 9 together with IFRS 17 from 1 January 2023.

The company, as an insurance provider, has elected to use the option to defer the application of IFRS 9 and, accordingly, the standard will not have a significant impact on its financial statements before it is applied for the first time. The company meets the conditions for deferral because it has not applied IFRS 9 before and the carrying amount of its insurance contract liabilities accounts for more than 90% of the carrying amount of its total liabilities.

IFRS 9 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 amortised cost if the following two conditions are met:

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

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

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

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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

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

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

It is expected that the new standard, when initially applied, will have a significant impact on the company’s financial statements since the classification and the measurement of its financial instruments are expected to change. The company intends to adopt IFRS 9 together with IFRS 17 in 2023.

At this stage it is still unclear what portion of the company’s debt securities will be measured at FVTPL, at FVOCI or amortised cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of at FVOCI.

IFRS 17 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted (has not yet been endorsed by the EU).

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

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

The company expects that the new standard, when initially applied, will have a material impact on its financial statements because the company’s core business is non-life insurance. There will be changes in valuation models, the classification of insurance contracts (profitable and onerous) and the insurance portfolio’s aggregation requirements.

Note 2. Risk profile

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

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

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

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

2.1. Insurance risks

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

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

Policies for mitigating insurance risks

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

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

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

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

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

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

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

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

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

Insurance risk management strategy

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

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

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

General insurance contracts

Liability insurance

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

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

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

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

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

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

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

Property insurance

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

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

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

Marine and transport insurance

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

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

Pricing risks

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

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

Claims handling risks

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

In line with the principle of prudence each reported claim is evaluated on an individual basis 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

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

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

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

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

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

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

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

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

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

Concentration risks

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

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

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

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

In euros	2019			2018		
	Gross provisions	**Reinsurers' share**	**Net provisions**	**Gross provisions**	**Reinsurers' share**	**Net provisions**
Estonia	49,724,167	5,919,040	43,805,127	43,619,992	3,132,952	40,487,040
Latvia	39,560,337	5,584,101	33,807,581	31,863,816	2,193,177	29,670,639
Lithuania	82,639,943	5,009,783	77,798,815	77,560,932	3,904,178	73,660,754
Total	171,924,447	16,512,924	155,411,523	153,044,740	9,230,307	143,818,433

Impact of catastrophic events

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

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

Reinsurance strategy

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

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

Breakdown of reinsurance retention by insurance class as at 31 December 2019

Class of insurance	**Retention in euros**
Property and technical risks insurance	1,000,000
Motor liability insurance	1,000,000
Liability, goods in transit, watercraft, carrier's liability and travel insurance	500,000
Accident, animal, motor own damage and guarantee insurance	300,000

Claims development

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

Various factors may distort current estimates of provisions and cumulative prior year provisions. While the information in the table provides a historical perspective of the adequacy of claims outstanding estimates, it does not provide a basis for extrapolating surpluses or shortfalls of the past on current claims outstanding balances. The company believes that the estimates of claims outstanding as at the end of 2019 are adequate. However, due to the inherent uncertainties of the provisioning process, it cannot be guaranteed that the balances will prove adequate.

Analysis of claims development – gross (as at 31 December 2019)

In euros	*Year of loss incurrence*					
Estimate of cumulative claims	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
At end of year of incurrence	64,433,543	72,990,244	83,980,608	91,153,852	103,666,793	115,127,307
One year later	64,306,855	65,771,093	82,607,595	89,565,397	106,251,125	
Two years later	61,875,565	65,495,499	83,469,185	89,422,538		
Three years later	60,924,844	65,535,533	83,112,591			
Four years later	60,650,972	65,350,913				
Five years later	60,769,628					
Cumulative payments until 31 December 2019	57,583,989	63,754,556	77,578,064	82,465,936	90,190,795	72,544,523
Provision for claims outstanding (incl. IBNR) at 31 December 2019	3,185,639	1,596,356	5,534,527	6,956,602	16,060,330	42,582,784

At 31 December 2019, the provision for claims outstanding for earlier years of loss incurrence amounted to 15,405,788 euros (2018: 10,118,583 euros).

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

Results of the sensitivity analysis for claims

	As at 31 December 2019		**As at 31 December 2018**	
	Change in net loss ratio in percentage points	Impact on profit and equity in euros	Change in net loss ratio in percentage points	Impact on profit and equity in euros
Motor liability insurance	3.7	-2,736,773	3.5	-2,493,299
Motor own damage insurance	0.5	-218,959	0.5	-212,962
Individuals' property insurance	0.4	-53,416	0.8	-90,911
Legal persons' property insurance	3.3	-284,234	1.6	-117,770
Other classes of insurance	1.9	-738,611	2	-678,660

Sensitivity analysis involves applying various methods to assess the volatility of estimates used for creating provisions for claims and its impact on the net loss ratio and net profit or loss. A 5% decrease in premium income for 2019 would have had a -1.0 million euro impact on the company's insurance result.

Liability adequacy test

The company has assessed the insurance liabilities recognised in the statement of financial position as at 31 December 2019 using the liability adequacy test.

The test indicated that contractual liabilities did not exceed the insurance provisions recognised in any classes of insurance. As a result, the company did not reduce the deferred acquisition costs of any classes of insurance (see note 11) and, similarly to last year, did not recognise an additional unexpired risks provision. Detailed information on insurance provisions is provided in note 21.

2.2. Market, credit and liquidity risk management

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

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

Credit risk

The credit risk of investments is the risk that the issuer of a security will not discharge its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The table below describes the company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of the company's fixed-income securities was A- (2018: A-). The company believes that its credit risk exposure to other financial assets is low due to their small proportion.

In its insurance activities, the company's main credit risk is payment default by a broker or reinsurer. The company's credit risk arises principally from its insurance and reinsurance receivables. In each business line, risk management measures are applied to protect the company's financial position. The company has rules in place for consistently monitoring and managing overdue receivables. A receivable that is more than 60 days overdue is written down. To mitigate the risk arising from reinsurance, the company enters into obligatory reinsurance contracts with such reinsurers only whose equity amounts to at least 250 million euros and rating is above A– (according to Standard & Poor's). Facultative reinsurance contracts are concluded with such reinsurers only that have been included in a list approved by the relevant department of ERGO Group. In addition, premiums ceded to any one reinsurer may not exceed 10% of ERGO's annual gross premium income.

