

ERGO Insurance SE

ANNUAL REPORT
2015

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Beginning of financial year: 1 January 2015
End of financial year: 31 December 2015

**Chairman of the
management board:** Kęstutis Bagdonavičius

Auditor: KPMG Baltics OÜ

Accompanying documents: 1. Independent auditors' report
2. Profit allocation proposal
3. Information on the sole shareholder
4. List of business activities

Contents

Review of operations	5
Financial statements.....	20
Income statement.....	20
Statement of comprehensive income.....	20
Statement of financial position.....	21
Statement of cash flows	22
Statement of changes in equity	23
Notes to the financial statements.....	24
Note 1. Significant accounting policies	24
Note 2. Risk profile	38
2.1. Insurance risks	38
2.2. Financial risk management.....	48
2.3. Capital management.....	53
2.4. Operational risk	53
2.5. Reputational risk.....	54
2.6. Strategic risk.....	54
Note 3. Premium income	55
Note 4. Commission income.....	56
Note 5. Investment income	57
Note 6. Other income	57
Note 7. Claims and benefits.....	58
Note 8. Expenses	60
Note 9. Foreign exchange differences	61
Note 10. Property and equipment.....	61
Note 11. Deferred acquisition costs	62
Note 12. Other intangible assets.....	63
Note 13. Investments in associates	64
Note 14. Investments in financial instruments.....	64
14.1. Equities and fund units	65
14.2. Available-for-sale debt and other fixed income securities.....	66
14.3. Loans.....	67
Note 15. Reinsurance assets.....	67
Note 16. Insurance and other receivables	68
Note 17. Cash and cash equivalents	69
Note 18. Shareholders and share capital.....	69
Note 19. Capital reserve	70
Note 20. Fair value reserve	70
Note 21. Insurance contract provisions and reinsurance assets	71
Note 22. Reinsurance payables.....	74

Note 23. Insurance payables	74
Note 24. Other payables and accrued expenses	75
Note 25. Fair value of financial instruments	75
Note 26. Operating and finance leases.....	76
Note 27. Income tax	76
Note 28. Transactions with related parties.....	77
Signatures to annual report 2015.....	79
Independent auditors' report	80
Profit allocation proposal.....	81
Information on the sole shareholder	82
List of business activities	83

Review of operations

A strong owner

Through their parent, ERGO Insurance Group, the ERGO insurance companies in the Baltics represent a major global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims. Reliability is confirmed by the ratings given to the group's owner and the parent company: Munich Re's rating is Aa3 or excellent (by Moody's) and ERGO Insurance Group's rating is AA– (by Standard & Poor's). Munich Re is included in the DAX 30 / EUROSTOXX 50 list.

ERGO Insurance Group serves more than 40 million customers in over 30 countries and is the largest health and legal expenses insurer in Europe.

At the reporting date, the share capital of ERGO Insurance SE ('ERGO Insurance SE', 'ERGO' or 'the company') stood at 6,391,391 euros. The sole shareholder of ERGO Insurance SE is ERGO International AG, registry number HRB 40871, with a registered office at Victoriaplatz 2, 40198 Düsseldorf, Germany.

From 17 September, the new chairman of the board of ERGO Insurance Group is Markus Rieß. His goal is to turn ERGO into a leading company in the international insurance industry that sets benchmarks in terms of customer focus and innovation, establishes an environment for both its employees and sales partners in which they can develop their strengths and gain new perspectives, inspires its customers, creates added value for the Munich Re shareholders, and is visible in matters that affect a lot of people.

Partnerships with the world's strongest reinsurance providers

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

ERGO Insurance SE: the year 2015 in figures

Gross premium income	121.0 million euros
Total assets	174.3 million euros
Investments in financial instruments	107.9 million euros
Insurance contract provisions	112.1 million euros
Equity	44.9 million euros
Comprehensive income	1.2 million euros
Return on equity	3.4%
Insurance contracts in force	926,183

Offices	25 in Estonia, 26 in Latvia, 61 in Lithuania
Employees	1,221

Economic environment

Although the final figures for 2015 have not yet been released, analysts are saying that the past year proved considerably weaker than anticipated, mostly because of problems in the emerging market and developing economies. Commodity prices, particularly the oil price, were lower than expected, causing the revenues of commodity-exporting countries to slump.

Cheaper oil and predominantly record-low interest rates had a positive impact on the Baltic economies. Although businesses continue to be concerned about geopolitical tensions, the difficulties of the Russian economy, and the economic situation in some euro-area countries, statistics reflect that regardless of everything Baltic growth rates are among the strongest in Europe. According to preliminary information, in 2015 the Lithuanian economy grew by 2.0% and the Latvian and Estonian economies by 2.8% and 1.2% respectively.

Economic recovery should continue at a moderate pace although it is put at risk by the downside risks, which have become much more pronounced. Domestic demand is supported by the monetary policy measures of the European Central Bank which have a positive impact on financial conditions as well as the success of past balance sheet adjustments and structural reforms. A low oil price should increase households' real disposable income and private consumption as well as corporate profitability and investment. It is likely that in some parts of the euro area, the fiscal stance will be expansionary, reflecting the measures adopted in support of refugees. Risks to the euro area growth outlook remain tilted to the downside, mainly due to heightened uncertainties regarding developments in the global economy and broader geopolitical risks. The risks may undermine global growth and external demand for euro area exports as well as confidence in general.

Legal environment

On 7 July 2015, the Estonian parliament adopted a new Insurance Activities Act which entered into force on 1 January 2016.

The act is largely based on directive 2009/138 of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). The act also reflects the provisions of the EU directives on insurance mediation (IMD I, II) .

Previously, insurers followed the requirements of Solvency I. However, the rules for calculating insurers' liabilities and capital requirements needed reviewing and fundamental adjustment. The purpose of the Solvency II directive is to make sure that all insurers can meet their commitments to policyholders and beneficiaries. The Solvency II directive and Estonia's new Insurance Activities Act impose a set of important governance, capital and valuation, and reporting requirements for insurance undertakings.

The governance system of an insurance undertaking must ensure its sound and prudent operation. The system must incorporate a transparent organisational structure, an effective system for transmission of information, a clear allocation and appropriate segregation of responsibilities, identification of the key functions, and so on. The governance system must be documented and reviewed and updated on a regular basis to make sure that it is effective. The law also establishes new disclosure requirements that improve the transparency of the insurance market and new supervision measures that protect the interests of policyholders.

Even though both the Solvency II directive and the new Insurance Activities Act put great emphasis on capital requirements, no amount of capital can substitute for the capacity to understand, measure and manage risk and no formula or model can capture every aspect of the risks an insurer faces. Therefore, the risk management system is an integral part of the governance system and to ensure its effective operation, an insurer must establish a risk management function.

A completely new feature of the new Insurance Activities Act is insurers' own risk and solvency assessment (ORSA). Regular own risk assessment must be embedded in insurers' business strategy. The assessment must cover an insurer's overall solvency needs as well as consistent compliance with capital requirements and the requirements regarding technical provisions.

Solvency II is forward-looking. The new Insurance Activities Act states that an insurance undertaking has to value its assets at amounts for which they could be exchanged and its liabilities (including technical provisions) at amounts for which they could be settled or transferred. The purpose of the quantitative requirements is to make sure that an insurer has sufficient funds to cover its technical provisions, the minimum capital requirement, and the solvency capital requirement.

Before the implementation of Solvency II, insurers provided information about their activities in their annual reports which did not always contain sufficient information about their governance and risk management systems. According to the act which entered into force on 1 January 2016, insurers have to prepare two new reports containing qualitative information: a report on solvency and financial condition (to be disclosed publicly) and a regularly filed report to supervisors (to be submitted to the Financial Supervision Authority). The report on solvency and financial condition has to be made available on the insurer's website and, if the customer so requests, also on paper. The regular report to supervisors is designed for the Financial Supervision Authority only. It contains everything included in the report on solvency and financial condition as well as information required by the supervisor to determine whether the insurer is in compliance with regulatory requirements, such as implementation of strategies for dealing with each risk category, the fit and proper requirements, etc. In addition to public reporting, an insurer must also submit to the Financial Supervision Authority a so-called quantitative report on its activity.

Compared to previous legislation, the Insurance Activities Act that entered into force on 1 January 2016 regulates the activities of insurance intermediaries in greater detail to ensure a more uniform level of service quality and better protection of customers' interests.

The act sets out the minimum information that an insurance intermediary must disclose to the customer before the conclusion of an insurance contract. Before providing the service, an insurance broker has to conclude an insurance brokerage agreement with the customer. The law regulates both the information a broker must provide on concluding the brokerage agreement as well as before concluding each insurance contract. The law also specifies insurance brokers' obligation to inform customers about the basis of their remuneration: the customer must know whether the broker is remunerated by the customer or the insurer that pays for the customer.

An insurance broker may not concurrently act as a broker for several customers wishing to insure the same property against the same risk if it is reasonable to assume that the customers have a conflict of interest in connection with insuring the property. An insurance broker may not enter into agreements with, nor follow the instructions of, an insurer that allow the broker to determine, independently, the size of a premium by reference to premiums charged by other insurers.

The obligation to provide more information about themselves as well as the contracts they distribute now also applies to persons for whom acting as an insurance intermediary is not the core business and intermediaries that previously were not in the scope of insurance regulations such as travel agents. Under the Insurance Activities Act, the remuneration principles, performance targets, and appraisal criteria of natural persons that distribute insurance contracts on behalf of insurance intermediaries must be designed in such a manner that they would not jeopardise the intermediary's obligation to act in the interests of the customer and would not encourage it to recommend an insurance contract that does not meet the customer's insurable interest and needs.

The act clarifies the obligation to determine the customer's insurable interest. Namely, every time before concluding and, if there is a clear need, amending an insurance contract, the insurer must establish, based on the information provided by the customer, the customer's insurable interest and requirements to the contract, recommend from among the contracts it offers the one that best meets the customer's insurable interest and requirements, and provide sufficient explanations so that the customer could make an informed decision.

Under the act that took effect on 1 January 2016, insurers may, in addition to assessing creditworthiness as provided in section 11(6) of the Personal Data Protection Act, transmit to another insurer, if the latter so requests for the assessment of underwriting risk and determination of insurance contract performance obligations and scope, data regarding a person that has during preliminary negotiations submitted to the insurer incorrect information about relevant circumstances, has deliberately caused the occurrence of an insured event, or has submitted to the insurer incorrect information about the relevant circumstances of an insured event. This may be done without the consent of the data subject, provided that no more than five years have passed since the violation.

Concurrently with the Insurance Activities Act, legislators revised the Law of Obligations Act. The amendments, which mostly specified the information to be disclosed to the customer before the conclusion and during the term of a contract, took effect on 1 January 2016.

Based on the new requirements of the Law of Obligations Act, the Financial Supervision Authority issued a set of guidelines about the information to be disclosed about an insurance contract, which also entered into force on 1 January 2016.

Financial performance of ERGO Insurance SE

ERGO Insurance SE' gross premium income for 2015 was 121.0 million euros. In terms of premium income, ERGO Insurance SE maintained the second position in the Estonian and the third position in the Baltic non-life insurance market. Claims and benefits incurred totalled 72.6 million euros, accounting for 59.9% of gross premium income. Net expense ratio was 36.3% (2014: 37.3%) and net loss ratio was 65.8% (2014: 61.8%). Because of the rise in the loss ratio, the net combined ratio for 2015 rose to 102.2 % (2014: 99.2%). ERGO Insurance SE ended 2015 with total comprehensive income of 1.2 million euros. The insurance result was negative at 1.8 million euros, net investment income amounted to 2.0 million euros and other activities generated a profit of 1.4 million euros. Comprehensive income was also influenced by a 0.4 million euro decrease in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 174.3 million euros (2014: 157.3 million euros). Investments in financial instruments amounted to 107.9 million euros (2014: 96.5 million euros), debt securities accounting for 79.4% (2014: 81.0%), loans for 2.0% (2014: 2.0%) and equities and fund units for 18.6% (2014: 17.0%) of the total. Altogether, investments in financial instruments accounted for 61.9% (2014: 61.3%) of total assets. Insurance provisions totalled 112.1 million euros (2014: 99.8 million euros), accounting for 86.7% (2014: 89.2%) of total liabilities and 64.3% (2014: 63.4%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 11.1 million euros (2014: 11.3 million euros), providing the company with an adequate liquidity buffer.

