

ERGO Life Insurance SE

Financial statements for 2013

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Company details

ERGO Life Insurance SE

Telephone +370 5 268 30 11
Telefax +370 5 268 30 15

Supervisory Council

Thomas Hans Schirmer
Thomas Schöllkopf
Molgožata Mikulska

Board

Dr Kęstutis Bagdonavičius
Saulius Jokubaitis
Deniss Sazonovs
Maarika Liivamägi
Ingrida Kirse

Management

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

Auditor

KPMG Baltics, UAB

Banks

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

Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

Report on the Financial Statements

We have audited the accompanying financial statements of ERGO Life Insurance SE ("the Company"), which comprise the balance sheet as at 31 December 2013, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 4–54.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ERGO Life Insurance SE as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania and with Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania dated 3 February 2004 and all its amendments.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of ERGO Life Insurance SE for the year ended 31 December 2013, set out on pages 55–58 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of ERGO Life Insurance SE for the year ended 31 December 2013.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
21 March 2014

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

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Minutes No. _____
_____ (date)

Balance sheet

(Litas)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
A.	INTANGIBLE NON-CURRENT ASSETS	1	5,077,041	3,652,801
I.	Development costs			
II.	Goodwill			
III.	Patents, licences			
IV.	Software		3,375,680	1,633,932
V.	Other intangible non-current assets		1,701,361	2,018,869
B.	INVESTMENTS		630,746,092	588,112,911
I.	Land, buildings and other real estate	2	793,605	793,605
I.1.	Occupied by insurance company for its own activities			
I.1.1.	Land			
I.1.2.	Buildings			
I.1.3.	Construction in progress and prepayments			
I.1.4.	Other			
I.2.	Other investments into real estate			
I.3.	Investment property		793,605	793,605
I.3.1.	Land		65,377	65,377
I.3.2.	Buildings		728,228	728,228
II.	Investments into subsidiaries and associates	3	13,855,191	14,439,619
II.1.	Shares of subsidiaries		5,265,541	6,297,413
II.1.1.	Listed			
II.1.2.	Non-listed		5,265,541	6,297,413
II.2.	Debt securities of subsidiaries and loans granted to subsidiaries		3,286,056	3,804,516
II.2.1.	Debt securities			
II.2.2.	Loans		3,286,056	3,804,516
II.3.	Shares in associated companies		5,303,594	4,337,690
II.3.1.	Listed			
II.3.2.	Non-listed		5,303,594	4,337,690
II.4.	Debt securities issued by associated companies and loans granted to associated companies			
II.4.1.	Debt securities			
II.4.2.	Loans			
III.	Other financial investments		616,097,296	572,879,687
III.1.	Shares, other variable-yield securities and investment fund units	4	68,428,891	61,173,100
III.1.1.	Listed		66,774,149	58,864,650
III.1.2.	Non-listed		1,654,742	2,308,450
III.2.	Debt and other fixed-income securities	4	546,322,586	506,988,748
III.2.1.	Government, central bank and municipal securities		411,552,353	391,286,306
III.2.2.	Securities issued by other business entities		134,770,233	115,702,442
III.3.	Participation in investment pools			
III.4.	Loans secured in with mortgages			
III.5.	Other loans		134,152	169,005
III.6.	Deposits in credit institutions	5	1,211,667	4,548,834
III.7.	Other investments			
IV.	Deposits at the reinsured			

Balance sheet

(Litas)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
C.	OTHER LIFE INSURANCE INVESTMENTS	6	43,143,795	34,207,316
I.	Life insurance investments with investment risk taken by the insured		43,143,795	34,207,316
II.	Professional pension accumulation investment			
D.	AMOUNTS RECEIVABLE	7	25,345,493	22,005,719
I.	Amounts receivable from insurance activities		23,189,955	20,496,058
I.1.	The insured		23,188,250	20,494,892
I.2.	Intermediaries		1,705	1,166
I.3.	Others			
II.	Amounts receivable from inward and outward reinsurance activities		1,356,021	1,197,246
II.1.	The reinsured			
II.2.	Reinsurers		1,356,021	1,197,246
II.3.	Intermediaries			
II.4.	Others			
III.	Other amounts receivable		799,517	312,415
E.	OTHER ASSETS		21,089,887	27,225,033
I.	Tangible assets and inventories		1,496,802	1,269,222
I.1.	Motor vehicles	9, 10	556,667	497,028
I.2.	Office and other equipment	9, 10	912,595	751,387
I.3.	Inventories		0	379
I.4.	Prepayments		27,540	20,428
II.	Cash at bank and in hand	11	19,250,123	24,963,572
III.	Other assets		342,962	992,239
F.	ACCRUED INCOME AND DEFERRED COSTS	12	11,559,000	12,392,096
I.	Accrued interest and rental income			
II.	Deferred acquisition costs		10,954,830	11,735,261
II.1.	Deferred acquisition costs for non-life part		1,194,894	1,158,059
II.2.	Deferred acquisition costs for life part		9,759,936	10,577,202
III.	Other accrued income			
IV.	Other deferred costs		604,170	656,835
	TOTAL ASSETS		736,961,308	687,595,876

Balance sheet

(Litas)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
A.	CAPITAL AND RESERVES		86,215,177	89,420,275
I.	Share capital	13	15,124,000	15,124,000
II.	Share premium (surplus of nominal value)	13	52,238,411	52,238,411
III.	Own shares (-)			
IV.	Revaluation reserve			
V.	Reserves	14	2,555,799	2,555,799
V.1.	Legal reserve		1,555,799	1,555,799
V.2.	Reserve for acquisition of own shares			
V.3.	Other reserves		1,000,000	1,000,000
VI.	Profit (loss) to be carried forward from previous year	15	16,049,265	9,505,921
VII.	Retained earnings (losses) of the current year (+/-)	15	247,702	9,996,144
B.	FINANCING (GRANTS AND SUBSIDIES)			
C.	SUBORDINATED LIABILITIES	17	0	0
D.	TECHNICAL PROVISIONS	16	571,572,607	530,532,482
I.	Provision for unearned premiums		28,076,405	27,474,496
I.1.	Gross amount		40,052,027	38,352,715
I.2.	Reinsurers' share (-)		(11,975,622)	(10,878,219)
II.	Life insurance mathematical technical provision		515,519,086	475,970,050
II.1.	Gross amount		517,671,516	479,050,320
II.2.	Reinsurers' share (-)		(2,152,430)	(3,080,270)
III.	Outstanding claims technical provision		10,305,955	11,312,476
III.1.	Gross amount		12,761,685	13,450,344
III.2.	Reinsurers' share (-)		(2,455,730)	(2,137,868)
IV.	Technical provision for rebates		17,282,948	15,775,460
IV.1.	Gross amount		17,491,950	16,102,813
IV.2.	Reinsurers' share (-)		(209,002)	(327,353)
V.	Loss equalisation technical provision			
VI.	Other technical provisions		388,213	0
VI.1.	Gross amount		388,213	0
VI.2.	Reinsurers' share (-)			
E.	OTHER TECHNICAL PROVISION FOR LIFE INSURANCE	16	43,143,795	34,207,316
I.	Technical provision for life insurance when the investment risk is borne by the insured		43,143,795	34,207,316
I.1.	Gross amount		43,143,795	34,207,316
I.2.	Reinsurers' share (-)			
II.	Technical provision for professional pension accumulation			
F.	PROVISIONS			
I.	Provisions for pensions and similar liabilities			
II.	Provisions for taxation			
III.	Other provisions			
G.	DEPOSITS OF REINSURERS	17	303,632	305,587

Balance sheet

(Litas)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
H.	LIABILITIES		35,726,097	33,130,216
I.	Liabilities from insurance activities	17	10,281,461	9,886,484
I.1.	Liabilities to the insured		8,373,879	7,893,690
I.2.	Liabilities to intermediaries		1,907,582	1,992,794
I.3.	Other liabilities from insurance activities			
II.	Liabilities from inward and outward reinsurance activities	17	16,981,688	15,085,195
II.1.	Liabilities to the reinsured			
II.2.	Liabilities to the reinsurers		16,981,688	15,085,195
II.3.	Liabilities to intermediaries			
II.4.	Other liabilities from inward and outward reinsurance activities			
III.	Issued debt securities converted debts to be specified separately			
IV.	Debts to credit institutions			
V.	Taxes, social insurance and other liabilities	17	8,462,948	8,158,537
V.1.	Taxes		1,375,276	1,012,625
V.2.	Compulsory social insurance contributions		265,459	140,577
V.3.	Salaries		283,182	144,600
V.4.	Other liabilities	19	6,539,031	6,860,735
I.	ACCRUED COSTS AND DEFERRED INCOME			
I.	Accrued costs			
II.	Deferred income			
	TOTAL EQUITY AND LIABILITIES		736,961,308	687,595,876

Head of the insurance company

21/03/2014
(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)

21/03/2014
(signature, date)

Jūratė Mockienė
(first and last names)

Chief Actuary

21/03/2014
(signature, date)

Dr Gintaras Bakštys
(first and last names)

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

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Minutes No. _____
_____ (date)

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
I.	TECHNICAL ACCOUNT – NON-LIFE INSURANCE			
I.1.	EARNED PREMIUMS NET OF REINSURERS' SHARE		32,692,988	27,368,710
I.1.1.	Gross premiums written	22	58,026,711	47,500,856
I.1.2.	Outward reinsurance premiums (-)		(24,072,048)	(20,464,302)
I.1.3.	Change in technical provision for premiums unearned +/-		(2,345,977)	(122,270)
I.1.4.	Change in the reinsurers' share in technical provision for premiums unearned +/-		1,084,302	454,426
I.2.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM NON-TECHNICAL ACCOUNT		515,120	448,352
I.3.	OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE		304,191	75,110
I.4.	INSURANCE CLAIM, NET OF REINSURERS' SHARE EXPENSES (-)	22	(23,693,282)	(21,489,552)
I.4.1.	Claims paid on insured events (-)		(23,413,395)	(22,038,936)
I.4.1.1.	Claims paid (-)		(35,511,118)	(32,299,415)
I.4.1.2.	Claims settlement expenses (-)		(3,238,498)	(2,965,116)
I.4.1.3.	Amounts recovered (+)		67,379	75,294
I.4.1.4.	Reinsurers' share (+)		15,268,842	13,150,301
I.4.2.	Change in the technical provision for claims outstanding (-/ +)		(279,887)	549,384
I.4.2.1.	Gross amount (-)		(482,142)	427,134
I.4.2.2.	Reinsurers' share (+)		202,255	122,250
I.5.	CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-		(388,213)	148,481
I.5.1.	Gross amount (-)		(388,213)	148,481
I.5.2.	Reinsurers' share (+)			
I.6.	REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)			
I.6.1.	Rebated premiums (profit participation) (-)			
I.6.1.1.	Gross amount (-)			
I.6.1.2.	Reinsurers' share (+)			
I.6.2.	Change in technical provision for rebates (-/+)			
I.6.2.1.	Gross amount (-)			
I.6.2.2.	Reinsurers' share (+)			
I.7.	NET OPERATING EXPENSES (-)	24	(5,095,101)	(7,024,075)
I.7.1.	Acquisition costs (-)		(8,106,652)	(7,428,998)
I.7.2.	Change in deferred acquisition costs (-/+)		36,835	(83,046)
I.7.3.	Administrative expenses (-)		(3,171,205)	(2,913,710)
I.7.4.	Reinsurance commissions and reinsurers' profit share (+)		6,145,921	3,401,679