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

2019	**Standard & Poor's**	**AAA**	**AA**	**A**	**BBB**	**BB**	**Without rating**	**Total**
In euros	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**Without rating**	
Debt securities at fair value		84,132,328	30,419,541	21,859,897	27,274,160	4,128,293	0	**167,814,219**
Proportion of debt securities		50.13%	18.13%	13.03%	16.25%	2.46%	0.00%	**100.00%**
Reinsurance assets		0	12,275,435	2,879,494	5,187	0	1,352,808	**16,512,924**
Proportion of reinsurance assets		0.00%	74.34%	17.44%	0.03%	0.00%	8.19%	**100.00%**

2018	Standard & Poor's	AAA	AA	A	BBB	BB	Without rating	Total
In euros	Moody's	Aaa	Aa	A	Baa	Ba	Without rating	
Debt securities at fair value		70,630,965	24,353,905	22,688,870	23,337,316	5,284,829	0	**146,295,885**
Proportion of debt securities		48.28%	16.65%	15.51%	15.95%	3.61%	0.00%	**100.00%**
Reinsurance assets		0	4,888,597	591,332	2,653	0	3,747,725	**9,230,307**
Proportion of reinsurance assets		0.00%	52.96%	6.41%	0.03%	0.00%	40.60%	**100.00%**

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

As at 31 December 2019 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	16,927,639	2,562,662	257,806	323,877	**20,071,984**
Receivables from intermediaries	778,766	855,803	10,828	148,711	**1,794,108**
Receivables from reinsurers	7,970	1,123,543	0	676,816	**1,808,329**
Other receivables	322,214	-204,262	45,519	126,069	**289,540**
Loan receivables	1,380,000	0	0	0	**1,380,000**
Accrued income – interest receivable	34,310	0	0	0	**34,310**
Total	**19,450,899**	**4,337,746**	**314,153**	**1,275,473**	**25,378,271**

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	17,981,213	1,877,805	214,506	278,150	**20,351,674**
Receivables from intermediaries	653,763	698,109	1,620	146,718	**1,500,210**
Receivables from reinsurers	2,601	83,063	658,606	397,169	**1,141,439**
Other receivables	247,090	0	64,573	118,322	**429,985**
Loan receivables	1,380,000	0	0	0	**1,380,000**
Accrued income – interest receivable	154,274	0	0	0	**154,274**
Total	**20,418,941**	**2,658,977**	**939,305**	**940,359**	**24,957,582**

Market risk

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

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

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

(a) Interest rate risk

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

The company's investments comprise mostly fixed-income securities whose market value is influenced by changes in interest rates. At 31 December 2019, the weighted average yield to maturity of fixed-income available-for-sale debt securities was -0.28% (31 December 2018: -0.1%).

Assets exposed to interest rate risk, by interest rate

In euros	**As at 31 December 2019**		**As at 31 December 2018**	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Interest rate 0.00−2.50%	126,862,795	127,031,073	98,778,440	98,653,664
Interest rate 2.51−3.50%	7,535,793	7,566,769	7,987,299	7,975,234
Interest rate 3.51−4.50%	22,897,019	23,055,840	21,899,455	21,937,994
Interest rate 4.51−5.50%	8,437,006	8,559,703	10,654,551	10,806,540
Interest rate 5.51−6.50%	1,566,834	1,600,834	589,617	588,484
Total fixed-income debt securities	**167,299,447**	**167,814,219**	**139,909,363**	**139,961,915**
Floating rate debt securities	0	0	6,261,993	6,333,970
Total	**167,299,447**	**167,814,219**	**146,171,356**	**146,295,885**

If at 31 December 2019 the yield curve had shifted evenly 100 basis points upward or downward across all maturities, the company's equity would have decreased or increased by 3.15 million euros (2018: 2.6 million euros). The rise in risk is attributable to an increase in the modified duration of the debt securities portfolio. There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expense.

(b) Other price risk

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

If at 31 December 2019 the value of investments in equity and debt securities funds had increased or decreased by 10%, the company's equity would have increased or decreased by 2.4 million euros (2018: 2 million euros). The increase in risk is attributable to the acquisition of investments in debt securities funds during the financial year.

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

Investments in financial instruments by issuer's domicile

In euros **As at 31 December**	**2019**	**2018**
Debt and other fixed-income securities		
USA	2,808,349	0
Australia	5,155,392	2,838,225
Austria	0	866,631
Belgium	0	2,057,022
Bulgaria	850,628	0
Canada	5,102,396	4,159,236
Czech Republic	647,089	667,453
Denmark	3,022,118	13,218,863
Estonia	491,239	480,719
Finland	0	1,018,089
France	28,320,778	22,047,356
Germany	37,069,886	23,206,965
Great Britain	6,715,743	13,116,540
Hungary	0	1,943,210
Ireland	0	761,760
Italy	0	6,129,951
Korea	3,868,496	2,524,838
Latvia	1,267,794	2,811,849
Lithuania	1,351,339	3,082,941
Mexico	632,896	2,787,122
Morocco	3,243,580	0
Netherlands	2,559,254	1,316,879
New Zealand	6,041,772	4,017,812
Norway	706,215	1,410,006
Poland	4,839,910	2,534,607
Croatia	4,804,714	2,825,888
Spain	22,437,204	9,499,295
Switzerland	4,210,019	3,123,701
European Investment Bank	0	2,619,415
Macedonia	4,128,292	2,458,941
Singapore	3,840,479	1,109,830
Romania	0	2,493,107
Portugal	5,041,487	1,839,498
Indonesia	3,698,531	2,667,908
China	4,958,619	4,660,226
Total debt and other fixed-income securities	***167,814,219***	***146,295,885***
Equities and fund units		
Ireland	24,443,619	20,396,844
Lithuania	43,443	43,443
Total equities and fund units	***24,487,062***	***20,440,287***
Loans		
Belarus	1,380,000	1,380,000
Total loans	***1,380,000***	***1,380,000***
Total investments in financial instruments	**193,681,281**	**168,116,172**

(c) Currency risk

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

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

In euros	**As at 31 December 2019**	**As at 31 December 2018**
	USD	**USD**
Insurance and other receivables	81,686	36,872
Investments in financial instruments – available-for-sale debt securities	3,152,371	0
Insurance payables	0	626
Reinsurance payables	97,443	24,627
Total	**3,331,500**	**62,125**

Liquidity risk

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

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

The debt securities portfolio is composed by taking into account the average duration of liabilities and modifying the duration of assets and liabilities with duration matching. In addition, a large share of the company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the company's liquid funds totalled 205 million euros (2018: 178 million euros) including available-for-sale debt securities of 167.8 million euros (2018: 146.3 million euros), equities and fund units of 24.5 million euros (2018: 20.4 million euros), loans of 1.4 million euros (2018: 1.4 million euros) and cash and cash equivalents of 11.7 million euros (2018: 9.7 million euros).

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio and units in debt securities funds was 2.02 years (2018: 1.94 years). There were no non-cash movements in the portfolio.

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

Financial assets and liabilities exposed to liquidity risk by maturity

In euros

As at 31 December 2019	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	35,409,565	24,824,207	11,688,519	5,700,624	3,016,952	**80,639,867**
Of which net insurance pension payments	21	0	2,646,654	2,928,054	3,160,909	2,162,918	1,076,173	**11,974,708**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 17	36,176,298	3,876,476	73,933,800	91,383,943	0	0	**205,370,517**
Other financial assets	16	0	24,009,395	0	0	0	0	**24,009,395**
Other financial liabilities	23, 24, 28	0	27,812,084	0	0	6,000,000	0	**33,812,084**
Net exposure (assets less liabilities)		36,176,298	-35,335,778	49,109,593	79,695,424	-11,700,624	-3,016,952	**114,927,961**

In euros

As at 31 December 2018	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	27,456,468	19,348,127	14,625,433	7,366,693	3,075,341	**71,872,062**
Of which net insurance pension payments	21	0	1,719,741	1,990,300	2,701,636	2,634,750	1,887,125	**10,933,552**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 15	30,183,748	22,381,518	46,301,089	78,993,279	0	0	**177,859,633**
Other financial assets	16	0	23,583,511	0	0	0	0	**23,583,511**
Other financial liabilities	23, 24, 28	0	15,663,340	0	0	6,000,000	0	**21,663,340**
Net exposure (assets less liabilities)		30,183,748	2,845,221	26,952,962	64,367,846	-13,366,693	-3,075,341	**107,907,742**

2.3. Capital management

Management's policy is to maintain a strong capital base so as to protect the interests of investors, creditors and policyholders and to sustain future development of the business. Management monitors return on equity (the ratio of profit to the period's average equity) on an ongoing basis. The return for 2019 was 18.2% (2018: 15.9%).