Insurance activities

Gross premium income by insurance class

In euros	2015		2014		Change	
	Gross premiums written	Share of class, %	Gross premiums written	Share of class, %	Gross premiums written	Share of class, pp
Motor liability insurance	41,738,105	34.5	34,907,389	32.3	6,830,716	2.2
Accident insurance	5,092,314	4.2	4,655,226	4.3	437,088	-0.1
Travel insurance	2,537,444	2.1	2,534,250	2.3	3,194	-0.3
Technical risks insurance	4,103,932	3.4	3,882,194	3.6	221,738	-0.2
Individuals' property insurance	9,853,677	8.1	9,457,571	8.8	396,106	-0.6
Legal persons' property insurance	8,986,719	7.4	8,570,555	7.9	416,164	-0.5
Agricultural risks insurance	1,040,612	0.9	1,226,958	1.1	-186,346	-0.3
Motor own damage insurance	33,331,336	27.5	29,306,401	27.1	4,024,935	0.4
Liability insurance	4,982,994	4.1	3,999,512	3.7	983,482	0.4
Goods in transit insurance	1,381,337	1.1	1,526,438	1.4	-145,101	-0.3
Carrier's liability insurance	2,675,979	2.2	2,623,174	2.4	52,805	-0.2
Watercraft insurance and watercraft owner's liability insurance	473,030	0.4	411,454	0.4	61,576	0.0
Guarantee insurance	1,822,105	1.5	1,950,616	1.8	-128,511	-0.3
Railway rolling stock insurance	1,383,183	1.1	1,343,105	1.2	40,078	-0.1
Assistance insurance	1,244,025	1.0	1,086,285	1.0	157,740	0.0
Financial risks insurance	385,927	0.3	505,052	0.5	-119,125	-0.1
Loss of employment insurance	6,447	0.0	0	0.0	6,447	0.0
Total from insurance activities	121,039,166	100.0	107,986,180	100.0	13,052,986	
Accident insurance	4,787	0.0	4,281	0.0	506	0.0
Legal persons' property insurance	0	0.0	-37,054	0.0	37,054	0.0
Liability insurance	0	0.0	0	0.0	0	0.0
Health insurance	0	0.0	0	0.0	0	0.0
Total from reinsurance activities	4,787	0.0	-32,773	0.0	37,560	0.0
Total	121,043,953	100.0	107,953,407	100.0	13,090,546	

In 2015, ERGO Insurance SE generated premium income of 121.0 million euros, a 12.1% increase on the year before. The largest classes were motor liability insurance and motor own damage insurance, whose premium income amounted to 41.7 million euros or 34.5% and 33.3 million euros or 27.5% of the portfolio respectively. Individuals' property insurance contributed 9.9 million euros or 8.1% and legal persons' property insurance 9.0 million euros or 7.4%. Premiums written in accident insurance and liability insurance totalled 5.1 million euros or 4.2% and 5.0 million euros or 4.1% respectively. The total contribution of other classes, which each accounted for less than 4.0%, was 17.1 million euros or 14.1%. Premium income from reinsurance activities amounted to 4.7 million euros.

There was only one notable change in the structure of the insurance portfolio: compared with the prior year, the share of motor liability insurance increased by 2.2 percentage points and its premium income grew by 6.8 million euros or 19.6%. Vigorous growth was also achieved in motor own damage insurance where premium income increased by 4.0 million euros or 13.7% and liability insurance where premiums grew by 1.0 million euros or 24.6%.

Claims and benefits paid by insurance class

<i>In euros</i>	2015		2014		Change	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Motor liability insurance	25,559,896	38.8	21,356,602	35.5	4,203,294	3.3
Accident insurance	2,525,264	3.8	2,400,006	4.0	125,258	-0.2
Travel insurance	1,239,332	1.9	1,155,060	1.9	84,272	0.0
Technical risks insurance	1,850,169	2.8	1,604,611	2.7	245,558	0.1
Individuals' property insurance	4,172,809	6.3	4,790,111	8.0	-617,302	-1.6
Legal persons' property insurance	4,002,325	6.1	2,979,932	5.0	1,022,393	1.1
Agricultural risks insurance	254,535	0.4	2,618,278	4.4	-2,363,743	-4.0
Motor own damage insurance	21,896,429	33.2	19,000,670	31.6	2,895,759	1.6
Liability insurance	1,207,253	1.8	1,037,423	1.7	169,830	0.1
Goods in transit insurance	290,573	0.4	292,313	0.5	-1,740	0.0
Carrier's liability insurance	1,363,040	2.1	1,490,446	2.5	-127,406	-0.4
Watercraft insurance and watercraft owner's liability insurance	447,819	0.7	527,310	0.9	-79,491	-0.2
Guarantee insurance	109,785	0.2	164,491	0.3	-54,706	-0.1
Railway rolling stock insurance	89,559	0.1	8,555	0.0	81,004	0.1
Assistance insurance	654,286	1.0	636,736	1.1	17,550	-0.1
Financial risks insurance	210,031	0.3	20,869	0.0	189,162	0.3
Loss of employment insurance	331	0.0	0	0.0	331	0.0
Total	65,873,436	100.0	60,083,413	100.0	5,790,023	

Claims and benefits paid in 2015 totalled 65.9 million euros (2014: 60.1 million euros). Claims incurrence trends did not change significantly. The largest share of claims was settled in motor liability insurance: 25.6 million euros or 38.8% of claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 21.9 million euros or 33.2%.

Investing activities

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

In 2015, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 33.6% (2014: 47.2%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) rating, 34.1% (2014: 27.0%) were rated AA or Aa, 19.7% (2014: 9.9%) had an A rating and 12.6% (2014: 15.9%) were rated BBB or Baa.

At the year-end, the investment portfolio comprised investments in associates of 3.5 million euros (2014: 3.3 million euros), debt securities of 85.7 million euros (2014: 78.2 million euros), loans of 2.1 million euros (2014: 1.9 million euros), and equities and fund units of 20.1 million euros (2014: 16.4 million euros). There were no term deposits.

Income on assets with interest rate risk amounted to 0.94 million euros. Realisation of equities and units resulted in a gain of 0.46 million euros and realisation of debt securities in a gain of 0.39 million euros. Dividend income was 0.64 million euros. The fair value reserve decreased by 0.39 million euros. A decline in the value of investments in financial instruments gave rise to an impairment loss of 0.30 million euros. Thus, the overall yield of the investment portfolio was 1.7%. Investment management expenses accounted for 0.3% of the carrying value of managed investments.

Development

BUSINESS PERFORMANCE AND FUTURE OUTLOOK

ERGO Insurance SE's development activities are aligned with ERGO group's strategic framework: the overriding goal is customer satisfaction. The key to the future is innovation.

According to Nikolaus von Bomhard, the CEO of ERGO's owner Munich Re who visited Lithuania and Estonia on 31 August and 1 September, the shareholder expects that in 2015 the global insurance market will grow by 3-3.5%. One of the near-term targets is to expand the market through innovative solutions, for example by finding ways for insuring risks which previously were considered uninsurable.

ERGO's growth in the Baltics outpaced market growth in all business segments. Non-life insurance increased its market share from 15.8% to 16.5%. In contrast to the Baltic insurance market that expanded by 6.7%, ERGO grew by 11%.

ERGO's entities are well-capitalised. At the end of 2015, their solvency ratio (Solvency I) was 184%, well above the 140% requirement established by ERGO group.

The rapidly developing digital environment poses a major challenge for the entire insurance sector. At present, the largest projects of both ERGO and its owner, Munich Re, are focused on digitalisation and innovation.

In July 2015, ERGO's Latvian branch signed a cooperation agreement with business accelerator eegloo, which led to the creation of ERGO FinTech Academy, the first accelerator program for financial technology start-ups and a highlight of the year in that field in Latvia. Events for the selection of candidates for the ERGO FinTech Academy program were held in four Latvian cities in September. The best projects, which were selected at the end of October, received cash for implementing their ideas, a free experience-sharing trip to the start-up event SLUSH on 11-12 November in Helsinki and various special prizes with a total value of over 3,000 euros.

On 16 June, the Estonian entity signed a cooperation agreement with Tallinn University of Technology Innovation and Business Centre Mektory. The competencies of the university can be harnessed in product and service development while ERGO can offer opportunities for implementing innovative solutions and ideas. Tallinn University of Technology and ERGO announced a student contest for forecasting the insurance market of 2025. In February 2016, there was a brainstorming event where the students of Tallinn University of Technology could project what the insurance market would be like at a time when electric cars are driving around and people have artificial organs. ERGO Insurance SE awarded prizes to the authors of the best ideas.

In Lithuania, ERGO was the first insurance company to start an innovation project with venture capital fund Nextury Ventures.

On 1 December, ERGO's Estonian entity celebrated its 25th anniversary together with customers and business partners at an event held in the Estonia Concert Hall in Tallinn. On 5 December 1990, Balti Kindlustusselts (BICO) was established, which in the year 2000 merged with Leks Kindlustuse AS. The ERGO brand was adopted in 2001.

SALES AND SERVICE OFFERING

ERGO's strategic focus areas are strong customer relations, a customer-focused approach, innovation, simplicity, and transparency. The key area is customer-focus. Based on the customers' willingness to recommend us to others, ERGO is among the three most popular insurers in the Baltics. We would like to maintain this position.

On 25 August, we opened a new office in the Ülemiste Centre in Tallinn where people can get information and advice on different insurance options.

SERVICES

In Estonia, we revised our home insurance terms and conditions. The new terms, which took effect on 16 March, are in many respects more beneficial. For example, ERGO now covers temporary housing (moving and rental) costs without any deductible for up to twelve months from the date of the insured event.

In Latvia, several services were renewed. In connection with the amendment of local construction legislation, we expanded construction companies' liability insurance cover so that ERGO could protect all specialists that are now required to have liability insurance. We also updated the terms and conditions of cattle insurance so that the product which was originally designed for small farms and private cattle breeders now also fits the needs of big farms.

In addition, we made business interruption insurance simpler and more convenient for small and medium-sized enterprises and adjusted accident insurance prices so that they would be more attractive for the retail segment and individuals.

In Lithuania, we developed cyclist insurance, which is a unique product in the local market. It helps cyclists in the event of an accident and protects against bicycle theft and liability to third parties. The cover is valid in Lithuania and contracts are signed with persons from 16 to 65 years of age.

In September, we launched a pilot project in Estonia. Our motor own damage insurance customers whose vehicle has needed emergency repair can have the repaired vehicle inspected at our claims handling centre. The service, which is free of charge, allows the customer to ask what was done at the repair shop and why. The purpose is to provide the customers with greater assurance. If the inspection reveals deficiencies in the repair work, the service provider is notified.

MARKETING

At the beginning of February, ERGO conducted a travel insurance campaign in Estonia. One of the goals was to introduce the travel assistance service: ERGO is the only insurer in the Estonian market that offers travel insurance which does not require the customer that has experienced travel disruption to have spare cash for tickets, transport or accommodation. Customers can call our free travel assistance hotline from anywhere in the world and get help with changing or buying new flight tickets and finding a new hotel. The service is available 24/7 in the Estonian language.

At the end of May and the beginning of June, ERGO conducted two campaigns in Estonia. A motor own damage insurance campaign drew attention to free roadside assistance services such as free delivery of fuel to customers that unexpectedly run out of fuel so that they could reach the closest filling station. The other campaign highlighted the fact that accident insurance can alleviate economic difficulties resulting from accidents.

Until 3 May, start-ups could apply to the Axel Springer Plug and Play accelerator based in Berlin. Those accepted to the program are provided with office space in the heart of Berlin, professional coaching from mentors and a 25,000 euro start-up capital. In August 2014, ERGO became Axel Springer Plug and Play 's first corporate partner and has been supporting the accelerator through its Corporate Partner Program ever since.

In Latvia, we continue to work with the local Road Administration. As a socially responsible company, ERGO supports all road safety and pedestrian safety campaigns organised by the Road Administration. Before Midsummer, which is the most popular holiday in Latvia, ERGO organised a campaign aimed at making people notice, and report to the police, those driving under the influence of alcohol. The purpose was to prevent people from driving under the influence of alcohol.

Another campaign carried out in partnership with the Latvian Road Administration reminded people that safety belts should also be fastened in the back seats.

The third campaign, which lasted from 23 November to 20 December, highlighted the risks involved in using a mobile phone while driving. During the campaign, people could come to ERGO's office and use virtual reality glasses to experience what can happen when the driver becomes distracted.

In several Latvian cities, ERGO opened road safety summer schools where up to 12-year-olds could learn the basics of road safety. After completing the program and passing a problem-solving test, 742 children were awarded a certificate in pedestrian safety.

From 14 September until the end of October, the Estonian entity carried out a home insurance campaign. All customers that purchased ERGO's home insurance for three years were provided with a price guarantee as well as free chimney-sweeping service. Among other things, the campaign drew attention to the need to clean the heating systems on a regular basis.

From 16 November to 6 December, the Latvian entity introduced its customer service hotline 1887 that is available 24/7 and ERGO's new home assistance service. ERGO's Estonian customers are already familiar with the service that helps round the clock in the event accidents at home. For example, when a pipe bursts, the workmen will come and fix the pipe and ERGO will arrange drying and cleaning of the home.

SPONSORING AND SOCIAL RESPONSIBILITY

ERGO is committed to supporting social projects in the Baltic countries.

We support Estonia's participation in the Olympic Games through long-standing cooperation with the Estonian Olympic Committee. ERGO insures athletes' trips to competitions and their vehicles

Besides that, in the summer of 2015 we supported a series of running events in Estonian cities.

Since August 2015 ERGO has been sponsoring the tours of Latvia's most popular band, Brainstorm, by providing insurance of up to 1,000,000 euros for concerts attended by over 100,000 fans and offering the fans free insured and guarded bicycle parking facilities during the concerts.

For three years in a row, ERGO has been one of the main sponsors of the Latvian beach volleyball championship ERGO Open. Volleyball is one of the most popular sports for promoting healthy lifestyles in Latvia.

For 13 years the Latvian ERGO has been providing scholarships for young orphans that need support in acquiring higher education. Every year, an event is held that brings together new, current and future scholarship recipients.

