

**ERGO Life Insurance SE**

**Financial statements for 2015**

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## **Company details**

### **ERGO Life Insurance SE**

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### **Supervisory Council**

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Thomas Schöllkopf  
Malgorzata Makulska

### **Board**

Dr Kęstutis Bagdonavičius  
Saulius Jokubaitis  
Deniss Sazonovs  
Ingrida Kirse  
Tarmo Koll

### **Management**

Dr Kęstutis Bagdonavičius – Managing Director  
Jūratė Muckienė – Chief Accountant  
Dr Gintaras Bakšys – Chief Actuary

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas  
Swedbank, AB  
AS Swedbank  
Nordea Bank Finland Plc  
AS SEB Pank  
AB DNB Bankas  
Danske Bank AS  
AS DNB Banka  
AS DNB Pank  
SEB Banka AS  
Commerzbank AG



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# Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

## Report on the Financial Statements

We have audited the accompanying financial statements of ERGO Life Insurance SE ("the Company"), which comprise the balance sheet as at 31 December 2015, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 4–55.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Business Accounting Standards of the Republic of Lithuania and with Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania dated 3 February 2004 and all its amendments, and for such internal controls as management determines are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of ERGO Life Insurance SE as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania and with Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania dated 3 February 2004 and all its amendments.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the annual report of ERGO Life Insurance SE for the year ended 31 December 2015, set out on pages 56–61 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of ERGO Life Insurance SE for the year ended 31 December 2015.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius  
Partner  
Certified Auditor

Vilnius, the Republic of Lithuania  
21 March 2016

Company code: 110707135  
Address: Geležinio Vilko St. 6A, Vilnius

APPROVED BY

Minutes No. \_\_\_\_\_ (date)

## Balance sheet

(EUR)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
<b>A.</b>	<b>INTANGIBLE NON-CURRENT ASSETS</b>	<b>1</b>	<b>1,416,122</b>	<b>1,538,190</b>
I.	Development costs			
II.	Goodwill			
III.	Patents, licences			
IV.	Software		1,145,719	1,146,095
V.	Other intangible non-current assets		270,403	392,095
<b>B.</b>	<b>INVESTMENTS</b>		<b>215,357,150</b>	<b>199,107,340</b>
<b>I.</b>	<b>Land, buildings and other real estate</b>	<b>2</b>	<b>229,844</b>	<b>229,844</b>
I.1.	Occupied by insurance company for its own activities			
I.1.1.	Land			
I.1.2.	Buildings			
I.1.3.	Construction in progress and prepayments			
I.1.4.	Other			
I.2.	Other investments into real estate			
I.3.	Investment property		229,844	229,844
I.3.1.	Land		18,935	18,935
I.3.2.	Buildings		210,909	210,909
<b>II.</b>	<b>Investments into subsidiaries and associates</b>	<b>3</b>	<b>2,190,372</b>	<b>4,194,539</b>
II.1.	Shares of subsidiaries		927,870	1,525,006
II.1.1.	Listed			
II.1.2.	Non-listed		927,870	1,525,006
II.2.	Debt securities of subsidiaries and loans granted to subsidiaries		650,959	801,708
II.2.1.	Debt securities			
II.2.2.	Loans		650,959	801,708
II.3.	Shares in associated companies		611,543	1,867,825
II.3.1.	Listed			
II.3.2.	Non-listed		611,543	1,867,825
II.4.	Debt securities issued by associated companies and loans granted to associated companies			
II.4.1.	Debt securities			
II.4.2.	Loans			
<b>III.</b>	<b>Other financial investments</b>		<b>212,936,934</b>	<b>194,682,957</b>
III.1.	Shares, other variable-yield securities and investment fund units	4	25,473,927	22,497,192
III.1.1.	Listed		24,629,536	21,738,064
III.1.2.	Non-listed		844,391	759,128
III.2.	Debt and other fixed-income securities	4	187,382,155	172,141,601
III.2.1.	Government, central bank and municipal securities		152,595,944	130,121,027
III.2.2.	Securities issued by other business entities		34,786,211	42,020,574
III.3.	Participation in investment pools			
III.4.	Loans secured in with mortgages			
III.5.	Other loans		32,398	40,575
III.6.	Deposits in credit institutions	5	0	3,589
III.7.	Other investments		48,454	0
IV.	Deposits at the reinsured			

## Balance sheet

(EUR)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
<b>C.</b>	<b>OTHER LIFE INSURANCE INVESTMENTS</b>	<b>6</b>	<b>20,099,895</b>	<b>15,944,435</b>
I.	Life insurance investments with investment risk taken by the insured		20,099,895	15,944,435
II.	Professional pension accumulation investment			
<b>D.</b>	<b>AMOUNTS RECEIVABLE</b>	<b>7</b>	<b>9,527,155</b>	<b>8,131,610</b>
<b>I.</b>	<b>Amounts receivable from insurance activities</b>		<b>8,778,471</b>	<b>7,761,461</b>
I.1.	The insured		8,778,361	7,760,557
I.2.	Intermediaries		110	904
I.3.	Others			
<b>II.</b>	<b>Amounts receivable from inward and outward reinsurance activities</b>		<b>279,141</b>	<b>187,227</b>
II.1.	The reinsured			
II.2.	Reinsurers		279,141	187,227
II.3.	Intermediaries			
II.4.	Others			
III.	Other amounts receivable		469,543	182,922
<b>E.</b>	<b>OTHER ASSETS</b>		<b>6,610,925</b>	<b>6,800,610</b>
<b>I.</b>	<b>Tangible assets and inventories</b>		<b>419,286</b>	<b>469,992</b>
I.1.	Motor vehicles	9, 10	168,075	146,335
I.2.	Office and other equipment	9, 10	198,027	286,537
I.3.	Inventories		12,196	4,368
I.4.	Prepayments		40,988	32,752
<b>II.</b>	<b>Cash at bank and in hand</b>	<b>11</b>	<b>5,946,530</b>	<b>6,252,916</b>
III.	Other assets	30	245,109	77,702
<b>F.</b>	<b>ACCRUED INCOME AND DEFERRED COSTS</b>	<b>12</b>	<b>2,798,172</b>	<b>3,212,199</b>
I.	Accrued interest and rental income			
<b>II.</b>	<b>Deferred acquisition costs</b>		<b>2,687,209</b>	<b>3,085,795</b>
II.1.	Deferred acquisition costs for non-life part		421,708	386,866
II.2.	Deferred acquisition costs for life part		2,265,501	2,698,929
III.	Other accrued income			
IV.	Other deferred costs		110,963	126,404
	<b>TOTAL ASSETS</b>		<b>255,809,419</b>	<b>234,734,384</b>

## Balance sheet

(EUR)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
<b>A.</b>	<b>CAPITAL AND RESERVES</b>		<b>21,663,096</b>	<b>26,312,860</b>
I.	Share capital	13	4,380,213	4,380,213
II.	Share premium (surplus of nominal value)	13	15,129,290	15,129,290
III.	Own shares (-)			
IV.	Revaluation reserve			
<b>V.</b>	<b>Reserves</b>	<b>14</b>	<b>740,211</b>	<b>740,211</b>
V.1.	Legal reserve		450,591	450,591
V.2.	Reserve for acquisition of own shares			
V.3.	Other reserves		289,620	289,620
VI.	Profit (loss) to be carried forward from previous year	15	4,663,146	3,319,928
VII.	Retained earnings (losses) of the current year (+/-)	15	(3,249,764)	2,743,218
<b>B.</b>	<b>FINANCING (GRANTS AND SUBSIDIES)</b>			
<b>C.</b>	<b>SUBORDINATED LIABILITIES</b>	<b>17</b>	<b>0</b>	<b>0</b>
<b>D.</b>	<b>TECHNICAL PROVISIONS</b>	<b>16</b>	<b>207,098,927</b>	<b>186,233,048</b>
<b>I.</b>	<b>Provision for unearned premiums</b>		<b>14,239,972</b>	<b>12,633,158</b>
I.1.	Gross amount		14,241,135	12,707,870
I.2.	Reinsurers' share (-)		(1,163)	(74,712)
<b>II.</b>	<b>Life insurance mathematical technical provision</b>		<b>184,365,476</b>	<b>165,466,072</b>
II.1.	Gross amount		184,366,521	165,834,408
II.2.	Reinsurers' share (-)		(1,045)	(368,336)
<b>III.</b>	<b>Outstanding claims technical provision</b>		<b>4,552,708</b>	<b>3,433,671</b>
III.1.	Gross amount		4,741,600	3,610,351
III.2.	Reinsurers' share (-)		(188,892)	(176,680)
<b>IV.</b>	<b>Technical provision for rebates</b>		<b>3,940,771</b>	<b>4,700,147</b>
IV.1.	Gross amount		3,941,123	4,733,903
IV.2.	Reinsurers' share (-)		(352)	(33,756)
<b>V.</b>	<b>Loss equalisation technical provision</b>			
<b>VI.</b>	<b>Other technical provisions</b>		<b>0</b>	<b>0</b>
VI.1.	Gross amount		0	0
VI.2.	Reinsurers' share (-)			
<b>E.</b>	<b>OTHER TECHNICAL PROVISION FOR LIFE INSURANCE</b>	<b>16</b>	<b>20,099,895</b>	<b>15,944,435</b>
I.	Technical provision for life insurance when the investment risk is borne by the insured		20,099,895	15,944,435
I.1.	Gross amount		20,099,895	15,944,435
I.2.	Reinsurers' share (-)			
II.	Technical provision for professional pension accumulation			
<b>F.</b>	<b>PROVISIONS</b>			
I.	Provisions for pensions and similar liabilities			
II.	Provisions for taxation			
III.	Other provisions			
<b>G.</b>	<b>DEPOSITS OF REINSURERS</b>	<b>17</b>	<b>0</b>	<b>10,492</b>

## Balance sheet

(EUR)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
<b>H.</b>	<b>LIABILITIES</b>		<b>6,947,501</b>	<b>6,233,549</b>
<b>I.</b>	<b>Liabilities from insurance activities</b>	<b>17</b>	<b>4,011,787</b>	<b>3,806,048</b>
I.1.	Liabilities to the insured		3,260,882	3,189,742
I.2.	Liabilities to intermediaries		750,905	616,306
I.3.	Other liabilities from insurance activities			
<b>II.</b>	<b>Liabilities from inward and outward reinsurance activities</b>	<b>17</b>	<b>4,785</b>	<b>4,469</b>
II.1.	Liabilities to the reinsured			
II.2.	Liabilities to the reinsurers		4,785	4,469
II.3.	Liabilities to intermediaries			
II.4.	Other liabilities from inward and outward reinsurance activities			
<b>III.</b>	<b>Issued debt securities converted debts to be specified separately</b>			
<b>IV.</b>	<b>Debts to credit institutions</b>			
<b>V.</b>	<b>Taxes, social insurance and other liabilities</b>	<b>17</b>	<b>2,930,929</b>	<b>2,423,032</b>
V.1.	Taxes		561,417	545,259
V.2.	Compulsory social insurance contributions		90,765	36,859
V.3.	Salaries		75,387	37,294
V.4.	Other liabilities	<b>19</b>	<b>2,203,360</b>	<b>1,803,620</b>
<b>I.</b>	<b>ACCRUED COSTS AND DEFERRED INCOME</b>			
I.	Accrued costs			
II.	Deferred income			
	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>255,809,419</b>	<b>234,734,384</b>

Head of the insurance company



21/03/2016

(signature, date)

Dr Kęstutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)



21/03/2016

(signature, date)

Jūratė Muckienė  
(first and last names)

Chief Actuary



21/03/2016

(signature, date)

Dr Gintaras Bakštys  
(first and last names)

Company code: 110707135  
Address: Geležinio Vilko St. 6A, Vilnius

APPROVED BY

Minutes No. \_\_\_\_\_ (date)

## Income statement

(EUR)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
<b>I.</b>	<b>TECHNICAL ACCOUNT – NON-LIFE INSURANCE</b>			
<b>I.1.</b>	<b>EARNED PREMIUMS NET OF REINSURERS' SHARE</b>		<b>21,401,987</b>	<b>18,036,060</b>
I.1.1.	Gross premiums written	22	23,207,196	19,410,949
I.1.2.	Outward reinsurance premiums (-)			
I.1.3.	Change in technical provision for premiums unearned +/-(-)		(1,805,209)	(1,374,889)
I.1.4.	Change in the reinsurers' share in technical provision for premiums unearned +/-(-)			
<b>I.2.</b>	<b>PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM NON-TECHNICAL ACCOUNT</b>		<b>371,597</b>	<b>324,440</b>
<b>I.3.</b>	<b>OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE</b>		<b>46,449</b>	<b>21,327</b>
<b>I.4.</b>	<b>INSURANCE CLAIM, NET OF REINSURERS' SHARE EXPENSES (-)</b>	<b>22</b>	<b>(16,763,320)</b>	<b>(13,114,902)</b>
I.4.1.	Claims paid on insured events (-)		(16,436,769)	(13,197,605)
I.4.1.1.	Claims paid (-)		(15,585,095)	(12,469,804)
I.4.1.2.	Claims settlement expenses (-)		(853,204)	(733,758)
I.4.1.3.	Amounts recovered (+)		1,530	5,957
I.4.1.4.	Reinsurers' share (+)			
I.4.2.	Change in the technical provision for claims outstanding (-/ +)		(326,551)	82,703
I.4.2.1.	Gross amount (-)		(326,551)	82,703
I.4.2.2.	Reinsurers' share (+)			
<b>I.5.</b>	<b>CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-(-)</b>		<b>0</b>	<b>112,434</b>
I.5.1.	Gross amount (-)		0	112,434
I.5.2.	Reinsurers' share (+)			
<b>I.6.</b>	<b>REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)</b>			
I.6.1.	Rebated premiums (profit participation) (-)			
I.6.1.1.	Gross amount (-)			
I.6.1.2.	Reinsurers' share (+)			
I.6.2.	Change in technical provision for rebates (-/+)			
I.6.2.1.	Gross amount (-)			
I.6.2.2.	Reinsurers' share (+)			
<b>I.7.</b>	<b>NET OPERATING EXPENSES (-)</b>	<b>24</b>	<b>(3,881,067)</b>	<b>(3,598,131)</b>
I.7.1.	Acquisition costs (-)		(2,975,852)	(2,741,920)
I.7.2.	Change in deferred acquisition costs (-/+)		34,842	40,801
I.7.3.	Administrative expenses (-)		(940,057)	(897,012)
I.7.4.	Reinsurance commissions and reinsurers' profit share (+)			