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

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

The Insurance Activities Act which took effect on 1 January 2016 introduced significant changes to insurers' capital requirements accounting. The company's own funds meet the capital requirements set out in the law.

The table below provides information about the structure of available own funds by tier.

In euros

Basic own funds	**As at 31 December 2019**	**As at 31 December 2018**	**Tier**
Ordinary share capital (including own shares)	6,391,391	6,391,391	Tier 1 – unrestricted
Reconciliation reserve	61,984,810	54,500,295	Tier 1 – unrestricted
Subordinated liabilities	6,000,000	6,000,000	Tier 2
Deferred tax assets	273,452	215,412	Tier 3
Total basic own funds	**74,649,653**	**67,107,098**	

2.4. Strategic risks

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

The main strategic risks result from a competitive market environment: market competition causes price competition and has an adverse impact on general profitability. Other sources of risk are the demographic situation and changes in consumer behaviour: continuing population ageing may create a need for services different from those offered by us and the number of prospective customers is declining. Also, changes in customer behaviour increase the need for digitalisation.

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

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

2.5. Operational risks

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

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

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

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

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

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

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

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

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

2.6. Reputational risks

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

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

ERGO has identified two subcategories of reputational risk:

- data and information;
- communication risk.

Reputational risk related to the unauthorised disclosure of confidential information is increasing because the public's awareness of matters related to the disclosure of personal data is improving and the member states of the European Union have adopted new data protection regulations.

Reputational risks are identified by three methods:

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

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

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

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

Note 3. Premium income

The following table outlines gross and net premiums for 2019 and 2018 by insurance class.

In euros	2019			2018		
	Gross written premiums	Reinsurers' share	Net earned premiums[1]	Gross written premiums	Reinsurers' share	Net earned premiums[1]
Motor liability insurance	74,969,228	942,740	74,637,284	76,769,383	1,228,757	72,063,398
Accident insurance	7,655,800	24,665	7,329,999	7,072,364	25,592	6,750,400
Travel insurance	5,174,394	84,790	4,901,986	3,891,252	69,351	4,105,816
Technical risks insurance	6,083,564	253,130	5,582,350	5,631,412	280,023	5,046,204
Individuals' property insurance	13,435,221	176,014	12,778,967	12,264,580	203,742	11,691,263
Legal persons' property insurance	11,209,609	2,802,729	8,149,867	10,089,344	2,592,046	7,178,682
Agricultural risks insurance	2,691,625	242,686	2,224,661	2,080,900	438,355	1,502,557
Motor own damage insurance	48,442,571	398,901	47,585,025	45,940,594	21,896	44,899,830
Liability insurance	8,264,961	1,576,200	7,196,640	6,964,465	1,230,927	5,151,076
Goods in transit insurance	1,501,021	107,382	1,428,072	1,411,263	142,452	1,337,360
Carrier's liability insurance	2,650,453	29,872	2,603,764	2,712,156	15,569	2,747,453
Watercraft insurance and watercraft owner's liability insurance	1,900,403	79,524	47,278	588,725	37,548	522,566
Guarantee insurance	3,628,448	1,542,311	1,689,321	2,884,438	1,229,815	1,231,079
Railway rolling stock insurance	85,473	88,123	836,105	1,141,415	203,580	933,360
Assistance insurance	2,937,420	0	2,645,416	1,885,399	0	1,797,229
Financial risks insurance	590,173	84,926	429,082	508,851	165,133	316,174
Loss of employment insurance	341,432	0	332,469	211881	0	212012
Legal expenses insurance	1,637,973	0	1,647,304	1822300	0	1859214
Total from insurance activities	**193,199,769**	**8,433,993**	**182,045,590**	**183,870,722**	**7,884,786**	**169,345,673**
Legal persons' property insurance	109,099	0	0	-43,731	0	-43,731
Total from reinsurance activities	**109,099**	**0**	**0**	**-43,731**	**0**	**-43,731**
Total	**193,308,868**	**8,433,993**	**182,045,590**	**183,826,991**	**7,884,786**	**169,301,942**

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

Breakdown of gross written premiums by currency

In euros	**2019**	**2018**
EUR	193,217,005	183,715,030
USD	91,863	111,961
Total	**193,308,868**	**183,826,991**

Breakdown of gross written premiums by country

In euros	**2019**	**2018**
Estonia	61,553,427	57,314,444
Latvia	36,909,953	34,399,227
Lithuania	94,736,389	92,157,051
Total from insurance activities	**193,199,769**	**183,870,722**
Poland	109,099	0
Russia	0	-43,731
Total from reinsurance activities	**109,099**	**-43,731**
Total	**193,308,868**	**183,826,991**

Note 4. Commission income

In euros	**2019**	**2018**
Reinsurance commissions	1,064,950	871,611
Participation in reinsurers' profit	213,287	125,013
Reinsurers' share of deferred acquisition costs	-159,051	-82,569
Total	**1,119,186**	**914,055**

Note 5. Investment income

In euros	**2019**	**2018**
Interest income on		
Loans	70,499	102,917
Term deposits	358	426
Available-for-sale debt securities	237,318	380,378
Total interest income	**308,175**	**483,721**
Dividend income	121,267	213,288
Net realised gains on		
Equities and fund units	0	-154,039
Available-for-sale debt securities	46,370	270,924
Total net realised gains	**46,370**	**116,885**
Total	**475,812**	**813,895**

Note 6. Other income

In euros	**2019**	**2018**
Gain on disposal of property and equipment	143,087	83,943
Fees, commissions and charges received	980,647	1,060,647
Insurance brokerage income	124,660	121,819
Foreign exchange gain	234,739	231,331
Rental income	22,052	139,021
Miscellaneous income	215,584	358,190
Total	**1,720,769**	**1,994,951**