From September, ERGO began to support a program for preventing and reducing school bullying because we believe that teaching people to prevent, notice and resolve bullying incidents already during school time will reduce risk behaviour in society as a whole. We hope that the program will be extended to reach an increasing number of schools, children and parents. International practice shows that the program developed by the scientists of the University of Turku has helped reduce both bullying and dropping out of school to a significant extent.

The impact assessment studies carried out in Estonia reflect that schools which implemented the program were able to reduce bullying by 17% in the first eight months already and that the number of victims continued to decrease also in the second year of the program. By spring 2015, schools that had been implementing the program for two years reported that they had seen a visible decrease in the number of bullies.

On 14 October, ERGO was the main partner of the Lithuanian business conference Verslas 2016.

From October to December, ERGO organised a campaign in Lithuania that offered people an opportunity to support a family that had lost their home in a fire. People that had insured their home with ERGO could use a special website, polaiko.ergo.lt, and choose, free of charge, things that ERGO would help the family acquire on their behalf.

In Estonia, ERGO organised a day of new ideas in the Kalamaja district in Tallinn. The event, which took place on 12 November in Erinevate Tubade Klubi, could be watched live together with customers in ERGO's main offices in Tallinn, Tartu, Pärnu and Haapsalu and via the website of the Estonian newspaper Postimees. The purpose was to offer ERGO's employees, business partners and customers an opportunity to listen to special people speak on interesting subjects. ERGO is much more than insurance: we wish to inspire and share ideas.

Organisation and management

In March, ERGO's new risk management policy was approved. It outlines in detail the principles and guidelines which make sure that ERGO's risk management system complies with all legal and regulatory requirements and help the company identify and mitigate its potential risks.

In Estonia, the sales management structure was streamlined from 1 May to achieve smoother customer service and higher management efficiency. As a result, the number of different sales channels decreased.

In Lithuania, the retail channel was split into two from 15 May: one part sells non-life insurance at ERGO Insurance SE Lithuanian branch and the other life insurance at ERGO Life Insurance SE. In addition, the sales and contract administration functions of the business clients department were separated from 1 January.

Jevgenijs Rogovs was appointed responsible for IT in the Baltics from 24 August and Asta Kazlauskienė was appointed manager of the Lithuanian marketing department from 7 September.

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

- Chairman of the management board Kęstutis Bagdonavičius is responsible for the following pan-Baltic departments: communication, corporate strategy, HR and administration, legal and compliance control, regional development, internal audit, business management and innovation.

- Member of the management board and chief financial officer Deniss Sazonovs is responsible for financial management and the following departments: accounting, planning and controlling, actuaries, risk management and IT.
- Member of the management board and ERGO's team leader in Latvia Ingrida Kirse is responsible for life, health and pension insurance in the Baltics as well as property insurance, claims handling, sales and marketing in Latvia.
- Member of the management board and ERGO's team leader in Lithuania Saulius Jokubaitis is responsible for reinsurance and pricing in the Baltics and property insurance, claims handling, sales and marketing in Lithuania.
- Member of the management board and ERGO's team leader in Estonia Tarmo Koll is responsible for bank insurance in the Baltics and property insurance, claims handling, sales and marketing, and customer contract management in Estonia.

Key financial indicators

<i>In thousands of euros, except for ratios As at 31 December or for the year</i>	2015	2014
<i>For the year</i>		
Gross premiums written	121,044	107,953
Gross earned premiums	115,414	104,588
Gross claims and benefits incurred	72,563	63,512
Gross expenses	39,904	37,699
Gross loss ratio	62.9%	60.7%
Net loss ratio	65.8%	61.8%
Gross expense ratio	34.6%	36.0%
Net expense ratio	36.3%	37.3%
Gross combined ratio	97.4%	96.8%
Net combined ratio	102.2%	99.2%
Claims handling ratio	10.7%	9.9%
Claims paid ratio	54.4%	55.7%
<i>At the year-end</i>		
Total assets	174,298	157,337
Ratio of investments to total assets	63.9%	63.4%
Ratio of equity to total assets	25.8%	28.9%
Ratio of insurance provisions to total assets	64.3%	63.4%
<i>Profitability indicators</i>		
Insurance result (technical result)	-1,797	907
Investment result	1,621	2,600
Profit/loss for the financial year	1,556	-5,106
ROE	3.4%	-10.6%
ROA	0.9%	-3.2%
ROI	1.5%	2.7%

Explanation of figures and ratios

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

Conclusion

The management board of ERGO Insurance SE is pleased to report that in 2015 the company developed in line with the insurance market and achieved its main business goals and targets.

**Kęstutis Bagdonavičius**

Chairman of the management board

Financial statements

Income statement

<i>In euros</i>	Note	2015	2014
Income			
Gross premiums written	3	121,043,953	107,953,407
Written premiums ceded to reinsurers	3	-6,745,769	-6,791,748
Change in gross provision for unearned premiums		-5,630,049	-3,365,772
Reinsurers' share of change in provision for unearned premiums		225,568	-138,333
Net earned premiums		108,893,703	97,657,554
Reinsurance commission income	4	911,454	1,155,391
Net investment income	5	2,117,269	1,987,237
Other income	6	2,523,651	1,804,049
Total income		114,446,077	102,604,231
Expenses			
Claims and benefits incurred	7	72,562,931	63,512,010
Reinsurers' share of claims and benefits incurred	7	-864,410	-3,112,781
Net policyholder claims and benefits incurred		71,698,521	60,399,229
Acquisition costs	8	33,089,326	30,454,173
Administrative expenses	8	5,471,141	6,071,473
Other operating expenses	8	1,343,333	1,173,682
Investment expenses	8	300,583	340,848
Other expenses	8	1,137,951	9,515,127
Total expenses		113,040,855	107,954,532
Operating profit/loss		1,405,222	-5,350,301
Share of profit of equity-accounted investees	13	195,545	220,464
Profit/loss before income tax		1,600,767	-5,129,837
Income tax expense/income	27	-44,945	24,235
Profit/loss for the year		1,555,822	-5,105,602

Statement of comprehensive income

<i>In euros</i>	Note	2015	2014
Profit/loss for the year		1,555,822	-5,105,602
<i>Items of other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Change in the value of available-for-sale financial assets	20	-391,656	953,545
Total other comprehensive expense/income for the year		-391,656	953,545
Total comprehensive income/expense for the year		1,164,166	-4,152,057

The notes on pages 24 to 78 are an integral part of these financial statements.

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Statement of financial position

In euros

Assets

As at 31 December	Note	2015	2014
Property and equipment	10	9,973,331	9,880,738
Intangible assets			
Deferred acquisition costs	11	4,645,056	3,739,080
Other intangible assets	12	6,479,352	6,397,924
Investments in associates	13	3,496,125	3,300,580
Investments in financial instruments			
Equities and fund units	14	20,071,995	16 382 770
Debt and other fixed-income securities	14	85,682,647	78 184 180
Loans	14	2,106,288	1 908 397
Total investments in financial instruments		107,860,930	96,475,347
Reinsurance assets	15	15,301,714	14,634,993
Insurance and other receivables	16	16,682,675	14,692,499
Deferred tax assets	27	871,848	660,664
Cash and cash equivalents	17	8,987,233	7,555,104
Total assets		174,298,264	157,336,929

Equity and liabilities

As at 31 December	Note	2015	2014
Equity			
Share capital	18	6,391,391	6,391,391
Capital reserve	19	3,072,304	3,072,304
Fair value reserve	20	2,929,554	3,321,210
Retained earnings (prior years)		30,937,623	37,743,225
Profit/loss for the year		1,555,822	-5,105,602
Total equity		44,886,694	45,422,528
Liabilities			
Insurance contract provisions	21	112,111,376	99,791,844
Reinsurance payables	22	3,011,688	2,002,383
Insurance payables	23	7,509,247	5,605,989
Other payables and accrued expenses	24	6,719,386	4,454,312
Other provisions		59,873	59,873
Total liabilities		129,411,570	111,914,401
Total equity and liabilities		174,298,264	157,336,929

The notes on pages 24 to 78 are an integral part of these financial statements.

Statement of cash flows*In euros*

<i>(Inflow + , outflow –)</i>	Note	2015	2014
Net cash from operating activities		3,431,872	3,769,715
Insurance premiums received		123,729,374	108,781,480
Claims, benefits and handling costs paid		–65,090,937	–57,815,492
Settlements with reinsurers		–4,033,521	–2,897,129
Paid in operating expenses		–44,668,290	–43,170,375
Other income and expenses		2,472,717	3,140,303
Acquisition of equities and fund units		–9,175,298	–2,686,805
Disposal of equities and fund units		5,347,716	2,262,742
Acquisition of debt and other fixed-income securities		–70,769,636	–18,596,242
Disposal of debt securities		62,413,508	12,152,217
Interest received		2,874,145	2,379,421
Dividends received		467,999	142,394
Corporate income tax paid		–74,732	–2,381
Paid in investment expenses		–61,173	79,582
Net cash used in investing activities		–1,999,743	–1,585,308
Acquisition of an associate		0	–437,464
Loans to group companies		–200,000	0
Repayment of loans to group companies		0	100,000
Interest received from group companies		132,047	169,690
Proceeds from other investments		419,804	0
Dividends paid		–1,700,000	–1,000,000
Paid on acquisition of property and equipment and intangible assets		–660,614	–432,067
Proceeds from sale of property and equipment and intangible assets		9,020	14,533
Net cash inflow		1,432,129	2,184,407
Cash and cash equivalents at beginning of year		7,555,104	5,370,697
Increase in cash and cash equivalents		1,432,129	2,184,407
Cash and cash equivalents at end of year	17	8,987,233	7,555,104

The notes on pages 24 to 78 are an integral part of these financial statements.

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Statement of changes in equity

<i>In euros</i>	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2013	6,391,391	3,072,304	2,367,665	38,743,225	50,574,585
Dividend distribution	0	0	0	-1,000,000	-1,000,000
Total transactions with owner	0	0	0	-1,000,000	-1,000,000
Loss for the year	0	0	0	-5,105,602	-5,105,602
Other comprehensive income	0	0	953,545	0	953,545
Total comprehensive expense for the year	0	0	953,545	-5,105,602	-4,152,057
Balance at 31 December 2014	6,391,391	3,072,304	3,321,210	32,637,623	45,422,528
Dividend distribution	0	0	0	-1,700,000	-1,700,000
Total transactions with owner	0	0	0	-1,700,000	-1,700,000
Profit for the year	0	0	0	1,555,822	1,555,822
Other comprehensive expense	0	0	-391,656	0	-391,656
Total comprehensive income for the year	0	0	-391,656	1,555,822	1,164,166
Balance at 31 December 2015	6,391,391	3,072,304	2,929,554	32,493,445	44,886,694

The notes on pages 24 to 78 are an integral part of these financial statements.

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 Date/kuupäev.....22.03.2016.....
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Notes to the financial statements

Note 1. Significant accounting policies

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

The financial statements of ERGO Insurance SE for 2015 include the financial statements of ERGO Insurance SE's head office in Estonia and the financial information of its Latvian and Lithuanian branches.

These financial statements were authorised for issue by the management board on 17 March 2015. Under the Estonian Commercial Code, the annual report including the financial statements that has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report and may demand that a new annual report be prepared.

(a) Statement of compliance

The financial statements of ERGO Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2015.

(b) Basis of preparation

The company's functional and presentation currency is the euro. On 1 January 2015, the Republic of Lithuania joined the euro area and the Lithuanian litas was replaced by the euro. Hence, from that date ERGO Insurance SE Lithuanian branch converted its accounting into euros. The exchange rate for the adoption of the euro was 1 euro to 3.4528 Lithuanian litas.

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

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

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

Use of significant estimates and judgements

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

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

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

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

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

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

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

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

(c) Branches

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

(d) Associates

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

Investments in associates are accounted for using the equity method. Upon initial recognition, investments in associates are measured at cost. The cost of an investment includes directly

attributable transaction charges. The financial statements include the company's share of an associate's profit or loss from the date the significant influence commences to the date the significant influence ceases to exist.

(e) Classification of insurance contracts

Non-life insurance

Contracts under which the company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. All contracts issued by the company constitute insurance contracts. The company does not issue investment contracts.

Non-life insurance contracts have generally a term of one year. Exceptions include open-ended motor liability insurance contracts under which policies are issued for a maximum term of one year, and travel insurance contracts covering one trip whose term is generally less than one year.

Incoming reinsurance

Reinsurance contracts are contracts under which the reinsurer undertakes to assume the insurance risks of another insurer (the ceding insurer) and to pay that ceding insurer compensation of an agreed amount for losses incurred in connection with an insured event specified in an insurance contract entered into between the ceding insurer and a policyholder. Reinsurance contracts are entered into for a period of one year. Reinsurance contracts fall into two main categories – obligatory non-proportional and obligatory proportional.

Risks that exceed the limits of obligatory reinsurance contracts or fall outside their scope are reinsured under facultative reinsurance contracts. Facultative reinsurance contracts are entered into for covering a particular (single) risk. In its activities as a reinsurer, the company's main objective is to use its capital optimally and disperse its risks by diversifying the locations of the insured property. Reinsurance contracts are entered into with the insurance companies of ERGO group only.