## Income statement

(EUR)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
I.8.	OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)		(98,668)	(40,523)
I.9.	<b>TECHNICAL RESULT BEFORE THE FORMATION OF THE LOSS EQUALISATION PROVISION</b>		<b>1,076,978</b>	<b>1,740,704</b>
I.10.	CHANGE IN THE LOSS EQUALISATION PROVISION +/-(-)			
I.11.	<b>PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE</b>		<b>1,076,978</b>	<b>1,740,704</b>
II.	<b>TECHNICAL ACCOUNT – LIFE INSURANCE</b>			
II.1.	<b>EARNED PREMIUMS, NET OF REINSURERS' SHARE</b>		<b>40,422,299</b>	<b>34,678,848</b>
II.1.1.	Gross premiums written	21	41,420,860	35,523,966
II.1.2.	Outward reinsurance premiums (-)		(1,196,956)	(1,025,233)
II.1.3.	Change in unearned premiums technical provision +/-(-)		271,944	266,888
II.1.4.	Change in reinsurers' share of unearned premiums technical provision +/-(-)		(73,549)	(86,773)
II.2.	<b>INVESTING INCOME</b>	<b>28</b>	<b>11,538,889</b>	<b>9,116,775</b>
II.2.1.	Income from participating in other companies			
II.2.2.	Income from other investments		7,599,669	8,440,802
II.2.2.1.	Income from land and buildings		12,172	12,759
II.2.2.2.	Income from other investments		7,587,497	8,428,042
II.2.3.	Reversal of impairment		2,746,495	583,993
II.2.4.	Profit from transfer of investments		1,192,725	91,980
II.3.	<b>PROFIT FROM INVESTMENT WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED</b>		<b>271,544</b>	<b>724,482</b>
II.3.1.	Profit from investment when the investment risk is borne by the insured		271,544	724,482
II.3.2.	Profit from professional pension accumulation investment			
II.4.	<b>OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE</b>		<b>29,285</b>	<b>2,044,196</b>
II.4.1.	Income from pension accumulation activity	25	0	2,019,998
II.4.2.	Other technical income		29,285	24,198
II.5.	<b>INSURANCE CLAIM COSTS, NET OF REINSURERS' SHARE (-)</b>		<b>(19,384,694)</b>	<b>(16,132,078)</b>
II.5.1.	Claims paid on insurance events (-)		(18,592,208)	(16,138,030)
II.5.1.1.	Claims paid (-)		(14,129,167)	(11,991,332)
II.5.1.2.	Redeemable amounts (-)		(4,575,269)	(4,218,754)
II.5.1.3.	Claim settlement costs (-)		(420,246)	(294,663)
II.5.1.4.	Reinsurers' share (+)		532,474	366,720
II.5.2.	Change in the technical provision for claims outstanding (-/+)		(792,486)	5,952
II.5.2.1.	Gross amount (-)		(804,698)	2,985
II.5.2.2.	Reinsurers' share (+)		12,212	2,966

## Income statement

(EUR)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
<b>II.6.</b>	<b>CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-(-)</b>		<b>(23,054,864)</b>	<b>(19,610,552)</b>
II.6.1.	Change in life insurance mathematical technical provision, net of reinsurers' share +/-(-)		(23,054,864)	(19,610,552)
II.6.1.1.	Gross amount (-)		(22,687,573)	(19,355,502)
II.6.1.2.	Reinsurers' share (+)		(367,291)	(255,050)
II.6.2.	Change in other technical provisions, net of reinsurers' share (-/+)			
II.6.2.1.	Gross amount (-)			
II.6.2.2.	Reinsurers' share (+)			
<b>II.7.</b>	<b>REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)</b>		<b>424,621</b>	<b>(43,563)</b>
II.7.1.	Rebated premiums (profit participation) (-)		(334,755)	(348,903)
II.7.1.1.	Gross amount (-)		(367,677)	(382,394)
II.7.1.2.	Reinsurers' share (+)		32,922	33,491
II.7.2.	Change in technical provision for rebates (-/+)		759,376	305,340
II.7.2.1.	Gross amount (-)		792,780	332,115
II.7.2.2.	Reinsurers' share (+)		(33,404)	(26,775)
<b>II.8.</b>	<b>NET OPERATING EXPENSES (-)</b>	<b>24</b>	<b>(10,042,038)</b>	<b>(8,688,475)</b>
II.8.1.	Acquisition costs (-)		(7,872,456)	(6,716,079)
II.8.2.	Change in deferred acquisition costs (-/+)		(433,428)	(127,744)
II.8.3.	Administrative expenses (-)		(2,380,898)	(2,350,416)
II.8.4.	Reinsurance commissions and reinsurers' profit share (+)		644,744	505,764
<b>II.9.</b>	<b>INVESTMENT EXPENSES (-)</b>	<b>28</b>	<b>(4,223,631)</b>	<b>(837,185)</b>
II.9.1.	Investment management expenses including interest (-)		(446,614)	(408,181)
II.9.2.	Decrease in investment value (-)		(3,526,806)	(289,522)
II.9.2.1.	Costs related to participation in other companies activity and other investments (-)			
II.9.2.2.	Loss due to decrease in value (-)		(3,526,806)	(289,522)
II.9.3.	Loss on transfer of investments (-)		(250,211)	(139,483)
<b>II.10.</b>	<b>LOSS ON INVESTMENTS WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED (-)</b>		<b>0</b>	<b>0</b>
<b>II.11.</b>	<b>OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)</b>		<b>(95,612)</b>	<b>(19,199)</b>
<b>II.12.</b>	<b>PROFIT (LOSS ) FROM INVESTMENTS TRANSFERRED TO NON-TECHNICAL ACCOUNT (-)</b>		<b>(1,165,826)</b>	<b>(1,377,891)</b>
<b>II.13.</b>	<b>PROFIT (LOSS) FROM TECHNICAL ACCOUNT OF LIFE INSURANCE</b>		<b>(5,280,027)</b>	<b>(144,643)</b>
<b>III.</b>	<b>NON-TECHNICAL ACCOUNT</b>			
<b>III.1.</b>	<b>PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE</b>		<b>1,076,978</b>	<b>1,740,704</b>
<b>III.2.</b>	<b>PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE</b>		<b>(5,280,027)</b>	<b>(144,643)</b>

## Income statement

(EUR)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
<b>III.3.</b>	<b>INVESTMENT INCOME</b>			
III.3.1.	Income from participating in other companies			
III.3.2.	Income from other investments			
III.3.2.1.	Income from land and buildings			
III.3.2.2.	Income from other investments			
III.3.3.	Reversal of impairment			
III.3.4.	Profit from transfer of investments			
<b>III.4.</b>	<b>PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE</b>		<b>1,165,826</b>	<b>1,377,891</b>
<b>III.5.</b>	<b>INVESTMENT EXPENSES (-)</b>			
III.5.1.	Investment management expenses including interest (-)			
III.5.2.	Decrease in investment value (-)			
III.5.2.1.	Costs related to participation in other companies activity and other investments (-)			
III.5.2.2.	Loss due to decrease in value (-)			
III.5.3.	Loss on transfer of investments (-)			
<b>III.6.</b>	<b>PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED TO THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE (-)</b>		<b>(371,597)</b>	<b>(324,440)</b>
<b>III.7.</b>	<b>OTHER INCOME</b>		<b>319,425</b>	<b>292,378</b>
III.7.1.	Finance income	29	227,736	184,141
III.7.2.	Other income		91,689	108,237
<b>III.8.</b>	<b>OTHER EXPENSES (-)</b>		<b>(302,231)</b>	<b>(46,934)</b>
III.8.1.	Finance expenses (-)	29	(103,088)	(16)
III.8.2.	Other expenses (-)		(199,143)	(46,918)
<b>III.9.</b>	<b>PROFIT (LOSS) FROM ORDINARY ACTIVITIES</b>		<b>(3,391,626)</b>	<b>2,894,957</b>
III.10.	EXTRAORDINARY INCOME			
III.11.	EXTRAORDINARY EXPENSES (-)			
<b>III.12.</b>	<b>EXTRAORDINARY PROFIT (LOSS)</b>			
<b>III.13.</b>	<b>CURRENT YEAR RESULT – PROFIT (LOSS) –BEFORE TAXATION</b>		<b>(3,391,626)</b>	<b>2,894,957</b>
III.14.	PROFIT TAX (-)	30	141,862	(151,739)
<b>III.15.</b>	<b>CURRENT YEAR RESULT – PROFIT (LOSS)</b>		<b>(3,249,764)</b>	<b>2,743,218</b>

Head of the insurance company

21/03/2016

(signature, date)

Dr Kestutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)

21/03/2016

(signature, date)

Jūratė Muckienė  
(first and last names)

Chief Actuary

21/03/2016

(signature, date)

Dr Gintaras Bakštys  
(first and last names)

Company code: 110707135  
Address: Geležinio Vilko St. 6A, Vilnius

APPROVED BY


Minutes No. \_\_\_\_\_ (date)

## Statement of changes in equity

(EUR)

		Issued authorized capital	Share premium account	Own shares (-)	Revaluation reserve (results)		Legal reserve		Other reserves	Retained earnings (loss)	Total
					Tangible non- current assets	Finan- cial assets	Compulsory	Own shares acqui- sition			
1.	Balance as at 31 December 2013	4,380,213	15,129,290				450,591		289,620	4,719,928	24,969,642
2.	Result of change in the accounting policy										
3.	Result of corrections of material errors										
4.	Restated balance as at 31 December 2013	4,380,213	15,129,290				450,591		289,620	4,719,928	24,969,642
5.	Increase (decrease) in value of non-current tangible assets										
6.	Increase (decrease) in value of financial assets										
7.	Purchase/sale of own shares										
8.	Profit (loss) not recognized in the income statement										
9.	Net profit (loss) of the reporting period									2,743,218	2,743,218
10.	Dividends									(1,400,000)	(1,400,000)
11.	Other amounts paid out										
12.	Reserves allocated										
13.	Reserves used										
14.	Increase (decrease) in authorized capital										
15.	Balance as at 31 December 2014	4,380,213	15,129,290				450,591		289,620	6,063,146	26,312,860
16.	Increase (decrease) in value of non-current tangible assets										
17.	Increase (decrease) in value of financial assets										
18.	Acquisition of own shares										
19.	Profit (loss) not recognized in the income statement										
20.	Net profit (loss) of the reporting period									(3,249,764)	(3,249,764)
21.	Dividends									(1,400,000)	(1,400,000)
22.	Other amounts paid out										
23.	Reserves allocated										
24.	Reserves used										
25.	Increase/decrease in authorized capital										
26.	Balance as at 31 December 2015	4,380,213	15,129,290				450,591		289,620	1,413,382	21,663,096

Head of the insurance company

  
(signature, date) 21/03/2016

Dr Kęstutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)

  
(signature, date) 21/03/2016

Jūratė Muckienė  
(first and last names)

Chief Actuary

  
(signature, date) 21/03/2016

Dr Gintaras Bakštyš  
(first and last names)

Company code: 110707135  
Address: Geležinio Vilko St. 6A, Vilnius

APPROVED BY

Minutes No. \_\_\_\_\_ (date)

## Cash flow statement

(EUR)

Row No.	ITEMS	Financial year	Previous financial year
<b>I.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES +/-</b>		
		<b>13,439,651</b>	<b>10,679,312</b>
<b>I.1.</b>	<b>Insurance and inward reinsurance premiums received</b>	<b>63,031,923</b>	<b>54,718,915</b>
I.1.1.	Insurance premiums	63,137,933	54,718,915
I.1.2.	Inward reinsurance premiums	(106,010)	0
<b>I.2.</b>	<b>Coinsurance premiums</b>		
I.2.1.	Share of insurance undertakings in coinsurance premiums received		
I.2.2.	Share in coinsurance premiums received of other insurance undertakings involved in coinsurance operations		
<b>I.3.</b>	<b>Amounts paid to other insurance undertakings involved in coinsurance operations (-)</b>		
<b>I.4.</b>	<b>Amounts received from other insurance undertakings involved in coinsurance operations</b>		
<b>I.5.</b>	<b>Outward reinsurance premiums (-)</b>	<b>(23,400)</b>	<b>(1,119,838)</b>
I.5.1.	Proportional outward reinsurance premiums (-)	0	(1,022,348)
I.5.2.	Non-proportional outward reinsurance premiums (-)	(23,400)	(97,490)
<b>I.6.</b>	<b>Amounts paid under insurance and reinsurance contracts (-)</b>	<b>(33,987,554)</b>	<b>(28,346,091)</b>
I.6.1.	Rebates upon cancellation of contracts (-)	(15,807)	(18,666)
I.6.1.1.	Insurance (-)	(15,807)	(18,666)
I.6.1.2.	Reinsurance (-)		
I.6.2.	Claims paid (-)	(21,143,798)	(17,773,317)
I.6.2.1.	Insurance (-)	(21,328,502)	(18,166,878)
I.6.2.2.	Reinsurance (-)	184,704	393,562
I.6.3.	Amounts recovered by way of subrogation and salvage (+)	1,531	5,957
I.6.3.1.	Insurance (+)	1,531	5,957
I.6.3.2.	Reinsurance (+)		
I.6.4.	Surrender values paid (-)	(12,746,986)	(10,509,734)
I.6.4.1.	Insurance (-)	(12,746,986)	(10,509,734)
I.6.4.2.	Reinsurance (-)		
I.6.5.	Claim settlement costs paid (-)	(11,746)	(4,098)
I.6.5.1.	Insurance (-)	(11,746)	(4,098)
I.6.5.2.	Reinsurance (-)		
I.6.6.	Rebates (profit participation) paid to the insured upon maturity (-)	(84,804)	(79,725)
I.6.7.	Rebates (profit participation) paid to the reinsured upon maturity (-)	14,056	33,491
<b>I.7.</b>	<b>Other amounts transferred to reinsurers (-)</b>	<b>(291,906)</b>	<b>(111,291)</b>
<b>I.8.</b>	<b>Other amounts received from reinsurers</b>	<b>134,982</b>	<b>4,814</b>
<b>I.9.</b>	<b>Other amounts transferred to the reinsured (-)</b>		
<b>I.10.</b>	<b>Other amounts received from the reinsured</b>		
<b>I.11.</b>	<b>Operating expenses paid (-)</b>	<b>(13,768,353)</b>	<b>(12,957,176)</b>

## Cash flow statement

(EUR)

Row No.	ITEMS	Financial year	Previous financial year
I.12.	Taxes on ordinary activities paid (-)	(2,093,336)	(1,889,622)
I.13.	Amounts received from other operating activities	438,507	415,863
I.14.	Amounts paid on other operating activities (-)	(1,212)	(36,262)
<b>II.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES +/-</b>	<b>(12,350,386)</b>	<b>(8,606,814)</b>
<b>II.1</b>	<b>Amounts received from investing activities</b>	<b>9,837,186</b>	<b>8,858,038</b>
II.1.1.	Amounts received due to merger	1,430,052	62,000
II.1.2.	Shares, other variable-yield securities and investment fund units	2,056,263	960,277
II.1.3.	Debt and other fixed-income securities	6,051,750	5,797,801
II.1.4.	Land		
II.1.5.	Buildings	6,077	12,793
II.1.6.	Loans secured with mortgages	150,000	0
II.1.7.	Other secured loans		
II.1.8.	Unsecured loans	14,898	4,383
II.1.9.	Deposits in credit institutions	309	787
II.1.10.	Other investments	127,837	2,019,998
<b>II.2.</b>	<b>Amounts received on maturity or realization of investments</b>	<b>22,963,938</b>	<b>6,454,863</b>
II.2.1.	Subsidiaries and associates		
II.2.2.	Shares, other variable-yield securities and investment fund units	1,727,854	924,147
II.2.3.	Debt securities and other fixed-income securities	3,829,972	5,122,912
II.2.4.	Land		
II.2.5.	Buildings		
II.2.6.	Loans secured with mortgages		
II.2.7.	Other secured loans		
II.2.8.	Unsecured loans	20,548	32,387
II.2.9.	Deposits in credit institutions	3,600	370,918
II.2.10.	Other investments	0	4,500
<b>II.3.</b>	<b>Amounts paid on investment (-)</b>	<b>(45,498,280)</b>	<b>(23,351,477)</b>
II.3.1.	Subsidiaries and associates (-)		
II.3.2.	Shares, other variable-yield securities and investment fund units (-)	(15,645,784)	(7,457,983)
II.3.3.	Debt securities and other fixed-income securities (-)	(29,836,979)	(15,714,208)
II.3.4.	Land (-)		
II.3.5.	Buildings (-)		
II.3.6.	Loans secured with mortgages (-)		
II.3.7.	Other secured loans (-)		
II.3.8.	Unsecured loans (-)	(15,517)	(32,706)
II.3.9.	Deposits in credit institutions (-)	0	(23,600)
II.3.10.	Other investments (-)	0	(122,980)
<b>II.4.</b>	<b>Taxes paid on investing activities (-)</b>	<b>(109,104)</b>	<b>(246,044)</b>
II.5.	Amounts generated from other investing activities		
II.6.	Amounts paid on other investing activities (-)	455,874	(322,195)

