ERGO Life Insurance SE

Independent Auditor’s Report, Annual Report and Financial Statements for the Year Ended 31 December 2016

ANNUAL REPORT

Company name:	**ERGO Life Insurance SE**
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Core business:	**Life insurance**
Beginning of financial year:	**1 January 2016**
End of financial year:	**31 December 2016**
Chairman of the management board and Managing Director:	**Kęstutis Bagdonavičius**
Auditor:	**KPMG Baltics, UAB**

Contents

Independent Auditor's Report 4
Annual report 7
Statement of management's responsibility 16
Separate financial statements 17
Separate income statement 17
Separate statement of comprehensive income 17
Separate statement of financial position 18
Separate statement of cash flows 19
Separate statement of changes in equity 20
Notes to the separate financial statements 21
Note 1. Reporting entity 21
Note 2. Basis of preparation 21
Note 3. Significant accounting policies 23
Note 4. Application of new and amended International Financial Reporting Standards (IFRS) 36
Note 5. Risk management 40
Note 6. Premium income 52
Note 7. Investment income 53
Note 8. Claims and benefits 53
Note 9. Expenses 54
Note 10. Property and equipment 55
Note 11. Deferred acquisition costs 56
Note 12. Insurance liability valuation 56
Note 13. Other intangible assets 57
Note 14. Investments in subsidiaries 57
Note 15. Investments in associates 58
Note 16. Investments in financial instruments 58
Note 17. Reinsurance assets 61
Note 18. Insurance and other receivables 61
Note 19. Cash and cash equivalents 62
Note 20. Shareholders and share capital 62
Note 21. Capital reserve 63
Note 22. Fair value reserve 63
Note 23. Insurance contract provisions and reinsurance assets 64
Note 24. Financial liabilities 66
Note 25. Insurance payables 66
Note 26. Other payables and accrued expenses 66
Note 27. Fair value of financial instruments 67
Note 28. Operating and finance leases 69
Note 29. Income tax 69
Note 30. Transactions with related parties 70
Note 31. Contingencies 71
Note 32. Explanation of transition to IFRSs 71
Signatures to annual report 2016 76
Annex 1 77
Annex 2 78

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Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

Opinion

We have audited the separate financial statements of ERGO Life Insurance SE ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

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

Other Information

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

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

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Rokas Kasperavičius.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
27 March 2017

ANNUAL REPORT

2016

Review of operations

Strong owner

Through their parent company, ERGO Insurance Group, ERGO companies in the Baltic States represent the powerful global financial group Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been successfully operating since 1880 and has always been able to satisfy their clients' claims. Its reliability is confirmed by the assessments given by the rating agencies to the owner company and the parent company of ERGO: Munich Re was rated as Aa3 or excellent (according to Moody's); ERGO Insurance Group was rated as AA- (according to Standard & Poor's). Munich Re is included in the list of DAX 30 / EUROSTOXX 50.

ERGO Insurance Group serves 40 million clients in more than 30 countries and is the largest health and legal insurance provider in Europe.

As at the final date of the annual report, the share capital of ERGO Life Insurance SE (hereinafter in the report ERGO Life Insurance SE, ERGO, the company) was EUR 4,380,213. The sole shareholder of ERGO Life Insurance SE is ERGO International AG, registry code HRB 40871, address Victoriaplatz 2, 40198 Düsseldorf, Germany.

Since 17 September 2015, the new chairman of the management board of ERGO Group is Markus Rieß. His objective is to make ERGO the leading enterprise on the international insurance market, leading the way in a client-centred approach and innovation; creating for both the employees and sales partners alike an environment which develops their strengths and opens new prospects; to a company which inspires clients, creates additional value for the shareholders of Munich Re and is visible in the context of issues that touch many people.

Cooperation with the world's strongest re-insurers

ERGO works with the world's leading re-insurers (Munich Re, Gen Re, Swiss Re, SCOR, and Hannover Re). With re-insurance ERGO manages its potential risks and ensures that compensation for large-scale damage is paid to its clients without any issues.

ERGO Life Insurance SE: the year 2016 in figures

Gross premium income	EUR 61.63 million
Total assets	EUR 310.93 million
Investments in financial instruments	EUR 278.18 million
Insurance contract provisions	EUR 211.18 million
Equity	EUR 65.4 million
Comprehensive income	EUR 29.52 million
Return on equity	4.01%
Insurance contracts in force	97,755
Offices	17 in Lithuania, 25 in Latvia, 21 in Estonia
Employees	441

Economic environment

In its Winter 2017 Economic Forecast, the European Commission expects Europe's economic recovery to continue in 2017 and 2018, similar to 2016. At the same time, the outlook has taken into consideration that there has been an increase in uncertainty. Headline inflation has recently picked up, mainly due to the base effect of energy prices. Continuing and intensifying economic growth in the euro zone is supported primarily by domestic demand.

Estonia

After a slowdown in 2015 and 2016, the rate of economic growth in Estonia is expected to slightly accelerate (approx. 2% per year), mainly supported by increasing public sector investments and other spending. If economic growth has thus far been supported rather by domestic consumption, then external demand is projected to gather steam. Domestic demand has been supported by faster wage growth compared to productivity.

Latvia

Economic growth has decelerated and growth in 2016 was at the lowest level in the last six years. The primary driving forces behind economic growth have been the industrial and services sectors. The proportion of the construction sector will decline and investments will continue to shrink, the reason being, among other things, the lack of use of EU assistance funds. Consumer prices, which in recent years have remained almost unchanged, will quickly begin to rise. Wage growth will continue, also supporting, in turn, an increase in private consumption as the principal contributor to growth.

Lithuania

The main drivers of growth are increased earnings of households and private consumption. Wage growth has also continued to accelerate based on the support of the increased minimum wage; however, productivity has not managed to catch up. Due to a lack of use of European Union funds, public sector investments have dropped significantly, which is also the main reason for the construction sector being in decline. The unemployment rate is falling; however, wage growth should slow slightly. Similar to Estonia and Latvia, consumer prices are also set to rise in Lithuania.

Depopulation will remain the main problem in the Baltic region, primarily due to emigration.

Legal environment

The main law for insurance industry in Lithuania is the Law on Insurance. The first Law on Insurance was adopted on 20 September 1990. Later the latter Law was four times adjusted by issuing new versions: on 10 May 1996, 18 September 2003, 17 November 2011 and 16 October 2012. The latter version with six amendments is currently in force.

The latest version of the Law on Insurance which entered into force on 1 January 2016 is largely based on directive 2009/138 of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II).

Lithuania has successfully implemented EU directives on insurance mediation (IMD I, II) into its national law. Due to the merge of the mentioned EU directives into one, some changes in insurance legal environment shall have to be made. In 2016, the European Commission adopted new rules to widen the IMD's scope to all sellers of insurance products, including insurance companies that sell directly to consumers. They shall apply as from 23 February 2018. In accordance with the new requirements, respective local laws (incl. the Law on Insurance of the Republic of Lithuania, regulations of the Lithuanian Central Bank, etc.) will be adjusted / prepared and approved within the next 2 years. Therefore, implementation of this directive will be a focal point during this and the following year. Under this new framework, known as the insurance distribution directive (IDD) (also known as Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)), consumers and retail investors buying insurance products will benefit from:

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

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

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

Furthermore, in January 2012, the European Commission proposed a comprehensive reform of data protection rules in the EU. In May 2016, the EU General Personal Data Regulation and EU Directive on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data were approved and came into force. In accordance with the new requirements, respective local laws (incl. the Law on Legal Protection of Personal Data of the Republic of Lithuania) will be approved or adjusted within the next two years; in addition, competent local authorities may state that the General Personal Data Regulation must be applied directly without additional local requirements.

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

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

The Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs)[1] that introduce a key information document (KID – a simple document giving key facts to investors in a clear and understandable manner) covering not only collective investment schemes but also other "packaged" investment products offered by banks or insurance companies, was approved in November 2014 and had to be fully implemented by the end of 2016.

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

- administrative fines of at least:

(i) in the case of a legal entity:

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

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

In June 2016, the project of requirements for audit committees and for the selection of external auditors was received from the Central Bank of Lithuania. All market participants had been asked to provide their comments regarding this project.

These requirements state that insurance companies must also establish audit committees and select external auditors in accordance with specific criteria. The audit committee, consisting of at least three members, should be established by the Supervisory Board of the company. Meetings of this committee must be held at least twice per year.

Infringements of the requirements of the Law on Insurance may be subject to administrative fines of up to EUR 100,000; in addition, the Central Bank of Lithuania may require to replace the Supervisory Board or its member, the Management Board or its member, the General Manager or another person, managing the company.

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

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

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

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

A completely new feature of the Lithuania’s current Law on Insurance is insurers’ own risk and solvency assessment. Regular own risk assessment must be embedded in insurers’ business strategy. The assessment must cover an insurer’s overall solvency needs as well as consistent compliance with capital requirements and the requirements regarding technical provisions.

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

Financial performance of ERGO Life Insurance SE

Gross premium income of ERGO Life Insurance SE for 2016 was EUR 61.6 million. In terms of premium income, ERGO Life Insurance SE maintained the fifth position in the Lithuanian and the fourth position in the Baltic life insurance market. Claims and benefits incurred and changes in liabilities totalled EUR 51.35 million. ERGO Life Insurance SE ended 2016 with total comprehensive income of EUR 2.0 million. Net investment income amounted to EUR 6.32 million and other activities generated a profit of EUR 0.02 million.

At the year-end, ERGO Life Insurance SE had assets of EUR 310.93 million (2015: EUR 261.44 million). Investments in financial instruments amounted to EUR 278.18 million (2015: EUR 233.27 million), debt securities accounted for 71.4% (2015: 71.7%), loans for 1.9% (2015: 0.01%) and equities and fund units for 16.2% (2015: 17.5%) of the total. Altogether, investments in financial instruments accounted for 89.5% (2015: 89.2%) of total assets. Insurance provisions totalled EUR 211.18 million (2015: EUR 197.91 million), accounting for 86% (2015: 88.0%) of total liabilities and 67.9% (2015: 75.7%) of total assets.

Insurance activities

Gross premium income by insurance class

In euros	**2016**		**2015**		**Change**	
	Gross premiums written	Share of class, %	Gross premiums written	Share of class, %	Gross premiums written	Share of class, pp
Life insurance contracts	36,315,751	58.9	35,368,182	60.4	947,569	-1.5
Health insurance contracts	25,310,262	41.1	23,207,196	39.6	2,103,066	1.5
Total from insurance activities	***61,626,013***	***100.0***	***58,575,378***	***100.0***	***3,050,635***	
Total	**61,626,013**	**100.0**	**58,575,378**	**100.0**	**3,050,635**	

In 2016, ERGO Life Insurance SE generated premium income of EUR 61.63 million, a 5.2% increase on the year before. The largest classes were life insurance contracts and health insurance, the premium income of which amounted to EUR 36.32 million or 2.7% and EUR 25.31 million or 9.1% of the portfolio respectively.