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
I.8.	OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)		(58,437)	(73,598)
I.9.	TECHNICAL RESULT BEFORE THE FORMATION OF THE LOSS EQUALISATION PROVISION		4,277,266	(546,572)
I.10.	CHANGE IN THE LOSS EQUALISATION PROVISION +/-(-)			
I.11.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE		4,277,266	(546,572)
II.	TECHNICAL ACCOUNT – LIFE INSURANCE			
II.1.	EARNED PREMIUMS, NET OF REINSURERS' SHARE		101,955,748	94,306,370
II.1.1.	Gross premiums written	21	104,847,225	95,436,241
II.1.2.	Outward reinsurance premiums (-)		(3,551,243)	(2,716,898)
II.1.3.	Change in unearned premiums technical provision +/-(-)		646,665	1,792,524
II.1.4.	Change in reinsurers' share of unearned premiums technical provision +/-(-)		13,101	(205,497)
II.2.	INVESTING INCOME	28	25,838,814	27,465,818
II.2.1.	Income from participating in other companies			
II.2.2.	Income from other investments		23,799,546	23,398,385
II.2.2.1.	Income from land and buildings		41,057	39,785
II.2.2.2.	Income from other investments		23,758,489	23,358,600
II.2.3.	Reversal of impairment		993,246	1,448,687
II.2.4.	Profit from transfer of investments		1,046,022	2,618,746
II.3.	PROFIT FROM INVESTMENT WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED		3,622,376	3,559,394
II.3.1.	Profit from investment when the investment risk is borne by the insured		3,622,376	3,559,394
II.3.2.	Profit from professional pension accumulation investment			
II.4.	OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE		1,849,372	1,743,192
II.4.1.	Income from pension accumulation activity	25	1,738,280	1,586,230
II.4.2.	Other technical income		111,092	156,962
II.5.	INSURANCE CLAIM COSTS, NET OF REINSURERS' SHARE (-)		(51,921,540)	(72,540,930)
II.5.1.	Claims paid on insurance events (-)		(53,207,948)	(68,083,003)
II.5.1.1.	Claims paid (-)		(35,220,141)	(53,367,634)
II.5.1.2.	Redeemable amounts (-)		(19,536,152)	(16,385,063)
II.5.1.3.	Claim settlement costs (-)		(386,734)	(539,915)
II.5.1.4.	Reinsurers' share (+)		1,935,079	2,209,609
II.5.2.	Change in the technical provision for claims outstanding (-/+)		1,286,408	(4,457,927)
II.5.2.1.	Gross amount (-)		1,170,801	(4,599,315)
II.5.2.2.	Reinsurers' share (+)		115,607	141,388

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
II.6.	CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-(-)		(48,485,515)	(15,763,011)
II.6.1.	Change in life insurance mathematical technical provision, net of reinsurers' share +/-(-)		(48,485,515)	(15,763,011)
II.6.1.1.	Gross amount (-)		(47,557,675)	(13,627,351)
II.6.1.2.	Reinsurers' share (+)		(927,840)	(2,135,660)
II.6.2.	Change in other technical provisions, net of reinsurers' share (-/+)			
II.6.2.1.	Gross amount (-)			
II.6.2.2.	Reinsurers' share (+)			
II.7.	REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)		(2,451,299)	(2,696,201)
II.7.1.	Rebated premiums (profit participation) (-)		(943,811)	(1,680,698)
II.7.1.1.	Gross amount (-)		(1,143,428)	(1,259,554)
II.7.1.2.	Reinsurers' share (+)		199,617	(421,144)
II.7.2.	Change in technical provision for rebates (-/+)		(1,507,488)	(1,015,503)
II.7.2.1.	Gross amount (-)		(1,389,137)	(1,317,180)
II.7.2.2.	Reinsurers' share (+)		(118,351)	301,677
II.8.	NET OPERATING EXPENSES (-)	24	(25,107,187)	(20,977,057)
II.8.1.	Acquisition costs (-)		(18,484,851)	(15,485,138)
II.8.2.	Change in deferred acquisition costs (-/+)		(817,266)	(511,496)
II.8.3.	Administrative expenses (-)		(7,345,641)	(6,153,256)
II.8.4.	Reinsurance commissions and reinsurers' profit share (+)		1,540,571	1,172,833
II.9.	INVESTMENT EXPENSES (-)	28	(7,568,182)	(3,534,821)
II.9.1.	Investment management expenses including interest (-)		(1,283,810)	(1,215,850)
II.9.2.	Decrease in investment value (-)		(5,939,700)	(1,498,063)
II.9.2.1.	Costs related to participation in other companies activity and other investments (-)			
II.9.2.2.	Loss due to decrease in value (-)		(5,939,700)	(1,498,063)
II.9.3.	Loss on transfer of investments (-)		(344,672)	(820,908)
II.10.	LOSS ON INVESTMENTS WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED (-)		0	0
II.11.	OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)		(79,521)	(51,594)
II.12.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED TO NON-TECHNICAL ACCOUNT (-)		(3,023,740)	(3,098,407)
II.13.	PROFIT (LOSS) FROM TECHNICAL ACCOUNT OF LIFE INSURANCE		(5,370,674)	8,412,753
III.	NON-TECHNICAL ACCOUNT			
III.1.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE		4,277,266	(546,572)
III.2.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE		(5,370,674)	8,412,753

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
III.3.	INVESTMENT INCOME			
III.3.1.	Income from participating in other companies			
III.3.2.	Income from other investments			
III.3.2.1.	Income from land and buildings			
III.3.2.2.	Income from other investments			
III.3.3.	Reversal of impairment			
III.3.4.	Profit from transfer of investments			
III.4.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE		3,023,740	3,098,407
III.5.	INVESTMENT EXPENSES (-)			
III.5.1.	Investment management expenses including interest (-)			
III.5.2.	Decrease in investment value (-)			
III.5.2.1.	Costs related to participation in other companies activity and other investments (-)			
III.5.2.2.	Loss due to decrease in value (-)			
III.5.3.	Loss on transfer of investments (-)			
III.6.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED TO THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE (-)		(515,120)	(448,352)
III.7.	OTHER INCOME		91,741	512,188
III.7.1.	Finance income	29	534	38,113
III.7.2.	Other income		91,207	474,075
III.8.	OTHER EXPENSES (-)		(1,029,706)	(893,357)
III.8.1.	Finance expenses (-)	29	(170,776)	(20,630)
III.8.2.	Other expenses (-)		(858,930)	(872,727)
III.9.	PROFIT (LOSS) FROM ORDINARY ACTIVITIES		477,247	10,135,067
III.10.	EXTRAORDINARY INCOME			
III.11.	EXTRAORDINARY EXPENSES (-)			
III.12.	EXTRAORDINARY PROFIT (LOSS)			
III.13.	CURRENT YEAR RESULT – PROFIT (LOSS) –BEFORE TAXATION		477,247	10,135,067
III.14.	PROFIT TAX (-)	30	(229,545)	(138,923)
III.15.	CURRENT YEAR RESULT – PROFIT (LOSS)		247,702	9,996,144

Head of the insurance company

21/03/2014
(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)

21/03/2014
(signature, date)

Jūratė Mockienė
(first and last names)

Chief Actuary

21/03/2014
(signature, date)

Dr Gintaras Bakštys
(first and last names)

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

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Minutes No. _____
_____ (date)

Statement of changes in equity

(Litas)

	Issued authorized capital	Share premium account	Own shares (-)	Revaluation reserve (results)		Legal reserve		Other reserves	Retained earnings (loss)	Total
				Tangible non-current assets	Financial assets	Compulsory	Own shares acquisition			
1. Balance as at 31 December 2011	15,124,000	52,238,411				1,221,477		1,000,000	15,400,243	84,984,131
2. Result of change in the accounting policy										
3. Result of corrections of material errors										
4. Restated balance as at 31 December 2011	15,124,000	52,238,411				1,221,477		1,000,000	15,400,243	84,984,131
5. Increase (decrease) in value of non-current tangible assets										
6. Increase (decrease) in value of financial assets										
7. Purchase/sale of own shares										
8. Profit (loss) not recognized in the income statement										
9. Net profit (loss) of the reporting period									9,996,144	9,996,144
10. Dividends									(5,560,000)	(5,560,000)
11. Other amounts paid out										
12. Reserves allocated						334,322			(334,322)	
13. Reserves used										
14. Increase (decrease) in authorized capital										
15. Result of change in the accounting policy										
16. Result of corrections of material errors										
17. Balance as at 31 December 2012	15,124,000	52,238,411				1,555,799		1,000,000	19,502,065	89,420,275
18. Increase (decrease) in value of non-current tangible assets										
19. Increase (decrease) in value of financial assets										
20. Acquisition of own shares										
21. Profit (loss) not recognized in the income statement										
22. Net profit (loss) of the reporting period									247,702	247,702
23. Dividends									(3,452,800)	(3,452,800)
24. Other amounts paid out										
25. Reserves allocated										
26. Reserves used										
27. Increase/decrease in authorized capital										
28. Result of change in the accounting policy										
29. Result of corrections of material errors										
30. Balance as at 31 December 2013	15,124,000	52,238,411				1,555,799		1,000,000	16,296,967	86,215,177

Head of the insurance company

21/03/2014
(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)

21/03/2014
(signature, date)

Jūratė Mockienė
(first and last names)

Chief Actuary

21/03/2014
(signature, date)

Dr Gintaras Bakštys
(first and last names)

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

APPROVED BY

Minutes No. _____
_____ (date)

Cash flow statement

(Litas)