(f) Recognition and measurement of insurance contracts

Insurance premiums

Premium income

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

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

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

Provision for unearned premiums

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

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

Claims and provisions for claims outstanding and unexpired risks

Claims and benefits incurred

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

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

Provision for claims outstanding

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

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The provision for claims outstanding comprises of the following components:

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

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

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

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

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

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

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

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

Provision for unexpired risks

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

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Outgoing reinsurance

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

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

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

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

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

Liability adequacy test

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

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

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

Cash inflows comprise estimated future investment income.

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

(g) Other income

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

(h) Operating lease expenses

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Other payments associated with the lease are recognised in profit or loss as an integral part of lease expense.

(i) Income tax

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

In 2014, the tax payable on dividends distributed in Estonia was calculated as 21/79 of the amount distributed as the net dividend. In 2015, the income tax rate changed and the tax payable on dividends is calculated as 20/80 of the amount distributed as the net dividend. Because of the specific nature of the taxation concept, the term *tax base of assets and liabilities* does not have economic substance and deferred income tax liabilities and assets do not arise.

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

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

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

(j) Foreign currency transactions

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

(k) Property and equipment**(i) Owned assets**

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

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

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

(ii) Leased assets

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the company are classified as finance leases. An asset acquired with a finance lease is carried in the statement of financial position at an amount equal to its fair value or, if lower, the present value of the minimum lease payments, less any accumulated depreciation (see paragraph (iv) below) and any impairment losses (see accounting policy (r)). Lease payments are accounted for as described in policy (h). Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

The company as lessor

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

The company as a lessee

Finance leases are recognised in the statement of financial position as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Operating lease payments recognised as an expense on a straight-line basis over the lease term.

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KPMG, Tallinn

(iii) Subsequent costs

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

(iv) Depreciation

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

The estimated useful lives are as follows:

Computer equipment	3 years
Cars, office and communications equipment	5 years
Furniture	6-7 years
Safes and reinforced cabinets	10 years
Buildings	33 years
Building rights (right of superficies)	50 years

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

(I) Intangible assets**(i) Deferred acquisition costs – insurance contracts**

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

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

(ii) Other intangible assets

Other acquired intangible assets are measured at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (r)). Intangible assets comprise acquired software and licences that are amortised over their useful lives using the straight-line method. The average annual amortisation rate is 25%. As an exception, the useful life assigned to insurance software ALICE is 10 years. Intangible assets are amortised on the assumption that their residual value is zero. Internally generated goodwill and the costs attributable to the development of brands are recognised as an expense as incurred.

(m) Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Date/kuupäev.....22.03.2016
 Signature/allkiri.....
 KPMG, Tallinn

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

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

(n) Derivative financial instruments

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

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

(o) Receivables

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

(p) Cash and cash equivalents

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
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(r) Impairment of assets**(i) Financial assets**

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

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

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

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

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

(ii) Non-financial assets

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

(s) Employee benefits

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

(t) Allocation of expenses

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

(u) Other provisions

Other provisions are recognised when:

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

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

(v) Dividends

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

(w) Events after the reporting period

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2015) and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

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

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

The following new and revised standards and interpretations were not yet effective for the year ended 31 December 2015 and have therefore not been applied in preparing these financial statements.

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* are effective for annual periods beginning on or after 1 January 2016. The amendments are to be applied prospectively; early application is permitted.

Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

The amendments to IAS 1 include five narrow-focus improvements to the disclosure requirements contained in the standard.

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
 KPMG, Tallinn

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

The company expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* are effective for annual periods beginning on or after 1 January 2016. The amendments are to be applied prospectively, early application is permitted.

Revenue-based depreciation banned for property, plant and equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The company expects that the amendments, when initially applied, will not have a material impact on its financial statements as it does not apply revenue-based methods of amortisation/depreciation.

Amendments to IAS 27 *Equity Method in the Separate Financial Statements* are effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.

The company does not expect that the amendments, when initially applied, will have a material impact on its financial statements as its investments in associates are already accounted for using the equity method.

Annual Improvements to IFRSs. The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

The company expects that none of the amendments will have a material impact on its financial statements.

The following amendments and interpretations that became effective for the annual period that began on 1 January 2015 had no impact on the company's financial statements:

- IFRIC 21 *Leases*
- *Annual Improvements to IFRSs*

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
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Note 2. Risk profile

The business model of ERGO Insurance SE assumes taking, assessing and managing both insurance and financial risks. The logic of the business model exposes the company to various risks. Therefore, risk awareness and prudent risk management are priorities. The company puts a lot of effort in enhancing its risk management system. Own risk and solvency assessment, which covers all the processes and procedures employed to identify, assess, monitor, manage, and report the short- and long-term risks forms an essential part of ERGO's risk management system. Own risk and solvency assessment integrates both the current and future periods' business strategy, risk strategy and capital management. The chapters below describe the main risks that ERGO has to face because of its business model.

2.1. Insurance risks

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

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

Risk management policies and policies for mitigating insurance risk

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

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

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

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 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

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

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

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

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

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

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

Insurance risk management strategy

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

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

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

General insurance contracts

Liability insurance

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

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

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

Motor liability insurance covers property damages and personal injuries inflicted on third persons and, locally, also the medical treatment expenses of the driver that caused the insured event. This means that the nature of losses differs. Property losses are handled quickly but the handling of personal injury claims may take years. In the case of personal injuries that have to be indemnified with periodic payments (pensions) the insurer may not indemnify the damages in an agreed lump sum. In the case of traffic accidents that occur in the Baltic countries, motor liability insurance does not cover unearned income. Due to a longer handling period and also because personal injuries are directly related to many other socio-economic factors, the proportion of personal injury claims is increasing rapidly.

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

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

Property insurance

The company offers property insurance for property located in the Baltic countries. Property insurance indemnifies, subject to limits and restrictions that result from insured amounts and insurance terms and conditions, policyholders against loss of or damage to their property and losses arising from associated business interruption.

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

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

Marine and transport insurance

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

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

Pricing risks

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

Initialed for identification purposes only
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 Date/kuupäev.....22.03.2016
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 KPMG, Tallinn

Therefore, there exists the risk that the frequency and severity of losses will surpass the assumptions. This risk is mitigated by checking the validity of assumptions applied in routine reporting.

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

Claims handling risks

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

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

Provisioning risks

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

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

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

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

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

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

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

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

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

Concentration risks

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

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

The company is engaged in non-life insurance, providing cover for various risks. In property insurance, the company needs to monitor the geographical concentration of risks because external factors such as adverse weather conditions may have an adverse impact on a large proportion of insured property in a particular geographical area.

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

Claim-triggering perils such as storms, floods, fires, explosions, and growth in crime may occur on a regional basis, meaning that the company has to manage its geographical risk dispersion very carefully. The company assesses and mitigates the geographical concentration of risks by using contemporary tools for analysing geographical information.

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

<i>In euros</i>	2015			2014		
	Gross provisions	Reinsurers' share	Net provisions	Gross provisions	Reinsurers' share	Net provisions
Estonia	20,052,928	2,674,643	17,378,285	18,119,576	2,745,479	15,374,097
Latvia	18,097,664	6,926,387	11,171,277	17,019,295	7,008,205	10,011,090
Lithuania	26,346,984	4,140,695	22,206,289	22,669,221	3,546,885	19,122,336
Total	64,497,576	13,741,725	50,755,851	57,808,092	13,300,569	44,507,523

Impact of catastrophic events

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

The biggest possible losses resulting from single events relate to motor liability insurance and property insurance. The company has bought non-proportional peril-based reinsurance cover, limiting its net liability to 1.5 million euros per insurance contract in property insurance and to 1.0 million euros per insured event in motor liability insurance.

Reinsurance strategy

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

Reinsurance is acquired on the guiding principle that the net loss should not exceed 1.5 million euros for each individual insured item and/or each individual event.

Retention for additional natural catastrophe reinsurance is 3.0 million euros. Standard exclusions from reinsurance contracts are losses arising from nuclear energy and terrorism.

Distribution of reinsurance retention by insurance class as at 31 December 2015 (on a forward looking basis):

Class of insurance	Retention in euros
Property and technical risks insurance	1,500,000
Motor liability insurance	1,000,000
Liability insurance	500,000
Goods in transit, watercraft, accident, travel, carrier's liability, and animal insurance	300,000
Motor own damage insurance and guarantee insurance	250,000

Claims development

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

Various factors may distort current estimates of provisions and cumulative prior year provisions. While the information in the table provides a historical perspective of the adequacy of claims outstanding estimates, it does not provide a basis for extrapolating surpluses or shortfalls of the past on current claims outstanding balances. The company believes that the estimates of claims outstanding as at the end of 2015 are adequate. However, due to the inherent uncertainties of the provisioning process, it cannot be guaranteed that the balances will prove adequate.

Analysis of claims development – gross (as at 31 December 2015)

In euros	Year of loss incurrence					
Estimate of cumulative claims	2010	2011	2012	2013	2014	2015
At end of year of incurrence	71,111,848	68,364,655	69,438,065	77,091,746	64,433,543	72,990,244
One year later	67,771,751	65,590,736	65,021,928	75,950,590	64,306,855	
Two years later	66,380,011	63,447,380	64,122,775	75,873,325		
Three years later	63,769,821	62,400,489	62,954,651			
Four years later	63,166,864	61,902,737				
Five years later	63,315,873					
Cumulative payments until 31 December 2015	62,179,280	61,057,813	61,261,111	59,876,084	57,460,188	46,326,964
Provision for claims outstanding (incl. IBNR) at 31 December 2015	1,136,594	844,924	1,693,540	15,997,241	6,846,667	26,663,280

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

At 31 December 2015, the provision for claims outstanding for earlier years of loss incurrence amounted to 11,504,188 euros (2014: 10,885,121 euros).

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

Results of sensitivity analysis for claims

	As at 31 December 2015		As at 31 December 2014	
	Change in net loss ratio in percentage points	Impact on profit or loss and equity in euros	Change in net loss ratio in percentage points	Impact on profit or loss and equity in euros
Motor liability insurance	4.2	-1,608,370	4.1	-1,336,753
Motor own damage insurance	0.8	-257,528	1.0	-286,687
Individuals' property insurance	0.8	-78,953	1.2	-115,530
Legal persons' property insurance	4.2	-288,460	3.5	-214,818
Other classes of insurance	4.4	-1,001,010	4.6	-947,317

Sensitivity analysis involves applying various methods to assess the volatility of estimates used for creating provisions for claims and its impact on the net loss ratio and net profit or loss. A 5% decrease in premium income for 2015 would have had a -1.0 million euro impact on the company's insurance result.

Liability adequacy test

The company has assessed the insurance liabilities recognised in the statement of financial position as at 31 December 2015 using the liability adequacy test.

The test indicated that in some classes of insurance contractual liabilities may exceed the insurance provisions recognised by a total of 697,366 euros (2014: 991,785 euros). As a result, the company reduced the deferred acquisition costs of the affected classes of insurance. No additional unexpired risks provision was recognised.

In euros

Class of insurance	As at 31 December 2015		As at 31 December 2014	
	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision
Motor liability insurance	468,118	0	769,083	0
Legal persons' property insurance	80,123	0	0	0
Motor own damage insurance	135,102	0	49,961	00
Other property insurance	14,023	0	0	0
Carrier's liability insurance	0	0	93,238	21,720
Professional liability insurance	0	0	26,177	23,044
Assistance insurance	0	0	8,622	0
Total	697,366	0	947,081	44,764

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Allkirjastatud identifitseerimiseks

Date/kuupäev.....22.03.2016

Signature/allkiri.....

KPMG, Tallinn

In respect of other classes of insurance, the liability adequacy test indicated that the liabilities recognised in the statement of financial position exceeded the present value of the expected future net cash flows. Therefore, no additional provisions were recognised.

Liquidity and market risks

The company has estimated its future settlement obligations from the net provision for claims outstanding as follows.

In euros

Estimated time of settlement	As at 31 December 2015		As at 31 December 2014	
	Total net settlements	Of which net insurance pension settlements	Total net settlements	Of which net insurance pension settlements
Less than one year	24,660,156	214,047	24,267,055	158,249
In one to two years	6,033,561	240,239	9,440,885	165,356
In three to five years	6,403,178	699,017	6,577,908	459,677
In six to ten years	4,638,493	1,098,196	2,402,695	1,043,548
Later than ten years	9,020,463	3,209,634	1,818,980	1,766,823
Total net settlements	50,755,851	5,461,133	44,507,523	3,593,653

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

Credit risk

In its insurance activities, the company's main credit risk is payment default by a broker or reinsurer. The company's credit risk arises principally from its insurance and reinsurance receivables. In each business line, risk management measures are applied to protect the company's financial position. The company has rules in place for consistently monitoring and managing overdue receivables. Receivables that are more than 60 days overdue are written down.

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....23.03.2016.....
 Signature/allkiri.....
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Distribution of reinsurance assets by credit rating

Standard & Poor's As at 31 December	2015	2014
AAA	266,058	0
AA	8,715,790	8,828,238
A	1,927,219	3,136,537
BBB	0	4,921
Without rating	4,392,647	2,665,297
Total	15,301,714	14,634,993

2.2. Financial risk management

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

The company manages its asset risk by preparing a new investment policy on an annual basis. The policy sets out both the short- and long-term investment strategy. Implementation of the strategy and adherence to restrictions is monitored by a multi-level structure. In 2015, tactical decisions were made and implemented by AS Trigon Funds, an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management (ALM) team and the team of the risk management function. If problems arise, they are reviewed by the ALM committee, which includes qualified members from Estonia and Germany, and the management board. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Credit risk

The credit risk of investments is the risk that the issuer of a security will not discharge its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The following table describes the company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of fixed-income securities was A+ (2014: AA-). The company believes that its credit risk exposure to other financial assets is low due to their small proportion. The assets presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies.