Claims and benefits paid by insurance class

In euros	**2016**		**2015**		**Change**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Life insurance contracts	19,567,508	51.7	17,408,995	52.8	2,158,513	-1.1
Health insurance contracts	18,305,236	48.3	15,585,095	47.2	2,720,140.96	1.1
Total	**37,874,760.00**		**32,996,105.00**		**4,878,655.00**	

Claims and benefits paid in 2016 totalled EUR 37.87 million (2015: EUR 32.99 million). Claims incurrence trends did not change significantly. The largest share of claims was settled in life insurance: EUR 19.57 million or 51.7% of claims paid. The next-largest class was health insurance, where claims and benefits paid totalled EUR 18.31 million or 48.3%.

Investing activities

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

In 2016, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 25.8% (2015: 35.3%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) rating, 34.0% (2015: 32.2%) were rated AA or Aa, 23.10% (2015: 18.6%) had an A rating, and 17.00% (2015: 13.9%) were rated BBB or Baa. At the year-end, the investment portfolio comprised investments in associates of EUR 6.1 million (2015: EUR 2.2 million), debt securities of EUR 221.9 million (2015: EUR 187.3 million), loans of EUR 6.0 million (2015: EUR 0.3 million), and equities and fund units of EUR 23.6 million (2015: EUR 25.5 million). There were no term deposits.

Income on assets with interest rate risk amounted to EUR 5.50 million. Realisation of equities and units resulted in a loss of EUR 1.23 million and realisation of debt securities in a gain of EUR 2.19 million. Dividend income was EUR 0.30 million. The fair value reserve decreased by EUR 27.48 million.

Development

ERGO Life Insurance SE further increased its financial capacity and stability

Insurance premiums signed by ERGO Life Insurance SE during the reporting year amounted to EUR 61.6 million, i.e. 5.2 per cent more than in 2015. In terms of premiums written in the separate life insurance groups, the most rapid increase was in investment life insurance and pension annuities insurance premiums.

During the reporting year, operating result of the European Company was profit of EUR 2 million.

In 2016, the result from investment activities of ERGO Life Insurance SE was profit of EUR 6.3 million. During the reporting year, the administrative costs ratio decreased and was 5.4% (5.8% in the previous year).

Fast and proper insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to EUR 37.87 million. Most payments were in accumulative life insurance.

At the end of 2016, own funds of the European Company amounted to EUR 40.3 million, which by 86% exceeded the solvency capital requirement established by the Lithuanian legislation.

Special attention is paid to risk management. In our activity we face the following risks: insurance risk, investment risk, claim reserve risk, solvency reserve risk. The company manages its risks following the recommendations prepared by ERGO companies in the Baltic States and the risk management strategy approved by the company.

In 2017, we have plans to grow and strengthen our position in the market. At the end of 2016, ERGO Life Insurance SE held 10.2% of the Baltic life insurance market. The number of premiums written by ERGO Life Insurance SE is expected to grow by approximately 0.5 per cent.

Sales and customer service

The strategic focus of ERGO includes strong client relations, client-centeredness, innovation, simplicity and transparency. When looking at the willingness of clients to recommend us to others, ERGO ranks in the top three among Baltic insurance providers. ERGO wishes to hold onto this position.

In 2016, ERGO Life Insurance SE revised the terms and conditions of its insurance services considering the experience gained and increasing client needs. Considering the expected return on long-term investments, insurance rates and guaranteed interest rates applicable to insurance contracts when the investment risk is borne by the insurer were revised. The conditions of unit-linked life insurance were revised and the company strengthened its positions in the Latvian and Lithuanian markets of this product.

In Lithuania, new additional term life insurance was implemented, the conditions of additional accident insurance and additional critical illness insurance were revised. In Latvia, the conditions of additional accident insurance were revised. In Estonia, the new additional critical illness insurance (for adults and for children) and additional total permanent disability insurance were successfully introduced.

The company focuses on life insurance business in the Baltics and holds strong positions in voluntary pension insurance and pension annuity. ERGO offers to its clients various independent saving instruments for pension, and for the retired members of pillar II pension funds it provides pension annuity service in all Baltic States.

We are proud of

ERGO in the Baltic States is proud of many awards received in 2016.

ERGO reached the highest reputation growth in the financial sector in Lithuania and Latvia in 2016: got TOP3 (Lithuania) and TOP5 (Latvia) positions in the financial sector.

ERGO in Lithuania was selected as the leading national innovator in Lithuania and acknowledged as one of the most innovative companies in Europe at prestigious European Business Awards 2016.

ERGO in Estonia was nominated as The Best in Client Service in 2016.

ERGO with TOP2 position reached the highest growth as most loved brand in insurance sector in Latvia.

ERGO is the leading health insurance provider in Latvia and in the Baltics.

Sponsorship and social responsibility

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

In Lithuania, ERGO was also the main sponsor of the bicycle marathon “Velomarathon” in 2016. At the event, reflective apparel and items were showcased under the slogan “Fashion to protect you”.

For the fourth year already, ERGO has been the main sponsor of one of the largest cultural events in Lithuania, the Vilnius International Film Festival.

In September, ERGO in Lithuania supported the world child protection organisation UNICEF by participating in the Vilnius Marathon.

ERGO was the sponsor of the conference “Business 2017” held in Lithuania.

The “Insurance Forum” was organised for insurance brokers, which discussed the development of and trends in the economy for 2017.

ERGO Estonia acknowledged the authors of the best ideas of the competition at the opening event “Insurance 2025” of TTÜ Mektory “How to Start Up”. First place was a tie, between Ashish Rana (“Startup Insurance”) and Siamak Tebyaniani (“Playful Insurance Products”).

ERGO Estonia announced a competition for the Young Athlete grant in the amount of EUR 20,000. With the grant, ERGO wished to support the healthy lifestyle of the people of Estonia and thereby all of society. More than 160 young athletes applied for the grant. The most widely represented sports were skiing and track and field, followed by cycling, sailing and horseback riding. ERGO decided to divide the grant amount between 11 young athletes and provide an equal amount of EUR 1,500 to the selected grant recipients. The recipients of the 2016 grant were: Ralf Tribuntsov (swimming), Marten Liiv (speed skating), Erika Kirpu (fencing), Kätlin Tammiste and Anna Maria Sepp (sailing), Meril Beilmann (biathlon), Kristjan Ilves (Nordic combined), Kristin Kuuba and Helina Rüütel (badminton), Kreete Verlin (track and field), and Marie Turman (curling).

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

In Estonia, ERGO continues its cooperation with the foundation KiVa Antibullying Program. Five schools per academic year are eligible to join the programme.

The German-Baltic Chamber of Commerce awards an economic prize with the aim of acknowledging small and medium-sized Estonian enterprises which are highly successful and innovative in their respective fields, and have business relations with Germany. In 2016, the topic “Our employees – the key to our success” was focused on. The winner of the competition was Enics Eesti AS. ERGO is a member of the Chamber and the main sponsor of the competition.

Already for the 14th year ERGO Latvia has been providing a scholarship to young people who have lost their parents and needed support in order to obtain higher education. In February, ERGO Latvia held a job shadow day for students.

Caring about the environment, ERGO planted 5,000 pine trees in Latvia. Over the past six years of ERGO's participation in planting the forest, about 21,200 pine trees and spruces were planted on an area of 10 hectares.

As an employer, ERGO promotes a healthy and active lifestyle and encourages its employees to be active as well. The Lattelecom Riga Marathon was attended by 100 employees of ERGO from all three Baltic States.

For the fourth year already, ERGO was the main sponsor of the beach volleyball competition "ERGO Open" in Latvia.

In Latvia, ERGO launched a bicycle school programme for children aged up to 14, which offered young cyclists the chance to improve their riding skills. Those who completed the track successfully were given a certificate after passing the riding test.

ERGO Latvia was the insurance partner for the Light Festival "Staro Rīga 2016" in November. The festival is one of the largest cultural events in Latvia, displaying light and multimedia installations – houses, squares, bridges and monuments are turned into unique pieces of art which join elements of light, music and theatre.

At the end of the year, ERGO Latvia held a two-month life insurance campaign which introduced life insurance products with investment risk.

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

- Chairman of the management board Kęstutis Bagdonavičius is responsible for the following pan-Baltic departments: communication, corporate strategy, HR and administration, legal and compliance control, regional development, internal audit, business management and innovation.
- Member of the management board and chief financial officer Deniss Sazonovs is responsible for financial management and the following departments: accounting, planning and controlling, actuaries, risk management and IT.
- Member of the management board and ERGO's team leader in Latvia Ingrida Kirse is responsible for life, health and pension insurance in the Baltics as well as property insurance, claims handling, sales and marketing in Latvia.
- Member of the management board and ERGO's team leader in Lithuania Saulius Jokubaitis is responsible for reinsurance and pricing in the Baltics and property insurance, claims handling, sales and marketing in Lithuania.
- Member of the management board and ERGO's team leader in Estonia Tarmo Koll is responsible for bank insurance in the Baltics and property insurance, claims handling, sales and marketing, and customer contract management in Estonia.

Statement of the management's responsibility

The Board of Directors of ERGO Life Insurance SE confirm that the separate financial statements for the year ended 31 December 2016 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and that appropriate accounting policies have been applied on a consistent basis. Board of Directors of ERGO Life Insurance SE are responsible for preparing these separate financial statements from the books of primary entry. The Board of Directors confirm that these separate financial statements for the year ended 31 December 2016 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the separate financial statements for the year ended 31 December 2016.

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

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Kęstutis Bagdonavičius
Chairman of the Board

27 March 2017

Separate financial statements

Separate income statement

In euros	Note	**2016**	**2015**
Income			
Gross premiums written	6	61,626,014	58,575,377
Written premiums ceded to reinsurers	6	-708,467	-1,196,956
Total net premiums written		**60,917,547**	**57,378,421**
Change in gross provision for unearned premiums		-1,164,152	-1,533,266
Reinsurers' share of change in provision for unearned premiums		-1,163	-73,549
Net change in provision for unearned premiums		**-1,165,315**	**1,606,815**
Net earned premiums		**59,752,232**	**55,771,606**
Fee and commission income	**24**	**3,315,498**	**2,715,739**
Net investment income	7	6,328,692	11,584,361
Other income		314,338	393,118
Total income		**70,601,064**	**70,464,824**
Expenses			
Claims and benefits incurred	8	51,379,028	53,794,202
Reinsurers' share of claims and benefits incurred	8	-26,142	-577,609
Net policyholder claims and benefits incurred		**51,352,886**	**53,216,593**
Change in value of financial liabilities from unit-linked contracts	**24**	**1,344,837**	**586,486**
Change in value of financial liabilities from investment contracts	**24**	**464,878**	**47,180**
Acquisition costs	9	10,751,498	10,848,307
Administrative expenses	9	3,243,054	3,320,956
Other operating expenses	9	-125,771	-1,833,399
Investment expenses	9	456,380	446,614
Other expenses	9	290,325	493,991
Total expenses		**67,778,087**	**67,126,727**
Operating profit/loss		**1,932,673**	**3,338,098**
Profit before income tax		**1,932,673**	**3,338,098**
Income tax expense/benefit	29	**-110,543**	**-141,862**
Profit for the year		**2,043,216**	**3,479,960**

Separate statement of comprehensive income

In euros	Note	**2016**	**2015**
Profit/loss for the year		**2,043,216**	**-2,469,774**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in the value of available-for-sale financial assets	22	27,477,210	-1,056,803
Total other comprehensive expense/income for the year		**27,477,210**	**-1,056,803**
Total comprehensive income/expense for the year		**29,520,426**	**2,423,157**

The notes on pages 21 to 75 are an integral part of these separate financial statements.