Note 7. Claims and benefits

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

In euros	2019				2018			
	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred
Motor liability insurance	45,329,374	7,726,487	-3,066,715	49,989,145	41,230,687	11,252,704	-1,083,091	51,400,300
Accident insurance	3,184,553	172,719	0	3,357,272	3,182,803	-55,679	0	3,127,125
Travel insurance	2,721,918	-223,853	23,622	2,521,687	2,363,377	48,955	21,025	2,433,356
Technical risks insurance	3,936,010	-548,113	0	3,387,898	3,474,976	310,964	-1,324	3,784,615
Individuals' property insurance	6,906,179	-749,908	0	6,156,271	5,481,143	167,198	0	5,648,342
Legal persons' property insurance	5,805,326	6,040,456	-3,313,267	8,532,514	5,662,136	-721,311	-130,682	4,810,230
Agricultural risks insurance	1,857,719	-86,576	0	1,771,143	3,657,238	-30,033	-2,010,008	1,617,197
Motor own damage insurance	31,666,571	152,017	-124,485	31,694,102	28,557,330	-775,643	1,159	27,782,846
Liability insurance	2,119,534	133,207	-56,004	2,196,737	2,185,548	2,011,203	-33,002	4,163,750
Goods in transit insurance	337,395	119,651	40,938	497,984	299,950	-36,104	-136	263,710
Carrier's liability insurance	1,221,918	213,483	200	1,435,601	1,400,219	-264,501	-65	1,135,652
Watercraft insurance and watercraft owner's liability insurance	230,849	722,657	0	953,506	169,389	-39,492	0	129,897
Guarantee insurance	1,768,209	1,606,119	-1,979,512	1,394,816	86,168	134,439	-78,183	142,424
Railway rolling stock insurance	329,279	-141,736	0	187,543	230,303	-80,354	42	149,991
Assistance insurance	1,542,482	3,590	0	1,546,071	1,106,087	19,965	0	1,126,051
Financial risks insurance	98,824	442,040	-18,451	522,412	354,250	-41,465	0	312,699
Loss of employment insurance	58,145	4,454	0	62,600	21,442	31,391	0	52,834
Legal expenses insurance	668,112	16,833	0	684,945	672,361	59,923	0	732,284
Total	**109,782,395**	**15,603,527**	**-8,493,675**	**116,892,247**	**100,135,407**	**11,992,159**	**-3,314,266**	**108,813,300**

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

Claims handling costs

In euros	**2019**	**2018**
Salaries	3,957,807	3,585,635
Social security charges	595,158	1,091,836
Depreciation and amortisation	547,641	440,304
Services purchased	4,005,411	3,591,749
Other labour costs	100,500	79,051
Business travel expenses	45,318	41,163
Costs of company cars	38,060	50,823
Training and other staff costs	64,789	55,475
Rental and utilities charges	68,609	100,043
Office expenses	166,461	132,888
Communication expenses including mobile phone charges	67,809	83,513
IT costs	463,010	461,935
Miscellaneous costs	653,532	719,904
Total	**10,774,105**	**10,434,319**

The following table provides an overview of income from subrogation and salvage recoveries in 2019 and 2018.

In euros	**2019**	**2018**
Motor liability insurance	2,414,763	1,915,162
Accident insurance	3,614	2,289
Travel insurance	60,302	13,522
Technical risks insurance	88,641	22,745
Individuals' property insurance	690,592	624,158
Legal persons' property insurance	295,001	299,829
Motor own damage insurance	2,152,525	4,173,965
Liability insurance	2,408,864	128,037
Goods in transit insurance	43,195	26,957
Carrier's liability insurance	241,338	8,416
Watercraft insurance and watercraft owner's liability insurance	42,664	50,200
Guarantee insurance	5,770	118,692
Assistance insurance	78,300	7,334
Railway rolling stock insurance	3,233	197,655
Other property insurance	-18,866	-12,847
Legal expenses insurance	36,533	20,657
Total	**8,546,469**	**7,596,773**

Catastrophes and major losses in 2019

In 2019, there were no natural disasters with a significant impact. The largest loss event reported to the company occurred in Latvia, was related to legal persons' property insurance and amounted to 4.0 million euros (gross amount).

Note 8. Expenses

In euros	Note	2019	2018
Acquisition costs		**44,031,720**	**40,649,475**
Salaries		10,929,762	8,550,168
Social security charges		1,376,288	3,442,313
Depreciation and amortisation		2,059,854	1,495,429
Service fees and commissions		23,378,237	20,602,403
Change in deferred acquisition costs		-701,186	-653 063
Other labour costs		429,919	349,682
Business travel expenses		125,298	96,681
Costs of company cars		294,243	323,874
Training and other staff costs		270,921	171,237
Rental and utilities charges		1,088,439	1,869,210
Office expenses		611,009	669,148
Communication expenses including mobile phone charges		279,648	350,022
IT costs		1,566,527	1,314,168
Marketing expenses		1,205,186	1,265,234
Miscellaneous expenses		1,117,575	802,969
Administrative expenses		**8,622,979**	**8,095,401**
Salaries		4,652,772	3,949,247
Social security charges		791,103	1,101,409
Depreciation and amortisation		799,045	580,776
Other labour costs		173,769	160,296
Business travel expenses		237,853	170,779
Costs of company cars		56,195	53,434
Training and other staff costs		164,147	121,352
Rental and utilities charges		576,947	763,177
Office expenses		113,279	130,904
Communication expenses including mobile phone charges		46,200	54,138
IT costs		699,209	928,520
Miscellaneous expenses		312,460	81,369
Other operating expenses		**2,157,004**	**2,113,715**
Membership fee to Estonian Traffic Insurance Fund		2,157,004	2,113,715
Investment expenses		**349 419**	**341,696**
Salaries		44,758	87,026
Social security charges		13,895	21,632
Services purchased		83,460	75,730
Other labour costs		2,780	1,911
Business travel expenses		13,799	16,051
Training and other staff costs		1,425	1,210
Rental and utilities charges		10,960	8,544
Office expenses		1,445	147
Communication expenses including mobile phone charges		2,070	2,816
IT costs		68	24
Other services		29,339	24,066
Miscellaneous expenses		145,420	102,539

In euros	Note	2019	2018
Other expenses		**1,385,814**	**2,134,044**
Fees to the Financial Supervision Authority and membership fees to professional associations		303,154	274,293
Insurance brokerage expenses		119,271	115,843
Audit and legal fees		134,184	131,691
Loss on sale of property and equipment		0	96,851
Write-off of intangible assets	12	0	580,296
Write-off of property and equipment	10	0	14,929
Interest paid		205,008	205,008
Interest paid on finance leases		41,713	0
Expenses related to leasing out premises		29,902	45,608
State fees, stamp duties and late payment interest		38,778	44,657
Foreign exchange loss		193,679	284,133
Miscellaneous expenses	,	320,125	340,735

Note 9. Foreign exchange differences

In the reporting period, the net amount of foreign exchange differences recognised in profit or loss, excluding those arising on financial instruments at fair value through profit or loss, was a gain of 69,893 euros (2018: a loss of 52,802 euros).

Note 10. Property and equipment

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

At 31 December 2019, the cost of fully depreciated items still in use amounted to 3,328,737 euros (31 December 2018: 3,087,572 euros). ERGO Insurance SE has only such items of property and equipment that are in its own use.