Rating		As at 31 December 2015		As at 31 December 2014	
Standard & Poor's	Moody's	Fair value in euros	Proportion of debt securities, %	Fair value in euros	Proportion of debt securities, %
AAA	Aaa	28,801,245	33.6	36,878,945	47.2
AA	Aa	29,191,512	34.1	21,115,976	27.0
A	A	16,900,681	19.7	7,728,887	9.9
BBB and below	Baa	10,789,209	12.6	12,460,372	15.9
Total		85,682,647	100.0	78,184,180	100.0

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

As at 31 December 2015 <i>In euros</i>	Not past due	Less than 30 days past due	30 to 60 days past due	60 to 180 days past due	Total
Receivables from policyholders	6,403,784	4,646,219	132,183	165,170	11,347,356
Receivables from intermediaries	569,146	560,172	87,143	187,240	1,403,701
Receivables from reinsurers	5,490	366,043	41,682	241,006	654,221
Other receivables	197,046	504,100	976,799	542,532	2,220,477
Loan receivables	2,106,288	0	0	0	2,106,288
Accrued income – interest receivable	5,352	0	0	0	5,352
Total	9,287,106	6,076,534	1,237,807	1,135,948	17,737,395

As at 31 December 2014 <i>In euros</i>	Not past due	Less than 30 days past due	30 to 60 days past due	60 to 180 days past due	Total
Receivables from policyholders	5,954,516	4,088,765	90,627	106,255	10,240,163
Receivables from intermediaries	376,564	470,345	9,101	173,530	1,029,540
Receivables from reinsurers	11,192	566,479	17,593	120,561	715,825
Other receivables	421,201	417,535	208,859	489,343	1,536,938
Loan receivables	1,908,397	0	0	0	1,908,397
Accrued income – interest receivable	11,180	0	0	0	11,180
Total	8,683,050	5,543,124	326,180	889,689	15,442,043

Market risk

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

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

(a) Interest rate risk

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

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

The company's investments comprise mostly fixed-income securities whose market value is influenced by changes in interest rates. At 31 December 2015, the weighted average yield to maturity of fixed-income available-for-sale debt securities was 0.13% (31 December 2014: 0.36%).

Assets exposed to interest rate risk, by interest rate

<i>In euros</i>	As at 31 December 2015		As at 31 December 2014	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Interest rate 0.00–2.50%	30,179,782	30,236,107	21,125,095	21,344,234
Interest rate 2.51–3.50%	11,158,008	11,177,146	24,296,708	24,493,086
Interest rate 3.51–4.50%	23,991,465	24,280,329	16,994,002	17,535,325
Interest rate 4.51–5.50%	14,427,080	14,877,690	7,045,326	7,589,954
Total fixed-income debt securities	79,756,335	80,571,272	69,461,131	70,962,599
Floating rate debt securities	4,529,442	5,111,375	6,535,411	7,221,581
Total	84,285,777	85,682,647	75,996,542	78,184,180

If at 31 December 2015 the yield curve had shifted evenly 100 basis points upward/downward across all maturities, the company's equity would have decreased/increased by 1.7 million euros (2014: 1.45 million euros). Risk has increased because the volume and modified duration of the debt securities portfolio has increased. There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expense.

(b) Other price risk

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

If at 31 December 2015 the value of investments in equity and debt securities funds had increased/decreased by 10%, the company's equity would have increased/decreased by 2 million euros (2014: 1.6 million euros). The increase in risk is attributable to acquisition of units in debt and equity funds during the year.

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
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Investments in financial instruments by issuer's domicile

<i>In euros</i>		
As at 31 December	2015	2014
Debt and other fixed-income securities		
USA	4,598,566	0
Austria	518,068	1,859,296
Belgium	2,997,782	0
Estonia	0	536,327
Spain	4,687,757	3,983,894
Netherlands	363,747	4,062,889
Ireland	5,189,260	0
Italy	4,475,097	1,046,161
Lithuania	6,858,306	7,219,074
Latvia	1,128,267	1,444,671
Mexico	1,941,174	0
Norway	1,650,249	4,853,504
Poland	2,654,521	773,506
France	19,569,770	4,979,241
Sweden	840,402	4,578,113
Germany	12,594,620	22,973,388
Slovenia	1,390,984	0
Finland	0	6,058,292
Great Britain	6,094,312	8,033,724
Denmark	1,104,318	2,137,485
Czech Republic	2,227,985	211,459
New Zealand	4,069,822	0
European Investment Bank	727,640	3,433,156
Total debt and other fixed-income securities	85,682,647	78,184,180
Equities and fund units		
Estonia	0	389,861
Ireland	13,706,493	15,423,182
Lithuania	43,443	43,443
Luxembourg	5,749,865	0
Germany	572,194	526,284
Total equities and fund units	20,071,995	16,382,770
Loans		
Lithuania	6,288	8,397
Latvia	600,000	600,000
Belarus	1,500,000	1,300,000
Total loans	2,106,288	1,908,397
Total investments in financial instruments	107,860,930	96,475,347

(c) Currency risk

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

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

Initialed for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....EP.....
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The following assets and liabilities are exposed to currency risk.

<i>In euros</i>	As at 31 December 2015	As at 31 December 2014
	USD	USD
Insurance and other receivables	17,304	41,986
Reinsurance assets	0	49,817
Investments in financial instruments – available-for-sale debt securities	3,276,025	3,154,776
Other liabilities from direct insurance business	5,076	63,393
Other liabilities and accrued expenses	1,633	2,977
Reinsurance payables	26,488	36,715
Total	3,326,526	3,349,664

Liquidity risk

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

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

The debt securities portfolio is composed by taking into account the average duration of liabilities and modifying the duration of assets and liabilities with duration matching. In addition, a large share of the company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the company's liquid funds totalled 116.9 million euros (2014: 104.0 million euros) including available-for-sale debt securities of 85.7 million euros (2014: 78.2 million euros), equities and fund units of 20.1 million euros (2014: 16.4 million euros), loans of 2.1 million euros (2014: 1.9 million euros) and cash and cash equivalents of 9.0 million euros (2014: 7.5 million euros).

Financial assets (investments in financial instruments and cash and cash equivalents) by maturity (carrying amounts)

<i>In euros</i>	As at 31 December 2015	As at 31 December 2014
Without term	29,059,228	23,937,874
Less than six months	2,930,801	11,933,180
Six months to one year	5,683,198	13,426,212
One to two years	23,277,198	21,032,675
Two to three years	34,944,698	7,011,069
Three to four years	10,636,181	11,643,155
Four to five years	7,101,772	11,522,303
Over five years	3,215,087	3,523,983
Total	116,848,163	104,030,451

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio was 2.2 years (2014: 2.6 years). There were no non-cash movements in the portfolio.

Initialed for identification purposes only

Allkirjastatud identifitseerimiseks

Date/kuupäev..... 22.03.2016

Signature/allkiri.....

KPMG, Tallinn

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

2.3. Capital management

Management's policy is to maintain a strong capital base so as to protect the interests of investors, creditors and policyholders and to sustain future development of the business. Management monitors return on equity (the ratio of profit to the period's average equity) on an ongoing basis. The return for 2015 was 3.4% (2014: -10.6%).

Thorough capital planning, regular monitoring and a system of risk limits and warnings enable the company to identify a decrease in the capital buffer and potential shortfalls sufficiently early. The capital management plan includes the financial and solvency forecasts made during the planning process, which in turn are part of the company's own risk and solvency assessment report. The capital management plan takes into account the changes planned in the company's own funds. Assessment of the overall solvency needs represents the company's own view of its risk profile and the capital and other means needed to address these risks.

Requirements to an insurer's capital and solvency are provided in the Estonian Insurance Activities Act (IAA). Under section 71(3) of the IAA, the company's absolute minimum capital requirement (minimum guarantee fund) is 3.7 million euros. Based on the calculation rules provided in the IAA, at 31 December 2015 the company's required minimum solvency margin and available solvency margin were 17.0 million euros and 37.0 million euros respectively. The company's available solvency margin exceeded the required minimum 1.8 times. The required margin is calculated taking into account the dividend proposed in the profit allocation proposal.

<i>In euros</i>	2015	2014
Available solvency margin	36,987,523	35,603,976
Required minimum solvency margin	19,974,853	17,215,597
Solvency surplus	17,012,670	18,388,379
Absolute minimum capital requirement (minimum guarantee fund) (IAA section 71(3))	3,700,000	3,700,000
Minimum share capital (IAA section 56(1))	3,000,000	3,000,000

2.4. Operational risk

Operational risk is the risk of loss caused by inadequate or failed internal processes, people's actions, system malfunctions or external events. This includes illegal acts committed by employees or third parties, business interruption, inaccurate processing of transactions, non-compliance with reporting obligations and miscommunication with business partners.

Operational risk is managed through the internal control system. The company has identified, analysed and assessed both company-wide risks and the risks inherent in its significant processes, including IT risks. There are measures in place for improving risk control and for mitigating risks.

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

The company's internal control and risk management systems deal with both risks arising from everyday operations as well as compliance and financial reporting risks.

The model adopted by the company allows identifying risks that are common to different departments and processes. Operational risks are identified, analysed and assessed on a regular basis.

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

Due to extensive reliance on the IT systems, the company is threatened by many IT risks such as system malfunctions and failures, loss of data and external system attacks. IT risks are mitigated by preventive measures such as emergency planning, backup solutions and access controls.

To mitigate the risks resulting from business interruption, the company has adopted business continuity plans which include instructions on how to act as well as alternative and recovery procedures for emergency and crisis situations.

Legal and regulatory changes including changes in supervision regulations may have a strong impact on the insurance business. Every change entails both threats and opportunities. Therefore, legal and regulatory changes are monitored on an ongoing basis. To mitigate the risks, the company participates in the Estonian Insurance Association and its subsidiary bodies.

To increase the organisation's risk awareness, the company involves in its risk management specialists from different departments. The policy of improving risk recognition and awareness and building an appropriate risk culture is consistently pursued. The company's approach is that it is important to learn from mistakes and to accept them as development opportunities.

2.5. Reputational risk

Reputational risk is the risk of damage to the company's public image or reputation among its customers, shareholders, employees, partners or supervision authorities. Reputational risk may result from the realisation of some other risk, particularly operational risk. Reputational risks are monitored and controlled through the internal control system (see section 2.4. Operational risk).

Reputational risks may also result from making or failing to make a business decision. Sometimes the risks are difficult to identify and their financial impacts may be hard to assess. The company's strategy is to avoid reputational risk. Risk exposure is limited by assessing, analysing and reporting reputational risks on a regular basis.

2.6. Strategic risk

Strategic risk is the risk of loss from wrong business decisions, poor implementation of decisions or failure to adapt to changes in the operating environment.

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

The company's current and future operations involve strategic risks, which generally evolve over an extended period and occur in combination with other risks.

Strategic risk factors are divided into two major categories: external (insurance market, competitors, customers and services) and internal (business strategy, achievement of strategic objectives). Determination of activities and allocation of resources required for managing strategic risks are the responsibilities of the company's management board. Each risk is assigned to a person who is responsible for adopting measures for mitigating the risk and for reporting to the management board.

Note 3. Premium income

The following table outlines gross and net premiums for 2015 and 2014 by insurance class.