## Cash flow statement

(EUR)

Row No.	ITEMS	Financial year	Previous financial year
<b>III.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES +/-</b>	<b>(1,395,652)</b>	<b>(1,394,803)</b>
III.1.	Amounts received on issue of ordinary and preference shares		
III.2.	Amounts paid on purchase of own shares (-)		
III.3.	Amounts received on issue of debt securities		
III.4.	Amounts paid on redemption of debt securities (-)		
III.5.	Loans received		
III.6.	Loans repaid (-)		
III.7.	Dividends paid (-)	(1,400,000)	(1,400,000)
III.8.	Taxes paid on financing activities (-)		
III.9.	Amounts generated from other financing activities	4,348	5,197
III.10.	Amounts paid on other financing activities (-)		
<b>IV.</b>	<b>INCREASE (DECREASE) IN CASH</b>	<b>(306,387)</b>	<b>677,695</b>
<b>V.</b>	<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>6,252,917</b>	<b>5,575,221</b>
<b>VI.</b>	<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>5,946,530</b>	<b>6,252,916</b>

Head of the insurance company

21/03/2016

(signature, date)

Dr Kestutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)

21/03/2016

(signature, date)

Jūratė Muckienė  
(first and last names)

Chief Actuary

21/03/2016

(signature, date)

Dr Gintaras Bakštys  
(first and last names)

## **Explanatory notes**

### **1 Introduction**

AB ERGO LIETUVA Gyvybės Draudimas (hereinafter “the Company”) was established on 27 July 1995. The Company provides life insurance services. The Company’s activities are regulated by the Law on Insurance of the Republic of Lithuania and other legal acts of the Republic of Lithuania. The insurance license No. 000010 was issued on 15 March 2005.

The company ERGO Life Insurance SE was established on 3 January 2011 by merger when AB ERGO LIETUVA Gyvybės Draudimas acquired ERGO ELUKINDLUSTUSE AKTSIASELTS and Ergo Latvija dzīvība apdrošināšanas akciju sabiedrība. The central headquarters of the new European Company were established in Lithuania with its Branches in Estonia and Latvia. ERGO Life Insurance SE integrated three life insurance companies of the ERGO insurance group in the Baltics.

The following insurance groups are implemented: life insurance and health and accident insurance.

Life insurance group includes the following:

1. Life insurance group, as not specified in Items 2–5 of Part 2 of Article 7 of the Law on Insurance;
2. Group of life insurance related to investment funds (when the investment risk is borne by the insured).

Non-life insurance group includes the following:

1. Accident insurance group;
2. Health insurance group.

Until November 2014 the Company participated in the II pillar of the pension system by managing two pension funds.

In 2015, the premiums written by the Company increased to EUR 64.63 million, compared to EUR 54.94 million in 2014. Claim costs, except for reinsurers’ share, amounted to EUR 36.15 million in the financial year (EUR 29.25 million in 2014).

In 2015, the Company incurred losses of EUR 3.38 million. The main reason was low interest rates, which usually cause revaluation of liabilities. Due to low interest rates, technical provisions were recalculated. The loss was also triggered by increased number of claims in health insurance.

The management of the Company’s investment portfolio was taken over by the German company MEAG Munich ERGO Asset Management GmbH.

The average number of employees in 2015 amounted to 422 (401 in 2014). The Company has 5 regional centres in the biggest Lithuanian cities, i.e. Vilnius, Kaunas, Klaipėda, Panevėžys, Šiauliai, and 17 territorial client service centres in Lithuania and 3 regional centres, 9 representative offices and 14 sales points in Latvia. The Estonian branch has 8 sales persons.

The authorised capital of the Company amounts to EUR 4,380,213 (four million three hundred eighty thousand and two hundred thirteen euro). It is divided into 15,124 (fifteen thousand one hundred and twenty four) ordinary registered shares with a nominal value of EUR 289.6 (two hundred and eighty nine euro) each.

Also, share premium (surplus of nominal value) of EUR 15,129,290 (fifteen million one hundred twenty nine two hundred and ninety) was formed.

On 26 April 2012, 33% of the Company's shares held by ERGO Kindlustuse AS were transferred to another shareholder, i.e. ERGO International AG situated in Germany. As at 31 December 2015, 15,124 shares (100% from the total authorised capital) are owned by the parent company ERGO International AG, the head office of which is situated at the address Victoriaplatz 2, D-40198, Dusseldorf, Germany. Company code 40871.

As at 31 December 2015, the Company had the following subsidiaries and associated companies:

- 62% of ERGO Invest SIA shares. Head office – Unijas 45, Riga, the Republic of Latvia.
- 26.54% of ADB ERGO in Belarus shares. Head office – Pionierskaja 2, Minsk, Belarus.

Consolidated financial statements are not prepared based on Article 6(2) of the Law on Consolidated Accounts of Groups of Undertakings (due to insignificance of the subsidiaries).

The company ERGO Funds AS (head office – A. H. Tammsaare tee 118c, 12918 Tallinn, the Republic of Estonia), 44.25% of shares of which were owned by the Company as at 31 December 2014, was liquidated on 2 November 2015.

The Company was audited by KPMG Baltics, UAB. The shareholders' meeting is foreseen to be held on 21–23 March 2016.

## **2 Accounting principles**

### **Statement of compliance**

The financial statements of the Company were prepared in accordance with Business Accounting Standards (BAS) of the Republic of Lithuania, other legal acts regulating financial reporting in the Republic of Lithuania, and following Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania dated 3 February 2004 and all its amendments.

### **Basis of preparation**

The financial statements are presented in the national currency of the Republic of Lithuania, the euro (EUR).

On 1 January 2015, the Republic of Lithuania joined the euro zone and the Lithuanian national currency litas was replaced by the euro. As a result, ERGO Life Insurance SE converted its financial accounting to euro as from 1 January 2015. Comparative information was translated into euro using the official exchange rate of LTL 3.4528 to EUR 1.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale and investment property, which are stated at fair market values. The financial statements have been prepared on the going concern principle.

The financial year of the Company coincides with the calendar year.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

In the financial statements, the amounts increasing the insurance company activity results are presented as positive figures, whereas decreasing – as negative figures (-) (in the cash flow statement, cash inflows are presented as positive figures, whereas expenses are presented in brackets).

### **Estimates**

The preparation of the financial statements in accordance with Business Accounting Standards of the Republic of Lithuania requires management to make judgments on the estimates and assumptions that affect the application of the accounting policies and reported amounts related to assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the current circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates

Change in such estimates shall be recognized in the financial statements when identified.

### **Intangible assets**

Intangible assets include identified non-monetary assets which have no material form, which are owned by the Company and which are used expecting to get direct or indirect economic benefit.

Maintenance and other costs of intangible assets are treated as expenses of the accounting period when incurred. Losses related to impairment of intangible assets, write-off of assets are treated as operating expenses of the Company.

Intangible assets are stated at acquisition cost less accumulated amortisation and impairment losses, if any. Amortisation of intangible assets is provided on a straight-line basis over the expected useful lives of the assets. Amortisation costs are attributed to operating expenses of the Company. The expected useful lifetime for the groups of intangible assets is as follows:

Software	3–5 years
Other intangible assets	4–5 years

### **Investment property**

Investment property of the Company includes real estate used for generation of income from lease. Investment property is initially recognized at acquisition cost considering the expenses related to acquisition. Subsequently, investment property is stated at fair value, which reflects the market situation at the balance sheet date. Income or expenses arising due to changes in fair value of investment property are shown as profit or loss in the period when they arise. Land in Lithuania and a building in Estonia are recognized as investment property by the Company.

### **Investments in subsidiaries and associated companies**

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

### **Financial assets**

Financial assets consist of cash and cash equivalents, receivables, deposits in credit institutions and financial assets available for sale, as well as the financial assets held to maturity.

Financial assets available for sale consist of securities to be held for unlimited time and which may be sold in case of need for liquidity. Financial assets held to maturity are the assets which have a fixed maturity term with fixed or potential payments, which the Company intends to and may keep until the fixed maturity term, except for loans and amounts receivable.

Amounts receivable include payments from the insured, brokers and other intermediaries, amounts receivable from the reinsured and the reinsurers. Also, amounts paid in advance to the Company's employees and other companies. Amounts receivable are stated at amount due less impairment. Impairment losses of the amounts receivable are recognized in the income statement when there are objective factors showing the decreased value of the assets.

Doubtful amounts are identified according to the term overdue. For amounts overdue more than 6 months full impairment allowance is booked.

Cash includes cash in hand and at bank. Cash equivalents are short-term highly liquid investments readily convertible into known amounts of cash and the risk of change in value of which is insignificant.

Deposits in credit institutions are financial assets, including cash held at bank for a certain period. At initial recognition, deposits in credit institutions are accounted for at the acquisition cost. Whereas, at each date of the financial statements they are recognized at amortized cost. Deposits in credit institutions include amounts which may be withdrawn only after a prescribed term. The amounts not subject to this limitation are treated as cash in hand and at bank, even if interest is charged on them.

### **Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset and liability, or, where appropriate, a shorter period.

### **Investment into subsidiaries and associated companies**

Investment into subsidiaries and associated companies is accounted at acquisition cost less impairment losses.

### **Investments into equity securities**

Investments into equity securities are treated as financial assets available for sale. Initially these investments are recognized at acquisition cost and booked at the end of each period at the fair value which is established based on the market price. Investments into non-listed securities are booked at fair value. In the event the fair value of the investments may not be reliably assessed, they are measured at the acquisition cost less impairment loss. Changes in the fair value of investment in equity securities are reflected in the income statement as income or costs of investment activities.

### **Investments into debt securities**

The assessment of the investments into debt securities depends on the objective of the acquisition of the assets. Commencing with 1 January 2007, for evaluation purposes, these financial assets have been divided into two groups: financial assets available for sale and financial assets held to maturity. The financial assets held to maturity group may include only newly acquired debt securities. The amendments of the accounting policies have been introduced with a purpose to avoid a negative influence of the fluctuation of the financial assets market value on the Company's investment result.

Part of the investments into debt securities, classified as financial assets available for sale, at the initial recognition is registered in the accounting at acquisition cost. Subsequently, these investments are booked at the fair value at the end of each accounting period, which is established based on the market value, and reflected in the balance sheet at the fair value. Profit and loss arising from the change in the fair value of the investments into debt securities are reflected in the income statement as income and costs of investment activities as incurred.

Part of the investments into debt securities, classified as financial assets held to maturity, at the initial recognition is registered in the accounting at acquisition cost. These assets are not stated at fair value and have a fixed maturity term. The assets are measured at the amortized cost.

Interest income on debt securities is accrued in the income statement for the period. Accrued interest in the balance sheet is included in the total value of investments.

The total acquisitions and sales of investments are recognised as at the date of their purchase/sales.

Dividend income is recognized when distributed.

## **Loans**

Loans granted are stated in the balance sheet at amortized cost. There are no doubtful loans in the Company.

## **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## **Tangible non-current assets**

Tangible non-current assets of the Company include assets held and controlled by the Company expecting to get benefit in future periods, which are to be used for over one year and the acquisition cost of which can be reliably measured and the value of which is higher than the minimum established for tangible non-current assets.

Tangible non-current assets are recognized at acquisition cost when acquired. In the balance sheet, the tangible non-current assets are reflected at the acquisition cost less accumulated depreciation and impairment losses.

Tangible non-current assets are depreciated on a straight line basis over the expected useful life time of the assets. Depreciation costs are considered as operating expenses of the Company. The tangible assets are depreciated over the following period:

Office equipment	3–10 years
Vehicles	4–10 years

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from tangible non-current assets. Depreciation rates are approved by Order of Director.

When the assets are written off or disposed, their acquisition cost and accumulated depreciation are eliminated and gain or loss on disposal is recognized in the income statement.

If the renovation of tangible assets improves their useful properties or extends their useful life, the acquisition cost of the tangible non-current assets is increased by the value of the renovation. Otherwise, the renovation is expensed. The value added tax is not included in the acquisition cost of tangible non-current assets. The minimum value of tangible non-current assets of EUR 1,500 has been determined by the Company.

### **Impairment of non-current tangible and intangible assets**

At each balance sheet date, the Company reviews the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation cannot be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Inventories**

The cost of inventories is accounted for at acquisition cost on the first-in first-out principle.

### **Other assets**

Item of other assets may include deferred tax asset and other non-current assets not shown under other items of non-current assets.

### **Capital and reserves**

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

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

As at the end of 2015, the Company had fully formed its compulsory reserve.

The compulsory reserve can be used only to cover losses of the Company. The reserve for distribution can be used only for the purposes approved by the General Shareholders' Meeting.

### **Technical provisions**

The Company forms the following technical provisions:

1. Unearned premiums;
2. Life insurance mathematical technical provision;
3. Life insurance when the investment risk is borne by the insured;
4. Outstanding claims;
5. Provision for rebates;
6. Other technical provisions.

For life insurance branch, technical provisions 1–5 are formed and, for non-life insurance, part of technical provisions 1, 4 and 6 are formed.

The mentioned technical provisions are formed in accordance with the best actuarial practice, with Resolution No. N-117 approved by the Insurance Supervisory Commission of the Republic of Lithuania "Methods for Calculation of Insurance Technical Provisions" and subsequent amendments to this Resolution, and the methodology of ERGO group.

Unearned premiums technical provision is calculated for every insurance contract separately by proportionate distribution of the written premium throughout the insurance risk period. The unearned part of the regular premium of the traditional life insurance is calculated by the 1/12 method, non-recurring and irregular premiums are not brought forward. The provision of unearned premiums of non-life insurance is calculated by the daily pro rata method.

Life insurance mathematical technical provision is formed in accordance with the principles of the best actuarial practice and with insurance products technical plans. It is estimated by the principle of actuarial perspective net insurance premiums as a difference between the actuary discounted contractual insurance liabilities (as at the date of the provision calculation) and future claim settlement costs and actuary discounted future net insurance premiums. The actuary basis is actualized annually. The Zillmer method is applied.

Life insurance mathematical technical provision is directly interpolated by the 1/12 method as insurance contracts start on the first day of each month.

Technical provision of compulsory annuities in Estonia is formed following the same methodology; however, it must not be lower than the value of guaranteed cash flows discounted at the risk-free interest rate.