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

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2017	**1,039,288**	**7,605,504**	**854,036**	**5,025,470**	**14,524,298**
Additions	0	0	21,671	223,410	245,081
Sales	0	-158,341	0	-102,086	-260,427
Write-off	0	0	-21,468	-783,016	-804,484
As at 31 December 2018	**1,039,288**	**7,447,163**	**854,239**	**4,363,778**	**13,704,468**
Recognition of right-of-use assets on the adoption of IFRS16 at 1 January 2019	**0**	**6,077,396**	**0**	**413,000**	**6,490,396**
Additions	0	921,419	20,946	320,639	1,263,004
Sales	0	-130,683	0	-68,861	-199,544
Write-off	0	0	0	-313,790	-313,790
As at 31 December 2019	**1,039,288**	**14,315,295**	**875,185**	**4,714,766**	**20,944,534**
Accumulated depreciation					
As at 31 December 2017	**0**	**2,478,985**	**498,511**	**3,923,858**	**6,901,354**
Depreciation for the year	0	159,627	70,340	441,140	671,107
Sales	0	-57,450	0	-66,529	-123,979
Write-off	0	0	-5,981	-671,695	-677,676
As at 31 December 2018	**0**	**2,581,162**	**562,870**	**3,626,774**	**6,770,806**
Depreciation for the year	0	1,477,584	68,149	495,487	2,041,220
Sales	0	-55,600	0	-59,867	-115,467
Write-off	0	0	0	-296,944	-296,944
As at 31 December 2019	**0**	**4,003,146**	**631,019**	**3,765,450**	**8,399,615**
Carrying amount					
As at 31 December 2018	**1,039,288**	**4,866,001**	**291,369**	**737,004**	**6,933,662**
As at 31 December 2019	**1,039,288**	**10,312,149**	**244,166**	**949,316**	**12,544,919**

Note 11. Deferred acquisition costs

In euros	**2019**	**2018**
Balance as at 1 January	**7,934,493**	**7,283,616**
Amortised portion	-7,134,929	-6,659,647
Addition from new contracts	7,836,116	7,310,524
Balance as at 31 December	**8,635,680**	**7,934,493**

Note 12. Other intangible assets

In euros	**Software and licences**
Cost	
As at 31 December 2017	**14,328,524**
Addition through purchase of software and licences	2,163,716
Addition through internally generated IT projects	5,945
Write-off of software and licences	-2,266,653
As at 31 December 2018	**14,231,532**
Addition through purchase of software and licences	676,183
Addition through internally generated IT projects	2,832,838
Write-off of software and licences	-878,072
As at 31 December 2019	**16,862,481**
Accumulated amortisation	
As at 31 December 2017	**8,213,312**
Amortisation for the year	1,882,477
Write-off	-1,589,188
As at 31 December 2018	**8,506,601**
Amortisation for the year	1,860,419
Write-off	-878,072
As at 31 December 2019	**9,488,948**
Carrying amount	
As at 31 December 2018	**5,724,931**
As at 31 December 2019	**7,373,533**

The company has started developing an insurance software solution for all three Baltic states. The software is expected to be implemented in 2021. Work performed during the financial year has been recognised within *Addition through internally generated IT projects*. The purpose of the development project is to implement a technological solution that will enable to harmonise processes and increase efficiency.

No assets with a carrying amount were written off during the financial year. In the comparative period, the company wrote off old IT developments with a carrying amount of 580,297 euros, including developments of the software ALICE of 312,624 euros. No intangible assets were sold in the reporting period.

At 31 December 2019, the cost of fully amortised assets still in use was 4,269,128 euros (31 December 2018: 5,110,021 euros).

Note 13. Investments in associates and subsidiaries

In connection with the development of a new strategy, in 2017 ERGO International AG measured the value of all of the Group’s foreign subsidiaries. The performance and profitability of an entity were determined based on the following criteria: strategic importance, attractiveness of the market, profitability and market position. Since CJSC ERGO Ins. Co did not meet the identified criteria, the sole shareholder of ERGO Insurance SE decided to sell its investment in CJSC ERGO Ins. Co.

Negotiations for the sale of CJSC ERGO Ins. Co. began on 21 December 2018. ERGO received the final offer on 14 February 2019. The company is planning to finalise the sales transaction in the second quarter of 2020.

At 31 December 2018 it was highly likely that the sales transaction would be completed successfully in 2019. Therefore, the investment in CJSC ERGO Ins. Co. was reclassified to assets held for sale. Assets held for sale were measured at their fair value of 637,372 euros. The difference between fair value and carrying amount was recognised as an impairment loss.

The company could not finalise the sales transaction in 2019 due to legal issues. As the buyer has confirmed its wish to finalise the transaction on the original terms, the interest was classified as an asset held for sale of 637,372 euros at 31 December 2019.

ERGO Insurance SE is the sole shareholder in DEAX Õigusbüroo OÜ whose share capital amounts to 50,000 euros. Since the business volume of DEAX Õigusbüroo OÜ is insignificant compared to the total assets and revenue of ERGO Insurance SE, in the financial statements as at 31 December 2019 the subsidiary is accounted for using the cost method.

Note 14. Investments in financial instruments

In euros **As at 31 December**	**Note**	**2019**	**2018**
Available-for-sale financial assets			
Equities and fund units	14.1, 25	24,487,062	20,440,287
Debt and other fixed-income securities	14.2, 25	167,814,219	146,295,885
Total available-for-sale financial assets		**192,301,281**	**166,736,172**
Loans and receivables			
Loans	14.3, 25	1,380,000	1,380,000
Total loans and receivables		**1,380,000**	**1,380,000**
Total		**193,681,281**	**168,116,172**

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

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

According to the hierarchy, at 31 December 2019 the company's available-for-sale debt securities and listed equities and fund units of 192 million euros (2018: 166.7 million euros) fell into Level 1. The fair value of unlisted securities (carrying amount at 31 December 2019: 43,443 euros and at 31 December 2018: 43,443 euros) cannot be measured reliably. Therefore, their level has not been determined. More detailed information on the breakdown of assets between the different levels of the fair value hierarchy is provided in note 25 Fair value of financial instruments.

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

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

14.1. Equities and fund units

In euros	**As at 31 December 2019**		**As at 31 December 2018**	
	Cost	Fair value	Cost	Fair value
Units in listed debt funds	24,076,189	24,443,619	20,450,705	20,396,844
Unlisted equities	43,443	43,443	43,443	43,443
Total	**24,119,632**	**24,487,062**	**20,494,148**	**20,440,287**

Equities not listed on a public stock exchange comprise other equities measured at cost of 43,443 euros (2018: 43,443 euros).

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

Cash movements related to equities and fund units are presented in the statement of cash flows. In the reporting period, there were no non-cash movements related to investments.

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

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

In euros	**As at 31 December 2019**		**As at 31 December 2018**	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Government bonds	80,057,052	80,329,888	85,010,416	85,062,727
Financial institutions' bonds	80,883,452	81,114,645	54,898,945	54,899,187
Other bonds	6,358,942	6,369,686	0	0
Total fixed-income debt securities	**167,299,446**	**167,814,219**	**139,909,361**	**139,961,914**
Floating rate debt securities				
Government bonds	0	0	1,715,585	1,656,783
Financial institutions' bonds	0	0	4,546,408	4,677,188
Total floating rate debt securities	**0**	**0**	**6,261,993**	**6,333,971**
Total	**167,299,446**	**167,814,219**	**146,171,354**	**146,295,885**

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. At 31 December 2019, the portfolio did not include any debt securities measured at cost or using valuation models.