In euros	2015			2014		
	Gross premiums written	Reinsurers' share	Net earned premiums ¹	Gross premiums written	Reinsurers' share	Net earned premiums ¹
Motor liability insurance	41,738,105	596,397	38,740,281	34,907,389	459,580	32,219,328
Accident insurance	5,092,314	24,722	4,905,215	4,655,226	20,703	4,577,861
Travel insurance	2,537,444	47,369	2,484,174	2,534,250	41,092	2,445,919
Technical risks insurance	4,103,932	304,000	3,749,210	3,882,194	282,368	3,603,153
Individuals' property insurance	9,853,677	177,597	9,439,662	9,457,571	163,537	9,292,399
Legal persons' property insurance	8,986,719	2,265,808	6,495,954	8,570,555	2,332,124	6,056,291
Agricultural risks insurance	1,040,612	279,596	922,203	1,226,958	243,131	851,781
Motor own damage insurance	33,331,336	47,756	31,358,928	29,306,401	106,745	29,190,042
Liability insurance	4,982,994	1,363,053	3,229,922	3,999,512	1,124,408	2,647,313
Goods in transit insurance	1,381,337	130,301	1,260,936	1,526,438	256,806	1,128,223
Carrier's liability insurance	2,675,979	22	2,641,478	2,623,174	10,316	2,695,347
Watercraft insurance and watercraft owner's liability insurance	473,030	30,013	427,943	411,454	53,614	406,370
Guarantee insurance	1,822,105	1,071,568	687,425	1,950,616	1,295,493	653,023
Railway rolling stock insurance	1,383,183	285,800	1,071,068	1,343,105	207,955	342,483
Assistance insurance	1,244,025	196	1,179,553	1,086,285	498	1,011,973
Financial risks insurance	385,927	121,571	289,002	505,052	200,873	227,098
Loss of employment insurance	6,447	0	5,983	0	0	0
Total from insurance activities	121,039,166	6,745,769	108,888,937	107,986,180	6,799,243	97,348,604
Accident insurance	4,787	0	4,766	4,281	4	4,173
Technical risks insurance	0	0	0	0	13	1,326
Legal persons' property insurance	0	0	0	-37,054	-7,494	303,433
Financial risks insurance	0	0	0	0	-18	18
Total from reinsurance activities	4,787	0	4,766	-32,773	-7,495	308,950
Total	121,043,953	6,745,769	108,893,703	107,953,407	6,791,748	97,657,554

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

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

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG Tallinn

Distribution of gross premiums written by currency

<i>In euros</i>	2015	2014
EUR	120,821,165	59,744,828
USD	222,788	253,078
LTL	0	47,955,501
Total	121,043,953	107,953,407

Distribution of gross premiums written by country

<i>In euros</i>	2015	2014
Estonia	45,925,204	41,363,890
Latvia	22,844,279	18,666,789
Lithuania	52,269,683	47,955,501
Total from insurance activities	121,039,166	107,986,180
Estonia	2,177	2,060
Latvia	2,610	2,221
Romania	0	-37,054
Total from reinsurance activities	4,787	-32,773
Total	121,043,953	107,953,407

Note 4. Commission income

<i>In euros</i>	2015	2014
Reinsurance commissions	856,316	820,490
Participation in reinsurers' profit	117,367	284,909
Reinsurers' share of deferred acquisition costs	-62,229	49,992
Total	911,454	1,155,391

Note 5. Investment income

<i>In euros</i>	2015	2014
Interest income on		
Loans	170,196	169,115
Term deposits	416	1,530
Available-for-sale debt securities	766,291	1,034,066
Total interest income	936,903	1,204,711
Dividend income	637,386	234,477
Net realised gains on		
Equities and fund units	458,742	118,230
Available-for-sale debt securities	386,210	429,819
Total net realised gains	844,952	548,049
Impairment loss	-301,972	0
Total	2,117,269	1,987,237

Note 6. Other income

<i>In euros</i>	2015	2014
Gain on disposal of property and equipment	31,125	37,920
Fees, commissions and charges received	657,441	595,784
Insurance brokerage income	320,130	247,897
Foreign exchange gain	461,614	415,686
Rental income	371,626	222,781
Miscellaneous income	681,715	283,981
Total	2,523,651	1,804,049

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
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Note 7. Claims and benefits

The following table shows claims paid and incurred in 2015 and 2014 by insurance class.

In euros	2015				2014			
	Claims paid ¹	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred	Claims paid ¹	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred
Motor liability insurance	25,559,896	5,022,725	-771,001	29,811,620	21,356,602	2,909,789	-845,656	23,420,735
Accident insurance	2,525,264	-58,336	0	2,466,930	2,400,006	-27,216	257	2,373,047
Travel insurance	1,239,332	-75,116	-771	1,163,445	1,155,060	-146,991	1,267	1,009,336
Technical risks insurance	1,850,169	786,888	-30,581	2,606,476	1,604,611	-148,759	17,076	1,472,928
Individuals' property insurance	4,172,809	-731,523	0	3,441,284	4,790,111	-334,416	504	4,456,199
Legal persons' property insurance	4,002,325	1,248,560	12,368	5,263,254	2,979,932	258,928	80,069	3,318,929
Agricultural risks insurance	254,535	45,705	0	300,239	2,618,278	12,339	-2,055,653	574,964
Motor own damage insurance	21,896,429	-582,954	5,348	21,318,825	19,000,670	935,218	2,844	19,938,732
Liability insurance	1,207,253	396,761	-31,428	1,572,585	1,037,423	810,574	-330,196	1,517,801
Goods in transit insurance	290,573	-4,288	769	287,055	292,313	287,324	-97	579,540
Carrier's liability insurance	1,363,040	324,420	-1,450	1,686,010	1,490,446	-753,687	15,140	751,899
Watercraft insurance and watercraft owner's liability insurance	447,819	-190,849	0	256,971	527,310	-254,356	152	273,106
Guarantee insurance	109,785	-35,004	-30,744	44,035	164,491	-151,648	215	13,058
Railway rolling stock insurance	89,559	426,176	0	515,735	8,555	-27,233	0	-18,678
Assistance insurance	654,286	-87,651	0	566,636	636,736	64,719	1,297	702,752
Financial risks insurance	210,031	203,981	-16,920	397,090	20,869	-5,988	0	14,881
Loss of employment insurance	331	0	0	331	0	0	0	0
Total	65,873,436	6,689,495	-864,410	71,698,521	60,083,413	3,428,597	-3,112,781	60,399,229

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

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

Claims handling costs

<i>In euros</i>	2015	2014
Salaries	2,710,551	2,331,477
Social security charges	828,225	708,315
Depreciation and amortisation	177,468	135,576
Services purchased	1,910,447	1,607,548
Other labour costs	48,755	42,147
Business travel expenses	23,812	26,392
Costs of company cars	70,441	90,465
Training and other staff costs	33,650	23,651
Rental and utilities charges	134,413	136,152
Office expenses	161,718	128,417
Communications costs including mobile phone charges	58,800	50,187
IT costs	284,032	262,797
Miscellaneous costs	438,015	405,254
Total	6,880,325	5,948,378

The following table provides an overview of income from subrogation and salvage recoveries in 2015 and 2014.

<i>In euros</i>	2015	2014
Motor liability insurance	1,472,371	1,450,704
Accident insurance	8,104	281
Travel insurance	844	6,037
Technical risks insurance	91,044	11,358
Individuals' property insurance	482,023	233,400
Legal persons' property insurance	181,204	254,830
Motor own damage insurance	3,046,228	2,665,932
Liability insurance	22,667	19,231
Goods in transit insurance	176,016	12,048
Carrier's liability insurance	6,301	29,131
Watercraft insurance and watercraft owner's liability insurance	17,260	17,460
Guarantee insurance	62,110	15,384
Assistance insurance	156	582
Railway rolling stock insurance	21,003	0
Total	5,587,331	4,716,377

Catastrophes and major losses in 2015

In 2015 there were no extraordinary loss events, nor were there any natural disasters. The biggest claim reported to the company was a motor liability insurance loss of 1.5 million euros. The amounts of claims incurred in connection with the collapse of a shopping centre in the Zolitude district of Riga, Latvia, in December 2013 were not significantly adjusted in 2015.

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
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Note 8. Expenses

<i>In euros</i>	Note	2015	2014
Acquisition costs		33,089,326	30,454,173
Salaries		8,573,469	7,641,123
Social security charges		3,240,977	2,894,475
Depreciation and amortisation		1,371,943	1,306,710
Service fees and commissions		13,606,817	11,734,262
Change in deferred acquisition costs		-905,976	-143,374
Other labour costs		239,275	215,865
Business travel expenses		104,888	133,511
Costs of company cars		320,850	331,227
Training and other staff costs		167,970	142,104
Rental and utilities charges		1,956,545	1,932,749
Office expenses		715,897	617,624
Communications expenses including mobile phone charges		356,989	409,613
IT costs		1,222,179	1,280,416
Marketing expenses		1,283,733	1,202,162
Miscellaneous expenses		833,771	755,706
Administrative expenses		5,471,141	6,071,473
Salaries		2,844,156	2,679,671
Social security charges		752,773	747,736
Depreciation and amortisation		329,945	308,977
Other labour costs		14,840	143,388
Business travel expenses		112,307	116,978
Costs of company cars		65,693	87,233
Training and other staff costs		75,847	62,576
Rental and utilities charges		833,193	750,103
Office expenses		125,536	101,321
Communications expenses including mobile phone charges		46,371	50,296
IT costs		461,763	436,778
Miscellaneous expenses		-191,282	586,416
Other operating expenses		1,343,333	1,173,682
Membership fee to Estonian Motor Insurance Fund		1,343,333	1,173,682
Investment expenses		300,583	340,848
Salaries		94,717	117,764
Social security charges		19,360	30,225
Services purchased		71,819	61,771
Other labour costs		3,503	2,551
Business travel expenses		18,855	19,263
Training and other staff costs		1,382	469
Rental and utilities charges		14,873	7,675
Office expenses		511	1,156
Communications expenses including mobile phone charges		3,095	3,656
Other services		22,902	28,420
Miscellaneous expenses		49,566	67,898

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Allkirjastatud identifitseerimiseks

Date/kuupäev.....22.03.2016.....

Signature/allkiri..........

KPMG, Tallinn

<i>In euros</i>	Note	2015	2014
Other expenses		1,137,950	9,515,127
Membership fees to Financial Supervision Authority and professional associations		320,178	322,928
Insurance brokerage expenses		72,679	91,755
Audit and legal fees		86,720	254,561
Loss on sale of property and equipment		17,706	9,048
Write-off of intangible assets	12	0	8,045,888
Write-off of property and equipment	10	0	3,563
Finance lease interest payments		0	68
Expenses related to leasing out premises		32,775	41,070
State fees, stamp duties and late payment interest		48,469	0
Miscellaneous expenses		559,423	746,246

Note 9. Foreign exchange differences

In the reporting period, the net amount of foreign exchange differences recognised in profit or loss, excluding those arising on financial instruments at fair value through profit or loss, was 292,177 euros (2014: 175,255 euros).

Note 10. Property and equipment

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

At 31 December 2015, the cost of fully depreciated items still in use was 4,399,468 euros (31 December 2014: 5,090,186 euros). ERGO Insurance SE has only such items of property and equipment that are in the company's own use.

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

In euros

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2013	1,247,274	10,100,016	691,313	5,430,865	17,469,468
Additions	0	20,389	0	395,225	415,614
Sales	0	-188,352	0	0	-188,352
Write-off	-12	0	-52,400	-600,269	-652,681
As at 31 December 2014	1,247,262	9,932,053	638,913	5,225,821	17,044,049
Value adjustment	0	159,826	0	-7	159,819
Additions	0	0	4,964	673,795	678,759
Sales	0	-17,647	0	-88,055	-105,702
Write-off	0	0	-81,741	-557,904	-639,645
As at 31 December 2015	1,247,262	10,074,232	562,136	5,253,650	17,137,280
Accumulated depreciation					
As at 31 December 2013	0	2,375,162	465,374	4,335,704	7,176,240
Depreciation for the year	0	233,095	45,393	387,572	666,060
Sales	0	-47,434	0	0	-47,434
Write-off	0	0	-51,010	-580,545	-631,555
As at 31 December 2014	0	2,560,823	459,757	4,142,731	7,163,311
Value adjustment	0	12,052	0	-7	12,045
Depreciation for the year	0	235,905	38,454	415,203	689,562
Sales	0	-4,581	0	-74,669	-79,250
Write-off	0	0	-64,237	-557,482	-621,719
As at 31 December 2015	0	2,804,199	433,974	3,925,776	7,163,949
Carrying amount					
As at 31 December 2014	1,247,262	7,371,230	179,156	1,083,090	9,880,738
As at 31 December 2015	1,247,262	7,270,033	128,162	1,327,874	9,973,331

Note 11. Deferred acquisition costs

<i>In euros</i>	2015	2014
Balance as at 1 January	3,739,080	3,595,706
Amortised portion	-3,728,060	-3,576,919
Addition from new contracts	5,331,402	4,667,314
Reduction after liability adequacy test	-697,366	-947,021
Balance as at 31 December	4,645,056	3,739,080

Initialled for identification purposes only

Allkirjastatud identifitseerimiseks

Date/kuupäev.....22.03.2016.....

Signature/allkiri.....

KPMG, Tallinn

Note 12. Other intangible assets

<i>In euros</i>	
	Software and licences
Cost	
As at 31 December 2013	19,974,092
Addition through purchase of software and licences	834,480
Addition through internally generated IT projects	442,167
Write-off of software and licences	-13,282
Write-off of internally generated IT projects	-8,045,888
As at 31 December 2014	13,191,569
Addition through purchase of software and licences	781,998
Addition through internally generated IT projects	520,285
Write-off of software and licences	-85,717
As at 31 December 2015	14,408,135
Accumulated amortisation	
As at 31 December 2013	5,663,498
Amortisation for the year	1,143,428
Write-off	-13,281
As at 31 December 2014	6,793,645
Amortisation for the year	1,220,854
Write-off	-85,716
As at 31 December 2015	7,928,783
Carrying amount	
As at 31 December 2014	6,397,924
As at 31 December 2015	6,479,352

Internally generated IT project ALICE

	Carrying amount
As at 31 December 2015	4,837,053
As at 31 December 2014	5,431,584

The estimated useful life of insurance software ALICE is 10 years.

ALICE is insurance software that is developed by ERGO group. The costs that are capitalised comprise consulting and development services purchased from external partners and direct labour costs.

In the income statement, amortisation expense is allocated to acquisition costs, administrative expenses and claims handling costs depending on the purpose of use of the asset. Intangible assets comprise various items of software and their licences. In the reporting period, the company did not make any significant investments in insurance software ALICE. ALICE has been implemented at the Estonian entity in motor liability, motor own damage, individuals' property, legal persons' property, liability, accident, and travel insurance. In other classes, the software will be implemented in 2017.