Separate statement of financial position

In euros

Assets

As at 31 December	Note	2016	2015	2014
Property and equipment	10	596,895	608,142	667,084
Intangible assets	13	1,384,631	1,416,122	1,538,190
Deferred acquisition costs	11	7,911,214	8,129,128	6,940,474
Investments in subsidiaries	14	4,677,870	927,870	1,525,006
Investments in associates	15	930,069	611,543	1,867,825
Investments in financial instruments				
Equities and fund units	*16*	*50,019,493*	*45,622,276*	*38,441,627*
Debt and other fixed-income securities	*16*	*221,903,491*	*187,382,155*	*172,145,190*
Loans	*16*	*6,525,870*	*683,357*	*842,283*
Total investments in financial instruments		278,448,854	233,687,788	211,429,100
Reinsurance assets	17	175,674	191,452	653,484
Insurance and other receivables	18	10,619,808	9,679,106	8,290,766
Deferred tax assets	29	420,516	245,109	77,702
Cash and cash equivalents	19	5,766,515	5,946,530	6,252,916
Total assets		**310,932,046**	**261,442,790**	**239,242,547**

Equity and liabilities

As at 31 December	Note	2016	2015	2014
Equity				
Share capital	20	4,380,213	4,380,213	4,380,213
Capital reserve	21	15,869,501	15,869,501	15,869,501
Fair value reserve	22	30,599,689	3,122,478	4,179,281
Retained earnings		**14,595,246**	**13,102,032**	**11,022,072**
Total equity		**65,444,649**	**36,474,224**	**35,451,067**
Liabilities				
Insurance contract provisions	23	211,179,090	197,911,316	181,603,003
Reinsurance payables		352,711	4,785	4,469
Financial liabilities from unit-linked contracts	24	16,129,655	13,844,121	12,622,292
Financial liabilities from investment contracts	24	10,404,292	6,265,628	3,322,143
Insurance payables	25	4,486,386	4,011,787	3,806,048
Other payables and accrued expenses	26	2,935,263	2,930,929	2,433,525
Total liabilities		**245,487,397**	**224,968,566**	**203,791,480**
Total equity and liabilities		**310,932,046**	**261,442,790**	**239,242,547**

The notes on pages 21 to 75 are an integral part of these separate financial statements.

Separate statement of cash flows

In euros

(Inflow + , outflow –)	**Note**	**2016**	**2015**
Net cash from operating activities		**11,284,030**	**-1,293,111**
Insurance premiums received		68,107,876	63,031,923
Claims, benefits and handling costs paid		-38,706,497	-33,987,554
Settlements with reinsurers		232,317	-180,324
Paid in operating expenses		-13,734,256	13,768,353
Other income and expenses		195,213	437,295
Acquisition of equities and fund units		-21,320,304	-154,645,784
Disposal of equities and fund units		7,327,334	5,605,212
Acquisition of debt and other fixed-income securities		-38,675,538	-29,836,979
Disposal of debt securities		42,747,762	16,862,907
Interest received		6,808,777	6,570,807
Dividends received		448,099	1,711,075
Corporate income tax paid		-2,146,753	-2,093,336
Net cash used in investing activities		**-11,464,045**	**986,724**
Acquisition of an associate		-4,533,050	0
Loans to group companies		0	1,727,854
Repayment of loans to group companies		6,000,000	0
Interest received from group companies		0	0
Proceeds from other investments		0	0
Dividends paid		-550,000	-1,400,000
Paid on acquisition of property and equipment and intangible assets		-407,433	335,601
Proceeds from sale of property and equipment and intangible assets		26,438	323,269
Net cash inflow		**-180,015**	**-306,387**
Cash and cash equivalents at beginning of year		**5,946,530**	**6,252,917**
Decrease in cash and cash equivalents		-180,015	-306,387
Cash and cash equivalents at end of year	17	**5,766,515**	**5,946,530**

The notes on pages 21 to 75 are an integral part of these separate financial statements.

Separate statement of changes in equity

In euros	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2014	**4,380,213**	**15,869,501**	**4,179,282**	**11,022,072**	**35,451,068**
Dividend distribution	0	0	0	-1,400,000	-1,400,000
Total transactions with owner	**0**	**0**	**0**	**-1,400,000**	**-1,400,000**
Profit/(loss) for the year	0	0	0	3,479,960	3,479,960
Other comprehensive income	0	0	-1,056,803	0	-1,056,804
Total comprehensive income	**0**	**0**	**-1,056,804**	**3,479,960**	**2,423,156**
Balance at 31 December 2015	**4,380,213**	**15,869,501**	**3,122,478**	**13,102,032**	**36,474,224**
Dividend distribution	0	0	0	-550,000	-550,000
Total transactions with owner	**0**	**0**	**0**	**-550,000**	**-550,000**
Profit/(loss) for the year	0	0	0	2,043,214	2,043,214
Other comprehensive expense	0	0	27,477,211	0	27,477,211
Total comprehensive income	**0**	**0**	**27,477,211**	**2,043,214**	**29,520,425**
Balance at 31 December 2016	**4,380,213**	**15,869,501**	**30,599,690**	**14,595,246**	**65,444,649**

The notes on pages 21 to 75 are an integral part of these financial separate statements.

Notes to the separate financial statements

Note 1. Reporting entity

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

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

The separate financial statements of ERGO Life Insurance SE for 2016 include the financial data of ERGO Life Insurance SE’s head office in Lithuania and the financial information of its Latvian and Estonian branches.

These separate financial statements were authorised for issue by the management board on 27 March 2017. Under the Law on Companies of the Republic of Lithuania, the annual report and the financial statements that have been prepared by the management board and approved by the supervisory board must also be approved by the shareholders’ general meeting. Shareholders may decide not to approve the financial statements and may demand that a new set of financial statements be prepared.

Note 2. Basis of preparation

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

These financial statements are separate financial statements of the Company. Consolidated financial statements are not prepared as the exemption criteria in IFRS 10.4(a) for preparation of consolidated financial statements is met. The consolidated financial statements of the ultimate parent Münchener Rückversicherungs-Gesellschaft AG are published on the website www.munichre.com.

(a) Basis of accounting

The separate financial statements of ERGO Life Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2016.

These are the Company’s first separate financial statements prepared in accordance with IFRSs as adopted by EU and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRSs as adopted by EU has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 32.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Use of judgements and estimates

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

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

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

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

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

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

- Note 16 Investments in financial instruments
- Note 17 Reinsurance assets
- Note 18 Insurance and other receivables
- Note 23 Insurance contract provisions
- Note 29 Income tax

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

(i) Measurement of fair values

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

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

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

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

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

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

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

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

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements and in preparing the opening IFRS separate statement of financial position at 1 January 2015 for the purposes of the transition to IFRSs, unless otherwise indicated.

(a) Classification of insurance contracts

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

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

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

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

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

(b) Revenue

Insurance gross premiums

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

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

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

Reinsurance premiums

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

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

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

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

Fees and commission income

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

Investment income

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

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

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

Other income

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

(c) Expenses

Claims and benefits incurred

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

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

Reinsurers' share of claims and benefits incurred

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

Operating expenses

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

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

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

Allocation of expenses

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

(d) Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

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

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

(iii) Lease payments

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

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

(e) Operating profit

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

(f) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

(g) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Software	3–5 years

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

(h) Deferred acquisition costs

Acquisition costs are costs incurred in connection with the acquisition of new insurance contracts and the renewal of existing contracts. Only certain ("deferrable") acquisition costs are deferred, such as agents' commissions and other variable underwriting and policy issue costs. General selling expenses and line of business costs are not deferred unless they are primarily related to the acquisition of new business. Deferred acquisition costs are recognised for those insurance contracts where the Zillmerisation method is not used to determine liabilities and includes accident, health and unit-linked products.

(i) Cash and cash equivalents

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

(j) Investment is subsidiaries and associates

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

(k) Financial instruments

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

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

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

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

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

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

(ii) Non-derivative financial assets – Measurement

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

(iii) Non-derivative financial liabilities – Measurement

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

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

(iv) Derivative financial instruments

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

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

(l) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity accounted investee and a subsidiary, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

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

— indications that a debtor or issuer will enter bankruptcy;

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

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

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

Financial assets measured at amortised cost

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

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

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

Available-for-sale financial assets

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

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

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Subsidiaries

An impairment loss in respect of a subsidiary is measured by comparing the recoverable amount of the investment in subsidiary with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount

(ii) Non-financial assets

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

(m) Fair value measurement

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

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

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

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

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

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

(n) Insurance contract liabilities

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

Insurance contract liabilities consist of:

Life insurance provision

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

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

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

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

Provision for unearned premiums

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

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

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

Provision for claims outstanding

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

Provision for bonuses

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

Provision for unexpired risks

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

Insurance liability valuation

Conventional insurance contract related liability is valued on a case by case basis prospectively using brut premium method with locked-in assumptions. Unit-linked insurance liability and non-life insurance liability is valued as unearned premium provision, produced using *pro rata temporis* method.

Liability adequacy test

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

Cash inflows comprise estimated future investment income.

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

(o) Financial liabilities

(i) Financial liabilities from unit-linked investment contracts

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

(ii) Financial liabilities from investment contracts

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

Financial liabilities from investment contracts are classified as at fair value through profit or loss upon acquisition. The Company has designated the liabilities to the category of *at fair value through profit or loss* because this eliminates or significantly reduces the accounting mismatch for assets and liabilities which would arise if gains and losses on the said assets and liabilities were recognised using different accounting policies.

(iii) Other financial liabilities

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

(p) Provisions and contingent liabilities

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

(r) Vacation pay liability and other liabilities to employees

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

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

(s) Taxes

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

- Insurance Supervisory Commission maintenance fee of 0.234% from insurance premiums written in Lithuania;
- Social insurance contributions of 30.98% in Lithuania, 24.09% in Latvia and 33.00% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT less input VAT;
- Real estate tax up to 1% in Lithuania, 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 expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. In the reporting period, the corporate income tax rate in Latvia and Lithuania was 15% (the same as in the previous year). Activity in the Republic of Estonia is not subject to corporate income tax.