Row No.	ITEMS	Financial year	Previous financial year
I.	CASH FLOWS FROM OPERATING ACTIVITIES +/-(-)	27,988,780	6,656,898
I.1.	Insurance and inward reinsurance premiums received	161,042,390	143,994,091
I.1.1.	Insurance premiums	161,042,390	143,911,213
I.1.2.	Inward reinsurance premiums	0	82,878
I.2.	Coinsurance premiums		
I.2.1.	Share of insurance undertakings in coinsurance premiums received		
I.2.2.	Share in coinsurance premiums received of other insurance undertakings involved in coinsurance operations		
I.3.	Amounts paid to other insurance undertakings involved in coinsurance operations (-)		
I.4.	Amounts received from other insurance undertakings involved in coinsurance operations		
I.5.	Outward reinsurance premiums (-)	(723,884)	(300,419)
I.5.1.	Proportional outward reinsurance premiums (-)	(723,884)	(300,419)
I.5.2.	Non-proportional outward reinsurance premiums (-)		
I.6.	Amounts paid under insurance and reinsurance contracts (-)	(89,144,139)	(99,078,335)
I.6.1.	Rebates upon cancellation of contracts (-)	(57,679)	(76,737)
I.6.1.1.	Insurance (-)	(57,679)	(76,737)
I.6.1.2.	Reinsurance (-)		
I.6.2.	Claims paid (-)	(69,841,153)	(83,968,496)
I.6.2.1.	Insurance (-)	(71,207,195)	(85,494,643)
I.6.2.2.	Reinsurance (-)	1,366,042	1,526,147
I.6.3.	Amounts recovered by way of subrogation and salvage (+)	67,379	75,295
I.6.3.1.	Insurance (+)	67,379	75,295
I.6.3.2.	Reinsurance (+)		
I.6.4.	Surrender values paid (-)	(19,138,447)	(14,938,432)
I.6.4.1.	Insurance (-)	(19,186,610)	(15,023,135)
I.6.4.2.	Reinsurance (-)	48,163	84,703
I.6.5.	Claim settlement costs paid (-)	(39,996)	(51,046)
I.6.5.1.	Insurance (-)	(39,996)	(51,046)
I.6.5.2.	Reinsurance (-)		
I.6.6.	Rebates (profit participation) paid to the insured upon maturity (-)	(333,860)	(420,596)
I.6.7.	Rebates (profit participation) paid to the reinsured upon maturity (-)	199,617	301,677
I.7.	Other amounts transferred to reinsurers (-)	(259,890)	(225,332)
I.8.	Other amounts received from reinsurers	0	39,203
I.9.	Other amounts transferred to the reinsured (-)		
I.10.	Other amounts received from the reinsured		
I.11.	Operating expenses paid (-)	(38,061,588)	(32,437,474)

Cash flow statement

(Litas)

Row No.	ITEMS	Financial year	Previous financial year
I.12.	Taxes on ordinary activities paid (-)	(5,383,791)	(5,655,628)
I.13.	Amounts received from other operating activities	718,630	420,040
I.14.	Amounts paid on other operating activities (-)	(198,948)	(99,248)
II.	CASH FLOWS FROM INVESTING ACTIVITIES		
	+ / (-)	(30,224,315)	15,921,205
II.1	Amounts received from investing activities	25,976,868	28,027,647
II.1.1.	Amounts received due to merger	0	749,278
II.1.2.	Shares, other variable-yield securities and investment fund units	3,198,213	2,448,116
II.1.3.	Debt and other fixed-income securities	20,469,086	22,988,444
II.1.4.	Land		
II.1.5.	Buildings	43,903	43,243
II.1.6.	Loans secured with mortgages	517,920	127,067
II.1.7.	Other secured loans		
II.1.8.	Unsecured loans	13,865	13,139
II.1.9.	Deposits in credit institutions	4,110	81,322
II.1.10.	Other investments	1,729,771	1,577,038
II.2.	Amounts received on maturity or realization of investments	296,881,422	1,153,158,642
II.2.1.	Subsidiaries and associates		
II.2.2.	Shares, other variable-yield securities and investment fund units	4,745,119	44,661,344
II.2.3.	Debt securities and other fixed-income securities	47,823,097	257,543,067
II.2.4.	Land		
II.2.5.	Buildings		
II.2.6.	Loans secured with mortgages	0	2,077,254
II.2.7.	Other secured loans		
II.2.8.	Unsecured loans	85,769	79,147
II.2.9.	Deposits in credit institutions	244,188,534	848,797,830
II.2.10.	Other investments	38,903	0
II.3.	Amounts paid on investment (-)	(351,146,123)	(1,163,510,633)
II.3.1.	Subsidiaries and associates (-)	(1,039,137)	0
II.3.2.	Shares, other variable-yield securities and investment fund units (-)	(41,409,023)	(142,606,797)
II.3.3.	Debt securities and other fixed-income securities (-)	(66,988,386)	(167,743,448)
II.3.4.	Land (-)		
II.3.5.	Buildings (-)		
II.3.6.	Loans secured with mortgages (-)		
II.3.7.	Other secured loans (-)	0	(3,798,080)
II.3.8.	Unsecured loans (-)	(93,615)	(166,457)
II.3.9.	Deposits in credit institutions (-)	(240,855,122)	(846,701,114)
II.3.10.	Other investments (-)	(760,840)	(2,494,737)
II.4.	Taxes paid on investing activities (-)	(670,051)	(817,229)
II.5.	Amounts generated from other investing activities		
II.6.	Amounts paid on other investing activities (-)	(1,266,431)	(937,222)

Cash flow statement

(Litas)

Row No.	ITEMS	Financial year	Previous financial year
III.	CASH FLOWS FROM FINANCING ACTIVITIES +/-	(3,477,914)	(5,548,615)
III.1.	Amounts received on issue of ordinary and preference shares		
III.2.	Amounts paid on purchase of own shares (-)		
III.3.	Amounts received on issue of debt securities		
III.4.	Amounts paid on redemption of debt securities (-)		
III.5.	Loans received		
III.6.	Loans repaid (-)		
III.7.	Dividends paid (-)	(3,452,800)	(5,560,000)
III.8.	Taxes paid on financing activities (-)		
III.9.	Amounts generated from other financing activities	0	11,385
III.10.	Amounts paid on other financing activities (-)	(25,114)	0
IV.	INCREASE (DECREASE) IN CASH	(5,713,449)	17,029,488
V.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	24,963,572	7,934,084
VI.	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	19,250,123	24,963,572

Head of the insurance company

21/03/2014
(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)

21/03/2014
(signature, date)

Jūratė Mockienė
(first and last names)

Chief Actuary

21/03/2014
(signature, date)

Dr Gintaras Bakštys
(first and last names)

Explanatory notes

1 Introduction

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

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

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

Life insurance group includes the following:

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

Non-life insurance group includes the following:

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

Furthermore, the Company participates in the II pillar of the pension system by managing two pension funds.

In 2013, the premiums written by the Company increased to 162.87 million Litās, compared to 142.94 million Litās in 2012. Claim costs, except for reinsurers’ share, amounted to 75.61 million Litās in the financial year (94.03 million Litās in 2012).

In 2013, the profit generated by the Company amounted to 247,702 Litās because of the successful investment activity steadily pursued in the established European Company, balanced risk management, increase in the premiums written, price optimisation as well as development of insurance products.

Management of the Company’s investment portfolio was taken over by the Estonian company AS Trigon Funds.

The average number of employees in 2013 amounted to 398 (241 in 2012). The Company has 5 regional centres in the biggest Lithuanian cities, i.e. Vilnius, Kaunas, Klaipėda, Panevėžys, Šiauliai, and 16 territorial client service centres in Lithuania and 3 regional centres, 10 representative offices and 13 sales points in Latvia. The Estonian branch has 8 sales persons.

The authorised capital of the Company amounts to 15,124,000 Litās (fifteen million one hundred and twenty four thousand). It is divided into 15,124 (fifteen thousand one hundred and twenty four) ordinary registered shares with a nominal value of 1,000 (one thousand) Litās each.

Besides, share premium (surplus of nominal value) of 52,238,411 Litas (fifty two million two hundred thirty eight thousand four hundred and eleven) has been formed.

On 26 April 2012, 33% of the Company's shares held by ERGO Kindlustuse AS were transferred to another shareholder, i.e. ERGO International AG situated in Germany. As at 31 December 2013, 15,124 shares (100% from the total authorised capital) are owned by the parent company ERGO International AG, the head office of which is situated at the address Victoriaplatz 2, D-40198, Dusseldorf, Germany. Company code 40871.

As at 31 December 2013, the Company had the following subsidiaries and associated companies:

- 62% of ERGO Invest SIA shares. Head office – Unijas 45, Riga, the Republic of Latvia.
- 44.25% of ERGO Funds shares. Head office – A. H. Tammsaare tee 118c, 12918 Tallinn, the Republic of Estonia.
- 26.54% of ADB ERGO in Belarus shares. Head office – Pionierskaja 2, Minsk, Belarus.

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

The Company has been audited by KPMG Baltics, UAB. The shareholders' meeting is foreseen to be held on 26–28 March 2014.

2 Accounting principles

Statement of compliance

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

Basis of preparation

The financial statements are presented in the national currency Litas. As of 2 February 2002, Litas is pegged to Euro at the exchanged rate 3.4528 Litas equal to 1 EUR.

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

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

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

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

Estimates

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

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

Intangible assets

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

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

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

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

Investment property

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

Financial assets

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

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

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

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

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

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

Effective interest method

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

Investment into subsidiaries and associated companies

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

Investments into equity securities

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

Investments into debt securities

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

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

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

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

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

Dividend income is recognized when distributed.

Loans

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

Tangible non-current assets

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

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

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

Office equipment	3–10 years
Vehicles	4–10 years

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

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

If the renovation of tangible assets improves their useful properties or extends their useful life, the acquisition cost of the tangible non-current assets is increased by the value of the renovation. Otherwise, the renovation is expensed. The value added tax is not included in the acquisition cost of tangible non-current assets. The minimum value of tangible non-current assets of 5,179 Litass has been determined by the Company.

Inventories

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

Other assets

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

Capital and reserves

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

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

In 2005, as to decision of the shareholders, a compulsory reserve of 48,750 Litas and a reserve for distribution of 1,000,000 Litas, reflected in the balance sheet under equity and liabilities, Item V.3. Other Reserves, were formed. In 2008, the compulsory reserve was increased by 551,250 Litas. On 3 January 2011, after the merger of the companies, the legal reserve was replenished by 621,477 Litas from the former compulsory reserves, made by decision of the shareholder, of ERGO ELUKINDLUSTUSE AKTSIASELTS and Ergo Latvija dziviba apdrošinašanas akciju sabiedrība. In 2012, based on the shareholders' decision, additional transfers of 334,322 Litas were made to compulsory reserve.

As at the end of 2013, the Company had fully formed its compulsory reserve.