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

14.3. Loans

Mortgage loans by maturity

In euros **As at 31 December**	**2019**	**2018**
Two to three years	1,380,000	0
Three to four years	0	1,380,000
Total	**1,380,000**	**1,380,000**

At 31 December 2019, mortgage loans recognised in the statement of financial position of ERGO Insurance SE comprised a loan provided to CJSC ERGO Ins. Co. of 1,380,000 euros (31 December 2018: 1,380,000 euros). During the period 15 December 2017 to 1 July 2018 the interest rate was 8.14% per year and during the period 1 July 2018 to 1 July 2019 the interest rate was 6.5% per year. From 1 July 2019 the interest rate is 5.6%. The settlement of the loan is ensured by the agreement on the sale of the investment in CJSC ERGO Ins. Co. and the loan will be settled when the sales transaction is finalised.

Note 15. Reinsurance assets

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

In euros **As at 31 December**	**2019**	**2018**
Provision for unearned premiums	1,951,361	1,504,469
Provision for claims outstanding – claims incurred and reported	*11,989,445*	*5,971,879*
Provision for claims outstanding – IBNR	*131,851*	*32,874*
Provision for insurance pension annuities	*2,440,267*	*1,721,085*
Total provision for claims outstanding	14,561,563	7,725,838
Total	**16,512,924**	**9,230,307**

Information on reinsurance assets is also provided in note 21.

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

Reinsurance result

In euros	**Note**	**2019**	**2018**
Premiums paid to reinsurers	3	-8,433,993	-7,884,786
Reinsurers' share of change in provision for unearned premiums	3	446,895	168,289
Commissions and profit participation paid by reinsurers	4	1,278,237	996,623
Reinsurers' share of claims paid	7	1,657,951	3,200,432
Reinsurers' share of change in provision for claims outstanding	7	6,835,723	113,834
Reinsurers' share of deferred acquisition costs	4	-159,050	-82,569
Total		**1,625,763**	**-3,488,177**

Note 16. Insurance and other receivables

In euros **As at 31 December**	**2019**	**2018**
Receivables from policyholders	20,071,984	20,351,674
Receivables from brokers and other intermediaries	1,794,108	1,500,210
Receivables from reinsurers	1,808,329	1,141,439
Subrogation and salvage receivables	11,124	5,929
Total insurance receivables	***23,685,545***	***22,999,252***
Other receivables	289,540	429,985
Accrued income – interest receivable	34,310	154,274
Total other financial assets	***24,009,395***	***23,583,511***
Prepaid taxes	1,336,561	767,556
Prepaid expenses	1,687,024	1,592,265
Total non-financial assets	***3,023,585***	***2,359,821***
Total	**27,032,980**	**25,943,332**

Note 17. Cash and cash equivalents

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

In euros **As at 31 December**	**2019**	**2018**
Demand deposits	11,689,236	9,743,461
Total	**11,689,236**	**9,743,461**

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

Note 18. Shareholders and share capital

		Ordinary shares without par value	**Total share capital**
	Number of shares	**In euros**	**In euros**
As at 31 December 2019	384,629	6,391,391	6,391,391
As at 31 December 2018	384,629	6,391,391	6,391,391

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

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

The sole shareholder of ERGO Insurance SE is ERGO International AG (registry number HRB 40871, address Victoriaplatz 2, 40198 Dusseldorf, Germany). The shareholder of ERGO International AG is ERGO Group AG. The consolidated financial statements of ERGO Group AG, prepared in accordance with International Financial Reporting Standards, are available at www.ergo.de. The parent of ERGO Versicherungsgruppe AG group is Münchener Rückversicherungs-Gesellschaft AG whose shares are listed on German stock exchanges.

The entire share capital has been paid in.

Dividends

Based on the decision of the sole shareholder, in 2019 and 2018 no dividend was declared.

Note 19. Capital reserve

The capital reserve is created with annual net profit transfers made based on the resolution of the general meeting. Under the articles of association that have been in effect since 17 August 2017, the capital reserve has to amount to one tenth of share capital and pursuant to section 336(2) of the Estonian Commercial Code every year at least one twentieth of net profit for the year has to be transferred to the capital reserve. When the level outlined in the articles of association has been achieved, transfers may be discontinued. At 31 December 2019, the capital reserve of ERGO Insurance SE exceeded the level required by the articles of association.

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

At 31 December 2019, the capital reserve amounted to 3,072,304 euros (31 December 2018: 3,072,304 euros).

Note 20. Fair value reserve

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

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

In euros	2019	2018
At 1 January	**70,670**	**1,231,680**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-61,963	-115,686
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	-220	-1,881
Net change in fair value recognised in other comprehensive income or expense during the year	873,714	-1,043,443
At 31 December	**882,201**	**70,670**

Note 21. Insurance contract provisions and reinsurance assets

In euros **As at 31 December**	**Note**	**2019**	**2018**
Gross provisions			
Provision for unearned premiums		76,723,020	73,446,840
Provision for claims outstanding – claims incurred and reported		*61,515,424*	*51,197,403*
Provision for claims outstanding – IBNR		*15,047,681*	*12,030,142*
Provision for claims outstanding – indirect claims handling costs		*4,223,348*	*3,715,719*
Provision for insurance pension annuities		*14,414,974*	*12,654,636*
Total provision for claims outstanding		95,201,427	79,597,900
Total gross provisions		**171,924,447**	**153,044,740**
Reinsurers' share of provisions			
Provision for unearned premiums		1,951,361	1,504,469
Provision for claims outstanding – claims incurred and reported		*11,989,445*	*5,971,879*
Provision for claims outstanding – IBNR		*131,851*	*32,874*
Provision for insurance pension annuities		*2,440,267*	*1,721,085*
Total provision for claims outstanding		14,561,563	7,725,838
Total reinsurers' share of provisions	15	**16,512,924**	**9 230 307**
Net provisions			
Provision for unearned premiums		74,771,659	71,942,371
Provision for claims outstanding – claims incurred and reported		*49,525,979*	*45,225,524*
Provision for claims outstanding – IBNR		*14,915,830*	*11,997,268*
Provision for claims outstanding – indirect claims handling costs		*4,223,348*	*3,715,719*
Provision for insurance pension annuities		*11,974,707*	*10,933,551*
Total provision for claims outstanding		80,639,864	71,872,062
Total net provisions		**155,411,523**	**143,814,433**

Movements in provisions for unearned premiums

In euros	**2019**			**2018**		
	Gross provision for unearned premiums	**Reinsurers' share**	**Net provision for unearned premiums**	**Gross provision for unearned premiums**	**Reinsurers' share**	**Net provision for unearned premiums**
At 1 January	73,446,840	1,504,469	71,942,371	66,638,287	1,336,181	65,302,106
Changes from business combination	0	0	0	0	0	0
Premiums written	193,308,868	8,433,993	184,874,875	183,826,990	7,884,785	175,942,204
Premiums earned	-190,032,688	-7,987,101	-182,045,587	-177,018,437	-7,716,497	-169,301,940
At 31 December	**76,723,020**	**1,951,361**	**74,771,659**	**73,446,840**	**1,504,469**	**71,942,371**

Provisions for unearned premiums by insurance class.