Initialed for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
 KPMG, Tallinn

After a thorough review, which took into account changes in the economic environment, stiff competition, the fact that the system's implementation in Estonia had cost more than originally forecast, and unforeseeable implementation costs at the branches, it was decided not to implement ALICE in Latvia and Lithuania. As a result of the decision, the cost of developments of 8,045,888 euros that had cumulated in Latvia and Lithuania was written off.

No intangible assets were sold in the reporting period. At 31 December 2015, the cost of fully amortised assets still in use was 3,064,939 euros (31 December 2014: 3,101,738 euros).

Note 13. Investments in associates

On the acquisition of interests in ERGO Latvija Invest SIA and CJSC ERGO Ins. Co, ERGO Insurance SE acquired significant influence but not control over the entities. Accordingly, the investments are accounted for as investments in associates.

<i>In euros</i>	2015	2014	2015	2014
	ERGO Latvija Invest SIA		CJSC ERGO Ins. Co.	
Ownership interest	38.00%	38.00%	35.00%	35.00%
Number of shares held	1,254	1,254	6,591	6,591
Nominal value of a share	1.4 euros	1.4 euros	1,145,370 rubles	1,145,370 rubles
Nominal value of investment	1,784 euros	1,784 euros	7,549,133,670 rubles	7,549,133,670 rubles
Share capital	4,696 euros	4,696 euros	21,570,753,210 rubles	21,570,753,210 rubles
Total number of shares	3,300	3,300	18,833	18,833
Cost of investment	488,106	488,106	1,073,809	1,073,809
Company's share of investee's equity	2,248,614	2,247,764	895,274	1,122,553
Carrying amount	2,076,307	2,030,096	1,419,818	1,270,484
Company's share of investee's profit	46,211	66,834	149,334	153,630
Assets	7,578,737	7,738,185	9,166,642	8,687,867
Liabilities	1,661,332	1,823,017	6,608,504	5,480,308
Equity	5,917,404	5,915,168	2,558,139	3,207,559
Income	914,394	965,440	7,772,281	5,488,094
Expenses	-775,992	-739,065	-7,211,984	-4,868,352
Profit	121,607	175,880	426,704	438,980

Note 14. Investments in financial instruments

<i>In euros</i>	Note	2015	2014
As at 31 December			
Available-for-sale financial assets			
Equities and fund units	14.1	20,071,995	16,382,770
Debt and other fixed-income securities	14.2	85,682,647	78,184,180
Total available-for-sale financial assets		105,754,642	94,566,950
Loans and receivables			
Loans	14.3	2,106,288	1,908,397
Total loans and receivables		2,106,288	1,908,397
Total		107,860,930	96,475,347

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

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

According to the hierarchy, at 31 December 2015 the company's available-for-sale debt securities and listed equities and fund units of 105.7 million euros (2014: 94.6 million euros) fell into Level 1. The fair value of unlisted securities (carrying amount at 31 December 2015 43,443 euros and at 31 December 2014 433,304 euros) cannot be measured reliably. Therefore, their level has not been determined. More detailed information on the distribution of assets between different levels of the fair value hierarchy is provided in note 26 *Fair value of financial instruments*.

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

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

14.1. Equities and fund units

In euros	As at 31 December 2015		As at 31 December 2014	
	Cost	Fair value	Cost	Fair value
Units in listed equity funds	6,018,593	7,642,171	2,232,100	2,812,812
Units in listed debt funds	12,678,963	12,386,381	12,210,725	13,136,654
Unlisted equities	43,443	43,443	433,304	433,304
Total	18,740,999	20,071,995	14,876,129	16,382,770

Equities not listed on a public stock exchange comprise other equities of 43,443 euros (2014: 433,304 euros).

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

Associated sales, interest and dividend income is recognised in profit or loss. In the reporting period, the company recognised an impairment loss of 301,972 euros (2014: nil euros) on the unit held in a debt fund.

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

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

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

<i>In euros</i>	As at 31 December 2015		As at 31 December 2014	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Government bonds	37,571,663	38,320,953	16,232,837	17,096,942
Financial institutions' bonds	42,184,672	42,250,319	52,817,793	53,329,330
Other debt securities	0	0	410,501	536,327
Total fixed-income debt securities	79,756,335	80,571,272	69,461,131	70,962,599
Floating rate debt securities				
Financial institutions' bonds	4,529,442	5,111,375	6,535,411	7,221,581
Total floating rate debt securities	4,529,442	5,111,375	6,535,411	7,221,581
Total	84,285,777	85,682,647	75,996,542	78,184,180

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. At 31 December 2015, the portfolio did not include any debt securities measured at cost or using valuation models.

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

14.3. Loans

Other loans by maturity

<i>In euros</i> As at 31 December	2015	2014
One to six months	6,288	8,397
Total	6,288	8,397

Mortgage loans by maturity

<i>In euros</i> As at 31 December	2015	2014
Six months to one year	600,000	0
One to two years	0	600,000
Over five years	1,500,000	1,300,000
Total	2,100,000	1,900,000

At 31 December 2015, ERGO Insurance SE's statement of financial position included a mortgage loan of 1,500,000 euros (31 December 2014: 1,300,000 euros) provided to CJSC ERGO Ins. Co at 9.8% interest per year and a mortgage loan of 600,000 euros (31 December 2014: 600,000 euros) provided to ERGO Invest SIA at 6.3% interest per year.

Note 15. Reinsurance assets

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

<i>In euros</i> As at 31 December	2015	2014
Provision for unearned premiums	1,559,989	1,334,423
<i>Provision for claims outstanding – claims incurred and reported</i>	<i>12,007,463</i>	<i>11,560,427</i>
<i>Provision for claims outstanding – IBNR</i>	<i>26,990</i>	<i>43,470</i>
<i>Provision for insurance pension annuities</i>	<i>1,707,272</i>	<i>1,696,672</i>
Total provision for claims outstanding	13,741,725	13,300,569
Total	15,301,714	14,634,993

Information on reinsurance assets is provided also in note 21.

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

Initialled for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
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Reinsurance result

<i>In euros</i>	Note	2015	2014
Premiums paid to reinsurers	3	-6,745,769	-6,791,748
Reinsurers' share of change in provision for unearned premiums		225,568	-138,333
Commissions and profit participation paid by reinsurers	4	973,683	1,105,398
Reinsurers' share of claims paid	7	423,256	2,629,876
Reinsurers' share of change in provision for claims outstanding	7	441,154	482,905
Reinsurers' share of deferred acquisition costs	4	-62,229	49,993
Total		-4,744,337	-2,661,909

Note 16. Insurance and other receivables

<i>In euros</i>	2015	2014
As at 31 December		
Receivables from policyholders	11,347,356	10,240,163
Receivables from brokers and other intermediaries	1,403,701	1,029,540
Receivables from reinsurers	654,221	715,825
Subrogation and salvage receivables	0	305,127
Total insurance receivables	13,405,278	12,290,655
Other receivables	2,220,477	1,231,811
Accrued income – interest receivable	5,352	11,180
Total other financial assets	15,631,107	13,533,646
Prepaid taxes	36,569	20,885
Prepaid expenses	1,014,999	1,137,968
Total non-financial assets	1,051,568	1,158,853
Total	16,682,675	14,692,499

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 Allkirjastatud identifitseerimiseks
 Date/kuupäev.....22.03.2016.....
 Signature/allkiri.....
 KPMG, Tallinn

Note 17. Cash and cash equivalents

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

<i>In euros</i>		
As at 31 December	2015	2014
Demand deposits	8,987,233	7,555,104
Total	8,987,233	7,555,104

Cash and cash equivalents by original currency

As at 31 December	2015	2014
EUR	8,794,561	5,542,253
USD	192,672	119,938
LTL	0	6,609,411

Note 18. Shareholders and share capital

	Ordinary shares without par value		Total share capital
	Number of shares	Value in euros	In euros
As at 31 December 2015	384,629	6,391,391	6,391,391
As at 31 December 2014	384,629	6,391,391	6,391,391

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

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

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

Initialed for identification purposes only
 Allkirjastatud identifitseerimiseks
 Date/kuupäev..... 22.03.2016
 Signature/allkiri.....
 KPMG, Tallinn

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The entire share capital has been paid in.

Dividends

Based on the decision of the sole shareholder, in 2015 the company declared a dividend of 1,700,000 euros (2014: 1,000,000 euros).

Note 19. Capital reserve

The capital reserve is created with annual net profit transfers made based on the resolution of the general meeting. Under the articles of association that have been in effect since 7 December 2007, the capital reserve has to amount to one tenth of share capital and pursuant to section 336(2) of the Estonian Commercial Code every year at least one twentieth of net profit for the year has to be transferred to the capital reserve. When the level outlined in the articles of association has been achieved, transfers may be terminated. At 31 December 2015, the capital reserve of ERGO Insurance SE exceeded the level required by the articles of association.

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

At 31 December 2015, the capital reserve amounted to 3,072,304 euros (31 December 2014: 3,072,304 euros).

Note 20. Fair value reserve

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

<i>In euros</i>	2015	2014
At 1 January	3,321,210	2,367,665
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-1,119,716	250,065
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	-7,270	-10,157
Net change in fair value recognised in other comprehensive income or expense during the year	735,330	713,637
At 31 December	2,929,554	3,321,210

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Note 21. Insurance contract provisions and reinsurance assets

<i>In euros</i>			
As at 31 December	Note	2015	2014
Gross provisions			
Provision for unearned premiums		47,613,800	41,938,986
<i>Provision for claims outstanding – claims incurred and reported</i>		47,652,540	44,026,102
<i>Provision for claims outstanding – IBNR</i>		6,803,356	6,309,713
<i>Provision for claims outstanding – indirect claims handling costs</i>		2,873,276	2,181,952
<i>Provision for insurance pension annuities</i>		7,168,404	5,290,325
Total provision for claims outstanding		64,497,576	57,808,092
Unexpired risks provision		0	44,766
Total gross provisions		112,111,376	99,791,844
Reinsurers' share of provisions			
Provision for unearned premiums		1,559,989	1,334,423
<i>Provision for claims outstanding – claims incurred and reported</i>		12,007,463	11,560,427
<i>Provision for claims outstanding – IBNR</i>		26,990	43,470
<i>Provision for insurance pension annuities</i>		1,707,272	1,696,672
Total provision for claims outstanding		13,741,725	13,300,569
Total reinsurers' share of provisions	15	15,301,714	14 634 993
Net provisions			
Provision for unearned premiums		46,053,811	40,604,563
<i>Provision for claims outstanding – claims incurred and reported</i>		35,645,077	32,465,675
<i>Provision for claims outstanding – IBNR</i>		6,776,366	6,266,243
<i>Provision for claims outstanding – indirect claims handling costs</i>		2,873,276	2,181,952
<i>Provision for insurance pension annuities</i>		5,461,132	3,593,653
Total provision for claims outstanding		50,755,851	44,507,523
Unexpired risks provision		0	44,766
Total net provisions		96,809,662	85,156,851

Movements in provisions for unearned premiums

<i>In euros</i>		2015			2014	
	Gross provision for unearned premiums	Reinsurers' share	Net provision for unearned premiums	Gross provision for unearned premiums	Reinsurers' share	Net provision for unearned premiums
At 1 January	41,938,986	1,334,423	40,604,563	41,882,336	1,472,756	40,409,580
Premiums written	121,043,953	6,745,769	114,298,184	107,953,407	6,791,748	101,161,659
Premiums earned	-115,369,139	-6,520,203	-108,848,936	-107,896,757	-6,930,081	-100,966,676
At 31 December	47,613,800	1,559,989	46,053,811	41,938,986	1,334,423	40,604,563

Movements in the provisions for both unearned premiums and claims outstanding for 2014 in the notes to the financial statements do not correspond to the changes in the same provisions in the income statement. This is due to the terms of termination of the reinsurance provision agreement signed between ERGO Insurance SE Latvian branch and ERGO Life Insurance SE Latvian branch. The agreement was terminated as from 1 January 2014.