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

Technical provisions

The Company forms the following technical provisions:

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

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

The mentioned technical provisions are formed in accordance with Resolution No. N-117 approved by the Insurance Supervisory Commission of the Republic of Lithuania “Methods for Calculation of Insurance Technical Provisions” and subsequent amendments to this Resolution.

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

Life insurance mathematical technical provision is formed in accordance with the principles of the best actuarial practice and with insurance products technical plans. It is estimated by the principle of actuarial perspective net insurance premiums as a difference between the actuary discounted contractual insurance liabilities (as at the date of the provision calculation) and future claim settlement costs and actuary discounted future net insurance premiums. The actuary basis is actualized annually. The Zillmer method is applied. Life insurance mathematical technical provision is directly interpolated by the 1/12 method as insurance contracts start on the first day of each month.

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

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

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

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

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

Derivatives

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

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

Provisions for other liabilities

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

Other liabilities

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

Financial liabilities

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

Premiums written and earned premiums

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

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

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

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

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

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

Claim costs

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

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

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

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

Investment income and expenses

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

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

Recognition of other income and expenses

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

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

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

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

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

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

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

Deferred acquisition costs

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

Acquisition costs and administrative expenses

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

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

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

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

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

Other technical income

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

Taxes

The main rates of the taxes paid by the Company:

- Insurance Supervisory Commission maintenance fee of 0.182% from insurance premiums written;
- Social insurance contributions of 30.98% in Lithuania, 24.09% in Latvia and 34.10% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT less input VAT;
- Real estate tax up to 1% in Lithuania, 0.2% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

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

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

In 2013, corporate income tax of 448,211 Litas was calculated for the activity in the Republic of Lithuania which was covered by the accumulated tax losses. Corporate income tax of 229,545 Litas was calculated for the activity in the Republic of Latvia to be paid to the Budget of the Republic of Latvia. Activity in the Republic of Estonia is not subject to corporate income tax.

Calculation of corporate income tax was influenced by the result of the financial activity, attribution of life insurance premiums and investment income to the tax exempt income and attribution of costs, generating tax exempt income, to non-deductible expenses. In 2013, a profit tax rate of 15% was applied. The calculated tax decreased the tax loss carried forward, the basis of which is tax losses from the previous accounting periods.

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

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

The Company does not expect to have payable income tax in the future; therefore, deferred tax assets were not formed.

Foreign currencies

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

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

Cash flow statement

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

Post-balance sheet events

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

Risk management

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

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

Credit risk

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

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

Currency risk

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

The main part of the Company's transactions in 2013 is denominated in local currencies: Lithuanian Litas (LTL), Latvian Lat (LVL) and Euro (EUR). On 1 January 2014, Euro became the national currency of Latvia. The risk related to transactions in Euro is considered to be insignificant as the Lithuanian Litas is pegged to Euro at a fixed rate.

Liquidity risk

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

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

Interest rate risk

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

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

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

	Financial year	Previous financial year
Increase by 100 bp (1%)		
Result for the financial year	10,848	11,588
Decrease by 100 bp (1%)		
Result for the financial year	(11,926)	(12,698)

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

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

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

Risk-taking and provision risk (insurance risk)

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

To manage this risk, the Company uses:

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

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

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

	Financial year	Previous financial year
5% increase		
Result for the financial year	(374)	(353)
5% decrease		
Result for the financial year	352	353

Concentration risk

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

Notes

Note 1. Intangible assets (Litas)

Items	Assets groups		Total
	Software	Other intangible assets	
Acquisition cost			
At the beginning of the accounting period	6,568,296	2,369,955	8,938,251
Acquired assets	2,512,480	74,287	2,586,767
Transferred assets (-)			
Written off assets (-)			
Reclassified assets +/-(-)			
At the end of the accounting period	9,080,776	2,444,242	11,525,018
Accumulated amortization charge			
At the beginning of the accounting period	4,934,364	351,086	5,285,450
Calculated amortization charge	770,732	391,795	1,162,527
Restated amortization charge (-)			
Written off amortization charge on disposals (-)			
Written off amortization charge on write-offs (-)			
Reclassified amortization charge +/-(-)			
At the end of the accounting period	5,705,096	742,881	6,447,977
Book value			
At the beginning of the accounting period	1,633,932	2,018,869	3,652,801
At the end of the accounting period	3,375,680	1,701,361	5,077,041

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

Other intangible assets item includes the cost of life insurance portfolio of Nordea Life Insurance SE Lithuania Branch acquired on 16 November 2012. These assets were stated at acquisition cost with the amortisation period of 4 years. The assets' value at the moment of acquisition (acquisition cost) was measured based on comparative method, comparing it to the equivalent portfolio held, and amounted to 1,726,400 Litas. The book value of these assets as at 31 December 2013 amounts to 1,418,152 Litas.

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

Items	Assets group		Total
	Buildings	Land	
Acquisition cost			
At the beginning of the accounting period	728,228	65,377	793,605
Acquired assets			
Transferred assets (-)			
Written off assets (-)			
Reclassified assets +/-(-)			
At the end of the accounting period	728,228	65,377	793,605
Revaluation			
At the beginning of the accounting period			
Increase in value			
Decrease in value (-)			
Written off revaluation result on disposals (-)			
Written off revaluation result on write-offs (-)			
Reclassified revaluation result +/-(-)			
At the end of the accounting period			
Accumulated depreciation charge			
At the beginning of the accounting period			
Additions due to merger			
Calculated depreciation charge			
Restated depreciation charge (-)			
Written off depreciation charge on disposals (-)			
Written off depreciation charge on write-offs (-)			
Reclassified depreciation charge +/-(-)			
At the end of the accounting period			
Book value			
At the beginning of the accounting period	728,228	65,377	793,605
At the end of the accounting period	728,228	65,377	793,605

Note 3. Investments into subsidiary and associated companies (Litas)

Items	Subsidiaries		Associates	
	Shares	Debt securities and loans	Shares	Debt securities and loans
Acquisition cost				
At the beginning of the accounting period	6,297,413	3,804,516	4,337,690	
Acquired assets				
Transferred assets (-)	(65,968)	(518,460)		
Written off assets (-)				
Reclassified assets +/-(-)	(965,904)		965,904	
At the end of the accounting period	5,265,541	3,286,056	5,303,594	
Revaluation				
At the beginning of the accounting period				
Increase in value				
Decrease in value (-)				
Written off revaluation result on disposals (-)				
Written off revaluation result on write-offs (-)				
Reclassified revaluation result +/-(-)				
At the end of the accounting period				
Book value				
At the beginning of the accounting period	6,297,413	3,804,516	4,337,690	
At the end of the accounting period	5,265,541	3,286,056	5,303,594	

Investments of the Company into subsidiary and associated companies comprise:

62 per cent of the shares of the company ERGO Invest SIA, the acquisition cost of which is 5,265,541 Litas. The head office of ERGO Invest SIA is situated at Unijas 45, Riga, the Republic of Latvia. Based on Article 6(2) of Law on Consolidated Accounts of Groups of Undertakings, the subsidiary has not been consolidated (due to insignificance).

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2013 was the following (Litas):

Assets	Liabilities	Equity	Income	Result of the year
27,048,931	6,861,283	20,187,648	3,047,745	867,792

44.25 per cent of the shares of the company ERGO Funds AS, the acquisition cost of which is 4,337,690 Litas. The head office of ERGO Funds AS is situated at A. H. Tammsaare tee 118c, 12918 Tallinn, the Republic of Estonia.

The main financial information (not audited) of ERGO Funds AS as at 31 December 2013 was the following (Litas):

Assets	Liabilities	Equity	Income	Result of the year
18,943,763	137,929	18,805,834	2,882,094	1,960,776

26.54 per cent of ADB ERGO in Belarus shares. As at 31 December 2012 the Company held 50.1 per cent of the shares of foreign limited liability company Insurance Assistance, which owned 26.54 per cent of ADB ERGO in Belarus shares. In 2013, after the liquidation of foreign limited liability company Insurance Assistance, the investment was transferred to ERGO Life Insurance SE; therefore, in the financial statements as at 31 December 2013, the acquisition cost of the shares (965,904 Litass) was transferred from investments into subsidiaries item to investments into associates. ADB ERGO in Belarus is engaged in insurance activities; its office is registered at Pionierskaja 2, Minsk, Belarus.

The main financial information (not audited) of ADB ERGO in Belarus as at 31 December 2013 was the following (Litass):

Assets	Liabilities	Equity	Income	Result of the year
26,275,354	20,092,799	6,182,555	17,904,519	1,093,137

Investments into subsidiary and associated companies include a mortgage loan issued to the company's ERGO Invest SIA branch in Lithuania (the loan was granted on 13 December 2012). The repayment term of the loan is 13 December 2017. Part of the loan repaid in 2013 amounted to 518,460 Litass. The interest rate is 2.85% fixed margin and variable part, equal to 12 month EURIBOR. As at 31 December 2013 the interest rate is equal to 3.406% (fixed part of 2.85% and 12 month EURIBOR 0.556% effective as at 13 December 2013).

Note 4. Equity and debt securities (Litass)

Items	Equity securities	Debt securities
Acquisition cost		
At the beginning of the accounting period	61,790,797	486,866,075
Acquired assets	21,202,553	93,657,7401
Transferred assets (-)	(14,435,755)	(51,437,882)
Written off assets (-)		
Reclassified assets +/-(-)		
At the end of the accounting period	68,557,595	529,085,933
Revaluation		
At the beginning of the accounting period	(617,697)	20,122,673
Increase in value	1,375,269	19,795,879
Decrease in value (-)	(1,113,618)	(20,176,313)
Written off revaluation result on disposals (-)	227,342	(2,505,586)
Written off revaluation result on write-offs (-)		
Reclassified revaluation result +/-(-)		
At the end of the accounting period	(128,704)	17,236,653
Book value		
At the beginning of the accounting period	61,173,100	506,988,748
At the end of the accounting period	68,428,891	546,322,586

Investments into Government securities at the end of the year amounted to 396 million Litass. The investments into debt securities of other business entities comprised 150 million Litass.

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

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

As at 31 December 2013, the values of the investments into debt securities were as follows:

	Balance value
Debt securities held to maturity	402,182,687
Debt securities available for sale	144,139,899
Total debt securities	546,322,586

As at 31 December 2013, the market value of debt securities classified as held to maturity amounted to 444,757,513 Litass.

Note 5. Deposits in credit institutions (Litas)

Deposits in credit institutions consist of overnight term deposits (1,211,667 Litass); average annual interest rate is 0.06 per cent.