In euros

Insurance class	Gross provision for unearned premiums 31 Dec 2019	Gross provision for unearned premiums 31 Dec 2018	Net provision for unearned premiums 31 Dec 2019	Net provision for unearned premiums 31 Dec 2018
Motor liability insurance	28,879,672	29,490,466	28,879,669	29,490,466
Accident insurance	3,186,589	2,885,452	3,186,589	2,885,452
Travel insurance	864,949	677,542	862,700	675,082
Technical risks insurance	2,830,845	2,627,758	2,830,775	2,582,692
Individuals' property insurance	5,801,831	5,321,593	5,801,832	5,321,592
Legal persons' property insurance	4,413,749	4,016,278	4,132,657	3,765,245
Other property insurance	1,096,061	871,784	296,294	871,783
Motor own damage insurance	19,829,201	19,166,826	19,630,118	19,166,826
Liability insurance	3,771,637	3,171,719	4,123,431	2,755,507
Goods in transit insurance	371,727	406,176	371,728	406,162
Carrier's liability insurance	931,371	914,554	931,371	914,554
Watercraft insurance and watercraft owner's liability insurance	842,967	173,978	865,870	173,979
Guarantee insurance	2,526,407	1,816,547	1,500,324	1,103,502
Railway rolling stock insurance	90,180	992,234	90,180	928,936
Assistance insurance	912,557	620,553	912,557	620,553
Financial risks insurance	267,809	187,544	250,096	174,204
Loss of employment insurance	10,376	1,413	10,376	1,413
Legal expenses insurance	95,092	104,423	95,092	104,423
Total	**76,723,020**	**73,446,840**	**74,771,659**	**71,942,371**

Movements in provisions for claims outstanding.

In euros	2019			2018		
	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding
At 1 January	79,597,900	7,725,838	71,872,062	67,605,742	7,612,006	59,993,736
Changes from business combination	0	0	0	0	0	0
Claims incurred in the reporting period	122,453,080	5,369,483	117,083,597	110,484,170	2,720,093	107,764,077
Change in claims incurred in prior periods	2,932,843	3,124,193	-191,351	1,643,395	594,171	1,049,224
Claims paid	-109,782,395	-1,657,951	-108,124,444	-100,135,407	-3,200,432	-96,934,975
At 31 December	**95,201,427**	**14,561,563**	**80,639,864**	**79,597,900**	**7,725,838**	**71,872,062**

Provisions for claims outstanding by insurance class.

In euros

Insurance class	Gross provision for claims outstanding 31 Dec 2019	Gross provision for claims outstanding 31 Dec 2018	Net provision for claims outstanding 31 Dec 2019	Net provision for claims outstanding 31 Dec 2018
Motor liability insurance	63,634,049	55,908,228	55,042,871	50,174,854
Accident insurance	1,121,266	948,546	1,121,266	948,547
Travel insurance	486,453	709,643	483,865	683,958
Technical risks insurance	1,475,653	2,056,128	1,475,653	2,023,766
Individuals' property insurance	1,068,318	1,818,225	1,068,318	1,818,225
Legal persons' property insurance	8,483,617	2,410,801	5,270,813	2,352,374
Other property insurance	193,682	280,259	193,682	122,164
Motor own damage insurance	4,414,023	4,259,233	4,387,647	4,259,236
Liability insurance	7,905,854	7,772,647	6,522,780	6,377,405
Goods in transit insurance	345,332	225,681	331,956	212,305
Carrier's liability insurance	1,490,562	1,277,078	1,490,562	1,277,033
Watercraft insurance and watercraft owner's liability insurance	788,896	69,010	788,897	69,010
Guarantee insurance	2,241,226	635,108	927,509	325,871
Railway rolling stock insurance	386,264	528,000	386,264	528,000
Assistance insurance	132,449	128,859	132,449	128,859
Financial risks insurance	447,540	5,500	429,089	5,500
Loss of employment insurance	43,988	39,532	43,988	39,533
Legal expenses insurance	542,255	525,422	542,255	525,422
Total	**95,201,427**	**79,597,900**	**80,639,864**	**71,872,062**

In motor liability insurance, the provision for claims outstanding also includes the provision for insurance pension annuities. At 31 December 2019, annuity claim files were open for 227 persons: 112 in Estonia, 58 in Latvia and 53 in Lithuania.

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

In euros	Year of incurrence						
	2019	**2018**	**2017**	**2016**	**2015**	**2014 and earlier**	**Total**
Gross provision for pension annuities	144,437	2,222,054	1,463,129	2,488,873	312,114	7,784,368	14,414,975
Net provision for pension annuities	144,437	1,332,317	1,463,129	2,488,873	312,114	6,233,838	11,974,708

Unexpired risks provision

In accordance with the company's accounting policies, the adequacy of insurance provisions has to be tested with a liability adequacy test. Where the test indicates a shortfall in provisions, the company has to first reduce deferred acquisition costs and then, if necessary, recognise an additional provision for unexpired risks. The liability adequacy test performed as at 31 December 2019 indicated that the provisions made for all classes of insurance were adequate to cover ERGO Insurance SE's obligations in these classes. Based on the test results, deferred acquisition costs were not reduced. No additional unexpired risks provision was recognised (see notes 2.1 and 11).

Note 22. Reinsurance payables

In euros **As at 31 December**	**2019**	**2018**
Payables to reinsurers	2,964,057	2,739,635
Reinsurers' share of deferred acquisition costs	548,936	389,885
Total	**3,512,993**	**3,129,520**

Note 23. Insurance payables

In euros **As at 31 December**	**2019**	**2018**
Payables to policyholders	12,324,311	6,843,889
Payables to brokers and other intermediaries	3,389,878	3,803,213
Other payables	100,157	104,993
Total	**15,814,346**	**10,752,095**

Note 24. Other payables and accrued expenses

In euros **As at 31 December**	**Note**	**2019**	**2019**
Other payables		372,737	426,573
Payables to suppliers		1,377,625	1,101,708
Accrued vacation pay payable		991,832	781,764
Payables to employees		1,932,625	1,230,955
Other accrued items		1,397,696	1,370,245
Lease liabilities	26	5,925,223	0
Total other financial liabilities		***11,997,738***	***4,911,245***
Personal income tax payable		406,643	195,365
Corporate income tax payable		890,313	847,055
Value added tax payable		153,334	131,360
Social security tax payable		643,420	343,237
Income tax payable on fringe benefits		5,203	4,303
Social security tax payable on fringe benefits		7,840	3,965
Payables to 2nd pillar pension funds (mandatory funded pension)		17,363	16,362
Total non-financial liabilities		***2,124,116***	***1,541,647***
Total		**14,121,854**	**6,452,892**

Note 25. Fair value of financial instruments

In euros		**As at 31 December 2019**				
	Note	**Carrying amount**	**Fair value**	**Level 1**	**Level 3**	**Total**
Financial assets measured at fair value						
Units in listed debt funds	14.1	24,443,619	24,443,619	24,443,619	0	24,443,619
Unlisted equities[1]	14.1	43,443	N/A[1]	N/A[1]	0	0
Government bonds	14.2	80,329,888	80,329,888	80,329,888	0	80,329,888
Financial institutions' bonds	14.2	81,114,645	81,114,645	81,114,645	0	81,114,645
Other bonds	14.2	6,369,686	6,369,686	6,369,686	0	6,369,686
Financial assets measured at amortised cost						
Loans	14.3	1,380,000	1,407,348	0	1,407,348	1,407,348

In euros		**As at 31 December 2018**				
	Note	**Carrying amount**	**Fair value**	**Level 1**	**Level 3**	**Total**
Financial assets measured at fair value						
Units in listed debt funds	14.1	20,396,844	20,396,844	20,396,844	0	20,396,844
Unlisted equities[1]	14.1	43,443	N/A[1]	N/A[1]	0	0
Government bonds	14.2	86,719,510	86,719,510	86,719,510	0	86,719,510
Financial institutions' bonds	14.2	59,576,375	59,576,375	59,576,375	0	59,576,375
Financial assets measured at amortised cost						
Loans	14.3	1,380,000	1,405,190	0	1,405,190	1,405,190

[1] Fair value cannot be measured reliably.