Life insurance technical provision, when the investment risk is borne by the insured, covers all amounts according to life insurance contracts, the investment risk of which is borne by the insured. It is estimated according to the amount of investment units attributed to the insurance contract at the moment of making the provision.

Outstanding claims technical provision is intended to cover all anticipatory payments and covers the following: claims incurred, but not reported (IBNR); claims incurred and reported; payments outstanding for claims to be paid in annuities which are overdue; payments outstanding for ceased or otherwise terminated before expiry insurance contracts and reported non-insurance events; outstanding claim settlement costs to cover the above mentioned losses.

Technical provision for rebates is intended for the amounts due to be distributed later in the form of extra-profit or premiums discounts for individual insurance contracts and which are not reflected by the mathematical technical provision. It is formed as to technical plans of insurance products. Technical provision for rebates shall be formed for each individual insurance contract in which participation in profit is specified.

Other technical provisions include technical provision of unexpired risk. The technical provision of the unexpired risk is formed having stated insufficiency of premiums written, which appears after wrong valuation of the insurance risk accepted, as well as operating expenses at the moment of negotiating the insurance contract.

Reinsurer's share of the technical provision is estimated based on reinsurance contracts.

## **Derivatives**

Derivatives are used to hedge risks and for trading purposes. Embedded derivative is the derivative, which is attached to other financial instrument.

Embedded derivatives included in life insurance contracts, such as guaranteed interest rate and surrender option, satisfy the definition of insurance contract and are not accounted separately.

### **Provisions for other liabilities**

Provisions are recognized in the balance sheet when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of liabilities can be reliably estimated.

### **Other liabilities**

Other liabilities are accounted for when liabilities concerning insurance and other related activities arise. Other liabilities do not include technical provision.

### **Financial liabilities**

Financial liabilities are accounted for when the Company undertakes to pay in cash or in other assets. These are the financial liabilities not related to market prices. Initially the Company recognizes the financial liability at cost, i.e. at the cost of assets or services received. Subsequently, loans are recognized at amortized cost.

### **Premiums written and earned premiums**

Premiums written consist of premiums calculated for the term of validity of risk insured less premiums on insurance policy cancelled.

Premiums earned comprise premiums attributable to the accounting period, i.e. premiums written during the accounting period, decreased by the change of the technical provision of the unearned premiums during the accounting period.

For life insurance, when the investment risk is borne by the insured, premiums written and earned include actually received premiums during the accounting period as to effective policy. If the insured does not pay, the premiums written are not recorded.

Depending on the type of a reinsurance contract, the reinsurers' share in the premiums is estimated either in proportion to the portfolio held or the risk share reinsured is calculated on a yearly basis and a premium for each individual contract is estimated according to this share.

Outward reinsurance premiums decrease revenue and represent reinsurance premiums ceded to reinsurers, attributable to the period in accordance with reinsurance contracts.

Reinsurers' share in earned premiums includes the share of the premiums written during the accounting period given to reinsurers and adjusted by change in unearned premiums technical provision, related to the premiums given to reinsurers.

### **Claim costs**

Costs of insurance claims paid include actually paid amounts according to insurance events including claim settlement costs and anticipatory changes in the technical provision for outstanding claims. These are payments according to insurance events occurred, terminated insurance contracts, expired insurance contracts. The reinsurers' share to be rebated from the reinsurer according to the reinsurance contract is deducted from the costs of the insurance claims paid.

Claim settlement costs include costs incurred in relation to insurance events occurred. These costs are attributed to the insurance group depending on the payment group.

Claim settlement costs include remuneration to employees engaged in claims settlement and part of other costs related to the claim settlement group according to the nature of the costs. Indirect claim settlement costs are attributed to the line of insurance proportionally to the number of claims settled during the accounting quarter, specifying claims of the accounting and previous years. The Company has the claim settlement costs distribution methodology approved.

Reinsurers' share in claim costs includes the amounts paid by reinsurers or the amounts receivable from reinsurers for the amounts paid by the Company during the accounting period and adjusted by reinsurers' share change in the technical provision for outstanding claims, as to reinsurance contracts.

### **Investment income and expenses**

The total investment income and expenses in connection with life insurance and non-life insurance as well as equity investment are related to life insurance investment income and expenses and are booked in the income statement under the item Investment Income and Expenses on an accrual basis.

Taking the ratio of non-life technical provisions and equity and the total ratio of insurance technical provisions and the amounts of equity as a basis, a relevant share of the investment property (loss), related to investment of non-life technical provisions and equity, is transferred from the life insurance technical account to the non-technical account of the income statement. According to the ratio of non-life insurance technical provisions and equity, part of the investment profit is transferred from the non-technical account to the non-life insurance technical account of the income statement. The ratios of the amounts of the technical provisions and equity are determined following the mathematical average of the relevant amount of the beginning and the end of the period.

### **Recognition of other income and expenses**

Income from sales of services is the increase of economic benefit from supply of services during the accounting period, evidencing the increase of the assets of the Company or decrease of liabilities, resulting in increase of equity except for additional contributions of the owners.

Services are the activity performed by the Company, related to supply of services to the client, generating income. Income from sales of services is recognised on an accrual basis, i.e. in the accounting, it is registered when earned irrespective of the time money was received.

Expenses are recognized based on the accrual and matching principle in the accounting period in which related income is earned irrespective of the time the money was spent.

Only the part of expenses of the accounting or previous accounting period is recognized as costs which relates to income generated during the accounting period.

Operating expenses include expenses of the accounting period, related to the operating activity of the Company.

Other income includes income generated after rendering of services and not related to insurance activity, i.e. interest for the balance in bank accounts, income from currency exchange, other income not shown under other items.

Other costs include costs incurred from currency exchange, other costs not shown under other items.

### **Deferred acquisition costs**

Deferred acquisition costs are estimated according to the methodology equivalent to US GAAP FAS 60. Deferred costs include commission remuneration less change in mathematical technical provision of contracts, based on which the remuneration are paid, which occurred due to the Zillmer effect. Deferred costs are amortised in subsequent years on individual basis for each contract according to a fixed schedule which shall be adjusted when the loss recognition event is identified based on the premium inadequacy test.

### **Acquisition costs and administrative expenses**

Acquisition costs include costs related to underwriting of insurance contracts, their updating and servicing. Acquisition costs include direct and indirect acquisition costs. Direct acquisition costs include commissions to intermediaries, which are attributed to lines of insurance depending on which line of the insurance contracts the commissions are paid for, directly for each line. Other acquisition costs related to underwriting and servicing of insurance contracts (e.g. preparation of insurance documents, salaries to employees concluding insurance contracts, advertising) are allocated in proportion to gross premiums earned during the reporting quarter, provided that the type of insurance was not specified when entering costs into the accounting system. Acquisition costs related to future periods are shown in the balance sheet as deferred acquisition costs.

Acquisition costs of the pension funds include commission fee to intermediaries for conclusion of pension contracts.

Administrative expenses are the expenses that contribute to generating income for the reporting period, e.g. salaries paid to the Company's management and social insurance contributions, costs of rent, repairs, exploitation and depreciation of non-current assets of common use, expenses of communication, business trips and other. These expenses are identified as to the cost centre in which they are incurred (administrative expenses are incurred in the functional group of administration). Administrative expenses are allocated in proportion to gross premiums earned during the reporting quarter, provided that type of insurance was not specified when entering costs into the accounting system.

When allocating the expenses, part of the administrative expenses of the functional group is attributed to acquisition costs. Attribution is regulated by the Company's methods for accounting and allocating expenses.

Administrative expenses of the pension funds include a fee to the investment managing company, salary costs of the personnel directly engaged in pension accumulation activity as well as other costs directly related to the pension accumulation activity (e.g. advertising, publishing of financial statements in press, printing of forms, etc.).

### **Other technical income**

Other technical income includes fees for pension funds administration and management and other income related to insurance and reinsurance and not attributed to other items.

## **Taxes**

The main rates of the taxes (other than income tax) paid by the Company:

- Insurance Supervisory Commission maintenance fee of 0.234% from insurance premiums written;
- Social insurance contributions of 30.98% in Lithuania, 24.09% in Latvia and 33.00% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT less input VAT;
- Real estate tax up to 1% in Lithuania, 0.2% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

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

Current corporate income tax is calculated and booked by the Company using the profit tax rate valid at the date of the financial statements and effective tax accounting principles.

In 2015, corporate income tax of EUR 344.22 thousand was calculated for the activity in the Republic of Lithuania, which (70%) was covered by the accumulated tax losses. Payable corporate income tax for the activity in the Republic of Latvia is 0. Deferred tax asset was formed for EUR 113.5 thousand. Activity in the Republic of Estonia is not subject to corporate income tax.

Calculation of corporate income tax in the Republic of Lithuania was influenced by the result of the financial activity, attribution of life insurance premiums and investment income to the tax exempt income and attribution of costs, generating tax exempt income, to non-deductible expenses. In 2015 and 2014, a profit tax rate of 15% was applied. The calculated tax decreased the tax loss carried forward, the basis of which is tax losses from the previous accounting periods.

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

A deferred tax asset is only recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised.

## **Foreign currencies**

All monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate prevailing at the year-end. Gains and losses arising from this transaction are included in the income statement for the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated into euro at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

All transactions in foreign currencies are accounted at the rate prevailing at the date of transaction.

### **Cash flow statement**

The cash flow statement has been prepared using the direct method.

### **Post-balance sheet events**

Post-balance sheet events are disclosed in the notes in case of significant influence.

### **Risk management**

The risk management is performed in the Company following the risk management recommendations prepared by the ERGO group, the risk management strategy prepared by the Company as well as the Risk Management Strategy Regulations. The Company regularly estimates risks based on the mentioned documents.

The most significant risks and the means for managing risks are the following:

#### *Credit risk*

The risk of loss or negative change in financial position, directly or indirectly arising from credit position fluctuations of the issuers of securities, counterparties (including reinsurers) and all the debtors, which affect the insurance company, considering the concentration of the risk of counterparties' default, spread risk and market risk.

Credit risk is controlled by application of credit terms and monitoring procedures. The Company has no significant concentration of credit risk with any single counterpart or group of counterparts.

#### *Currency risk*

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

Almost all of the Company's transactions in 2015 are denominated in local currency, the euro (EUR). The risk related to transactions in euro is considered insignificant.

#### *Liquidity risk*

The risk that the Company will not realise its investments or other assets necessary to carry out its financial liabilities when they fall due.

The Company's policy is to maintain sufficient flow of cash and cash equivalents. The Company is not using any financial credits.

#### *Interest rate risk*

#### Life insurance contracts when the investment risk is borne by the insurer

The larger part of ERGO Life Insurance SE insurance portfolio comprises traditional life insurance contracts with the investment return guarantees for the insured; therefore, the Company's result is much more sensitive to interest rate fluctuations than to changes in insurance risk.

A change in interest rate by 100 bp will affect the Company's financial results in the following way (EUR thousand):

	Financial year	Previous financial year
<b>Increase by 100 bp (1%)</b>		
Result for the financial year	5,177	4,435
<b>Decrease by 100 bp (1%)</b>		
Result for the financial year	(6,430)	(5,696)

The Company manages the interest rate risk by harmonizing the financial asset term with the term of commitments to the insured.

Life insurance contracts when the investment risk is borne by the insured

Based on the insurance contracts, when the investment risk is borne by the insured, the value of investment units accumulated by the insured is covered by assets of their choice; therefore, such contracts are not exposed to interest rate risk.

*Risk-taking and provision risk (insurance risk)*

The risk that the paid amounts of actual claim expenses and insurance payments may differ from budgeted expenses, whether incidentally or due to error or change in circumstances.

To manage this risk, the Company uses:

- Premiums adjustment risk management – a review of the insurance premiums policy on a regular basis allows to adjust long-term insurance premiums respectively if the anticipated claim value suddenly starts to increase or decrease unexpectedly;
- Claim reserve risk management is based on mathematical statistical or economic – probability evaluation models.
- Risk transfer to third parties – when the risk is transferred to reinsurance companies, part of the risk remains with the insurer.

Also, the Company has internal control procedures in place which help avoid probability of errors.

A 5% change in mortality will affect the Company's financial results in the following way (EUR thousand):

	Financial year	Previous financial year
<b>5% increase</b>		
Result for the financial year	(109)	(74)
<b>5% decrease</b>		
Result for the financial year	109	75

*Concentration risk*

All risk exposures with a high enough probability of loss to threaten solvency or financial position of the Company. The large number of the insured in the Company determines high spread based on the insurance amounts, gender and age of the insured.

## Notes

### Note 1. Intangible assets (EUR)

Items	Assets groups		Total
	Software	Other intangible assets	
<b>Acquisition cost</b>			
At the beginning of the accounting period	3,173,826	733,661	3,907,487
Acquired assets	468,678	11,207	479,885
Transferred assets (-)			
Written off assets (-)	(8,400)		(8,400)
Reclassified assets +/-(-)			
At the end of the accounting period	3,634,104	744,868	4,378,972
<b>Accumulated amortization charge</b>			
At the beginning of the accounting period	2,027,731	341,566	2,369,297
Calculated amortization charge	469,054	132,899	601,953
Restated amortization charge (-)			
Written off amortization charge on disposals (-)			
Written off amortization charge on write-offs (-)	(8,400)		(8,400)
Reclassified amortization charge +/-(-)			
At the end of the accounting period	2,488,385	474,465	2,962,850
<b>Book value</b>			
At the beginning of the accounting period	1,146,095	392,095	1,538,190
At the end of the accounting period	1,145,719	270,403	1,416,122

The Company has no intangible assets acquired or being acquired under lease agreements.

Other intangible assets item includes the cost of life insurance portfolio of Nordea Life Insurance SE Lithuania Branch acquired on 16 November 2012. These assets were stated at acquisition cost with the amortisation period of 4 years. The assets' value at the moment of acquisition (acquisition cost) was measured based on comparative method, comparing it to the equivalent portfolio held, and amounted to EUR 500,000. The book value of these assets as at 31 December 2015 amounts to EUR 270,403.

Amortization of intangible non-current assets is stated under net operating expenses (see Note 24).

The accounting software acquired in 2015 with the acquisition cost of EUR 76,605 has not yet been put into operation and therefore is not amortised. The Company intends to start using this accounting system in 2016.