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

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

(t) Foreign currency transactions

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

(u) Capital management

As at 31 December 2015 the Company was compliant with Solvency I capital adequacy requirements which were replaced by Solvency II rules as of 1 January 2016. Solvency II entails new rules for calculating capital requirements and qualifying capital, risk management and internal control requirements and requirements for the reporting of the risk and capital situation. As at 31 December 2016 the Company assessed its specific facts and circumstances to determine that it manages its capital adequacy requirements in accordance with Solvency II rules.

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

(a) Changes in accounting policies

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

The following new standards and amendments with effective date of 1 January 2016 did not have any impact on these separate financial statements:

- IFRS 14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Annual Improvements to IFRSs – various standards;
- Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);
- Disclosure Initiative (Amendments to IAS 1).

(b) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2016 and have not been applied in preparing these separate financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

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

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

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

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

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

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

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

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

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

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

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

The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity’s performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company’s separate financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company’s separate financial statements. The timing and measurement of the Company’s revenues are not expected to change under IFRS 15 because of the nature of the Company’s operations and the types of revenues it earns.

(iii) Amendments to IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the separate financial statements of the Company. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value (‘small-ticket’ leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the separate financial statements, since it will require the Company to recognise in its separate statement of financial position assets and liabilities relating to operating leases for which the Company act as lessee.

The Company has operating lease agreements for cars and premises lease agreements. The Company has not yet prepared an analysis of the expected quantitative impact of the new Standard.

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company because the Company does not enter into share-based payment transactions.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

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

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.) This pronouncement is not yet endorsed by the EU.

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9.

(ix) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the separate financial statements because the Company does not have investment property.

(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the separate financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

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

Note 5. Risk management

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

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

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

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

(a) Insurance risks

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

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

Policies for mitigating insurance risk

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

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

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

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

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

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

Insurance risk management strategy

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

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

1. <u>Products with guaranteed investment return in savings phase</u>. The group of products is sensitive to mortality, lapse, expense and catastrophe risks. The impact from changes in the lapse rate is assessed by the Company on the regular basis (at least annually); the comparison of actual surrenders and modelled is performed and significant fluctuations (if any) analysed in the details. Proper expense evaluation is considered a challenging aspect as well due to long-term projections which lead to expense estimation for the next 40 years. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is considered to be of minor importance.

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

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

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

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

Insurance contract groups

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

Insurance with investment guarantee

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

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

All these insurance sub-groups are very sensitive to the decrease in market investment return. Taking into account current market situation, meeting the requirement of guaranteed investment return becomes challenging. Sensitivity to other main risks differs per sub-group.

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

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

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

Due do portfolio diversification, concentration risk is reduced.

Insurance linked to investment units

The group of products is currently the most popular in the market; however, it takes a rather small part of the Company’s current portfolio. This product group is almost not sensitive to market risks; however, it is usually equipped with risk riders which must be evaluated cautiously.

Risk-based insurance without savings part

The group of products covers long-term risk riders as well as health insurance product which has at most one year duration.

Health product has higher flexibility for price adjustments due to its short duration; however, it must be kept in mind that higher rates might lead to lower renewals resulting in significant drop in business volume. The latter is not the case for rider products because future premiums are defined on the day when the policy is concluded.

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities. The method used for deriving sensitivity information and significant assumptions made did not change from the previous period.

As at 31 December 2016

In euros	Change in assumptions	Increase/ (decrease) in gross liabilities	Increase/ (decrease) in net liabilities	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
Mortality rate	+ 10%	38,242	38,242	-8,523	-24,332
Lapse and surrenders rate	+ 10%	-64,329	-64,329	29,958	114,292
Discount rate	+ 1%	-682,184	-682,184	312,736	752,070
Mortality rate	- 10%	-40,738	-40,738	8,526	23,119
Lapse and surrenders rate	- 10%	76,272	76,272	-30,099	-114,417
Discount rate	- 1%	3,297,787	3,297,787	-316,324	-1,871,361

As at 31 December 2015

In euros	Change in assumptions	Increase/ (decrease) in gross liabilities	Increase/ (decrease) in net liabilities	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
Mortality rate	+ 10%	39,304	39,304	-8,603	-17,231
Lapse and surrenders rate	+ 10%	-38,266	-38,266	25,377	58,250
Discount rate	+ 1%	-406,620	-406,620	305,474	432,482
Mortality rate	- 10%	-41,589	-41,589	8,607	16,217
Lapse and surrenders rate	- 10%	47,413	47,413	-25,518	-61,140
Discount rate	- 1%	2,505,900	2,505,900	-308,841	-1,127,970

Pricing risks

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

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

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

Claim handling risks

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

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

Provisioning risks

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

Reinsurance strategy

The Company reinsures a certain part of the risks for which it provides insurance cover under insurance contracts. The purpose of reinsurance is to reduce the Company’s share of losses and to limit the potential net loss through the diversification of risks. The main contract form in reinsurance is obligatory proportional reinsurance. Risks exceeding the limits of obligatory reinsurance contracts or falling outside their scope are reinsured on a facultative basis.

Liability adequacy test

Liability adequacy test is performed on a quarterly basis right after technical provision calculation but before providing technical provisions for the separate statement of financial position as defined in the Company’s reserving manual. In case LAT showed technical provision insufficiency, the provisions would be increased.

(b) Market, credit and liquidity risks

ERGO pursues an investment strategy that is largely based on the characteristics of the maturity and currency structure of its liabilities. In addition to return, safety and creditworthiness, the investment decision considers liquidity, diversification and above all, the structure of the insurance liabilities. The principles of managing the risks related to financial assets are embedded in the Company’s risk management policy and observed in the predetermined risk appetite, strategic investment of assets and specific risk management processes.

The Company manages its asset risk by preparing a new investment policy on an annual basis. Implementation of the strategy and adherence to restrictions is monitored by a multi-level structure. In 2016, tactical decisions were made and implemented by MEAG (MEAG Munich ERGO Asset Management GmbH), an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management team (AL Team) which, in addition to asset manager, consists of the Company’s actuaries, investment officers, risk manager, head of planning and controlling department and Management Board member. If problems arise, they are reviewed by the ALM committee, which includes qualified members from Baltic countries and Germany. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Market risk

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

Exposure to fluctuations in market value is assessed on an ongoing basis using two models. The first, Net Loss Limit (NLL), monitors the probability of achieving a result that surpasses the minimum investment result fixed by the actuaries. The second, Credit Value at Risk (CVaR), measures the potential loss that a portfolio of assets exposed to credit risk could suffer due to a weakening of the issuer's credit rating. Clearly defined processes ensure that the Company can respond timely to any significant capital market developments.

(a) Interest rate risk

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

The Company's investments comprise mostly fixed-income securities, the market value of which is influenced by changes in interest rates. As at 31 December 2016, the weighted average purchase yield to maturity of fixed-income portfolio was 2.87% (31 December 2015: 3.37%).

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

In euros	**2016**	**2015**	**2014**
	Carrying amount	**Carrying amount**	**Carrying amount**
Fixed-income debt securities			
Interest rate 0.00−2.50%	63,771,112	25,810,827	17,411,325
Interest rate 2.51−3.50%	21,342,769	16,805,934	21,584,342
Interest rate 3.51−4.50%	59,178,635	71,551,934	69,277,877
Interest rate 4.51−5.50%	44,615,012	45,588,925	37,707,097
Interest rate 5.51−6.50%	27,093,314	20,926,971	18,657,504
Interest rate 6.51−7.50%	551,565	1,303,455	562,297
Interest rate 7.51−8.50%	319,323	262,470	268,262
Total fixed-income debt securities	**216,871,730**	**182,250,516**	**165,498,704**
Floating rate debt securities	5,031,761	5,090,876	6,646,486
Loans			
Interest rate 2.51−3.50%	6,525,871	683,357	842,283
Total loans	**6,525,871**	**683,357**	**842,283**
No interest	55,786,007	51,609,569	44,694,543
Total	**284,215,369**	**239,634,318**	**217,682,016**

If as at 31 December 2016 the yield curve had shifted evenly 100 basis points upward/downward across all maturities, the Company's equity would have decreased/increased by EUR 21.2 million (2015: EUR 16 million). Risk has increased because the volume and modified duration of the debt securities portfolio has increased. There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expenses.

(b) Other price risk

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

If as at 31 December 2016 the value of investments in equity and debt securities funds had increased/decreased by 10%, the Company's equity would have increased/decreased by EUR 1.8 million (2015: EUR 2.5 million).

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

Investments in financial instruments and cash by issuer's domicile

In euros

As at 31 December	**2016**	**2015**	**2014**
Debt and other fixed-income securities			
Austria	15,459,819	16,339,170	16,241,696
Australia	335,097	330,169	0
Belgium	14,562,231	13,411,464	12,263,118
Chile	1,167,118	0	0
Czech Republic	3,072,188	2,504,815	1,982,645
Denmark	225,586	808,154	829,819
Finland	2,813,680	6,538,851	9,426,774
France	40,490,691	31,190,973	31,956,586
Germany	44,170,446	36,523,626	39,706,303
Great Britain	7,771,574	6,545,044	6,410,646
Ireland	10,044,094	6,943,518	4,017,290
Italy	13,123,766	9,338,736	1,341,632
Latvia	5,918,226	5,741,222	7,843,694
Lithuania	8,193,503	9,285,014	9,215,840
Luxembourg	3,586,303	1,223,017	1,166,600
Mexico	3,314,845	3,320,903	0
Netherlands	11,822,418	9,160,733	12,211,938
Norway	514,098	1,029,744	2,085,067
Peru	1,215,083	0	0
Poland	4,948,191	3,292,594	2,190,274
Slovakia	3,040,702	2,991,130	1,175,770
Slovenia	4,448,426	3,699,346	2,215,450
Spain	16,321,131	11,712,376	4,642,412
Sweden	1,033,155	2,532,210	2,602,577
Switzerland	740,291	0	0
USA	3,570,829	0	0
European Investment Bank	0	2,870,892	2,615,470
Total debt and other fixed-income securities	***221,903,491***	***187,333,701***	***172,141,601***
Equities and fund units			
Ireland	22,562,716	14,547,178	18,498,971
Germany	85,434	10,203,807	3,276,571
Estonia	62,975	54,624	66,724
Finland	60,687	44,110	69,596
Lithuania	96,461	95,365	96,026
Luxembourg	608,863	531,265	415,933
Norway	71,410	35,768	60,516

In euros

As at 31 December	**2016**	**2015**	**2014**
Sweden	17,345	10,264	12,855
Total equities and fund units	***23,565,891***	***25,522,381***	***22,497,192***
Derivatives			
Estonia	0	48,454	0
Total derivatives	***0***	***48,454***	***0***
Loans	6,525,871	683,357	842,283
Total loans	***6,525,871***	***683,357***	***842,283***
Unit-linked			
Denmark	1,946,498	2,797,962	1,934,238
Estonia	2,196,515	1,987,860	2,017,443
Finland	684,119	608,848	684,773
Latvia	383,885	261,179	0
Lithuania	8,964,976	6,372,942	5,081,872
Luxembourg	11,736,538	7,671,354	5,891,744
Norway	345,206	275,320	227,813
Sweden	195,865	124,431	106,553
Total Unit-linked	***26,453,602***	***20,099,895***	***15,944,435***
Deposit			
Latvia	0	0	3,589
Total deposit	***0***	***0***	***3,589***
Cash			
Estonia	1,774,517	2,002,276	1,842,973
Latvia	1,872,840	1,798,375	2,651,491
Lithuania	2,119,158	2,145,879	1,758,452
Total cash	***5,766,515***	***5,946,530***	***6,252,916***
Total investments in financial instruments	**284,215,369**	**239,634,318**	**217,682,016**

(c) Currency risk

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

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

The following assets and liabilities are exposed to currency risk.