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

Items	Shares, other variable-yield securities and investment fund units	Debt securities	Cash at bank and in hand
Book value at the beginning of the accounting period	30,230,551	3,778,075	198,690
Assets acquired	14,158,796	1,802,309	102,173
Assets transferred (-)	(9,365,906)	(1,350,032)	(94,360)
Assets written off (-)			
Assets transferred from one heading to another +/-			
Increase of value	4,171,084	298,702	
Decrease of value (-)	(741,537)	(44,750)	
Book value at the end of the accounting period	38,452,988	4,484,304	206,503

The item Cash at Bank and in Hand shows the cash received the last day of 2013 for investment life insurance contracts. According to item 7.5 of the Investment Life Insurance Rules of ERGO Life Insurance SE, the cash, following the insurance contract in force, is translated into investment units within 3 working days as of the premium payment day, if the insurance certificate does not state otherwise. The indicated amount will be recalculated into investment units at the very beginning of 2014.

Note 7. Amounts receivable (Litas)

Items	Financial year			Previous financial year		
	Total amount	Doubtful amounts receivable	Book value	Total amount	Doubtful amounts receivable	Book value
Insurance receivables:	24,228,349	1,038,394	23,189,955	21,472,418	976,360	20,496,058
from the insured:	24,151,774	963,524	23,188,250	21,396,200	901,308	20,494,892
subsidiaries						
associates						
other	24,151,774	963,524	23,188,250	21,396,200	901,308	20,494,892
from intermediaries:	76,575	74,870	1,705	76,218	75,052	1,166
subsidiaries						
associates						
other	76,575	74,870	1,705	76,218	75,052	1,166
from others:						
subsidiaries						
associates						
other						
Amounts receivable from inward and outward reinsurance activities:	1,356,021	0	1,356,021	1,197,246	0	1,197,246
from the reinsured:						
subsidiaries						
associates						
other						
from the reinsurers:	1,356,021	0	1,356,021	1,197,246	0	1,197,246
subsidiaries						
associates						
other	1,356,021	0	1,356,021	1,197,246	0	1,197,246
from intermediaries:						
subsidiaries						
associates						
other						
from others:						
subsidiaries						
associates						
other						
Other receivables:	799,517	0	799,517	312,415	0	312,415
subsidiaries						
associates						
other	799,517	0	799,517	312,415	0	312,415
Total	26,383,887	1,038,394	25,345,493	22,982,079	976,360	22,005,719

Note 8. Doubtful amounts (Litas)

Items	Financial year	Previous financial year
Balance sheet		
Doubtful amounts at the beginning of the period	976,360	1,377,547
Decrease of doubtful amounts during the period	(44,085)	(402,342)
Increase of doubtful amounts during the period	106,119	1,155
Doubtful amounts at the end of the period	1,038,394	976,360
Income statement		
Recovered earlier written off amounts	(100,150)	(95,132)
Change of doubtful amounts during the period	162,184	496,319
Impact of doubtful amounts during the period	62,034	(401,187)

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

Items	Asset groups		Total
	Transport vehicles	Office equipment	
Acquisition cost			
At the beginning of the accounting period	713,172	1,762,043	2,475,215
Acquired assets	130,799	510,416	641,215
Disposed assets (-)	(28,077)	(10,250)	(38,327)
Written off assets (-)	0	(154,133)	(154,133)
Reclassified assets +/-(-)			
At the end of the accounting period	815,894	2,108,076	2,923,970
Revaluation			
At the beginning of the accounting period			
Increase in value			
Decrease in value (-)			
Written off revaluation result on disposals (-)			
Written off revaluation result on write-offs (-)			
Reclassified revaluation result +/-(-)			
At the end of the accounting period			
Accumulated depreciation charge			
At the beginning of the accounting period	216,144	1,010,656	1,226,800
Calculated depreciation charge	56,685	336,374	393,059
Restated depreciation charge			
Written off depreciation on disposals (-)	(13,602)	(7,004)	(20,606)
Written off depreciation charge on write-offs (-)	0	(144,545)	(144,545)
Reclassified depreciation charge +/-(-)			
At the end of the accounting period	259,227	1,195,481	1,454,708
Book value			
At the beginning of the accounting period	497,028	751,387	1,248,415
At the end of the accounting period	556,667	912,595	1,469,262

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

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

Asset group	Acquisition cost
Motor vehicles	129,413
Office equipment	530,264
Total	659,677

Note 11. Cash at bank and in hand (Litas)

Items	Financial year	Previous financial year
Cash at bank	19,249,075	24,960,940
Cash in hand	1,048	2,632
Total	19,250,123	24,963,572

Note 12. Accrued income and deferred costs (Litas)

Items	Financial year	Previous financial year
Deferred acquisition costs of non-life insurance	1,194,894	1,158,059
Deferred acquisition costs of life insurance	9,759,936	10,577,202
Deferred costs of pension funds	302,178	356,649
Deferred costs of insurance	104,936	87,549
Other deferred costs	197,056	212,637
Total	11,559,000	12,392,096

The major part of other deferred costs consists of accumulated commission fee related to sales of pension contracts. It is amortised over the period as of the day the contract came into effect up to the term when the pension fund might be changed by the insured.

Note 13. Shareholders' equity

Shareholder	Number of shares	%
ERGO International AG	15,124	100
Total	15,124	100

Items	Number of shares	Amount (Litas)
Structure of the share capital at the end of the financial year		
As to type of shares		
Ordinary shares	15,124	15,124,000
Preferred shares		
Employees' shares		
Special shares		
Other shares		
Total	15,124	15,124,000
Capital owned by the state or municipalities		
Shares owned by the company		
Shares owned by subsidiaries or associates		

As at 31 December 2013, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of 1,000 Litas each. Share premiums amount to 52,238,411 Litas. All shares are fully paid in.

Note 14. Reserves

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

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

Note 15. Draft appropriation of profit (Litas)

Items	Amount
Retained earnings at the end of the previous financial year	19,502,065
Net result – profit (loss) – for the financial year	247,702
Dividends paid in 2013	(3,452,800)
Profit (loss) for distribution at the end of the financial year	16,296,967
Shareholders' contributions against losses	
Transfers from reserves	
Profit for distribution	16,296,967
Profit distribution:	
- to legal reserves	
- to other reserves	
- dividends	
- other	(4,833,920)
Retained earnings at the end of the financial year	11,463,047

Dividends are planned to be paid from profit for distribution of 2013. The remaining accumulated profit is planned to be carried forward to the following year. The decisions of the Shareholders' Meeting will be reflected in the financial statements for the year 2014.

Note 16. Technical provisions

Unearned premiums technical provision

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

Unearned premiums technical provision on a gross basis as at the end of the period amounted to 40.05 million Litas (31 December 2012: 38.35 million Litas). Reinsurers' share amounted to 11.98 million Litas (31 December 2012: 10.88 million Litas).

Life insurance mathematical technical provision

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

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

Liability of deferred annuity is accounted as mathematical technical provision.

As at the end of the period, the life insurance mathematical technical provision amounted to 517.67 million Litass (31 December 2012: 479.05 million Litass). Reinsurers' share amounted to 2.15 million Litass (31 December 2012: 3.08 million Litass).

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

As at the end of the period, life insurance technical provision, when the investment risk is borne by the insured, amounted to 43.14 million Litass (31 December 2012: 34.21 million Litass). It is calculated as to the value of the investment units related to the insurance contract at the moment of forming of the provision.

Outstanding claims technical provision

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

The technical provision for life insurance incurred but not reported claims (IBNR) is made only for additional non-life insurance risks. It is generally accepted that IBNR for life insurance risks is not made as delayed claims in this line of insurance are rare. Besides, there is no sufficient statistics for formation of the technical provision. It would not be reasonable to form minimum IBNR for life insurance risk (5% on earned premiums during the 4 previous quarters) as the technical provision formed according to this regulation would be excessive and would deviate from the technical result of the Company significantly. IBNR of additional accidents of life insurance is taken as the higher amount between the minimum (5% on earned premiums during the 4 previous quarters) and estimated amounts by "Chain-Ladder" and "Bornhuetter-Ferguson" methods. Provision for incurred but not reported claims in working ability insurance was not estimated by "Chain-Ladder" and "Bornhuetter-Ferguson" methods due to insufficiency of statistics, and minimum IBNR was formed for the risks.

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

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

The biggest reserved claim in the total portfolio as at 31 December 2013 amounted to 352,623 Litass (accumulative life insurance). Claims, related to events occurred before the beginning of the accounting period, but paid out during 2013, amounted to 6.92 million Litass. At the end of the accounting period, technical provision for events related to previous periods amounts to 2.61 million Litass. The biggest payment of the current year in the total portfolio reached 1,438,963 Litass (accumulative life insurance).

Technical provision for outstanding claims as at 31 December 2013.

Insurance type	Share	RBNS	IBNR	Provision for claim settlement costs	Provision for outstanding claims
Health insurance	Total provision	392,065	4,191,284	4,320	4,587,669
	ELI share	247,915	2,479,501	4,320	2,731,736
Accident insurance	Total provision	394,311	272,648	34,887	701,846
	ELI share	388,458	272,648	34,887	695,993
Life insurance related to investment funds	Total provision	169,743	24,423	405	194,571
	ELI share	113,493	24,423	405	138,321
Life insurance	Total provision	7,277,599	0	0	7,277,599
	ELI share	6,739,905	0	0	6,739,905
Total	Total provision	8,233,718	4,488,355	39,612	12,761,685
	ELI share	7,489,771	2,776,572	39,612	10,305,955

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

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

Technical provision for outstanding claims as at 31 December 2012.

Insurance type	Share	RBNS	IBNR	Provision for claim settlement costs	Provision for outstanding claims
Health insurance	Total provision	380,750	3,751,490	8,623	4,140,863
	ELI share	259,795	2,218,768	8,623	2,487,186
Accident insurance	Total provision	313,671	248,314	26,344	588,329
	ELI share	307,818	248,314	26,344	582,476
Life insurance related to investment funds	Total provision	328,819	15,528	501	344,848
	ELI share	328,819	15,528	501	344,848
Life insurance	Total provision	8,376,304	0	0	8,376,304
	ELI share	7,897,966	0	0	7,897,966
Total	Total provision	9,399,544	4,015,332	35,468	13,450,344
	ELI share	8,794,398	2,482,610	35,468	11,312,476

The results show that as at 31 December 2012 the formed technical provision for outstanding claims of the direct insurance was adequate in all product groups of ERGO Life Insurance SE.