**Note 2. Land, buildings and other real estate (EUR)**

Items	Assets group		Total
	Buildings	Land	
<b>Acquisition cost</b>			
At the beginning of the accounting period	210,909	18,935	229,844
Acquired assets			
Transferred assets (-)			
Written off assets (-)			
Reclassified assets +/-(-)			
At the end of the accounting period	210,909	18,935	229,844
<b>Revaluation</b>			
At the beginning of the accounting period			
Increase in value			
Decrease in value (-)			
Written off revaluation result on disposals (-)			
Written off revaluation result on write-offs (-)			
Reclassified revaluation result +/-(-)			
At the end of the accounting period			
<b>Accumulated depreciation charge</b>			
At the beginning of the accounting period			
Additions due to merger			
Calculated depreciation charge			
Restated depreciation charge (-)			
Written off depreciation charge on disposals (-)			
Written off depreciation charge on write-offs (-)			
Reclassified depreciation charge +/-(-)			
At the end of the accounting period			
<b>Book value</b>			
At the beginning of the accounting period	210,909	18,935	229,844
At the end of the accounting period	210,909	18,935	229,844

**Note 3. Investments into subsidiary and associated companies (EUR)**

Items	Subsidiaries		Associates	
	Shares	Debt securities and loans	Shares	Debt securities and loans
<b>Acquisition cost</b>				
At the beginning of the accounting period	1,525,006	801,708	1,867,825	
Acquired assets				
Transferred assets (-)		(150,749)	(1,853,418)	
Written off assets (-)				
Reclassified assets +/-(-)	(597,136)		597,136	
At the end of the accounting period	927,870	650,959	611,543	
<b>Revaluation</b>				
At the beginning of the accounting period				
Increase in value				
Decrease in value (-)				
Written off revaluation result on disposals (-)				
Written off revaluation result on write-offs (-)				
Reclassified revaluation result +/-(-)				
At the end of the accounting period				
<b>Book value</b>				
At the beginning of the accounting period	1,525,006	801,708	1,867,825	
At the end of the accounting period	927,870	650,959	611,543	

In 2015, it became evident that part of the acquisition cost of the investment into ERGO Funds AS shares (EUR 597,136) was accounted for as acquisition cost of the investment into ERGO Invest SIA shares; therefore, the Company made an adjustment, which is reflected under line "Reclassified assets +/-(-)". As this adjustment is not significant to the financial statements, no retrospective corrections were made. The investment values after adjustment were as follows: 62 per cent of ERGO Invest SIA shares with the acquisition cost of EUR 927,870, and 44.25 per cent of ERGO Funds AS shares with the acquisition cost of EUR 1,853,418.

The associated company ERGO Funds AS (head office – A. H. Tammsaare tee 118c, 12918 Tallinn, the Republic of Estonia), 44.25 per cent shares of which were owned by the Company as at 31 December 2014, was liquidated on 2 November 2015. The Company received profit of EUR 142,376 on liquidation.

Investments of the Company into subsidiary and associated companies comprise:

- 62 per cent of the shares of the company ERGO Invest SIA, the acquisition cost of which is EUR 927,870. The head office of ERGO Invest SIA is situated at Unijas 45, Riga, the Republic of Latvia. Based on Article 6(2) of Law on Consolidated Accounts of Groups of Undertakings, the subsidiary has not been consolidated (due to insignificance).

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2015 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
7,595,240	1,677,526	5,917,720	915,014	107,869

- 26.54 per cent of ADB ERGO in Belarus shares. As at 31 December 2013, the acquisition cost of the shares amounted to EUR 279,745. The additional amount invested in 2014 is EUR 331,798. As at 31 December 2015, the acquisition cost of shares amounted to EUR 611,543. ADB ERGO in Belarus is engaged in insurance activities; its office is registered at Pionierskaja 2, Minsk, Belarus.

The main financial information (not audited) of ADB ERGO in Belarus as at 31 December 2015 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
9,165,007	6,607,325	2,552,518	5,226,397	426,628

Investments into subsidiary and associated companies also include a mortgage loan issued to the company's ERGO Invest SIA branch in Lithuania (the loan was granted on 13 December 2012). The repayment term of the loan is 13 December 2017. Part of the loan repaid in 2015 amounted to EUR 150,000. The interest rate is 2.85% fixed margin and variable part, equal to 12-month EURIBOR. As at 31 December 2015 the interest rate is equal to 2.91% (fixed part of 2.85% and 12-month EURIBOR 0.060% effective as at 13 December 2015).

#### Note 4. Equity and debt securities (EUR)

Items	Equity securities	Debt securities
<b>Acquisition cost</b>		
At the beginning of the accounting period	22,108,170	165,436,698
Acquired assets	12,640,197	34,235,321
Transferred assets (-)	(9,179,667)	(18,313,218)
Written off assets (-)		
Reclassified assets +/-(-)		
At the end of the accounting period	25,568,700	181,358,801
<b>Revaluation</b>		
At the beginning of the accounting period	389,022	6,704,903
Increase in value	1,336,742	8,318,460
Decrease in value (-)	(1,426,912)	(8,556,166)
Written off revaluation result on disposals (-)	(393,625)	(443,843)
Written off revaluation result on write-offs (-)		
Reclassified revaluation result +/-(-)		
At the end of the accounting period	(94,773)	6,023,354
<b>Book value</b>		
At the beginning of the accounting period	22,497,192	172,141,601
At the end of the accounting period	25,473,927	187,382,155

Investments into Government securities at the end of the year amounted to EUR 152 million. The investments into debt securities of other business entities comprised EUR 35 million.

Equity and debt securities, classified as financial assets available for sale, are booked at fair value, therefore each time, when preparing financial statements, they are restated to the market value. Changes in the fair value are reflected directly in the income statement. Debt securities classified as held to maturity are booked at amortized cost.

All investments into equity securities are attributed to financial assets available for sale.

As at 31 December 2015, the values of the investments into debt securities were as follows:

	Balance value
Debt securities held to maturity	137,055,774
Debt securities available for sale	50,326,381
<b>Total debt securities</b>	<b>187,382,155</b>

As at 31 December 2015, the market value of debt securities classified as held to maturity amounted to EUR 160,782,263.

#### **Note 5. Deposits in credit institutions (EUR)**

Deposits in credit institutions consist of overnight term deposits. As at 31 December 2015, the Company had no term deposits.

#### **Note 6. Life insurance investments when the investment risk is borne by the insured (EUR)**

Items	Shares, other variable-yield securities and investment fund units	Debt securities	Cash at bank and in hand	Total
Book value at the beginning of the accounting period	14,471,230	1,433,667	39,538	15,944,435
Assets acquired	6,340,095	1,265,693	465,642	8,071,430
Assets transferred (-)	(3,695,928)	(452,048)	(39,538)	(4,187,514)
Assets written off (-)				
Assets transferred from one heading to another +/-				
Increase of value	1,752,732	195,260	0	1,947,992
Decrease of value (-)	(1,514,864)	(161,584)	0	(1,676,448)
Book value at the end of the accounting period	17,353,265	2,280,988	465,642	20,099,895

The item Cash at Bank and in Hand shows the cash received the last day of 2015 for investment life insurance contracts. According to item 7.5 of the Investment Life Insurance Rules of ERGO Life Insurance SE, the cash, following the insurance contract in force, is translated into investment units within 3 working days as of the premium payment day, if the insurance certificate does not state otherwise. The indicated amount will be recalculated into investment units at the very beginning of 2016.

**Note 7. Amounts receivable (EUR)**

Items	Financial year			Previous financial year		
	Total amount	Doubtful amounts receivable	Book value	Total amount	Doubtful amounts receivable	Book value
Insurance receivables:	9,051,251	272,780	8,778,471	8,004,987	243,526	7,761,461
from the insured:	9,028,523	250,162	8,778,361	7,982,393	221,836	7,760,557
subsidiaries						
associates						
other	9,028,523	250,162	8,778,361	7,982,393	221,836	7,760,557
from intermediaries:	22,728	22,618	110	22,594	21,690	904
subsidiaries						
associates						
other	22,728	22,618	110	22,594	21,690	904
from others:						
subsidiaries						
associates						
other						
Amounts receivable from inward and outward reinsurance activities:	279,141	0	279,141	187,227	0	187,227
from the reinsured:						
subsidiaries						
associates						
other						
from the reinsurers:	279,141	0	279,141	187,227	0	187,227
subsidiaries						
associates						
other	279,141	0	279,141	187,227	0	187,227
from intermediaries:						
subsidiaries						
associates						
other						
from others:						
subsidiaries						
associates						
other						
Other receivables:	469,543	0	469,543	182,922	0	182,922
subsidiaries						
associates						
other	469,543	0	469,543	182,922	0	182,922
<b>Total</b>	<b>9,799,935</b>	<b>272,780</b>	<b>9,527,155</b>	<b>8,375,136</b>	<b>243,526</b>	<b>8,131,610</b>

**Note 8. Doubtful amounts (EUR)**

Items	Financial year	Previous financial year
<b>Balance sheet</b>		
Doubtful amounts at the beginning of the period	243,526	300,740
Decrease of doubtful amounts during the period	(30,747)	(114,366)
Increase of doubtful amounts during the period	60,001	57,152
Doubtful amounts at the end of the period	272,780	243,526
<b>Income statement</b>		
Recovered earlier written off amounts	30,262	(57,214)
Change of doubtful amounts during the period	(59,516)	0
Impact of doubtful amounts during the period	(29,254)	(57,214)

**Note 9. Tangible non-current assets excluding investments (EUR)**

Items	Asset groups		Total
	Transport vehicles	Office equipment	
<b>Acquisition cost</b>			
At the beginning of the accounting period	252,988	694,904	947,892
Acquired assets	73,105	3,877	76,982
Disposed assets (-)	(12,169)		(12,169)
Written off assets (-)	(12,256)	(88,208)	(100,464)
Reclassified assets +/-(-)			
At the end of the accounting period	301,668	610,573	912,241
<b>Revaluation</b>			
At the beginning of the accounting period			
Increase in value			
Decrease in value (-)			
Written off revaluation result on disposals (-)			
Written off revaluation result on write-offs (-)			
Reclassified revaluation result +/-(-)			
At the end of the accounting period			
<b>Accumulated depreciation charge</b>			
At the beginning of the accounting period	106,653	408,367	515,020
Calculated depreciation charge	49,617	92,387	142,004
Restated depreciation charge			
Written off depreciation on disposals (-)	(10,453)		(10,453)
Written off depreciation charge on write-offs (-)	(12,224)	(88,208)	(100,432)
Reclassified depreciation charge +/-(-)			
At the end of the accounting period	133,593	412,546	546,139
<b>Book value</b>			
At the beginning of the accounting period	146,335	286,537	432,872
At the end of the accounting period	168,075	198,027	366,102

The Company has no tangible assets acquired or being acquired under lease agreements.

Depreciation of tangible non-current assets, except for investments, is stated under net operating expenses (see Note 24).

**Note 10. Fully depreciated tangible assets in use excluding investments (EUR)**

Asset group	Acquisition cost
Motor vehicles	35,026
Office equipment	198,966
<b>Total</b>	<b>233,992</b>

**Note 11. Cash at bank and in hand (EUR)**

Items	Financial year	Previous financial year
Cash at bank	5,945,837	6,252,281
Cash in hand	693	635
<b>Total</b>	<b>5,946,530</b>	<b>6,252,916</b>

**Note 12. Accrued income and deferred costs (EUR)**

Items	Financial year	Previous financial year
Deferred acquisition costs of life insurance	2,265,501	2,698,929
Deferred costs of insurance	458,006	33,976
Deferred acquisition costs of non-life insurance	0	386,866
Other deferred costs	74,665	92,428
<b>Total</b>	<b>2,798,172</b>	<b>3,212,199</b>

In 2014, a part of other deferred costs consisted of accumulated commission fee related to sales of pension contracts. It was amortised over the period as of the day the contract came into effect up to the term when the pension fund might be changed by the insured. After the sale of the pension funds, the total accumulated commission fee was transferred to costs.

**Note 13. Shareholders' equity**

Shareholder	Number of shares	%
ERGO International AG	15,124	100
<b>Total</b>	<b>15,124</b>	<b>100</b>

Items	Number of shares	Amount (EUR)
Structure of the share capital at the end of the financial year		
As to type of shares		
Ordinary shares	15,124	4,380,213
Preferred shares		
Employees' shares		
Special shares		
Other shares		
<b>Total</b>	<b>15,124</b>	<b>4,380,213</b>
Capital owned by the state or municipalities		
Shares owned by the company		
Shares owned by subsidiaries or associates		

As at 31 December 2015, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of EUR 290 each. Share premiums amount to EUR 15,129,290. All shares are fully paid in.

#### **Note 14. Reserves**

Legal reserve is formed following the Company Law of the Republic of Lithuania. Annual transfers of 5% of the net profit are required until the reserve reaches 10% of the authorized capital. This reserve can be used only for coverage of losses of the Company.

As at the date of the financial statements, the compulsory reserve is fully formed.

#### **Note 15. Draft appropriation of profit (EUR)**

Items	Amount
Retained earnings at the end of the previous financial year	6,063,146
Net result – profit (loss) – for the financial year	(3,249,764)
Dividends paid in 2015	(1,400,000)
Profit (loss) for distribution at the end of the financial year	1,413,382
Shareholders' contributions against losses	
Transfers from reserves	
Profit for distribution	
Profit distribution:	
- to legal reserves	
- to other reserves	
- dividends	
- other	(550,000)
Retained earnings at the end of the financial year	863,382

Dividends are planned to be paid from profit for distribution of 2015. The remaining accumulated profit is planned to be carried forward to the following year. The decisions of the Shareholders' Meeting will be reflected in the financial statements for the year 2016.

#### **Note 16. Technical provisions**

##### ***Unearned premiums technical provision***

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

Unearned premiums technical provision on a gross basis as at the end of the period amounted to EUR 14.24 million (31 December 2014: EUR 12.71 million). Reinsurers' share amounted to EUR 1.61 thousand (31 December 2014: EUR 0.075 million).

##### ***Life insurance mathematical technical provision***

Quarterly changing interest amount used for reserve calculation has the greatest impact on the life insurance mathematical technical provision. For calculation of this technical provision, the lower of interest rates guaranteed by the insurance contract and the maximum technical insurance rate shall be used in accordance with Resolution No N-90 of the Insurance Supervisory Commission "On Maximum Technical Interest Rates". The Zillmer method is applied. The method of equalisation of fluctuation of the mathematical technical provision is applied, permitted by the Insurance Supervisory Commission of the Republic of Lithuania by Resolution N-117, dated 28 December 2006.

Change (increase) in the life insurance mathematical technical provision is influenced by the aging of the available portfolio of contracts.

Liability of deferred annuity is accounted as mathematical technical provision.

As at the end of the period, the life insurance mathematical technical provision amounted to EUR 184.37 million (31 December 2014: EUR 165.83 million). Reinsurers' share amounted to EUR 1.05 thousand (31 December 2014: EUR 0.37 million).

***Life insurance technical provision, when the investment risk is borne by the insured***

As at the end of the period, life insurance technical provision, when the investment risk is borne by the insured, amounted to EUR 20.1 million (31 December 2014: EUR 15.94 million). It is calculated as to the value of the investment units related to the insurance contract at the moment of forming of the provision.

***Outstanding claims technical provision***

Technical provision for incurred but not reported claims (IBNR) is made following Item 35.3 of the methodology for forming of technical provision for claims incurred before the period investigated but not reported.

Until 2014, the technical provision for life insurance incurred but not reported claims (IBNR) was made only for additional non-life insurance risks. As of 2014, based on the instructions of the Bank of Lithuania, IBNR is also made for life insurance risks. IBNR of additional accidents of life insurance is taken as the higher amount between the minimum (5% on earned premiums during the 4 previous quarters) and estimated amounts by "Chain-Ladder" and "Bornhuetter-Ferguson" methods. Provision for incurred but not reported claims in working ability insurance was not estimated by "Chain-Ladder" and "Bornhuetter-Ferguson" methods due to insufficiency of statistics, and minimum IBNR was formed for the risks.

The technical provision for non-life insurance claims incurred but not reported reflects health insurance risks and is formed taking the highest provision between the minimum (5% on earned premiums during the previous 4 quarters) and estimated by "Chain-ladder" and "Bornhuetter-Ferguson" methods.