In euros	**As at 31 December 2016**	**As at 31 December 2015**
	USD	**USD**
Insurance and other receivables	2,902	2,158
Investments in financial instruments – available-for-sale debt securities	372,173	625,388
Other liabilities from direct insurance business	(1,379)	(1,609)
Reinsurance payables	(23)	(2)
Total	**373,673**	**625,935**

Credit risk

The credit risk of investments is the risk that the issuer of a security will not discharge its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The following table describes the Company's debt securities portfolio by the issuer's credit rating. At the year-end, the weighted average rating of fixed-income securities was A+ (2015: A+). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion. The financial instruments and cash presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies.

Rating		2016		2015		2014	
Standard & Poor's	**Moody's**	**Carrying amount in euros**	**%**	**Carrying amount in euros**	**%**	**Carrying amount in euros**	**%**
AAA	Aaa	57,343,598	**20.2**	66,041,300	**27.6**	57,843,938	**26.6**
AA	Aa	75,504,126	**26.6**	60,412,354	**25.2**	74,855,572	**34.4**
A	A	51,338,579	**18.1**	34,872,962	**14.6**	14,355,537	**6.6**
BBB and below	Baa	37,717,187	**13.3**	26,014,775	**10.9**	25,058,159	**11.5**
Not rated	Not rated	62,311,879	**21.9**	52,293,927	**21.8**	45,568,810	**20.9**
Total		**284,215,369**	**100**	**239,634,318**	**100**	**217,682,016**	**100**

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

As at 31 December 2016 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	8,304,519	1,081,631	268,779	146,852	**9,801,781**
Receivables from intermediaries	4,640	56	0	0	**4,696**
Receivables from reinsurers	0	4,531	0	0	**4,531**
Other receivables	71,535	142,896	7,711	464,664	**686,806**
Total	**8,380,694**	**1,229,114**	**276,490**	**611,516**	**10,497,814**

As at 31 December 2015 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	7,585,593	830,444	170,099	192,225	**8,778,361**
Receivables from intermediaries	0	0	0	110	**110**
Receivables from reinsurers	215,096	64,045	0	0	**279,141**
Other receivables	125,664	198,706	6,037	0	**330,407**
Total	**7,926,353**	**1,093,195**	**176,136**	**192,335**	**9,388,019**

As at 31 December 2014 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	6,199,739	814,783	199,777	546,258	**7,760,557**
Receivables from intermediaries	763	0	0	141	**904**
Receivables from reinsurers	174,910	12,317	0	0	**187,227**
Other receivables	16,455	36,928	23,757	0	**77,140**
Total	**6,391,867**	**864,028**	**223,534**	**546,399**	**8,025,828**

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

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

Liquidity risk

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

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

The debt securities portfolio is composed by taking into account liability cash flows with the aim to build asset portfolio with similar cash flow structure. In addition, a large share of the Company’s assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the Company’s liquid funds totalled EUR 283.94 million (2015: EUR 239.21 million), including available-for-sale debt securities of EUR 221.9 million (2015: available-for-sale debt securities of EUR 50.29 million and held-to-maturity debt securities of EUR 137.06 million), equities and fund units of EUR 23.57 million (2015: EUR 25.51 million), loans of EUR 6.53 million (2015: EUR 0.68 million), and cash and cash equivalents of EUR 5.8 million (2015: EUR 6.0 million).

Investments in financial instruments and cash (by maturity):

As at 31 December			
In euros	**2016**	**2015**	**2014**
Carrying amount	**284,215,369**	**239,634,318**	**217,682,016**
Total contractual cash flows	**297,350,062**	**288,802,575**	**283,803,741**
No maturity	55,786,007	51,617,260	44,698,132
Up to one year	10,637,596	11,739,589	17,968,943
2-3 years	26,108,192	33,276,786	39,556,673
4-5 years	27,309,088	25,489,862	34,050,526
6-10 years	76,230,786	54,451,856	57,028,323
11-15 years	39,039,199	48,624,381	37,020,763
16 and more	62,239,194	63,602,841	53,480,381

At the year-end, the weighted average duration to maturity of debt securities portfolio was 9.72 years (2015: 7.9 years).

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

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

Strategic risk

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

Strategic risk factors are divided into two major categories: external (insurance market, competitors, customers and services) and internal (business strategy, achievement of strategic objectives). Strategic risks are addressed by interlocking strategic decision making and risk management processes, especially with regards to preparations and decisions as part of the planning process. As part of the Management of Strategic Risks' process, top risks are identified, evaluated by the Board of Management and discussed on Board level. If needed, appropriate measures are initiated on Board level. For these risks, a responsible person is defined who is responsible for implementing the measures.

Operational risk

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

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

- Resources, especially information and infrastructure (IT and buildings);
- Human resources and processes;
- Projects.

The management of operational risk is based on qualitative and quantitative measurement. The Company manages the risks which are connected to the business processes with adequate controls in the respective processes and used IT applications. Also, the controls and measures on legal entity level guarantee compliance with the regulatory requirements.

Within its Internal Control System, the Company has identified, analysed and assessed both Company-wide risks and the risks inherent in its significant processes, including IT risks. There are measures in place for improving risk control and for mitigating risks. The Company’s internal control and risk management systems deal with both risks arising from everyday operations as well as compliance and financial reporting risks.

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

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

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

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

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

Reputational risk

Reputational risk is the risk of damage to the Company's public image or reputation among its customers, shareholders, employees, partners or supervisory authorities. Reputational risks may result from the realization of other risks (e.g. operational, strategic or concentration risk) and/or in conjunction with other risks, hence, reputational risks are controlled indirectly through the control of the respective risks and risk types.

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

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

Sometimes the risks are difficult to identify and their financial impacts may be hard to assess. The Company's strategy is to avoid reputational risk. Risk exposure is limited by assessing, analysing and reporting reputational risks on a regular basis. The control functions – the Compliance function and the Internal Audit – perform the reputational risk assessment and report identified real of presumable reputational risks to the Risk Management function as well as other responsible stakeholders.

Note 6. Premium income

The following table outlines gross and net premiums for 2016 and 2015 by insurance class.

In euros	2016				2015			
	Gross premiums written	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**	**Gross premiums written**	**Reinsurers' share**	**Change in provision for unearned premiums, net**	**Net earned premiums[1]**
Life, Riders (supplementary insurance)	4,900,407	-444,765	-1,163	4,454,479	4,243,650	-881,649	-5,915	3,356,086
Life, Endowment	16,822,459	-19,635	0	16,802,824	16,101,071	-27,635	203,589	16,277,025
Life, Pension	12,832,864	0	0	12,832,864	13,728,749	0	26,064	13,754,813
Life, Term Life	1,760,022	-244,067	0	1,515,954	1,294,713	-287,672	-25,517	981,522
Health insurance	25,310,263	0	-1,164,152	24,146,110	23,207,195	0	-1,805,036	21,402,160
Total	**61,626,014**	**-708,467**	**-1,165,315**	**59,752,232**	**58,575,377**	**-1,196,956**	**-1,606,814**	**55,771,607**

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

Gross and net changes in the provision for unearned premiums are presented in note 23.

Distribution of gross premiums written by currency

In euros	2016	2015
EUR	61,574,594	58,518,755
USD	51,420	56,622
Total	**61,626,014**	**58,575,377**

Distribution of gross premiums written by country

In euros	2016	2015
Latvia	28,205,011	26,320,656
Lithuania	27,425,888	25,400,968
Estonia	5,995,115	6,853,753
Total from insurance activities	**61,626,014**	**58,575,377**

Note 7. Investment income

In euros	2016	2015
Interest income on		
Available-for-sale debt securities	5,501,256	5,737,033
Loans	1,890	4,716
Term deposits	289	273
Total interest income	**5,503,435**	**5,742,022**
Dividend income	297,278	1,711,075
Net realised gains on available-for-sale financial instruments	2,189,401	2,163
Fair value gains and losses on financial assets at FVPL (designated as such upon initial recognition)	-1,673,942	3,974,548
Investments in associates	12,521	154,544
Total	**6,328,692**	**11,584,361**

Note 8. Claims and benefits

The following table shows claims paid and incurred in 2016 and 2015 by insurance class.

In euros	2016				2015			
	Claims paid[1]	**Change in provision**	**Reinsu-rers' share of claims**	**Net claims incurred**	**Claims paid[1]**	**Change in provision**	**Reinsu-rers' share of claims**	**Net claims incurred**
Life, Riders (supplementary insurance)	-539,903	-314,044	26,847	-827,099	-659,258	-74,733	129,075	-604,915
Life, Endowment	-13,082,407	-2,817,964	-8,207	-15,908,577	-12,332,249	-5,536,344	430,294	-17,438,299
Life, Pension	-6,242,925	-8,914,844	0	-15,157,769	-4,597,278	-13,458,235	0	-18,055,513
Life, Term Life	-165,823	-248,748	7,500	-407,071	-185,542	-105,598	18,241	-272,900
Life, Unit-Linked	-37,561	8,349	0	-29,212	-54,653	-26,954	0	-81,607
Health insurance	-19,206,807	183,649	0	-19,023,158	-16,436,768	-326,591	0	-16,763,359
Total	**-39,275,425**	**-12,103,601**	**26,141**	**-51,352,886**	**-34,265,749**	**-19,528,454**	**577,610**	**-53,216,593**

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

Catastrophes and major losses in 2016

In 2016 there were no extraordinary loss events, nor were there any natural disasters. The biggest claims were covered with the proportional surplus reinsurance treaties.