Insurance type	Share	Provision for outstanding claims 31 12 2012 (3)	Provision for outstanding claims 31 12 2013, related to events occurred in prior years, Litas (4)	Claims paid in 2013 related to events occurred in prior years, Litas (5)	Difference (3)-(4)-(5)
Health insurance	Total provision	4,140,864	54,567	2,345,488	1,740,809
	ELI share	2,487,187	53,831	2,258,249	175,107
Accident insurance	Total provision	588,329	99,406	232,515	256,408
	ELI share	582,476	93,553	232,515	256,408
Life insurance related to investment funds	Total provision	344,848	19,035	164,994	160,819
	ELGD share	344,848	19,035	164,994	160,819
Life insurance	Total provision	8,376,304	3,331,170	947,500	4,097,634
	ELI share	7,897,966	2,967,240	847,067	4,083,659
Total	Total provision	13,450,345	3,504,178	3,690,497	6,255,670
	ELI share	11,312,477	3,133,659	3,502,825	4,675,993

Adequacy of the technical provision for outstanding claims of the direct insurance is checked by comparing the technical provision for outstanding claims as at 31 December 2012 (which consists of the provisions for reported but not paid yet claims, incurred but not paid yet claims, settled but not paid yet claims and for the costs related to claim settlement) to the claims incurred in prior and in previous financial years but paid in the current financial year as well as to the technical provision for outstanding claims as at 31 December 2013 for claims incurred in prior and in previous financial years.

The difference between these two amounts being analysed is positive for all insurance types; therefore, the outstanding claims technical provision as at 31 December 2012 of the direct insurance was adequate.

Technical provision for rebates

Technical provision for rebates at the end of the period amounted to 17.49 million Litas (31 December 2012: 16.1 million Litas). The total amount relates to rebate of insurance premiums (participation in profit). The reinsurers' share amounted to 209 thousand Litas (31 December 2012: 327 thousand Litas).

Other technical provisions

The unexpired risk technical provision was formed due to inadequacy of health insurance premiums. At the end of the reporting period the unexpired risk technical provision amounted to 388 thousand Litas (31 December 2012: 0 Litas).

Note 17. Other liabilities (Litas)

Creditors	Financial year			Previous financial year		
	Within 1 year	After one year but not later than within 5 years	After 5 years	Within 1 year	After one year but not later than within 5 years	After 5 years
Subordinated liabilities						
Reinsurers' deposits	303,632			305,587		
Insurance related liabilities:	10,281,461			9,886,484		
liabilities to the insured:	8,373,879			7,893,690		
subsidiaries						
associates						
other	8,373,879			7,893,690		
liabilities to intermediaries:	1,907,582			1,992,794		
subsidiaries						
associates						
other	1,907,582			1,992,794		
other insurance related liabilities:						
subsidiaries						
associates						
other						
Liabilities of inward and outward reinsurance activities:	16,981,688			15,085,195		
liabilities to the reinsured:						
subsidiaries						
associates						
other						
liabilities to reinsurers:	16,981,688			15,085,195		
subsidiaries						
associates						
other	16,981,688			15,085,195		
liabilities to intermediaries:						
subsidiaries						
associates						
other						
other liabilities of inward and outward reinsurance activities:						
subsidiaries						
associates						
other						
Issued debt securities, converted debts to be specified separately						
Debts to credit institutions:						
subsidiaries						
associates						
other						
Taxes, compulsory social insurance contributions and other liabilities:	8,462,948			8,158,537		
taxes	1,375,276			1,012,625		
compulsory social insurance contributions	265,459			140,577		
salaries	283,182			144,600		
subsidiaries						
associates						
other	6,539,031			6,860,735		
Total	36,029,729			33,130,216		

Note 18. Related parties (Litas)

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

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

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

Information about related party transactions is presented as follows:

Type of transaction	Financial year	Previous financial year
Costs		
Reinsurance premiums	26,857,698	23,013,698
Pension funds' management services	423,9942	411,462
Dividends	3,452,800	5,560,000
Rent services	634,424	1,258,549
Other services and partial loan repayment	1,970,309	2,276,029
Total	37,155,173	32,519,738
Income		
Reinsurance claims	15,675,682	13,335,065
Reinsurance commission	7,299,577	4,574,519
Other services	19,699	0
Loan	0	3,798,080
Dividends	128,717	0
Rent services	3,798	0
Total	23,127,473	21,707,664

Outstanding claims of the related parties are specified as follows:

Company	Financial year	Previous financial year
Amount receivable from the parent company	0	0
Amounts receivable from other related parties	4,590,689	5,886,191
Total	4,590,689	5,886,191
Amount payable to the parent company	73,060	399,199
Amounts payable to other related parties	17,105,989	1,522,132
Total	17,179,049	1,921,331

In 2013, the Company had reinsurance contracts concluded with the companies Munchener Ruckversicherungs-Gesellschaft, ERGO Insurance SE, BAWAG and Swiss Re Europe S.A., it rented premises from ERGO Insurance SE, sold health insurance to ERGO Insurance SE and purchased vehicle fleet and telecommunication maintenance services from ERGO Invest SIA.

Dividends amounting to 3,452,800 Litass were paid out to ERGO International AG in 2013.

The Company holds 44.25% of shares of the company ERGO Funds AS. Management of the investment portfolio of the pension accumulation activities has been delegated to the company.

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

Information regarding financial relations with the management of the Company is disclosed in Note 20. The Company had no liabilities to management of the Company at the end of 2013.

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

Items	Financial year	Previous financial year
Accrued salary costs	1,923,717	1,890,485
Accrued commission for intermediaries	1,239,355	940,111
Accrued vacation reserve	690,407	419,157
Liabilities related to maintenance of software	328,427	277,888
Audit services	209,135	126,447
Liabilities related to integrated services	186,737	122,177
Liabilities related to software update	159,597	0
Liabilities related to Solvency II project	157,138	407,851
Liabilities related to acquisition and management of investments	127,788	29,447
Payable corporate income tax	121,470	0
Liabilities related to advertising services	107,514	158,958
Liabilities to the Bank of Lithuania and other taxes	89,419	97,717
Accrued voluntary health insurance costs	89,288	81,380
Liabilities to Insurance Assistance in Belarus	0	991,285
Liabilities to bank	0	425,345
Other accrued costs	492,799	445,821
Other liabilities	616,240	446,666
Total	6,539,031	6,860,735

Note 20. Financial relations with management (Litas)

Items	Financial year	Previous financial year	Balance at the end of the financial year
Annual amounts related to labour relations and redundancy payments to management	436,637	334,142	
Loans issued by the company			
Loans repaid by the company			
Loans received			
Assets given free of charge and gifts			
Guarantees issued on behalf of the company			
Other significant amounts calculated during the year			
Other significant commitments to the company			
Assets sold			
Average number of management	2*	2*	

*Management – 2 Board members:

Managing Director

Deputy Managing Director

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

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

Premiums written	Financial year	Previous financial year
Insurance	104,847,225	95,436,241
Assumed reinsurance	0	0
Total	104,847,225	95,436,241

Premiums written	Financial year	Previous financial year
As to individual contracts	94,534,379	84,790,040
As to group contracts	10,312,846	10,646,200
Single time premiums	10,820,065	11,239,753
Regular (partial) premiums	94,027,160	84,196,488
As to contracts without participation in profits	4,775,822	7,671,048
As to contracts with participation in profits	86,177,612	78,477,790
As to contracts when investment risk is borne by the insured	13,893,791	9,287,403

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	66,593,713	60,478,619
Other member states of the European Union	38,253,512	34,957,622
Total	104,847,225	95,436,241
Result of reinsurance activities	(793,459)*	(1,653,692)*

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

Note 22. Non-life insurance results (Litas)

Financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Insurance	58,026,711	55,680,734	23,693,282	5,095,101	(1,370,728)
Reinsurance					
Total	58,026,711	55,680,734	23,693,282	5,095,101	(1,370,728)

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	58,026,711	55,680,734	23,693,282	5,095,101	(1,370,728)
Accident insurance					
Total	58,026,711	55,680,734	23,693,282	5,095,101	(1,370,728)

Previous financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Insurance	47,500,856	27,368,710	21,489,552	7,024,075	(3,335,646)
Reinsurance					
Total	47,500,856	27,368,710	21,489,552	7,024,075	(3,335,646)

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	47,500,856	27,368,710	21,489,552	7,024,075	(3,335,646)
Accident insurance					
Total	47,500,856	27,368,710	21,489,552	7,024,075	(3,335,646)

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	7,348,492	6,572,254
Other member states of the European Union	50,678,219	40,928,602
Total	58,026,711	47,500,856

Note 23. Segments (Litas)

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

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

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

Financial year:

Items	Lithuania	Latvia	Estonia	Total
Earned premiums net of reinsurers' share (non-life insurance)	6,962,094	22,987,745	2,743,149	32,692,988
Earned premiums net of reinsurers' share (life insurance)	65,042,118	21,826,873	15,086,757	101,955,748
Insurance claim costs, net of reinsurers' share (non-life insurance)	(5,425,555)	(17,779,667)	(488,060)	(23,693,282)
Insurance claim costs, net of reinsurers' share (life insurance)	(33,170,502)	(8,696,263)	(10,054,775)	(51,921,540)
Change in other technical provisions, net of reinsurers' share, not shown under other items	(25,309,584)	(13,997,052)	(9,567,092)	(48,873,728)
Rebated (payable) insurance premiums (profit participation), net of reinsurers' share	(1,571,070)	(412,885)	(467,344)	(2,451,299)
Net operating expenses	(19,057,390)	(6,972,853)	(4,172,045)	(30,202,288)
<i>Including: depreciation and amortization costs</i>	(782,451)	(687,365)	(85,770)	(1,555,586)
Investing income	15,603,320	4,838,612	5,396,882	25,838,814
Profit from investment when the investment risk is borne by the insured	2,235,039	1,387,337	0	3,622,376
Investment expenses	(4,267,242)	(1,584,809)	(1,716,131)	(7,568,182)
Loss on investment when the investment risk is borne by the insured				
Other technical income, net of reinsurers' share	1,777,768	375,795	0	2,153,563
Other technical costs, net of reinsurers' share	(32,652)	(105,306)	0	(137,958)
Other income	12,023	54,901	24,817	91,741
Other expenses	(285,208)	(706,748)	(37,750)	(1,029,706)
Current year result – profit (loss) – before taxation	2,513,159	1,215,680	(3,251,592)	477,247
Profit tax	0	(229,545)	0	(229,545)
Current year result – profit (loss)	2,513,159	986,135	(3,251,592)	247,702

Items	Lithuania	Latvia	Estonia	Total
Assets	428,701,594	171,008,979	137,250,735	736,961,308
Liabilities	390,457,675	135,124,692	125,181,764	650,764,131
Including:				
<i>Technical provisions</i>	350,559,618	98,238,508	122,774,481	571,572,607
<i>Other technical provisions for life insurance</i>	28,423,234	14,720,561	0	43,143,795
<i>Other liabilities</i>	11,474,823	22,165,623	2,407,283	36,047,729