Part of the technical provision for outstanding claims consists of outstanding claim settlement costs. This part of the technical provision is formed for all outstanding claims (until 2014 only for non-life insurance outstanding claims) and is calculated as 10% on the technical provision for outstanding claims (incurred and reported events).

The biggest reserved claim in the total portfolio as at 31 December 2015 amounted to EUR 102,127 (accumulative life insurance). Claims, related to events occurred before the beginning of the accounting period, but paid out during 2015, amounted to EUR 1.18 million. At the end of the accounting period, technical provision for events related to previous periods amounts to EUR 1.64 million. The biggest payment of the current year in the total portfolio reached EUR 141,328 (study insurance).

Technical provision for outstanding claims as at 31 December 2015.

Insurance type	Share	RBNS	IBNR	Provision for claim settlement costs	Provision for outstanding claims
Health insurance	Total provision	402,384	1,172,033	6,950	1,581,367
	ELI share	398,967	1,172,033	6,950	1,577,950
Accident insurance	Total provision	128,661	96,531	12,623	237,815
	ELI share	126,797	96,531	12,623	235,951
Life insurance linked to investment funds	Total provision	82,308	8,349	553	91,210
	ELI share	82,295	8,349	553	91,198
Life insurance	Total provision	2,787,137	0	44,071	2,831,208
	ELI share	2,603,538	0	44,071	2,647,609
<b>Total</b>	<b>Total provision</b>	<b>3,400,490</b>	<b>1,276,913</b>	<b>64,197</b>	<b>4,741,600</b>
	<b>ELI share</b>	<b>3,211,597</b>	<b>1,276,913</b>	<b>64,197</b>	<b>4,552,708</b>

Total provision – technical provision, including reinsurer's share.

ELI share – technical provision related to ERGO Life Insurance SE, i.e. excluding reinsurers' share.

Technical provision for outstanding claims as at 31 December 2014.

Insurance type	Share	RBNS	IBNR	Provision for claim settlement costs	Provision for outstanding claims
Health insurance	Total provision	258,142	987,680	1,923	1,247,745
	ELI share	256,905	987,680	1,923	1,246,508
Accident insurance	Total provision	109,848	87,836	10,707	208,391
	ELI share	107,983	87,836	10,707	206,526
Life insurance linked to investment funds	Total provision	81,724	7,743	678	90,145
	ELI share	43,244	7,743	678	51,665
Life insurance	Total provision	2,032,156	0	31,914	2,064,070
	ELI share	1,897,058	0	31,914	1,928,972
<b>Total</b>	<b>Total provision</b>	<b>2,481,870</b>	<b>1,083,259</b>	<b>45,222</b>	<b>3,610,351</b>
	<b>ELI share</b>	<b>2,305,190</b>	<b>1,083,259</b>	<b>45,222</b>	<b>3,433,671</b>

The results show that as at 31 December 2014 the formed technical provision for outstanding claims of the direct insurance was adequate in all product groups of ERGO Life Insurance SE, except for life insurance related to investment funds (total provision).

Insurance type	Share	Provision for outstanding claims 31 12 2014, EUR (3)	Provision for outstanding claims 31 12 2015, related to events occurred in prior years, EUR (4)	Claims paid in 2015 related to events occurred in prior years, EUR (5)	Difference (3)-(4)-(5)
Health insurance	Total provision	1,247,745	1,130	761,815	484,800
	ELI share	1,246,508	1,130	761,815	483,563
Accident insurance	Total provision	208,391	93,142	79,962	35,287
	ELI share	206,527	91,278	79,962	35,287
Life insurance related to investment funds	Total provision	90,145	16,784	80,448	(7,087)
	ELGD share	51,665	16,777	32,347	2,541
Life insurance	Total provision	2,064,070	1,653,185	345,880	65,005
	ELI share	1,928,972	1,535,220	306,283	87,469
<b>Total</b>	<b>Total provision</b>	<b>3,610,351</b>	<b>1,764,241</b>	<b>1,268,105</b>	<b>578,005</b>
	<b>ELI share</b>	<b>3,433,671</b>	<b>1,644,404</b>	<b>1,180,407</b>	<b>608,860</b>

Adequacy of the technical provision for outstanding claims of the direct insurance is checked by comparing the technical provision for outstanding claims as at 31 December 2014 (which consists of the provisions for reported but not paid yet claims, incurred but not paid yet claims, settled but not paid yet claims and for the costs related to claim settlement) to the claims incurred in prior and in previous financial years but paid in the current financial year as well as to the technical provision for outstanding claims as at 31 December 2015 for claims incurred in prior and in previous financial years.

Slight inadequacy is observed in the group of life insurance related to investment funds (total provision); however, for all other groups, as well as for analysis of total provision, the difference between these two amounts being analysed is positive; therefore, the outstanding claims technical provision as at 31 December 2014 of the direct insurance was adequate.

### Technical provision for rebates

Technical provision for rebates at the end of the period amounted to EUR 3.94 million (31 December 2014: EUR 4.74 million). The total amount relates to rebate of insurance premiums (participation in profit). The reinsurers' share amounted to EUR 352 (31 December 2014: EUR 33.76 thousand).

### Other technical provisions

The unexpired risk technical provision was not formed at the end of the reporting period (31 December 2014: not formed as well).

**Note 17. Other liabilities (EUR)**

Creditors	Financial year			Previous financial year		
	Within 1 year	After one year but not later than within 5 years	After 5 years	Within 1 year	After one year but not later than within 5 years	After 5 years
<b>Subordinated liabilities</b>						
<b>Reinsurers' deposits</b>	<b>0</b>			<b>10,492</b>		
<b>Insurance related liabilities:</b>	<b>4,011,787</b>			<b>3,806,048</b>		
liabilities to the insured:	3,260,882			3,189,742		
subsidiaries						
associates						
other	3,260,882			3,189,742		
liabilities to intermediaries:	750,905			616,306		
subsidiaries						
associates						
other	750,905			616,306		
other insurance related liabilities:						
subsidiaries						
associates						
other						
<b>Liabilities of inward and outward reinsurance activities:</b>	<b>4,785</b>			<b>4,469</b>		
liabilities to the reinsured:						
subsidiaries						
associates						
other						
liabilities to reinsurers:	4,785			4,469		
subsidiaries						
associates						
other	4,785			4,469		
liabilities to intermediaries:						
subsidiaries						
associates						
other						
other liabilities of inward and outward reinsurance activities:						
subsidiaries						
associates						
other						
Issued debt securities, converted debts to be specified separately						
<b>Debts to credit institutions:</b>						
subsidiaries						
associates						
other						
<b>Taxes, compulsory social insurance contributions and other liabilities:</b>	<b>2,930,929</b>			<b>2,423,032</b>		
taxes	561,417			545,259		
compulsory social insurance contributions	90,765			36,859		
salaries	75,387			37,294		
subsidiaries						
associates						
other	2,203,360			1,803,620		
<b>Total</b>	<b>6,947,501</b>			<b>6,233,549</b>		

### Note 18. Related parties (EUR)

Related parties include shareholders and associated companies, related to the shareholders, employees and their family members, as well as companies which directly or indirectly through one or more mediators control the Company or are controlled by the Company separately or together with mediators, if the specified relations enable one of the parties to control or significantly influence financial and operating decisions of another company.

The Company's transactions with the related parties during the year:

- Munich Re (the main shareholder of the group);
- ERGO International AG (the direct shareholder of the Company);
- ERGO Versicherungsgruppe AG;
- ERGO Insurance SE;
- ERGO International Services GmbH;
- ERGO Funds AS;
- Ergo Invest SIA;
- ADB ERGO in Belarus.

Information about related party transactions is presented as follows:

Type of transaction	Financial year	Previous financial year
<b>Costs</b>		
Dividends	1,400,000	1,400,000
Reinsurance premiums	627,517	626,362
Rent services	408,381	356,372
Pension funds' management services	0	114,592
Other services and partial loan repayment	973,019	468,440
<b>Total</b>	<b>3,408,917</b>	<b>2,965,766</b>
<b>Income</b>		
Dividends	1,381,437	32,357
Reinsurance commission	310,314	286,835
Reinsurance claims	147,414	42,948
Income from disposal of shares	142,376	0
Rent services	12,126	1,587
Other services	5,225	5,526
<b>Total</b>	<b>1,998,892</b>	<b>369,253</b>

Outstanding claims of the related parties are specified as follows:

Company	Financial year	Previous financial year
Amount receivable from the parent company	0	0
Amounts receivable from other related parties	731,969	952,819
<b>Total</b>	<b>731,969</b>	<b>952,819</b>
Amount payable to the parent company	80,930	94,569
Amounts payable to other related parties	16,736	193,510
<b>Total</b>	<b>97,666</b>	<b>288,079</b>

In 2015, the Company had reinsurance contracts concluded with the companies Münchener Rückversicherungs-Gesellschaft, ERGO Insurance SE, BAWAG and Swiss Re Europe S.A., it rented premises from ERGO Insurance SE, sold health insurance to ERGO Insurance SE and purchased vehicle fleet and telecommunication maintenance services from ERGO Invest SIA.

Dividends amounting to EUR 1,400,000 were paid out to ERGO International AG in 2015.

The company ERGO International Services GmbH sells licenses of the accounting software SAP to the Company.

Information regarding financial relations with the management of the Company is disclosed in Note 20. The Company had no liabilities to the management of the Company at the end of 2015.

**Note 19. Accrued costs and deferred income and other liabilities (EUR)**

Items	Financial year	Previous financial year
Accrued salary costs	1,139,079	765,773
Accrued vacation reserve	233,444	220,965
Liabilities related to integrated services	207,844	14,480
Liabilities related to maintenance of software	173,289	101,438
Liabilities to the Bank of Lithuania and other taxes	48,885	63,876
Accrued voluntary health insurance costs	39,470	29,946
Audit services	32,418	24,356
Accrued commission for intermediaries	28,371	60,867
Liabilities related to advertising services	894	11,064
Corporate income tax payable	0	229,441
Liabilities related to Solvency II project	0	44,531
Other accrued costs	11,211	12,160
Other liabilities	288,455	224,723
<b>Total</b>	<b>2,203,360</b>	<b>1,803,620</b>

**Note 20. Financial relations with management (EUR)**

Items	Financial year	Previous financial year	Balance at the end of the financial year
Annual amounts related to labour relations and redundancy payments to management	53,056	53,487	
Loans issued by the company			
Loans repaid by the company			
Loans received			
Assets given free of charge and gifts			
Guarantees issued on behalf of the company			
Other significant amounts calculated during the year			
Other significant commitments to the company			
Assets sold			
Average number of management	1*	1*	

\*In 2015, management comprised Managing Director. In 2014, management comprised 1 Board member: Managing Director.

Members of the Management Board receive monthly remuneration agreed on in the contract of a member of the Management Board. In addition, it is possible to receive performance pay once a year according to the achievement of the agreed aims. In the case of lower results than those fixed, it is possible that no performance pay is paid. In the case of receipt of maximum performance pay, the share thereof in the annual income is considerably smaller than the share of the basic remuneration. The aims for which performance pay is received have been determined using financial meters applicable in the whole group as well as personal meters applicable at the local level.

**Note 21. Life insurance premiums written and result of reinsurance activities (EUR)**

Premiums written	Financial year	Previous financial year
Insurance	41,420,860	35,523,966
Assumed reinsurance	0	0
<b>Total</b>	<b>41,420,860</b>	<b>35,523,966</b>

Premiums written	Financial year	Previous financial year
As to individual contracts	38,018,816	32,451,630
As to group contracts	3,402,044	3,072,336
Single time premiums	6,000,094	4,640,785
Regular (partial) premiums	35,420,766	30,883,181
As to contracts without participation in profits	3,362,201	3,554,600
As to contracts with participation in profits	30,027,112	26,734,692
As to contracts when investment risk is borne by the insured	8,031,547	5,234,674

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	23,719,327	21,457,802
Other member states of the European Union	17,701,533	14,066,164
<b>Total</b>	<b>41,420,860</b>	<b>35,523,966</b>
Result of reinsurance activities	(448,848)*	(484,890)*

\* Comment: The reinsurance activity result is calculated having estimated the change in the reinsurers' share in the technical provision. It is calculated as follows: the change in the reinsurers' share of the unearned premiums technical provision is added to life reinsurance premiums less the reinsurers' share of the claims paid for insurance events and the reinsurers' share of the change in outstanding claims technical provision, the reinsurers' share of the change in life insurance mathematical provision, the reinsurance commission and part of the reinsurers' profit as well as other technical income from reinsurance.

**Note 22. Non-life insurance results (EUR)**

Financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Insurance	23,207,196	21,401,987	16,763,320	3,881,067	0
Reinsurance					
<b>Total</b>	<b>23,207,196</b>	<b>21,401,987</b>	<b>16,763,320</b>	<b>3,881,067</b>	<b>0</b>

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	23,207,196	21,401,987	16,763,320	3,881,067	0
Accident insurance					
<b>Total</b>	<b>23,207,196</b>	<b>21,401,987</b>	<b>16,763,320</b>	<b>3,881,067</b>	<b>0</b>

Previous financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Insurance	19,410,949	18,036,060	13,114,903	3,598,131	0
Reinsurance					
<b>Total</b>	<b>19,410,949</b>	<b>18,036,060</b>	<b>13,114,903</b>	<b>3,598,131</b>	<b>0</b>

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	19,410,949	18,036,060	13,114,903	3,598,131	0
Accident insurance					
<b>Total</b>	<b>19,410,949</b>	<b>18,036,060</b>	<b>13,114,903</b>	<b>3,598,131</b>	<b>0</b>

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	3,713,173	2,676,524
Other member states of the European Union	19,494,023	16,734,425
<b>Total</b>	<b>23,207,196</b>	<b>19,410,949</b>

### Note 23. Segments (EUR)

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. An operating segment's results are reviewed regularly by management of the Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Information about geographical segments is provided in the financial statements. After merger of the companies on 3 January 2011, the Company has three segments identified: Lithuania, Latvia and Estonia.