Note 9. Expenses

In euros	Note	2016	2015
Acquisition costs		**10,751,498**	**10,848,307**
Service fees and commissions		5,307,247	5,370,142
Salaries		2,107,151	2,240,026
Social security charges		599,597	641,553
Marketing expenses		575,112	489,215
Rental and utilities charges		465,033	434,715
Depreciation and amortisation		460,602	498,643
IT costs		391,391	335,622
Office expenses		178,072	160,223
Communications expenses including mobile phone charges		66,466	57,820
Training and other staff costs		65,509	94,300
Other labour costs		52,159	39,907
Business travel expenses		52,086	45,862
Costs of company cars		38,212	42,888
Miscellaneous expenses		392,861	397,390
Administrative expenses		**3,243,054**	**3,320,956**
Salaries		1,609,038	1,566,517
Social security charges		437,909	408,318
Rental and utilities charges		229,190	235,111
IT costs		218,130	202,191
Depreciation and amortisation		188,597	174,709
Business travel expenses		88,889	88,942
Other labour costs		73,049	66,323
Office expenses		59,589	53,880
Training and other staff costs		48,751	60,924
Costs of company cars		29,268	44,045
Communications expenses including mobile phone charges		32,314	32,860
Miscellaneous expenses		228,331	387,136
Other operating expenses		**-125,771**	**-1,833,399**
Change in deferred acquisition costs		218,004	-1,587,447
Reinsurance commission and reinsurers' share of deferred acquisition	9.1	-343,775	-644,952
Investment expenses		**456,380**	**446,614**
Services purchased		385,421	378,840
Salaries		38,672	37,181
Social security charges		13,072	12,567
Rental and utilities charges		11,818	14,443
Other labour costs		3,854	330
Business travel expenses		1,454	1,163
Communications expenses including mobile phone charges		563	392
Office expenses		110	0
Training and other staff costs		86	829
IT costs		2	0
Miscellaneous expenses		1,328	868

In euros	2016	2015
Other expenses	**290,325**	**493,991**
Expenses related to currency revaluation	145,682	155,945
Change in lump sum allowance	59,408	188,739
Exp. Fr. Arranging (re-)insurance contract	799	3,577
Write-off of property and equipment	133	306
Expenditure deposits retained ceded	0	1,966
Miscellaneous expenses	84,303	143,458

9.1 Commission income

In euros	2016	2015
Reinsurance commissions	183,789	432,148
Participation in reinsurers' profit	159,986	212,596
Reinsurers' share of deferred acquisition costs	0	208
Total	**343,775**	**644,952**

Note 10. Property and equipment

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

As at 31 December 2016, the cost of fully depreciated items still in use was EUR 990,320 (31 December 2015: EUR 233,992). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

In euros

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2014	**18,935**	**210,909**	**0**	**924,341**	**1,154,185**
Additions	0	0	0	92,483	92,483
Sales	0	0	0	-42,190	-42,190
Write-off	0	0	0	-78,149	-78,149
As at 31 December 2015	**18,935**	**210,909**	**0**	**896,485**	**1,126,329**
Value adjustment	0	0	0	0	0
Additions	0	0	0	134,675	134,675
Sales	0	0	0	0	0
Write-off	0	0	0	-52,917	-52,917
As at 31 December 2016	**18,935**	**210,909**	**0**	**978,243**	**1,208,087**
Accumulated depreciation					
As at 31 December 2014	**0**	**0**	**0**	**487,101**	**487,101**
Depreciation for the year	0	0	0	142,003	142,003
Sales	0	0	0	0	0
Write-off	0	0	0	-110,917	-110,917
As at 31 December 2015	**0**	**0**	**0**	**518,187**	**518,187**
Depreciation for the year	0	0	0	134,238	134,238
Sales	0	0	0	0	0
Write-off	0	0	0	-41,233	-41,233
As at 31 December 2016	**0**	**0**	**0**	**611,192**	**611,192**
Carrying amount					
As at 1 January 2015	**18,935**	**210,909**	**0**	**437,240**	**667,084**
As at 31 December 2015	**18,935**	**210,909**	**0**	**378,298**	**608,142**
As at 31 December 2016	**18,935**	**210,909**	**0**	**367,051**	**596,895**

Note 11. Deferred acquisition costs

In euros	2016	2015	2014
Balance as at 1 January	**8,129,128**	**6,940,474**	**6,924,912**
Amortised portion	-1,782,650	-503,900	-866,512
Addition from new contracts	1,564,736	1,691,554	882,074
Reduction after liability adequacy test	0	0	0
Balance as at 31 December	**7,911,214**	**8,129,128**	**6,940,474**

Note 12. Insurance liability valuation

Life insurance mathematical technical provision

Best estimate reserving principles are applied for annuities in annuity payment phase.

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

Unearned premiums technical provision

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

Outstanding claims technical provision

Technical provision for incurred but not reported claims (IBNR) is taken as the higher amount between estimated amounts by “Chain-Ladder” and “Bornhuetter-Ferguson” methods. Since the requirement of forming minimal IBNR in the value of 5% of earned premiums is not in force anymore since 1 January 2016, it was proved that the best estimate for IBNR on most of insurance groups is zero. Non-zero IBNR is formed for health and accidental death and disability products.

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

Technical provision for rebates

Technical provision for rebates at the end of the period amounted to EUR 3.57 million (31 December 2015: EUR 3.94 million). The total amount relates to rebate of insurance premiums (participation in profit). The reinsurers’ share amounted to EUR 362 (31 December 2015: EUR 352).

Unexpired risk provision

Unexpired risk technical provision is only relevant for health (medical expense) insurance. It was not formed as at 31 December 2016 and 31 December 2015.

Note 13. Other intangible assets

In euros	Software and licences	Other intangible assets	Total intangible assets
Cost			
As at 1 January 2015	**3,174,675**	**551,458**	**3,726,133**
Addition through purchase of software and licences	468,660	11,232	479,892
Write-off of software and licences	-8,400	0	-8,400
As at 31 December 2015	**3,634,935**	**562,690**	**4,197,625**
Addition through purchase of software and licences	533,403	24,665	558,068
Addition through internally generated IT projects	34,660	0	34,660
Write-off of software and licences	-35,622	-20,898	-56,520
As at 31 December 2016	**4,167,376**	**566,457**	**4,733,833**
Accumulated amortisation			
As at 31 December 2014	**2,028,555**	**159,388**	**2,187,943**
Amortisation for the year	469,061	132,899	601,960
Write-off	-8,400	0	-8,400
As at 31 December 2015	**2,489,216**	**292,287**	**2,781,503**
Amortisation for the year	479,880	111,313	591,193
Write-off	-2,594	-20,900	-23,494
As at 31 December 2016	**2,966,502**	**382,700**	**3,349,202**
Carrying amount			
As at 1 January 2015	**1,146,120**	**392,070**	**1,538,190**
As at 31 December 2015	**1,145,719**	**270,403**	**1,416,122**
As at 31 December 2016	**1,200,874**	**183,757**	**1,384,631**

Note 14. Investments in subsidiaries

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

In euros

Carrying amount of investment in subsidiary	
As at 31 December 2014	**1,525,006**
Acquired assets	0
Transferred assets -	0
Written off assets -	0
Reclassified assets to investment in associates +/-	-597,136
As at 31 December 2015	**927,870**
Acquired assets	3,750,000
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2016	**4,677,870**

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2016 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
6,830,785	**884,385**	**5,946,400**	**883,654**	**168,680**

Note 15. Investments in associates

Investment in an associated company: 26.54 per cent of the shares of the company CJSC ERGO Ins. Co, the acquisition cost of shares amounted to EUR 930,069 as at 31 December 2016. CJSC ERGO Ins. Co in Belarus is engaged in insurance activities, its office is registered at Pionierskaja 2, Minsk, Belarus.

In euros

Carrying amount of investment in associate	
As at 31 December 2014	**1,867,825**
Acquired assets	0
Transferred assets -	-1,853,418
Written off assets -	0
Reclassified assets from investment in subsidiaries +/-	597,136
As at 31 December 2015	**611,543**
Acquired assets	318,526
Transferred assets -	0
Written off assets -	0
Reclassified assets +/-	0
As at 31 December 2016	**930,069**
Carrying amount	
As at 31 December 2015	**611,543**
As at 31 December 2016	**930,069**

The main financial information (not audited) of CJSC ERGO Ins. Co as at 31 December 2016 was the following (EUR):

Assets	Liabilities	Equity	Income	Result of the year
10,584,633	**7,141,486**	**3,437,974**	**8,157,311**	**41,666**

Note 16. Investments in financial instruments

In euros

As at 31 December	Note	2016	2015	2014
Available-for-sale financial assets				
Equities and fund units	16.1	50,019,493	45,622,276	38,441,627
Debt and other fixed-income securities	16.2	221,903,491	187,333,701	172,141,601
Total available-for-sale financial assets		**271,922,984**	**232,955,977**	**210,583,228**
Derivative financial instruments	16.2	**0**	**48,454**	**0**
Loans and receivables				
Loans	16.3	6,525,871	683,357	842,283
Term deposits with credit institutions	16.3	0	0	3,589
Total loans and receivables		6,525,871	683,357	842,283
Total		**278,448,855**	**233,687,788**	**211,429,100**

16.1. Equities and fund units accounting

In euros	As at 31 December 2016		As at 31 December 2015		As at 1 January 2015	
	Cost	**Fair value**	**Cost**	**Fair value**	**Cost**	**Fair value**
Units in listed equity funds	999,999	990,635	6,955,571	6,681,061	3,412,547	3,672,083
Units in listed debt funds	17,775,457	18,222,361	17,775,457	17,948,475	17,775,457	18,065,981
Unlisted equities	3,958,618	4,352,896	882,481	892,845	784,639	759,128
Unit-linked		26,453,601		20,099,895		15,944,435
Total	**22,734,074**	**50,019,493**	**25,623,508**	**45,614,883**	**21,972,642**	**38,441,627**

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

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

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

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

In euros	As at 31 December 2016		As at 31 December 2015		As at 1 January 2015	
	Cost	**Fair value**	**Cost**	**Fair value**	**Cost**	**Fair value**
Fixed-income debt securities						
Government bonds	152,272,127	179,282,701	30,211,209	32,009,828	23,745,142	25,789,251
Financial institutions' bonds	14,155,594	15,515,213	11,313,669	12,140,689	20,128,180	21,042,397
Other debt securities	21,153,211	22,073,816	1,806,451	1,818,830	160,483	169,130
Total fixed-income debt securities	**187,580,932**	**216,871,730**	**43,331,329**	**45,969,347**	**44,033,805**	**47,000,778**
Floating rate debt securities						
Financial institutions' bonds	4,623,852	5,031,761	3,840,936	4,316,272	3,841,005	4,378,972
Total floating rate debt securities	**4,623,852**	**5,031,761**	**3,840,936**	**4,316,272**	**3,841,005**	**4,378,972**
Total	**192,204,784**	**221,903,491**	**47,172,265**	**50,285,619**	**47,874,811**	**51,379,751**

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. As at 31 December 2016, the portfolio did not include any debt securities measured at cost or using valuation models.

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

Held-to-maturity debt securities

The category of held-to-maturity instruments was implemented in 2007. In 2016, to improve liquidity position, the Company decided to discontinue using the held-to-maturity category by tainting of held-to-maturity category, as a result, all held-to-maturity instruments were reclassified to available-for-sale instruments. The Company is not allowed to use held-to-maturity category until 1 January 2019.

Debt securities of EUR 137,005,774 were reclassified to available-for-sale debt securities.