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 Date/kuupäev.....22.03.2016
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Movements in provisions for claims outstanding

<i>In euros</i>		2015		2014		
	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding
At 1 January	57,808,092	13,300,569	44,507,523	54,917,011	12,817,664	42,099,347
Claims incurred in the reporting period	76,108,750	223,079	75,885,671	65,548,928	2,478,341	63,070,587
Change in claims incurred in prior periods	-3,545,830	1,082,487	-4,628,317	-2,574,434	1,117,345	-3,691,779
Claims paid	-65,873,436	-864,410	-65,009,026	-60,083,413	-3,112,781	-56,970,632
At 31 December	64,497,576	13,741,725	50,755,851	57,808,092	13,300,569	44,507,523

Provisions for unearned premiums by insurance class

<i>In euros</i>				
Insurance class	Gross provision for unearned premiums 31 Dec 2015	Gross provision for unearned premiums 31 Dec 2014	Net provision for unearned premiums 31 Dec 2015	Net provision for unearned premiums 31 Dec 2014
Motor liability insurance	15,212,625	12,811,197	15,212,624	12,811,197
Accident insurance	2,045,260	1,882,563	2,042,988	1,880,590
Travel insurance	527,592	520,194	522,227	516,325
Technical risks insurance	1,677,844	1,567,291	1,614,892	1,564,171
Individuals' property insurance	4,330,781	4,094,388	4,330,699	4,094,280
Legal persons' property insurance	3,659,587	3,245,241	3,301,603	3,076,645
Other property insurance	459,281	633,699	459,282	620,467
Motor own damage insurance	13,614,382	11,689,732	13,614,381	11,689,732
Liability insurance	2,132,685	1,636,488	1,627,818	1,214,753
Goods in transit insurance	408,859	418,759	408,236	418,138
Carrier's liability insurance	890,393	834,193	890,392	834,192
Watercraft insurance and watercraft owner's liability insurance	131,477	116,405	131,477	116,404
Guarantee insurance	965,952	1,010,167	423,923	360,810
Railway rolling stock insurance	1,011,456	985,106	949,456	923,140
Assistance insurance	392,260	328,014	392,238	327,961
Financial risks insurance	152,902	165,549	131,111	155,757
Loss of employment insurance	464	0	464	0
Total	47,613,800	41,938,986	46,053,811	40,604,562

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Provisions for claims outstanding by insurance class

In euros

Insurance class	Gross provision for claims outstanding 31 Dec 2015	Gross provision for claims outstanding 31 Dec 2014	Net provision for claims outstanding 31 Dec 2015	Net provision for claims outstanding 31 Dec 2014
Motor liability insurance	33,612,632	28,589,714	28,478,388	24,059,934
Accident insurance	947,430	1,005,762	947,430	1,005,763
Travel insurance	385,317	460,432	384,306	459,933
Technical risks insurance	6,571,546	5,784,660	1,933,043	1,147,110
Individuals' property insurance	1,579,062	2,310,585	1,579,062	2,310,585
Legal persons' property insurance	5,596,408	4,347,848	4,137,432	2,869,469
Other property insurance	108,780	63,075	108,779	63,075
Motor own damage insurance	5,150,566	5,733,716	5,150,566	5,733,716
Liability insurance	6,425,445	6,028,687	4,316,980	3,815,348
Goods in transit insurance	512,197	516,486	498,821	502,320
Carrier's liability insurance	2,125,849	1,801,439	2,109,124	1,761,627
Watercraft insurance and watercraft owner's liability insurance	126,796	317,644	126,796	317,644
Guarantee insurance	603,237	638,241	232,813	251,195
Railway rolling stock insurance	435,397	9,221	435,397	9,221
Assistance insurance	108,305	195,954	108,305	195,955
Financial risks insurance	208,609	4,628	208,609	4,628
Total	64,497,576	57,808,092	50,755,851	44,507,523

In motor liability insurance, the provision for claims outstanding includes the provision for insurance pension annuities. At 31 December 2015, annuity claim files were open for 136 persons: 82 in Estonia, 38 in Latvia and 16 in Lithuania.

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

<i>In euros</i>	Year of incurrence						Total
	2015	2014	2013	2012	2011	2010 and earlier	
Gross provision for pension annuities	62,327	365,618	207,390	785,503	195,821	5,551,746	7,168,404
Net provision for pension annuities	62,327	365,618	207,390	785,503	195,821	3,844,474	5,461,132

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 Date/kuupäev..... 22.03.2016
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Unexpired risks provision

In accordance with the company's accounting policies, the adequacy of insurance provisions has to be tested with a liability adequacy test. Where the test indicates a shortfall in provisions, the company has to first reduce deferred acquisition costs and then, if necessary, recognise an additional provision for unexpired risks. The liability adequacy test performed as at 31 December 2015 indicated that the provisions made for some classes of insurance were not adequate to cover ERGO Insurance SE's obligations in these classes. Based on the test results, deferred acquisition costs were reduced by 697,366 euros (2014: 947,021). No additional unexpired risks provision was recognised (see note 2.1). The company's action plan foresees increasing the proportion of property insurance classes in order to balance the portfolio structure and reduce reliance on a single insurance class. The company also reviews its expense structure on a regular basis and has set itself the target to consistently lower the expense ratio in the next few years.

Note 22. Reinsurance payables

<i>In euros</i>		
As at 31 December	2015	2014
Payables to reinsurers	2,644,736	1,697,410
Reinsurers' share of deferred acquisition costs	366,952	304,973
Total	3,011,688	2,002,383

Note 23. Insurance payables

<i>In euros</i>		
As at 31 December	2015	2014
Payables to policyholders	5,098,317	3,429,206
Payables to brokers and other intermediaries	2,349,888	2,143,422
Other payables	61,042	33,361
Total	7,509,247	5,605,989

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 Date/kuupäev..... 31.03.2016.....
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Note 24. Other payables and accrued expenses

<i>In euros</i>		
As at 31 December	2015	2014
Dividends payable	171	171
Other payables	415,179	382,063
Payables to suppliers	1,760,548	849,967
Accrued vacation pay payable	591,425	540,480
Payables to employees	1,831,995	1,354,813
Other accrued items	1,110,012	392,583
Total other financial liabilities	5,709,330	3,520,078
Personal income tax payable	382,993	570,555
Corporate income tax payable	55,149	0
Value added tax payable	32,446	60,341
Social security tax payable	518,707	283,484
Income tax payable on fringe benefits	2,104	2,196
Social security tax payable on fringe benefits	3,011	2,219
Payables to 2 nd pillar pension funds	15,646	15,438
Total non-financial liabilities	1,010,055	934,234
Total	6,719,386	4,454,312

Note 25. Fair value of financial instruments

<i>In euros</i>		As at 31 December 2015				
	Note	Carrying amount	Fair value	Level I	Level III	Total
Financial assets measured at fair value						
Units in listed equity funds	14.1	7,642,171	7,642,171	7,642,171	0	7,642,171
Units in listed debt funds	14.1	12,386,381	12,386,381	12,386,381	0	12,386,381
Unlisted equities ¹	14.1	43,443	N/A ¹	N/A ¹	0	0
Government bonds	14.2	38,320,953	38,320,953	38,320,953	0	38,320,953
Financial institutions' bonds	14.2	47,361,694	47,361,694	47,361,694	0	47,361,694
Financial assets measured at amortised cost						
Loans	14.3	2,106,288	2,102,009	0	2,102,009	0

<i>In euros</i>		As at 31 December 2014				
	Note	Carrying amount	Fair value	Level I	Level III	Total
Financial assets measured at fair value						
Units in listed equity funds	14.1	2,812,812	2,812,812	2,812,812	0	2,812,812
Units in listed debt funds	14.1	13,136,654	13,136,654	13,136,654	0	13,136,654
Unlisted equities ¹	14.1	433,304	N/A ¹	N/A ¹	0	0
Government bonds	14.2	17,096,942	17,096,942	17,096,942	0	17,096,942
Financial institutions' bonds	14.2	60,550,911	60,550,911	60,550,911	0	60,550,911
Other debt securities	14.2	536,327	536,327	536,327	0	536,327
Financial assets measured at amortised cost						
Loans	14.3	1,908,397	1,920,710	0	1,920,710	0

¹ Fair value cannot be measured reliably.

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

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Note 26. Operating and finance leases***The company as a lessee – operating leases***

The company uses office premises, office equipment and cars under operating leases. In 2015, operating lease expenses on premises totalled 1,636,005 euros (2014: 1,660,810 euros). Operating lease expenses on other assets totalled 109,918 euros (2014: 126,880 euros).

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

Note 27. Income tax

At 31 December 2015, the company's total retained earnings totalled 32,493,445 euros (31 December 2014: 32,637,623 euros) and the carrying amount of intangible assets was 6,479,352 euros (31 December 2014: 6,397,924 euros). Thus, distributable profit amounted to 26,014,093 euros (31 December 2014: 26,239,699 euros). The income tax liability that would arise if all of the distributable profit as at the reporting date were distributed as dividends amounts to 5,202,819 euros (31 December 2014: 5,247,940 euros) and the maximum amount that could be distributed as the net dividend is 20,811,274 euros (31 December 2014: 20,991,759 euros).

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

The income tax liability has been calculated without taking into account that the profit of the Latvian and Lithuanian entities is taxed in their domiciles when earned.

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the dividend tax recognised in the income statement for 2016 cannot exceed the company's distributable profit as at 31 December 2015.

In the reporting period dividends were distributed from the earnings taxed at the company's foreign branches. Therefore, no income tax on dividends was recognised.

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In euros

Income tax expense/income	2015	2014
Income tax expense	256,129	422,959
Change in deferred income tax	-211,184	-447,194
Total income tax expense/income	44,945	-24,235

In euros

Recognised deferred income tax assets	2015	2014
Deductible temporary differences on non-current assets	-103,903	-91,083
Tax loss carry-forward	714,950	551,492
Deductible temporary differences on other liabilities	260,801	200,255
Total	871,848	660,664

In euros

Reconciliation of accounting profit and income tax expense/income	2015	2014
Profit/loss before tax	1,600,767	-5,129,837
Tax rate 0%	0	0
Effect of tax rates in foreign jurisdictions	-180,033	-1,116,947
Effect of tax exempt income and taxable expenses	55,515	-382,684
Effect of non-deductible expenses	221,769	1,772,187
Change in unrecognised deferred tax assets	0	-367,757
Change in recognised deferred tax assets	-52,306	70,966
Income tax expense/income for the year	44,945	-24,235

Note 28. Transactions with related parties

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

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

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

The remuneration, performance bonuses and benefits provided to the members of the management board for the year totalled 500,045 euros (2014: 460,332 euros). The members of the supervisory were not remunerated.

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

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Date/kuupäev..... 22.03.2016.....
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Payment of performance benefits is decided by the chairman of the supervisory board after the general meeting has approved the company's results for the financial year.

When the agreed targets are partly not achieved, the company may decide not to pay any performance benefits. The share of maximum performance benefits in the annual income of members of the management board is considerably smaller than that of their basic remuneration. The targets that underlie provision of performance benefits include financial metrics applicable to the whole group as well as personal metrics applicable at the local level. Depending on the terms of their contracts and the circumstances of termination, members of the management board may be eligible to termination benefits for a period that may extend to the end of their term of office. Generally the term of office of members of the management board is three years.

In euros

As at 31 December Related party	Receivables 2015 ¹	Receivables 2014 ¹	Payables 2015	Payables 2014
Parent of the group – Münchener Rück	0	0	543,696	440,480
Other group companies	2,359,451	2,102,581	544,623	280,545

In euros

Related party	Services purchased 2014	Services purchased 2013	Services sold 2015 ²	Services sold 2014 ²
Other group companies	595,648	1,020,612	1,544,322	1,217,294

¹ Including a loan of 1,500,000 euros (2014: 1,300,000 euros) provided to CJSC ERGO Ins. Co and a loan of 600,000 euros (2014: 600,000 euros) provided to ERGO Invest SIA.

² Including interest of 131,870 euros (2014: 130,790 euros) on the loan provided to CJSC ERGO Ins. Co and interest of 38,325 euros (2014: 38,325 euros) on the loan provided to ERGO Invest SIA.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	2015	2014
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	446,357	781,561
Reinsurers' share of claims paid	106,603	90,804
Reinsurance commissions and profit participation	-37,038	133,624
Other group companies		
Ceded reinsurance premiums	15,644	169,854
Reinsurers' share of claims paid	2,443	578
Reinsurance commissions and profit participation	2,295	13,264
Gross premiums from incoming reinsurance	4,787	4,281
Commissions to holders of reinsurance policies	957	856

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Signatures to annual report 2015

The management board of ERGO Insurance SE has prepared the company's review of operations and financial statements for 2015.

Kęstutis Bagdonavičius

Chairman of the management board 17 March 2016

Tarmo Koll

Member of the management board 17 March 2016

Saulius Jokubaitis

Member of the management board 17 March 2016

Deniss Sazonovs

Member of the management board 17 March 2016

Ingrīda Kīrse

Member of the management board 17 March 2016



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Independent Auditors' Report (Translation from the Estonian original)

To the shareholder of ERGO Insurance SE

We have audited the accompanying financial statements of ERGO Insurance SE ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. Audited financial statements are presented on pages from 20 to 78.

Management's Responsibility for the Financial Statements

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

Auditors' 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 (Estonia). 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 judgment, 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 present fairly, in all material respects the financial position of ERGO Insurance SE as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Financial Reporting Standards as adopted by the European Union.

Tallinn, 22 March 2016

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17

Profit allocation proposal

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

- 1) no transfers be made to the capital reserve because the capital reserve exceeds the level required by the articles of association;
- 2) no transfers be made to other reserves;
- 3) the net profit for 2015 of 1,555,822 (one million five hundred and fifty-five thousand eight hundred and twenty-two) euros be transferred to retained earnings;
- 4) no distribution be made to the sole shareholder.
- 5) As at 1 January 2016, retained earnings amount to 32,493,445 (thirty-two million four hundred and ninety-three thousand four hundred and forty-five) euros.

On behalf of the management board of ERGO Insurance SE



Kęstutis Bagdonavičius

Chairman of the management board

Information on the sole shareholder

This information is presented as at 17 March 2015.

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

Name of

sole shareholder: **ERGO International Aktiengesellschaft**

Legal address: Victoriaplatz 2, 40198 Düsseldorf, Germany

Registry number: HRB 40871, entered in the Commercial Register of Dusseldorf District Court, Germany

Dates of acquisition and subscription of the shares

1. Ordinary shares with no par value:

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

List of business activities

Activities during the period 1 January 2015 – 31 December 2015	Amount
Non-life insurance (65121)	121,039,166
Reinsurance (65201)	4,787

Activities planned for the period 1 January 2016 – 31 December 2016

Non-life insurance (65121)
Reinsurance (65201)