Financial year:

Items	Lithuania	Latvia	Estonia	Total
Earned premiums net of reinsurers' share (non-life insurance)	3,402,557	17,319,718	679,712	21,401,987
Earned premiums net of reinsurers' share (life insurance)	23,254,558	11,181,219	5,986,522	40,422,126
Insurance claim costs, net of reinsurers' share (non-life insurance)	(2,563,000)	(14,052,541)	(147,779)	(16,763,320)
Insurance claim costs, net of reinsurers' share (life insurance)	(12,806,295)	(3,425,146)	(3,153,253)	(19,384,694)
Change in other technical provisions, net of reinsurers' share, not shown under other items	(9,009,083)	(8,764,915)	(5,280,866)	(23,054,864)
Rebated (payable) insurance premiums (profit participation), net of reinsurers' share	212,954	34,676	176,991	424,621
Net operating expenses	(7,472,395)	(4,676,571)	(1,774,139)	(13,923,105)
<i>Including: depreciation and amortization costs</i>	<i>(318,408)</i>	<i>(313,472)</i>	<i>(112,077)</i>	<i>(743,957)</i>
Investing income	6,631,284	2,141,943	2,765,662	11,538,889
Profit from investment when the investment risk is borne by the insured	97,707	173,837	0	271,544
Investment expenses	(2,284,569)	(999,511)	(939,551)	(4,223,631)
Loss on investment when the investment risk is borne by the insured	0	0	0	0
Other technical income, net of reinsurers' share	16,311	48,840	10,583	75,734
Other technical costs, net of reinsurers' share	(599)	(35,151)	(158,530)	(194,280)
Other income	24,281	265,993	29,151	319,427
Other expenses	50,509	(186,678)	(166,062)	(302,231)
Current year result – profit (loss) – before taxation	(445,780)	(974,287)	(1,971,559)	(3,391,626)
Profit tax	28,316	113,546	0	141,862
Current year result – profit (loss)	(417,780)	(860,741)	(1,971,559)	(3,249,764)

Items	Lithuania	Latvia	Estonia	Total
Assets	142,650,332	67,567,020	45,592,067	255,809,419
Liabilities	131,671,728	57,480,177	45,122,874	234,274,779
<i>Including:</i>				
<i>Technical provisions</i>	<i>117,266,465</i>	<i>45,371,543</i>	<i>44,460,919</i>	<i>207,098,927</i>
<i>Other technical provisions for life insurance</i>	<i>10,747,567</i>	<i>9,352,328</i>	<i>0</i>	<i>20,099,895</i>
<i>Other liabilities</i>	<i>3,657,696</i>	<i>2,756,306</i>	<i>661,955</i>	<i>7,075,957</i>

Previous financial year:

Items	Lithuania	Latvia	Estonia	Total
Earned premiums net of reinsurers' share (non-life insurance)	2,429,036	14,952,573	654,451	18,036,060
Earned premiums net of reinsurers' share (life insurance)	21,037,321	8,327,295	5,314,232	34,678,848
Insurance claim costs, net of reinsurers' share (non-life insurance)	(1,801,900)	(11,195,740)	(117,263)	(13,114,903)
Insurance claim costs, net of reinsurers' share (life insurance)	(10,868,986)	(2,272,762)	(2,990,330)	(16,132,078)
Change in other technical provisions, net of reinsurers' share, not shown under other items	(8,712,002)	(6,937,918)	(3,848,198)	(19,498,118)
Rebated (payable) insurance premiums (profit participation), net of reinsurers' share	(163,915)	(23,258)	143,610	(43,563)
Net operating expenses	(6,388,042)	(4,212,139)	(1,686,425)	(12,286,606)
<i>Including: depreciation and amortization costs</i>	<i>(286,415)</i>	<i>(273,550)</i>	<i>(93,356)</i>	<i>(653,321)</i>
Investing income	5,737,779	1,714,939	1,664,057	9,116,775
Profit from investment when the investment risk is borne by the insured	316,151	408,331	0	724,482
Investment expenses	(531,314)	(161,422)	(144,449)	(837,185)
Loss on investment when the investment risk is borne by the insured				
Other technical income, net of reinsurers' share	2,035,780	28,557	1,186	2,065,523
Other technical costs, net of reinsurers' share	(3,451)	(27,324)	(28,948)	(59,723)
Other income	158,161	115,656	18,561	292,378
Other expenses	(1,997)	(9,790)	(35,146)	(46,933)
Current year result – profit (loss) – before taxation	3,242,621	706,998	(1,054,662)	2,894,957
Profit tax	2,970	(154,709)	0	(151,739)
Current year result – profit (loss)	3,245,592	552,289	(1,054,663)	2,743,218

Items	Lithuania	Latvia	Estonia	Total
Assets	134,516,937	57,686,946	42,530,501	234,734,384
Liabilities	121,799,751	46,567,198	40,054,575	208,421,524
Including:				
<i>Technical provisions</i>	<i>109,026,592</i>	<i>37,863,990</i>	<i>39,342,469</i>	<i>186,233,051</i>
<i>Other technical provisions for life insurance</i>	<i>9,511,450</i>	<i>6,432,984</i>	<i>0</i>	<i>15,944,434</i>
<i>Other liabilities</i>	<i>3,261,709</i>	<i>2,270,224</i>	<i>712,106</i>	<i>6,244,039</i>

**Note 24. Net operating expenses (EUR)**

Net operating expenses	Financial year	Previous financial year
<b>Total commission costs:</b>	<b>5,512,633</b>	<b>4,345,277</b>
Commission acquisition costs	5,508,655	4,341,606
Commission for products of other companies	3,978	3,671
<b>Total staff costs:</b>	<b>5,844,926</b>	<b>5,088,404</b>
Remuneration costs	5,507,694	4,762,324
Other staff costs	337,232	326,080
Pension accumulation costs	0	324,180
Maintenance costs of premises and office	737,063	629,879
Change in deferred acquisition costs	398,586	86,943
Reinsurance commission and profit share of reinsurers	(644,744)	(505,764)
Depreciation and amortisation expenses	743,957	653,321
Other	1,314,580	1,664,366
<b>Total</b>	<b>13,923,105</b>	<b>12,286,606</b>
<i>Including:</i>		
Non-life insurance	3,881,067	3,598,131
Life insurance	10,042,038	8,688,475
<b>Total</b>	<b>13,923,105</b>	<b>12,286,606</b>

**Note 25. Income and expenses of pension accumulation activity (EUR)**

Income and expenses of pension accumulation activity	Financial year	Previous financial year
<b>Total income from pension accumulation activity</b>	<b>0</b>	<b>2,019,998</b>
Fee for management of pension funds	0	478,760
Income from sale of pension funds*	0	1,540,332
Other income	0	906
<b>Total expenses of pension accumulation activity</b>	<b>0</b>	<b>324,180</b>
Fee for depository services	0	28,876
Costs of drawing up of pension accumulation contracts	0	101,072
Advertising	0	2,132
Administration costs	0	114,592
Other costs	0	77,508

\* Income from pension accumulation activity is EUR 0 in 2015, as in November 2014, the Company sold two pillar II pension funds – ERGO Balans and ERGO Konservatyvūs.

**Note 26. Commission (EUR)**

Types of commission	Financial year	Previous financial year
Insurance activity commission:	5,508,655	4,341,606
acquisition commission	5,508,655	4,341,606
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
Reinsurance activity commission:	0	0
acquisition commission		
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
<b>Total</b>	<b>5,508,655</b>	<b>4,341,606</b>

**Note 27. Payroll costs (EUR)**

Items	Financial year	Previous financial year
Administration:		
Remuneration	3,289,721	2,798,338
Social insurance contributions	874,590	783,722
Salesmen:		
Variable part of remuneration	62,630	81,134
Fixed part of remuneration	981,774	834,640
Social insurance contributions	298,979	264,490
<b>Total</b>	<b>5,507,694</b>	<b>4,762,324</b>

The Company incurred remuneration costs of EUR 4,334,125 and paid social insurance contributions of EUR 1,173,569. In Lithuania, remuneration costs of employees amounted to EUR 1,672,829 and social insurance contributions paid amounted to EUR 517,637. In Estonia, remuneration costs of employees amounted to EUR 766,024 and social insurance contributions paid amounted to EUR 255,515. In Latvia, remuneration costs of employees amounted to EUR 1,895,272 and social insurance contributions paid amounted to EUR 400,417. The number of persons employed at the Company in 2015 was 443, including administrative staff of 111 persons and 29 sales persons in Lithuania, administrative staff of 69 persons, 31 sales persons in Estonia and administrative staff of 127 persons, 76 sales persons in Latvia.

**Note 28. Result of investing activities (EUR)**

Items	Financial year	Previous financial year
<b>Income from investing activity</b>		
Interest	1,569,441	184,785
Interest for securities	6,018,056	6,517,386
Increase in value of securities	2,746,495	2,309,864
Profit from disposals of investment	1,192,725	91,980
Income from rent of non-current assets	12,172	12,760
<b>Total</b>	<b>11,538,889</b>	<b>9,116,775</b>
<b>Costs of investing activities</b>		
Costs of investment management	446,614	408,181
Decrease in value of securities	3,526,806	289,522
Loss from disposals of investment	250,211	139,482
<b>Total</b>	<b>4,223,631</b>	<b>837,185</b>

**Note 29. Income and costs from financial activity (EUR)**

Income from financial activity includes income of EUR 227,736 related to currency exchange rate (income for 2014 related to changes in currency exchange rate amounted to EUR 184,141).

Expenses from financial activity include expenses of EUR 103,088 related to currency exchange rate (expenses for 2014 related to currency exchange rate amounted to EUR 16).

**Note 30. Corporate income tax (EUR)**

Items	Financial year	Previous financial year
Financial year	25,544	229,441
Change in deferred taxes	(167,406)	(77,702)
<b>Total</b>	<b>141,862</b>	<b>151,739</b>

Reconciliation of the profit (loss) before taxes of the financial year with the taxable profit (loss) of the same period:

Items	Lithuania	Latvia	Estonia	Financial year, total
Current year profit (loss) before taxes	(445,780)	(974,287)	(1,971,559)	(3,391,626)
<b>Differences</b>	<b>1,013,427</b>	<b>(974,287)</b>	<b>0</b>	<b>39,140</b>
Amount of doubtful debts	15,854	168,507		184,361
Other non-deductible expenses	2,788,962	7,550,012		10,338,974
Non-deductible expenses related to non-taxable income	25,076,328	71,758		25,148,086
Income from investment and other non-taxable income	(5,616,281)	(8,764,564)		(14,380,845)
Life insurance premiums	(21,251,436)			(21,251,436)
<b>Taxable profit (loss) of the accounting year</b>	<b>567,647</b>	<b>0</b>	<b>0</b>	<b>567,647</b>
Used tax loss of the previous years	(397,353)			(397,353)
<b>Current year income tax</b>	<b>25,544</b>	<b>0</b>	<b>0</b>	<b>25,544</b>
Change in deferred tax asset	(53,860)	(113,546)	0	(167,406)
<b>Current year income tax</b>	<b>(28,316)</b>	<b>(113,546)</b>	<b>0</b>	<b>(141,862)</b>

In 2015 and 2014 income tax rates were equal to 15% in Lithuania and Latvia and 0% in Estonia.

Reconciliation of the profit (loss) before taxes of the previous year with the taxable profit (loss) of the same period:

Items	Lithuania	Latvia	Estonia	Financial year, total
Current year profit (loss) before taxes	3,242,623	706,998	(1,054,663)	2,894,957
<b>Differences</b>	<b>(1,581,916)</b>	<b>324,395</b>	<b>1,054,663</b>	<b>(202,858)</b>
Amount of doubtful debts	(70,873)	13,659	0	(57,214)
Other non-deductible expenses	210,141	430,482	0	640,623
Non-deductible expenses related to non-taxable income	23,897,125	0	0	23,897,125
Income from investment and other non-taxable income	(6,005,858)	(119,746)	0	(6,125,604)
Life insurance premiums	(19,612,452)	0	0	(19,612,452)
<b>Taxable profit (loss) of the accounting year</b>	<b>1,660,706</b>	<b>1,031,393</b>	<b>0</b>	<b>2,692,099</b>
Used tax loss of the previous years	(1,162,494)	0	0	(1,162,494)
<b>Current year income tax</b>	<b>74,732</b>	<b>154,709</b>	<b>0</b>	<b>229,441</b>
Change in deferred tax asset	(77,702)	0	0	(77,702)
<b>Current year income tax</b>	<b>(2,970)</b>	<b>154,709</b>	<b>0</b>	<b>151,739</b>

As at 31 December 2015, the tax loss accumulated in the Republic of Lithuania carried forward to the following year amounted to EUR 28.63 million. Tax losses can be carried forward for unlimited period of time if activities of the Company do not change.

### Deferred tax

The Company has a deferred tax asset from accumulated tax loss amounting to approximately EUR 4.7 million. This deferred tax asset was not recognized as at the balance sheet date due to uncertainty of realization.

In 2015, the Company recognized deferred tax asset of EUR 245,109 (2014: EUR 77,702) arising from the temporary differences for accounting and tax purposes. Deferred tax asset is stated under *Other assets*.

### Note 31. Earnings per share

Basic earnings per share were calculated dividing the Company's net profit (loss) of the reporting period by number of shares, i.e. 15,124. The profit of EUR 1,936,527 of 2011, profit of EUR 2,895,083 of 2012, profit of EUR 71,739 of 2013, profit of EUR 2,743,218 of 2014, loss of EUR 3,378,220 is divided by 15,124.

Earnings per share:

2011 – EUR 128.04 per share;

2012 – EUR 191.42 per share;

2013 – EUR 4.74 per share;

2014 – EUR 181.39 per share;

2015 – EUR 223.37 per share.

### Note 32. Regulatory compliance

The Insurance Supervisory Commission of the Republic of Lithuania requires that insurance companies maintained minimum solvency reserves, which should be not less than the determined solvency minimum of EUR 13,687,035 (as at 31 December 2014: EUR 12,062,153) and the guarantee fund should not be smaller than the minimum guarantee fund. Currently, the minimum guarantee fund required is of EUR 4,562,345 million (as at 31 December 2014: EUR 1,164 million). As at 31 December 2015 and 2014, the Company's actual solvency reserve was EUR 17,304,431 and EUR 21,546,323, respectively.

#### *Solvency reserve of the Company*

Items	Financial year	Previous financial year
<b>Amounts increasing solvency reserve:</b>	<b>21,534,640</b>	<b>26,312,859</b>
Paid in authorized capital	4,380,213	4,380,213
Share premium	15,129,290	15,129,290
Legal reserve	450,591	450,591
Other reserves	289,620	289,620
Retained profit (loss)	1,284,926	6,063,145
Subordinated loan		
<b>Amounts decreasing solvency reserve:</b>	<b>4,230,209</b>	<b>4,766,536</b>
Intangible assets	1,416,122	1,538,190
Deferred costs	2,798,172	3,212,199
Overdue debtors liabilities		
Other assets of limited reliability		
Contingent liabilities	15,915	16,147
<b>Actual solvency reserve</b>	<b>17,304,431</b>	<b>21,546,323</b>
<b>Guarantee fund</b>	<b>4,562,345</b>	<b>4,020,718</b>

#### *Compulsory solvency reserve for non-life insurance*

Items	Financial year	Previous financial year
Premiums ratio (1)	4,177,295	3,518,952
Claims ratio (2)	3,585,933	2,988,079
Reinsurance ratio (3)	0	0
<b>Compulsory solvency reserve [max {(1),(2)}]*(3)</b>	<b>4,177,295</b>	<b>3,518,952</b>
<b>Compulsory solvency reserve after adjustment</b>	<b>4,177,295</b>	<b>3,518,952</b>

#### *Compulsory solvency reserve for life insurance*

Items	Financial year	Previous financial year
Insurance technical provision ratio	7,505,780	6,757,589
Technical risk ratio	772,340	668,200
Supplementary insurance ratio	358,972	341,082
Tontine ratio	0	0
Investment insurance ratio	872,648	695,284
Pension accumulation activity ratio	0	81,046
<b>Compulsory solvency reserve (life insurance activity)</b>	<b>9,509,740</b>	<b>8,543,201</b>

As at the balance sheet date, the Company complied with the requirements for the solvency and investment directions applicable to insurance companies operating in the Republic of Lithuania.

**Note 33. Off-balance sheet liabilities**

Row No.	Liability	Amount as at the end of the accounting period, EUR	Amount at the beginning of the accounting period, EUR
I.	Guarantees and warranties granted	0	0
II.	Assets of the clients managed	0	0
III.	Other contingent liabilities	15,915	16,147

**Note 34. Potential future liabilities and commitments**

As at 31 December 2015, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the financial statements.