As at 31 December	**2016**	**2015**	**2014**
In euros	**Amortised cost**	**Amortised cost**	**Amortised cost**
Fixed rate debt securities			
Government bonds	0	123,561,681	105,814,046
Financial institutions' bonds	0	7,113,034	6,850,271
Other debt securities	0	5,606,455	5,801,624
Total	**0**	**136,281,170**	**118,465,941**
Floating rate debt securities			
Financial institutions' bonds	0	815,366	2,299,498
Total	**0**	**815,366**	**2,299,498**
Total	**0**	**137,096,536**	**120,765,439**

16.3. Loans

Loans by maturity

In euros			
As at 31 December	**2016**	**2015**	**2014**
1 year	163,345	26,227	24,459
2-3 years	357,471	168,272	16,116
4-5 years	0	489,858	180,649
5-10 years	6,005,054	0	621,059
Total	**6,525,870**	**683,357**	**842,283**

As at 31 December 2016, the following loans were issued:

EUR 6,005,055 (31 December 2015: EUR 0) to ERGO Life Insurance SE at 3.37% fixed interest per year. The loan was granted on 21 December 2016 and the repayment term of the loan is 22 December 2026.

EUR 520,816 (31 December 2015: EUR 650,959, 31 December 2014: EUR 801,708) to ERGO Invest SIA branch in Lithuania at 2.85% fixed margin and a variable part equal to 12-month EURIBOR. The loan was granted on 13 December 2012 and the repayment term of the loan is 13 December 2017.

Note 17. Reinsurance assets

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

In euros			
As at 31 December	**2016**	**2015**	**2014**
Provision for unearned premiums	0	1,163	74,712
Provision for claims outstanding – claims incurred and reported	*174,239*	*188,892*	*176,680*
Provision for claims outstanding – IBNR	*0*	*0*	*0*
Provision for insurance pension annuities	*0*	*0*	*0*
Total provision for claims outstanding	174,239	188,892	176,680
Provision for future policy benefits	1,073	1,045	368,336
Provision for rebates	362	352	33,756
Total	**175,674**	**191,452**	**653,484**

Information on reinsurance assets is also provided in note 23.

Other reinsurance receivables are reported within insurance receivables (see note 18).

Reinsurance result

In euros	**Note**	**2016**	**2015**
Premiums paid to reinsurers	6	708,467	1,196,956
Reinsurers’ share of change in provision for unearned premiums		1,163	73,549
Commissions and profit participation paid by reinsurers	9.1	-343,775	-644,744
Reinsurers’ share of claims paid	8	-40,795	-565,397
Reinsurers’ share of change in provision for claims outstanding	8	14,654	-12,213
Reinsurers’ share of deferred acquisition costs	9.1	0	-208
Total		**339,714**	**47,943**

Note 18. Insurance and other receivables

In euros			
As at 31 December	**2016**	**2015**	**2014**
Receivables from policyholders	9,801,781	8,778,361	7,760,557
Receivables from brokers and other intermediaries	4,696	110	904
Receivables from reinsurers	4,531	279,141	187,227
Total insurance receivables	***9,811,008***	***9,057,612***	***7,948,688***
Other receivables	686,806	330,407	77,140
Total other financial assets	***686,806***	***330,407***	***77,140***
Deferred expenses	100,992	110,963	126,404
Prepaid taxes	21,002	180,124	138,534
Total non-financial assets	***121,994***	***291,087***	***264,938***
Total	**10,619,808**	**9,679,106**	**8,290,766**

Note 19. Cash and cash equivalents

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

In euros	31 December 2016	31 December 2015	1 January 2015
Cash at bank	5,765,586	5,945,837	6,252,281
Cash in hand	929	693	635
Total	**5,766,515**	**5,946,530**	**6,252,916**

Cash and cash equivalents by original currency

As at 31 December	**2016**	**2015**	**2014**
EUR	5,707,078	5,884,818	6,154,283
USD	59,403	61,712	986,33
PLN	34	0	0

Note 20. Shareholders and share capital

		Ordinary shares without par value	**Total share capital**
	Number of shares	**Value in euros**	**In euros**
As at 31 December 2016	15,124	4,380,213	4,380,213
As at 31 December 2015	15,124	4,380,213	4,380,213
As at 1 January 2015	15,124	4,380,213	4,380,213

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

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

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

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

As at 31 December 2016, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of EUR 290 each. The entire share capital has been paid in.

Dividends

Based on the decision of the sole shareholder, in 2016 the Company declared a dividends of EUR 1,000,000 (2015: EUR 550,000, 2014: EUR 1,400,000).

Note 21. Capital reserve

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

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

As at the end of 2016, 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.

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 authorised capital. This reserve can be used only for coverage of losses of the Company.

Note 22. Fair value reserve

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

In euros	**2016**	**2015**	**2014**
At 1 January	**3,122,480**	**4,179,282**	**14,011,249**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-1,008,502	-486,164	-34,533
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	33,108	-157,550	-8,034
Net change in fair value recognised in other comprehensive income or expense during the year	28,452,603	-413,090	-9,789,400
At 31 December	**30,599,689**	**3,122,478**	**4,179,282**

Note 23. Insurance contract provisions and reinsurance assets

In euros

As at 31 December	Note	2016	2015	2014
Gross provisions				
Life provision	23.1	191,791,558	178,455,996	165,029,265
Provision for unearned premiums		11,946,603	10,782,451	7,643,847
Bonus provision	23.3	3,574,097	3,941,123	4,731,827
Provision for claims outstanding – claims incurred and reported		*2,841,777*	*3,390,636*	*3,069,583*
Provision for claims outstanding – IBNR		*921,978*	*1,276,913*	*1,083,259*
Provision for claims outstanding – indirect claims handling costs		*103,077*	*64,197*	*45,222*
Total provision for claims outstanding	23.2	3,866,832	4,731,746	4,198,064
Total gross provisions		**211,179,090**	**197,911,316**	**181,603,003**
Reinsurers' share of provisions				
Life provision		1,073	1,045	368,336
Provision for unearned premiums		0	1,163	74,712
Bonus provision		362	352	33,756
Provision for claims outstanding – claims incurred and reported		*174,239*	*188,892*	*176,680*
Provision for claims outstanding – IBNR		*0*	*0*	*0*
Total provision for claims outstanding		174,239	188,892	176,680
Total reinsurers' share of provisions		**175,674**	**191,452**	**653.484**
Net provisions				
Life provision		191,790,485	178,454,951	164,660,929
Provision for unearned premiums		11,946,603	10,781,288	7,569,135
Bonus provision		3,573,735	3,940,771	4,698,071
Provision for claims outstanding – claims incurred and reported		*2,667,538*	*3,201,744*	*2,892,903*
Provision for claims outstanding – IBNR		*921,978*	*1,276,913*	*1,083,259*
Provision for claims outstanding – indirect claims handling costs		*103,077*	*64,197*	*45,222*
Total provision for claims outstanding	23.2	3,692,593	4,542,854	4,021,384
Total net provisions		**211,003,416**	**197,719,864**	**180,949,519**

23.1 Life provision (gross)

In euros	Notes	2016	2015	2014
As at 1 January		178,455,996	165,029,265	152,415,810
Premiums received		27,294,060	26,669,200	23,478,050
Liabilities paid for death, maturities, surrenders, benefits and claims		-21,463,080	-16,958,210	-15,135,900
Risk premiums		-1,258,790	-1,411,120	-1,145,960
Risk free rate change		848,570	0	0
Alterations of policies		158,610	595,190	0
Effect of changed parameters		572,650	0	0
Other reserve changes in only Lithuanian portfolio (E8 UPR)		0	74,660	0
Investment return		5,105,680	5,040,730	4,861,190
Other reserve changes in only Estonian portfolio (MTPN for annuities, BEL, Migration to GDIS, Bruto/tariff premium correction)		0	12,030	0
Quarterly corrections (reserve changes due to incorrect product dates, data processing)		1,183,840	0	0
Other reserve changes in only Latvian portfolio (Universal Life fluctuation, 2nd, 3rd pillar annuities, Duplicated policies)		0	96,710	0
Data quality improvement		894,022	-692,459	556,075
As at 31 December		**191,791,558**	**178,455,996**	**165,029,265**

23.2 Provisions for claims outstanding by insurance class

In euros

Insurance class	**Gross provision for claims outstanding**	**Gross provision for claims outstanding**	**Gross provision for claims outstanding**	**Net provision for claims outstanding**	**Net provision for claims outstanding**	**Net provision for claims outstanding**
	31 Dec 2016	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2014**
Health insurance	1,541,603	1,581,367	1,247,745	1,541,503	1,577,951	1,246,508
Accident insurance	217,959	237,815	208,391	216,276	235,950	206,527
Life insurance linked to investment funds	123,959	81,356	677,857	103,515	81,342	639,378
Life insurance	1,983,312	2,831,208	2,064,070	1,831,299	2,647,610	1,928,972
Total	**3,866,832**	**4,731,746**	**4,198,064**	**3,692,593**	**4,542,853**	**4,021,384**

23.3 Bonus provision (gross)

In euros	Notes	2016	2015	2014
As at 1 January		3,941,123	4,731,827	4,733,900
Bonus for new business		6,420	14,420	10,930
Bonus release during the year		-486,800	-923,360	-466,540
Bonus accumulation during the year		113,354	118,236	453,537
As at 31 December		**3,574,097**	**3,941,123**	**4,731,827**

Unexpired risks provision

Unexpired risk technical provision is relevant for health (medical expense) insurance only. It was not formed as at 31 December 2016, 31 December 2015 and 31 December 2014.