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

Note 26. Leases

The company as a lessee

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

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

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

Right-of-use assets

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

	Buildings	Equipment and other items	Total
2019			
As at 1 January 2019 (initial recognition)	6,077,396	413,000	6,490,396
Depreciation	1,319,412	194,595	1,514,007
Additions to right-of-use assets during the period	921,419	0	921,419
As at 31 December 2019	**5,679,403**	**218,405**	**5,897,808**

Cash outflow for leases

Leases (IFRS 16)	**2019**
Interest on lease liabilities	41,714
Payments for the principal portion of lease liabilities	1,472,364
Expenses on short-term leases	292,664
Expenses on leases of low-value assets	53,403

Operating lease payments (IAS 17)	**2018**
Office premises	1,783,727
Other assets	232,832

Maturity analysis of lease liabilities

Lease liabilities	2019
Less than 1 year	1,436,258
1 to 2 years	1,273,447
2 to 5 years	2,318,661
5 to 10 years	896,857
Total	**5,925,223**

Note 27. Income tax

At 31 December 2019, the company's retained earnings totalled 56,707,348 euros (31 December 2018: 45,615,531 euros) and the carrying amount of intangible assets was 7,373,533 euros (31 December 2018: 5,724,931 euros). Thus, distributable profit amounted to 49,333,815 euros (31 December 2018: 39,890,600 euros). The maximum income tax liability that could arise if all of the distributable profit as at the reporting date were distributed as dividends amounts to 9,866,763 euros (31 December 2018: 7,978,120 euros) and the maximum amount that could be distributed as the net dividend is 39,467,052 euros (31 December 2018: 31,912,480 euros).

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

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

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the dividend tax recognised in the income statement for 2020 cannot exceed the company's distributable profit as at 31 December 2019.

In euros

Income tax expense	2019	2018
Income tax expense	888,396	774,956
Change in deferred income tax	-58,039	26,437
Total income tax expense	**830,357**	**801,393**

In euros

Recognised deferred income tax assets	2019	2018
On other liabilities	273,452	215,412
Total	**273,452**	**215,412**

In euros

Reconciliation of accounting profit and income tax expense	2019	2018
Profit before tax	11,922,174	9,029,605
Tax rate 0%	0	0
Effect of tax rates in foreign jurisdictions	49,318	474,737
Effect of exempt income and taxable expenses	0	7,785
Effect of non-deductible expenses	839,079	292,434
Change in recognised deferred tax assets	-58,040	26,437
Income tax expense for the year	**830,357**	**801,393**

Note 28. Transactions with related parties

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

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

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

The remuneration, performance bonuses and benefits provided to the members of the management board for the reporting period totalled 647,488 euros (2018: 707,121 euros). The members of the supervisory were not remunerated.

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

In euros

As at 31 December Related party	Receivables 2019[1]	Receivables 2018[1]	Payables 2019[2]	Payables 2018[2]
Parent of the group – Münchener Rück	43,195	39,356	379,771	400,457
Other group companies	1,643,942	1,661,978	6,941,535	6,461,831

In euros

Related party	Services purchased 2019	Services purchased 2018	Services sold 2019[3]	Services sold 2018[3]
Other group companies	3,661,142	1,928,816	682,667	752,153

[1] Including a loan of 1,380,000 euros (2018: 1,380,000 euros) provided to CJSC ERGO Ins. Co.
[2] Including a subordinated loan of 6,000,000 euros (2018: 6,000,000 euros) received from ERGO Life Insurance SE.
[3] Including interest of 34,310 euros (2018: 154,274 euros) on the loan provided to CJSC ERGO Ins. Co.
[4] Including interest of 4,493 euros (2018: 2,247 euros) on the loan received from ERGO Life Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

In euros

Reinsurance contracts	2019	2018
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	188,773	303,821
Reinsurers' share of claims paid	-19,906	174,281
Reinsurance commissions and profit participation	2,601	-23,770
Other group companies		
Ceded reinsurance premiums	1,219,482	92,646
Reinsurers' share of claims paid	10,023	10,498
Reinsurance commissions and profit participation	28,718	23,498
Gross premiums from incoming reinsurance	109,099	0
Commissions paid to holders of reinsurance policies	4,320	0

Note 29. Events after the reporting period

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic. ERGO monitors the rapidly evolving situation, ensures the safest possible environment for employees and customers by applying preventative measures, and responds to changes on the business landscape by making quick decisions. The consequences of the pandemic may have an adverse impact on the company's assets, premium income and claims development. The specific impact on the company's performance is not yet clear.

Signatures to annual report 2019

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

Bogdan Benczak Chairman of the Management Board	/signed digitally/	02 April 2020
Maciej Szyszko Member of the Management Board	/signed digitally/	02 April 2020
Tadas Dovbyšas Member of the Management Board	/signed digitally/	02 April 2020
Ingrīda Ķirse Member of the Management Board	/signed digitally/	02 April 2020
Marek Ratnik Member of the Management Board	/signed digitally/	02 April 2020

Profit allocation proposal

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

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

3) the net profit for 2019 of 11,091,817 (eleven million ninety-one thousand eight hundred and seventeen) euros be transferred to retained earnings;

4) no distribution be made to the sole shareholder.

5) As at 1 January 2020, retained earnings amount to 56,707,348 (fifty-six million seven hundred and seven thousand three hundred and forty-eight) euros.

On behalf of the management board of ERGO Insurance SE

Bogdan Benczak
Chairman of the Management Board
/signed digitally/

Information on the sole shareholder

This information is presented as at 02 April 2020.

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

Name of sole shareholder:	**ERGO International Aktiengesellschaft**
Legal address:	Victoriaplatz 2, 40198 Düsseldorf, Germany
Registry number:	HRB 40871, entered in the Commercial Register of Dusseldorf District Court, Germany

Dates of acquisition and subscription of the shares

1. Ordinary shares with no par value:

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

List of business activities

Activities during the period 1 January 2019 – 31 December 2019	Amount
Non-life insurance (65121)	193,199,769
Reinsurance (65201)	109,099

Activities planned for the period 1 January 2020 – 31 December 2020

Non-life insurance (65121)

Reinsurance (65201)