**Note 35. Exchange of goods and services**

In the current and previous financial year, the Company had no transactions related to exchange of goods and services.


**Note 36. Information about correction of errors**

There were no corrections of errors either in the current and previous financial year.

**Note 37. Post-balance sheet events**

As at the date of the financial statements for the year 2015, during 2016, there were no material post-balance sheet events which, as to Management, would have significant effect on these financial statements.

Head of the insurance company

  
21/03/2016  
(signature, date)

Dr Kęstutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)

  
21/03/2016  
(signature, date)

Jūratė Muckienė  
(first and last names)

Chief Actuary

  
21/03/2016  
(signature, date)

Dr Gintaras Bakštyš  
(first and last names)

## **ANNUAL REPORT**

**2015**

### **Strong shareholder**

ERGO insurance companies in the Baltic States form part of ERGO Insurance Group (hereinafter “ERGO Group”) and represent the global group Münchener Rückversicherungs-Gesellschaft AG (Munich Re), acting since 1880. Its reliability is evidenced by credit ratings assigned: Moody’s gave the rating Aa3, or excellent, to Munich Re, and the credit rating agency Standard & Poor’s gave rating AA- to Ergo Insurance Group. Munich Re is included in the list DAX 30 / EUROSTOXX 50.

ERGO Group now serves 40 million clients in over 30 countries and is the largest provider of health and legal insurance services in Europe. With successful activities in the Baltic States, ERGO Life Insurance SE has a major part of premiums written through Latvia branch (46.9%) and Lithuania branch (42.4%). 10.6% of all premiums of the European Company were written through the branch in Estonia.

The authorised capital of ERGO Life Insurance SE amounts to EUR 4,380,213. At the end of 2015, the share capital of the European Company consisted of 15,124 ordinary registered shares with a nominal value of EUR 289.6 each. 100% of shares are owned by ERGO International AG, register code HRB 40871, address: Victoriaplatz 2, 40198 Dusseldorf, Germany.

On 17 September, Markus Rieß was appointed the Chairman of ERGO Group Board. His goal is to make ERGO a leading company in the international insurance market by offering client tailored insurance solutions and developing innovations, creating an environment which helps both employees and partners open new perspectives. The goal is for ERGO to become a company which inspires clients, adds value to Munich Re shareholders and is always there when solving issues that are important to many people.

### **Cooperation with the world’s strongest reinsurers**

ERGO works with the global reinsurance leaders (Munich Re, Gen Re, Swiss Re, SCOR and Hannover Re). Reinsurance helps ERGO manage potential risk factors and ensure smooth claim administration, especially with regard to claims for large damage.

### **ERGO Life Insurance SE further increased its financial capacity and stability**

Insurance premiums signed by ERGO Life Insurance SE during the reporting year amounted to EUR 64.63 million, i.e. about 17.6 per cent more than in 2014. In terms of premiums written in the separate life insurance groups, the most rapid increase was in investment life insurance and pension annuities insurance premiums.

During the reporting year, operating result of the European Company was loss of EUR 3.25 million. Such result was mainly due to impairment of investments.

In 2015, the result from investment activities of ERGO Life Insurance SE was profit of EUR 7.32 million. During the reporting year, the administrative costs ratio decreased and was 5.3% (6% in the previous year).

Fast and proper insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR 34.29 million. Most payments were in accumulative life insurance.

At the end of 2015, solvency reserve of the European Company amounted to EUR 17.3 million, which by 25% exceeded the compulsory solvency reserve established by the Lithuanian legislation.

Special attention is paid to risk management. In our activity we face the following risks: insurance risk, investment risk, claim reserve risk, solvency reserve risk. The company manages its risks following the recommendations prepared by ERGO companies in the Baltic States and the risk management strategy approved by the company. Risk management strategy is presented in more detail in Section 2 of the Explanatory Notes, in the section 'Risk Management'. Furthermore, we carry out market and insurance product research, public opinion surveys on a yearly basis.

In 2016, we have plans to grow and strengthen our position in the market. At the end of 2015, ERGO Life Insurance SE held 10.1% of the Baltic life insurance market. The number of premiums written by ERGO Life Insurance SE is expected to grow by approximately 3 per cent.

### **Special attention to client protection**

Strategic goals of ERGO are strong client relationships, focus on the client, innovations, efficiency, simplicity and transparency. The main strategic direction is focus on the client. According to the clients' willingness to recommend us to others, ERGO is one of three leading insurance companies in the Baltic States. ERGO seeks to maintain this position.

In 2015, ERGO Life Insurance SE revised the terms and conditions of its insurance services considering the experience gained and increasing client needs. Considering the expected return on long-term investments, insurance rates and guaranteed interest rates applicable to insurance contracts when the investment risk is borne by the insurer were revised.

In Lithuania, additional insurance services (accident, critical illness insurance) updated at the end of 2014 were successfully introduced to the market. In Latvia, the list of critical illness insurance for adults was expanded to include 17 positions, new critical illness insurance for children was offered, the terms and conditions of additional accident insurance were revised and expanded.

The company, taking account of ERGO intentions to focus on life insurance business in the Baltics, disposed its pillar II pension funds at the end of 2014 and in 2015 strengthened its positions in voluntary pension insurance and pension annuity. ERGO offers to its clients various independent saving instruments for pension, and for the retired members of pillar II pension funds it provides pension annuity service in all Baltic States.

### **2015 – year of banking insurance**

Banking insurance is an important part of the ERGO Group strategy; the Group successfully carries out these activities in Europe and Asia. ERGO banking channel in the Baltic States was developed in 2010.

In 2015, ERGO Insurance SE Lithuania branch entered into banking insurance contracts for non-life insurance with SEB, Swedbank group companies and Šiaulių bankas. ERGO Life Insurance SE successfully cooperates with Nordea and DNB banks in all Baltic States.

In 2015, premiums of newly signed banking insurance contracts amounted to over EUR 4 million.

### **Smart health insurance**

A 24.9% growth was recorded in the health insurance segment in 2015.

In 2015, the growth of ERGO Life Insurance SE health insurance segment exceeded market growth rates. We took a firm step towards achieving our goals, which focus on the client, its needs and expectations. In the previous year, ERGO in Lithuania was the first in the market to introduce a mobile application, which allows its clients to apply for health insurance payment via their mobile phones or tablets. In addition, a number of personal claim handling processes were automated.

We seek to ensure a simpler and more efficient claim administration process. Surveys show the client's expectation on claim settlement within 7–10 days from the notice on the event. ERGO in Latvia settles a health insurance claim in 4 working days.

ERGO Life Insurance in Lithuania provides health insurance services, which compensate the expenses of out-patient treatment, diagnostics, dental services, prophylactic and wellness services. ERGO life insurance in Lithuania grew by 38.7% if compared to 2014. Currently, ERGO holds 21.1% of the health insurance market in Lithuania and is the first in this country. The growth resulted from competitive prices, fast compensation of expenses. On average, expenses are covered in 7 days.

#### **Priority: digitalization and innovations**

The largest challenge affecting the insurance sector is a fast developing digital environment. Currently, the most important projects of the shareholder Munich Re and ERGO Group are those related to digitalization and innovations.

In all Baltic States, ERGO insurance companies cooperate with partners working in the field of innovations.

In July 2015, ERGO in Latvia entered into a cooperation agreement with the company eegloo. The result of this cooperation is ERGO FinTech Academy programme, the first programme of the financial and technological basics for business accelerator and one of the major events of this kind in Latvia. In September, in four Latvian towns events were organized to select the participants of the ERGO FinTech Academy programme. At the end of October, the best projects received funding to realize their ideas, a free trip to exchange experiences in the SLUSH event for start-ups, which took place on 11–12 November in Helsinki, and other valuable prizes, the total value of which exceeded EUR 3,000.

On 16 June in Estonia, a cooperation agreement was concluded with the innovations and business centre Mektory, operating under Tallinn University of Technology. The competency of Tallinn University of Technology can be exploited in developing products and services, while ERGO creates opportunities to implement innovative solutions and ideas. Tallinn University of Technology and ERGO invite students to predict the insurance market in 2025. In February 2016, the team session for new ideas will be organised with the students of the Tallinn University of Technologies on what the insurance market could be in 2025, when people will be driving electric cars and living with artificial organs. ERGO will award the authors of the best ideas.

In Lithuania, ERGO was the first insurance company in 2015 to have started an innovation project with a venture capital fund Nextury Ventures. Within the framework of this cooperation, the participants are invited to provide innovative ideas that can be used in the insurance sector.

#### **ERGO family – professional and appreciated staff**

In 2015, ERGO Life Insurance SE had 443 employees, i.e. 9.25% more if compared to the year 2014. The company appreciates employees' loyalty; therefore, it puts efforts in providing attractive employment conditions, provides additional social guarantees, promotes and provides opportunities for professional development.

The employee involvement research has shown that the employees are actively involved in the company's activities. The research results have proven that the employees feel occupying the right position allowing them to fully use their potential and feel important doing their job. The employees emphasized good relationships and communication both with management and colleagues. The employees value the opportunities for learning and development. Therefore, in 2015, much attention was given to training. Internal trainings on legal compliance, risk management, IT security, efficient sales, management, teamwork, presentations were organized. Also, attention was given to newly hired employees, the trainings were organized for the employees to learn about the company's culture, structure, history and client service standard.

In 2015, employees took part in external trainings on finance, personal data protection, emotional intelligence, information technologies, client service and MS Excel computer literacy. Employees, depending on their work area, also had an opportunity to and participated in seminars and conferences on sales, public procurement, marketing, taxes, personnel, and actuaries.

The company takes care of the security of its employees; therefore, it provides them accident insurance, life insurance, health insurance and travel insurance in business trips. The prophylactic health examination is conducted every two years and is financed by the company, the employees get additional days off and vacation every year. The company supports its employees in their important moments of life.

#### **ERGO as a part of society**

ERGO plays an important role in supporting social projects in the Baltic States. We seek successful business development and sharing its results with the society. Therefore, we participate in long-term social initiatives with the aim to add value not only to our clients and employees, but to the whole population of the Baltic States as well.

For 13 years now, ERGO has been providing scholarships to young people who have lost their parents and need support to obtain higher education. Each year, a meeting is organized with new, current and future scholarship recipients.

Since September, ERGO has been supporting a programme for the fight against bullying at schools. We believe that by preventing, detecting and solving bullying cases already at school age, we can impact the risky behaviour in the society. We seek that the fight against bullying programme at schools reaches more and more schools, children and parents. International experience shows that the programme developed by the scientists of Turu University considerably reduced the scope of bullying and the number of not graduating students. The impact assessments performed in Estonia show that within the first eight months, it was possible to reduce the number of bullying victims by over 17%, with the continuing decrease during the second year of the programme. By spring 2015, the number of students bullying others also decreased considerably at schools which had been working with this programme for two years.

Special attention is given to road safety. For more than nine years ERGO has been caring for drivers' road safety educating them on the use of seatbelts, risks of drink-driving, etc.

For the fourth consecutive year, ERGO joined the initiative of the international organisation UNICEF to protect children from mortal diseases by immunization. ERGO provided its financial support to implement this goal and took part in the marathon of 4.2 kilometres and 21 kilometres as a united ERGO team. The initiative of the international organisation UNICEF is very closely related to the values and working principles of ERGO, i.e. to be a socially responsible company caring for the human being.

Traditionally, ERGO organises annual blood donation campaigns, its employees join the environmental campaign *Let's Do It*, we joined social projects such as *Neužmirštuolės*, *Pyrago diena*. Every year, employees replant forests: in three years, the employees of the company replanted more than 10 thousand trees.

ERGO supports various cultural and sporting activities: the national opera and ballet houses of Estonia, the Estonian Olympics Committee, national skiing and biathlon teams. ERGO granted its support to the Estonian participation in the Olympics and continues its long-term cooperation with the Estonian Olympics Committee. ERGO insured the athletes' trips to the games and their equipment.

Since August 2015, ERGO has been supporting the tour of the most popular Latvian music band *Brainstorm*, offering an insurance of EUR 1 million for the concerts, which attract over 100,000 fans. In addition, ERGO offers insured and secured bicycle parking spaces at the time of concerts.

For the third consecutive year, ERGO has been one of the main sponsors of beach volleyball championships in Latvia. Volleyball is one of the most important sports in Latvia promoting healthy lifestyle.

For the fourth year now, ERGO in Lithuania has been the key partner of Velomarathon. This initiative, based on four values (ecology, safety, health and family), is aimed at strengthening the cycling culture in Lithuania by forming new and exceptional tradition. We are glad that this marathon is the event attracting the record number of cyclists in Lithuania and has a large potential of becoming the largest event in the Baltic States fostering the cycling culture.

For the fourth year now, ERGO has been the main partner of the international film festival *Kino pavasaris*.

ERGO acted as the main partner at the conference *Verslas 2016* held on 14 October.

In Lithuania, from October to December a campaign *Draudimas po laiko* was taking place. It provided a possibility to support a family having lost its home due to fire through a specially designated webpage [polaiko.ergo.lt](http://polaiko.ergo.lt). Each holder of the ERGO property insurance could choose things for the family to acquire with the help of ERGO.

On 12 November, ERGO in Estonia organized the first ERGO new ideas day at the *Erinevate Tubade Klubi* club located in Kalamaja area in Tallinn. The event was broadcast live to clients at the main branches in Tallinn, Tartu, Piirnu and Haapsalu, as well as on the web environment of the daily *Postimees*. The purpose of the event was to offer an opportunity to ERGO employees, partners and clients to listen to the inspiring ideas of lecturers. ERGO is so much more than simply insurance: we want to be inspiring and to share ideas with one another.

### **Organizing and governance**

In March, a new ERGO risk management policy was approved. It sets in even more detail the principles and guidelines to ensure that ERGO risk management framework complies with all risk management regulations and help the company to become more effective in predicting and managing risk factors.

On 1 May, ERGO management structure in Estonia underwent changes. The changes were introduced in order to facilitate client service and ensure more efficient governance by reducing the number of sales channels.

In Lithuania, on 15 May, ERGO Own Sales Network Department was divided into two divisions: one focusing on the activities of own sales network in non-life insurance segment, another – in life insurance. On 1 January, the sales function of the Corporate Clients Division was separated from contract management.

Below are listed the fields of responsibility of Board members of ERGO insurance companies in the Baltic States:

- Kęstutis Bagdonavičius, Chairman of the Board, responsible for communication, corporate strategy, human resources and administration, legal issues and compliance control, regional development, internal audit, business management and innovations.
- Deniss Sazonovs, Board member, CFO, responsible for accounting, planning and control, actuaries, risk management.
- Tarmo Koll, Board member, responsible for banking insurance in the Baltic States and for non-life insurance business in Estonia.
- Ingrida Kirse, Board member, responsible for life, health and pension insurance in the Baltic States and for non-life insurance business in Latvia.
- Saulius Jokubaitis, Board member, responsible for reinsurance activities and pricing in the Baltic States and for non-life insurance business in Lithuania.

Head of the insurance company

21/03/2016  
(signature, date)

Dr Kęstutis Bagdonavičius  
(first and last names)

Chief Financial Officer  
(Accountant)

21/03/2016  
(signature, date)

Jūratė Muckienė  
(first and last names)

Chief Actuary

21/03/2016  
(signature, date)

Dr Gintaras Bakštys  
(first and last names)