Previous financial year:

Items	Lithuania	Latvia	Estonia	Total
Earned premiums net of reinsurers' share (non-life insurance)	7,358,835	20,009,875	0	27,368,710
Earned premiums net of reinsurers' share (life insurance)	60,511,798	17,775,449	16,019,123	94,306,370
Insurance claim costs, net of reinsurers' share (non-life insurance)	(6,051,417)	(15,438,135)	0	(21,489,552)
Insurance claim costs, net of reinsurers' share (life insurance)	(56,815,255)	(6,976,596)	(8,749,079)	(72,540,930)
Change in other technical provisions, net of reinsurers' share, not shown under other items	2,423,281	(9,980,504)	(8,057,307)	(15,614,530)
Rebated (payable) insurance premiums (profit participation), net of reinsurers' share	(1,506,114)	(845,577)	(344,510)	(2,696,201)
Net operating expenses	(15,757,299)	(9,334,307)	(2,909,521)	(28,001,127)
<i>Including: depreciation and amortization costs</i>	<i>(291,076)</i>	<i>(504,784)</i>	<i>(40,677)</i>	<i>(836,537)</i>
Investing income	17,514,948	5,047,886	4,902,984	27,465,818
Profit from investment when the investment risk is borne by the insured	2,346,256	1,213,138	0	3,559,394
Investment expenses	(2,278,751)	(478,780)	(777,290)	(3,534,821)
Loss on investment when the investment risk is borne by the insured				
Other technical income, net of reinsurers' share	1,639,896	178,406	0	1,818,302
Other technical costs, net of reinsurers' share	0	(125,197)	0	(125,197)
Other income	407,944	41,347	62,897	512,188
Other expenses	(256,058)	(439,714)	(197,585)	(893,357)
Current year result – profit (loss) – before taxation	9,538,064	647,291	(50,288)	10,135,067
Profit tax	0	(138,923)	0	(138,923)
Current year result – profit (loss)	9,538,064	508,368	(50,288)	9,996,144

Items	Lithuania	Latvia	Estonia	Total
Assets	407,034,912	150,638,455	129,922,509	687,595,876
Liabilities	367,833,353	115,740,303	114,601,945	598,175,601
Including:				
<i>Technical provisions</i>	<i>331,953,055</i>	<i>85,694,507</i>	<i>112,884,920</i>	<i>530,532,482</i>
<i>Other technical provisions for life insurance</i>	<i>22,843,957</i>	<i>11,363,359</i>	<i>0</i>	<i>34,207,316</i>
<i>Other liabilities</i>	<i>13,036,341</i>	<i>18,682,437</i>	<i>1,717,025</i>	<i>33,435,803</i>

Note 24. Net operating expenses (Litas)

Net operating expenses	Financial year	Previous financial year
Total commission costs:	13,893,936	11,428,732
Commission acquisition costs	13,880,146	11,413,552
Commission for products of other companies	13,790	15,180
Total staff costs:	15,001,671	12,734,169
Remuneration costs	13,978,626	12,430,176
Other staff costs	1,023,045	303,993
Pension accumulation costs	894,665	790,813
Maintenance costs of premises and office	1,934,471	2,156,334
Change in deferred acquisition costs	779,900	594,538
Reinsurance commission and profit share of reinsurers	(7,685,961)	(4,528,118)
Other	5,383,606	4,824,660
Total	30,202,288	28,001,128
<i>Including:</i>		
Non-life insurance	5,095,101	7,105,917
Life insurance	25,107,187	20,895,211
Total	30,202,288	28,001,128

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

Income and expenses of pension accumulation activity	Financial year	Previous financial year
Total income from pension accumulation activity	1,738,280	1,586,230
Fee for management of pension funds	1,733,982	1,579,192
Other income	4,298	7,038
Total expenses of pension accumulation activity	894,665	790,813
Fee for depository services	84,817	91,499
Costs of drawing up of pension accumulation contracts	162,213	86,739
Advertising	15,308	12,849
Administration costs	423,994	411,462
Other costs	208,333	188,264

Note 26. Commission (Litas)

Types of commission	Financial year	Previous financial year
Insurance activity commission:	13,880,146	11,413,552
acquisition commission	13,880,146	11,413,552
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
Reinsurance activity commission:	0	0
acquisition commission	0	0
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
Total	13,880,146	11,413,552

Note 27. Payroll costs (Litas)

Items	Financial year	Previous financial year
Administration:		
Remuneration	8,484,497	7,996,501
Social insurance contributions	2,393,071	2,067,097
Salesmen:		
Variable part of remuneration	14,512	19,627
Fixed part of remuneration	2,382,442	1,806,138
Social insurance contributions	704,104	540,813
Total	13,978,626	12,430,176

The Company incurred remuneration costs of 10,881,451 Litas and paid social insurance contributions of 3,097,175 Litas. In Lithuania, remuneration costs of employees amounted to 4,690,881 Litas and social insurance contributions paid amounted to 1,449,937 Litas. In Estonia, remuneration costs of employees amounted to 1,641,496 Litas and social insurance contributions paid amounted to 555,539 Litas. In Latvia, remuneration costs of employees amounted to 4,549,074 Litas and social insurance contributions paid amounted to 1,091,699 Litas. The amount of persons employed at the Company as at 31 December 2013 was 398, including administrative staff of 80 persons and 45 sales persons in Lithuania, administrative staff of 102 persons, 8 sales persons in Estonia and administrative staff of 115 persons, 48 sales persons in Latvia.

Note 28. Result of investing activities (Litas)

Items	Financial year	Previous financial year
<i>Income from investing activity</i>		
Interest	336,903	320,211
Interest for securities	22,009,871	21,163,222
Increase in value of securities	2,404,961	3,323,854
Profit from disposals of investment	1,046,022	2,618,746
Income from rent of non-current assets	41,057	39,785
Total	25,838,814	27,465,818
<i>Costs of investing activities</i>		
Costs of investment management	1,283,810	1,215,850
Decrease in value of securities	5,939,700	1,498,063
Loss from disposals of investment	344,672	820,908
Total	7,568,182	3,534,821

Note 29. Income and costs from financial activity (Litas)

Income from financial activity includes income of 534 Litas related to currency exchange rate (income for 2012 related to changes in currency exchange rate amounted to 38,113 Litas).

Expenses from financial activity include expenses of 170,776 Litas related to currency exchange rate (expenses for 2012 related to currency exchange rate amounted to 20,630 Litas).

Note 30. Corporate income tax (Litas)

Items	Financial year	Previous financial year
Financial year	229,545	140,734
Change in deferred taxes	0	(1,811)
Total	229,545	138,923

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

Items	Lithuania	Latvia	Estonia	Financial year, total
Current year profit (loss) before taxes	2,513,159	1,215,680	(3,251,592)	477,247
Differences	(2,064,948)	314,623	3,251,592	1,501,267
Amount of doubtful debts	150,000	(87,965)	0	62,035
Other non-deductible expenses	5,068,445	0	0	5,068,445
Non-deductible expenses related to non-taxable income	72,842,526	(86,472)	0	72,756,054
Income from investment and other non-taxable income	(17,732,241)	489,060	0	(17,243,181)
Life insurance premiums	(62,393,678)	0	0	(62,393,678)
Taxable profit (loss) of the accounting year	448,211	1,530,303	0	1,978,514
Used tax loss of the previous years	(448,211)	0	0	(448,211)
Current year income tax	0	229,545	0	229,545

In 2013 profit tax rates are equal to 15% in Lithuania and Latvia and 0% in Estonia.

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

Items	Lithuania	Latvia	Estonia	Financial year, total
Current year profit (loss) before taxes	9,538,064	647,291	(50,288)	10,135,067
Differences in tax rates	0	0	50,288	0
Differences:	(6,405,284)	290,938		(6,064,058)
Amount of doubtful debts	(400,000)	1,189		(398,811)
Other non-deductible expenses	2,089,080	(214,132)		1,874,948
Non-deductible expenses related to non-taxable income	68,361,088	(67,770)		68,293,408
Income from investment and other non-taxable income	(19,808,282)	571,651		(19,236,721)
Life insurance premiums	(56,647,170)			(56,647,170)
Taxable profit (loss) of the accounting year	3,132,780	938,229	0	4,071,009
Used tax loss of the previous years	(3,132,780)	0		(3,132,780)
Current year income tax	0	140,734	0	140,734

As at 31 December 2013, the tax loss accumulated in the Republic of Lithuania carried forward to the following year amounted to 111,833,122 Lit. Tax losses can be carried forward for unlimited period of time if activities of the Company do not change.

Deferred tax

The Company has a deferred tax asset amounting to approximately 16.8 million Lit. The deferred tax asset was not recognized as at the balance sheet date due to uncertainty of realization.

Note 31. Earnings per share

Basic earnings per share were calculated dividing the net profit of the Company of 2,553,391 Litas in 2006, profit of 138,876 Litas in 2007 and a loss of 2,648,153 Litas in 2008 by number of shares, i.e. 6,000. The net profit of 2009 is divided by number of shares of 7,500, and in 2010 a loss of 3,804,042 Litas is divided by number of shares of 7,500. The profit of 6,686,441 Litas of 2011 is divided by number of shares of 15,124. The profit of 2012 of 9,996,144 Litas is divided by number of shares of 15,124. The profit of 2013 of 247,702 Litas is divided by number of shares 15,124.

Earnings per share:

2006 – 425.57 Litas per share;

2007 – 23.15 Litas per share;

2008 – (441.36) Litas per share;

2009 – 0.13 Litas per share;

2010 – (507.21) Litas per share;

2011 – 442.11 Litas per share;

2012 – 660.95 Litas per share;

2013 – 16.38 Litas per share.

Note 32. Regulatory compliance

The Insurance Supervisory Commission of the Republic of Lithuania requires that insurance companies maintained minimum solvency reserves, which should be not less than the determined solvency minimum of 38,044,915 Litas (as at 31 December 2012: 35,284,514 Litas) and the guarantee fund should not be smaller than the minimum guarantee fund. Currently, the minimum guarantee fund required is of 12,775,360 Litas (3.7 million EUR) (as at 31 December 2012: 12,084,800 Litas (3.5 million EUR)). As at 31 December 2013 and 2012, the Company's actual solvency reserve was 69,536,800 Litas and 73,330,672 Litas, respectively.

Solvency reserve of the Company

Items	Financial year	Previous financial year
<i>Amounts increasing solvency reserve:</i>	86,215,177	89,420,275
Paid in authorized capital	15,124,000	15,124,000
Share premium	52,238,411	52,238,411
Legal reserve	1,555,799	1,555,799
Other reserves	1,000,000	1,000,000
Retained profit (loss)	16,296,967	19,502,065
Subordinated loan	0	0
<i>Amounts decreasing solvency reserve:</i>	16,679,097	16,089,603
Intangible assets	5,077,041	1,947,618
Deferred costs	11,559,000	12,392,096
Overdue debtors liabilities	0	0
Other assets of limited reliability	0	1,705,183
Contingent liabilities	43,056	44,706
Actual solvency reserve	69,536,800	73,330,672
Guarantee fund	12,775,360	12,084,800

Compulsory solvency reserve for non-life insurance

Items	Financial year	Previous financial year
Premiums ratio (1)	10,444,807	8,608,795
Claims ratio (2)	9,200,881	8,661,423
Reinsurance ratio (3)	1	1
Compulsory solvency reserve [max {(1),(2)}]*(3)	10,444,807	8,661,423
Compulsory solvency reserve after adjustment	10,444,807	10,355,321

Compulsory solvency reserve for life insurance

Items	Financial year	Previous financial year
Insurance technical provision ratio	21,121,042	19,568,819
Technical risk ratio	2,760,693	2,115,131
Supplementary insurance ratio	1,226,604	1,217,384
Tontine ratio	0	0
Investment insurance ratio	2,268,103	1,830,156
Pension accumulation activity ratio	223,666	197,703
Compulsory solvency reserve (life insurance activity)	27,600,108	24,929,193

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

Note 33. Off-balance sheet liabilities

Row No.	Liability	Amount as at the end of the accounting period, Litas	Amount at the beginning of the accounting period, Litas
I.	Guarantees and warranties granted	0	0
II.	Assets of the clients managed*	168,903,245	149,913,507
II.1	Pension fund ERGO Balans (not audited)	123,217,950	106,556,375
II.2	Pension fund ERGO Konservatyvisis (not audited)	45,685,295	43,357,132
III.	Other contingent liabilities	43,056	44,706

* Risk of client's assets managed by the Company is fully borne by clients.

Note 34. Potential future liabilities and commitments

As at 31 December 2013, the Company was not involved in any legal procedures which, in opinion of Management, could have a significant influence on the financial statements.

Note 35. Exchange of goods and services

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

Note 36. Information about correction of errors

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

Note 37. Post-balance sheet events

As at the date of the financial statements for the year 2013, there were no material post-balance sheet events which, as to Management, would have significant effect on these financial statements.

Head of the insurance company	<u>21/03/2014</u> (signature, date)	<u>Dr Kęstutis Bagdonavičius</u> (first and last names)
Chief Financial Officer (Accountant)	<u>21/03/2014</u> (signature, date)	<u>Jūratė Mockienė</u> (first and last names)
Chief Actuary	<u>21/03/2014</u> (signature, date)	<u>Dr Gintaras Bakštys</u> (first and last names)

Annual report for the year 2013

Dear Clients,

We want to thank you for your trust demonstrated in 2013. We appreciate your loyalty which drives us to seeking the highest quality of our services and activities.

The ERGO insurance group continued following its direction to achieving its goals, met high requirements for the quality of claim administration and product development as well as price optimization. The insurance market in 2013 was characterized by growth expectations. The fact that ERGO is following the right direction is reflected by successful outcomes.

Insurance premiums signed by ERGO Life Insurance SE during the reporting year amounted to 162.87 million Litass, i.e. about 14 per cent more than in 2012. The increase in premiums was influenced by the recovering life insurance market in the Baltic States. In terms of premiums written in the separate life insurance groups, the most rapid increase was in investment life insurance, when the investment risk is borne by the insured, and pension annuities insurance premiums.

During the reporting year, operating result of the insurance company was a profit of 248 thousand Litass. Such result was mainly due to the decrease in the investment value.

In 2013, the result from investment activities of ERGO Life Insurance SE was profit of 18.27 million Litass. During the reporting year, the administrative costs ratio remained almost unchanged and was 6.5%.

At the end of 2013, ERGO Life Insurance SE occupied 9.3 per cent of the life insurance market in the Baltic States.

Fast and proper insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to 90 million Litass. Most payments were in accumulative life insurance.

At the end of 2013, solvency reserve of the insurance company amounted to 70 million Litass, which exceeded the compulsory solvency reserve established by the Lithuanian legislation almost twice.

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

The authorised capital of ERGO Life Insurance SE amounts to 15,124,000 Litass. At the end of 2013, the share capital of the European Company consisted of 15,124 ordinary registered shares with a nominal value of 1,000 Litass. The company has no own shares acquired. In 2012 the company's shareholders changed. 33% of the company's shares held by ERGO Kindlustuse AS were transferred to ERGO International AG situated in Germany. Currently, 100% of shares are owned by ERGO International AG situated in Germany.

In 2014, we have plans to grow and strengthen our position in the market. The number of premiums written by ERGO Life Insurance SE is expected to grow approximately by 6 per cent.

ERGO established its positions in the banking insurance

Banking insurance is a very important part of the ERGO insurance group strategy; the group successfully carries out these activities in Europe and Asia. ERGO has a four year experience in the banking insurance in the Baltic States gained through co-operation with DNB Bankas in Latvia and Lithuania. This partnership provides an opportunity for ERGO of becoming one of the leaders of banking insurance companies in the Baltic States.

ERGO Life Insurance SE in the Baltic States successfully cooperates with the Nordea bank. In 2013, Nordea banks in Estonia and in Lithuania started active distribution of ERGO credit receiver life insurance. In the reporting year, Nordea bank in Latvia started the distribution of ERGO credit receiver investment life insurance intended for savings and investment life insurance for family protection.

Accumulated amounts by the clients additionally increased

In 2013, ERGO Life Insurance SE deducted from its profit and allocated an amount of 2,8 million Litas to the clients of accumulative life insurance, study insurance and pension insurance in the Baltic States. The contracts of the insurance products provide for guaranteed interest. In case of successful investment activity, additional amounts of funds are calculated to the clients, i.e. surplus. In this way, profit, generated from investment, is divided between the company and its clients.

ERGO success implementing the pension system reform in Lithuania

In 2013, members of pension schemes in Lithuania had to choose their accumulation type. The shared efforts resulted in 25% of ERGO pension fund clients at the end of 2013 choosing the type of accumulation including voluntary contributions.

Growth of health insurance

A significant growth was recorded in the health insurance segment in 2013, particularly in Latvia. In the previous year Latvian partner medical institutions introduced an electronic health insurance system and automated a number of personal claim handling processes. We seek to ensure a simpler and more efficient claim administration process. The surveys show the client's expectation on claim settlement within 7–10 days from the notice on the event. Ergo in Latvia settles a health insurance claim in 2 working days. In 2013 in Estonia a health insurance information system was introduced which allows for more efficient claim administration and handling.

Ergo in Lithuania successfully continues providing its health insurance service and compensates the expenses of out-patient treatment, diagnostics, dental services, prophylactic and wellness services. ERGO life insurance grew by 11% if compared to 2012; the growth resulted from revised prices, more clear insurance conditions, non-standard decision taking providing insurance to the corporate employees, fast compensation of expenses.

Professional and appreciated staff

In 2013, ERGO Life Insurance SE had 387 employees, i.e. 38% more if compared to the year 2012. The company appreciates employees' loyalty; therefore, it puts efforts in providing attractive employment conditions, provides additional social guarantees, promotes and provides opportunities for professional development.

During the reporting year in the Baltic States implementation of the newly developed ERGO staff policy and strategy was started which will provide the opportunity to all the ERGO group companies in the Baltic States to reach consistency in their staff management rules and principles.

In order to unify the additional guarantee and compensation programs for the employees in the Baltic States, amendments and additions were made. The company takes care of the security of its employees; therefore, it provides them additional accident insurance, health insurance and travel insurance in business trips. The prophylactic health examination is conducted every two years and is financed by the company, the employees get additional days off every year. The company supports its employees in their important moments of life.

More than 4,000 ERGO employees took part in various trainings organized by ERGO in the Baltic States in 2013. Much attention was given to education of managers, i.e. seminars on leadership and international cooperation and team management were organized. In order to strengthen the clients' loyalty by improving the quality of client service from the sale of the insurance service until the moment of claim settlement, the trainings on client service, stress and conflict management were organized for employees responsible for client service. Also, the employees of the companies had lectures in effective work organization methods, project management and art of negotiations.

Employees responsible for sale of insurance services were provided with opportunities for further development of specific knowledge on insurance products. Part of the employees took proficiency tests in 2013 and, having obtained excellent results, were assigned higher authorizations.

ERGO as a socially responsible company

We seek successful business development and sharing its results with the society. Therefore, we participated in various social initiatives during the reporting year.

ERGO in Latvia joined the initiative *Fair Euro Adoption*. The initiative encourages business players not to take advantage from joining the euro area and not to increase prices. ERGO strictly follows mathematical rounding principles ensuring a favourable and fair LVL/EUR conversion. ERGO in Estonia had also joined the initiative *Fair Euro Adoption*, when it had adopted euro in 2011.

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

For several years in a row, ERGO has been supporting the community fighting against breast cancer. In Estonia, the mammographic X-ray equipment, given by company, is used to carry out examinations with 9–10 thousand women every year.

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

Not only ERGO protects people, but also their property – ERGO in Estonia supports the safe neighbourhood project which is carried out in 14 Estonian cities, towns and villages, and is aimed at ensuring safety by taking care of each other's homes and environment.

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

Traditionally, ERGO in all Baltic States organises annual blood donation campaigns, its employees in Estonia, Latvia and Lithuania join the environmental campaign *Let's Do It*. Every year, employees of ERGO in Latvia replant forests: in three years, the employees of the company replanted more than 10 thousand trees.

Also, ERGO supports various cultural and sporting activities: the national opera and ballet houses of Estonia, the Estonian Olympics Committee, national skiing and biathlon teams. During the reporting year, ERGO became the sponsor of several ERGO Jazz Session concerts with participants including famous world jazz stars. The concerts took place in Lithuania and Estonia.

We are happy that for the second consecutive year ERGO insurance group trademark was recognised as a favourite insurance trademark in the Baltic States. The favourite trademarks were elected applying the DDB Worldwide methodology, based on the order of DDB agencies in the Baltic States. The research was carried out by the research company GfK Custom Research Baltic. The candidates for the favourite trademarks in the Baltic States included 203 trademarks. This recognition proves that ERGO in the Baltic States promotes sustainable values appreciated by our clients.

We sincerely appreciate your trust placed in us and hope for our close cooperation if the future.

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