Note 24. Financial liabilities

In euros

As at 31 December	**2016**	**2015**	**2014**
Financial liabilities from unit-linked contracts			
At beginning of year	**13,844,121**	**12,622,292**	**10,626,654**
Payments received	5,363,829	4,308,005	4,230,716
Fees and service charges	-3,056,260	-2,500,470	-1,836,592
Provisions and payments made	-1,344,837	-1,172,192	-634,409
Change in value, interest accrued	1,322,802	586,486	235,923
At end of year	**16,129,655**	**13,844,121**	**12,622,292**

As at 31 December	**2016**	**2015**	**2014**
Financial liabilities from investment contracts			
At beginning of year	**6,265,628**	**3,322,143**	**1,868,653**
Payments received	4,515,490	3,371,620	1,747,024
Fees and service charges	-259,238	-215,269	-144,568
Provisions and payments made	-582,466	-260,046	-281,615
Change in value, interest accrued	464,878	47,180	132,648
At end of year	**10,404,292**	**6,265,628**	**3,322,143**

Note 25. Insurance payables

In euros

As at 31 December	**2016**	**2015**	**2014**
Payables to policyholders	3,696,266	3,260,882	3,189,742
Payables to brokers and other intermediaries	790,120	750,905	616,306
Total	**4,486,386**	**4,011,787**	**3,806,048**

Note 26. Other payables and accrued expenses

In euros

As at 31 December	**2016**	**2015**	**2014**
Payables to suppliers	711,282	777,061	713,105
Other payables	710,762	746,993	504,396
Total other financial liabilities	***1,422,044***	***1,524,054***	***1,217,501***
Accrued vacation pay payable	252,066	233,444	220,965
Personal income tax payable	233,246	203,540	293,711
Social security tax payable	89,961	90,524	36,742
Other taxes payable	61,072	76,620	62,446
Value added tax payable	29,562	19,678	20,663
Payables to employees	84,132	75,387	37,294
Other accrued items	763,180	707,682	544,203
Total non-financial liabilities	***1,513,219***	***1,406,875***	***1,216,024***
Total	**2,935,263**	**2,930,929**	**2,433,525**

Note 27. Fair value of financial instruments

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

In euros		Carrying amount					Fair value			
As at 31 December 2016	**Note**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets measured at fair value										
Units in listed equity funds	16.1		990,635			990,635	990,635	0	0	990,635
Units in listed debt funds	16.1		18,222,361			18,222,361	18,222,361	0	0	18,222,361
Unlisted equities[1]	16.1		4,352,895			4,352,895	4,352,895	0	0	4,352,895
Unit-linked	16.1	26,453,601				26,453,601	26,453,601	0	0	26,453,601
Government bonds	16.2		179,282,701			179,282,701	179,282,701	0	0	179,282,701
Financial institutions' bonds	16.2		20,546,974			20,546,974	20,546,974	0	0	20,546,974
Other debt securities	16.2		22,073,816			22,073,816	22,073,816	0	0	22,073,816
Financial assets not measured at fair value										
Loans	16.3			6,525,871		6,525,871				
Insurance and other receivables	18			10,497,814		10,497,814				
Cash	19			5,766,515		5,766,515				
Financial liabilities measured at fair value										
Financial liabilities from unit-linked contracts		16,129,655				16,129,655	16,129,655	0	0	16,129,655
Financial liabilities from investment contracts		10,404,292				10,404,292	10,404,292	0	0	10,404,292
Financial liabilities not measured at fair value										
Reinsurance payables		352,711			352,711	352,711				
Insurance payables		4,486,386			4,486,386	4,486,386				
Other payables		1,422,044			1,422,044	1,422,044				

In euros		Carrying amount						Fair value			
As at 31 December 2015	**Note**	**Designated at fair value**	**Available for sale**	**Held to maturity**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets measured at fair value											
Units in listed equity funds	16.1		6,681,061				6,681,061	6,681,061	0	0	6,681,061
Units in listed debt funds	16.1		17,948,475				17,948,475	17,948,475	0	0	17,948,475
Unlisted equities[1]	16.1		885,453				885,453	885,453	0	0	885,453
Unit-linked	16.1	20,099,895					20,099,895	20,099,895	0	0	20,099,895
Government bonds	16.2		32,009,828	123,561,681			155,571,509	155,571,509	0	0	155,571,509
Financial institutions' bonds	16.2		12,140,689	7,113,034			19,253,723	19,253,723	0	0	19,253,723
Other debt securities	16.2		1,818,830	5,606,455			7,425,285	7,425,285	0	0	7,425,285
Financial assets not measured at fair value											
Loans	16.3				683,357		683,357				
Insurance and other receivables	18				9,388,019		9,388,019				
Cash	19				5,946,530		5,946,530				
Financial liabilities measured at fair value											
Financial liabilities from unit-linked contracts		13,844,121					13,844,121	13,844,121	0	0	13,844,121
Financial liabilities from investment contracts		6,255,774					6,255,774	6,255,774	0	0	6,255,774
Financial liabilities not measured at fair value											
Reinsurance payables						352,711	352,711				
Insurance payables						4,486,386	4,486,386				
Other payables						1,422,044	1,422,044				

Note 28. Operating and finance leases

The company as a lessee – operating leases

The Company uses office premises, office equipment and cars under operating leases. In 2016, operating lease expenses on premises totalled EUR 546,338 (2015: EUR 379,921). Operating lease expenses on other assets totalled EUR 4,612 (2015: EUR 4,612).

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

Note 29. Income tax

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

In 2016, Payable corporate income tax for the activity in the Republic of Lithuania is 0. Payable corporate income tax for the activity in the Republic of Latvia is 0. Deferred tax asset was formed for EUR 420,516 thousand.

For calculation of corporate income tax in the Republic of Lithuania and Latvia in 2016 and 2015, a profit tax rate of 15% was applied.

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

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

In euros

Income tax expense	**2016**	**2015**
Income tax expense	-64,864	-25,544
Change in deferred income tax	175,407	167,406
Total income tax expense	**110,543**	**141,862**

Recognised deferred income tax asset	**2016**	**2015**
Deductible temporary differences on property and equipment	0	0
Deductible temporary differences on other liabilities:		
(vacation pay liabilities to employees)	420,516	245,109
Total	**420,516**	**245,109**

Reconciliation of accounting profit and income tax expense	**2016**	**2015**
Profit before tax	1,932,673	-2,611,636
Parent company's domestic tax rate 15%	0	0
Effect of tax rates in foreign jurisdictions	0	0
Effect of exempt income and taxable expenses	-64,864	-25,544
Utilisation of unrealized tax losses carried forward	0	0
Change in unrecognised deferred tax assets	0	0
Change in recognised deferred tax assets	175,407	167,406
Effect of income tax of previous years	0	0
Income tax expense for the year	**110,543**	**141,862**

Note 30. Transactions with related parties

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

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

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

Compensation of key management personnel

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

	2016	2015
Salaries	51,283	50,720
Social tax	16,511	16,437
Other short-term employment benefits	2,013	2,336
Bonuses	31,414	8,288
Total compensation of key management personnel	**101,221**	**77,781**

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

The remuneration, performance bonuses and benefits provided to the members of the management board for the year totalled EUR 101,221 (2015: EUR 77,781). The members of the supervisory board were not remunerated.

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

In euros

As at 31 December Related party	**Receivables 2016**[1]	**Receivables 2015**[1]	**Payables 2016**	**Payables 2015**
Parent of the group – Münchener Rück	0	0	187,483	80,930
Other group companies	6,980,017	731,969	193,380	16,736

In euros

Related party	Services purchased 2016	Services purchased 2015	Services sold 2016[2]	Services sold 2015[2]
Parent of the group – Münchener Rück	188,292	0	97,046	0
Other group companies	2,188,772	3,408,917	316,755	1,998,892

[1] Including a loan of EUR 6,000,000 (2015: EUR 000,000) provided to ERGO Life Insurance SE and a loan of EUR 500,000 (2015: EUR 600,000) provided to ERGO Invest SIA.

[2] Including interest of EUR 5,055 (2015: EUR 650,000) on the loan provided to ERGO Life Insurance SE and interest of EUR 692 (2015: EUR 959) on the loan provided to ERGO Invest SIA.

Recognised in profit or loss on the basis of reinsurance contracts

Reinsurance contracts	2016	2015
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	386,299	622,549
Reinsurers' share of claims paid	17,157	147,414
Reinsurance commissions and profit participation	164,342	309,358
Other group companies		
Ceded reinsurance premiums	3,412	4,787
Reinsurers' share of claims paid	0	0
Reinsurance commissions and profit participation	682	957
Gross premiums from incoming reinsurance	0	0
Commissions to holders of reinsurance policies	0	0

Note 31. Contingencies

As at 31 December 2016 and 2015, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the separate financial statements.

Note 32. Explanation of transition to IFRSs

As stated in note 2(a), these are the Company's first separate financial statements prepared in accordance with IFRS, as adopted by EU.

The accounting policies set out in note 3 have been applied in preparing the separate financial statements for the year ended 31 December 2016, the comparative information presented in these financial statements for the year ended 31 December 2015 and in the preparation of an opening IFRS separate statement of financial position as at 1 January 2015 (the Company's date of transition).

In preparing its opening IFRS separate statement of financial position, the Company has adjusted amounts reported previously in the separate financial statements 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. An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In euros

	Note	Previous GAAP	Effect of transition to IFRS EU	IFRS EU	Previous GAAP	Effect of transition to IFRS EU	IFRS EU
			1 January 2015			**31 December 2015**	
Property and equipment		437,240	0	437,240	378,298	0	378,298
Intangible assets		1,538,190	0	1,538,190	1,416,122	0	1,416,122
Deferred acquisition costs	a	3,085,795	3,854,679	6,940,474	2,687,209	5,441,919	8,129,128
Investments in associates		4,194,539	0	4,194,539	2,190,372	0	2,190,372
Equities and fund units		*38,671,471*	*0*	*38,671,471*	*45,852,120*	*0*	*45,852,120*
Debt and other fixed-income securities		*172,145,190*	*0*	*172,145,190*	*187,382,155*	*0*	*187,382,155*
Loans		*40,575*	*0*	*40,575*	*32,398*	*0*	*32,398*
Total investments in financial instruments		210,857,236	0	210,857,236	233,266,673	0	233,266,673
Reinsurance assets	b	0	653,484	653,484	0	191,452	191,452
Insurance and other receivables		8,290,766	0	8,290,766	9,679,106	0	9,679,106
Deferred tax assets		77,702	0	77,702	245,109	0	245,109
Cash and cash equivalents		6,252,916	0	6,252,916	5,946,530	0	5,946,530
Total assets		**234,734,384**	**4,508,163**	**239,242,547**	**255,809,419**	**5,633,371**	**261,442,790**
Equity							
Share capital		4,380,213	0	4,380,213	4,380,213	0	4,380,213
Capital reserve		15,869,501	0	15,869,501	15,869,501	0	15,869,501
Fair value reserve	c	0	4,179,282	4,179,282	0	3,122,478	3,122,478
Retained earnings	c, d	6,063,146	4,958,926	11,022,072	1,413,382	11,688,650	13,102,032
Total equity		**26,312,860**	**9,138,208**	**35,451,068**	**21,663,096**	**14,811,128**	**36,474,224**
Liabilities							
Insurance contract provisions	b, d	186,233,048	-4,630,045	181,603,003	207,098,927	-9,177,757	197,921,170
Reinsurance payables		4,469	0	4,469	4,785	0	4,785
Financial liabilities from unit-linked contracts		15,944,435	0	15,944,435	20,099,895	0	20,099,895
Financial liabilities from investment contracts	e	0	0	0	0	0	0
Insurance payables		3,806,048	0	3,806,048	4,011,787	0	4,011,787
Other payables and accrued expenses		2,433,524	0	2,433,524	2,930,929	0	2,930,929
Total liabilities		**208,421,524**	**-4,630,045**	**203,791,479**	**234,146,323**	**-9,177,757**	**224,968,566**
Total equity and liabilities		**234,734,384**	**4,508,163**	**239,242,547**	**255,809,419**	**5,633,371**	**261,442,790**

In euros	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs
For the year ended 31 December 2015				
Income				
Gross premiums written	e	64,628,056	-6,052,679	58,575,377
Written premiums ceded to reinsurers		-1,196,956	0	-1,196,956
Change in gross provision for unearned premiums		-1,533,265	0	-1,533,266
Reinsurers' share of change in provision for unearned premiums		-73,549	0	-73,549
Net earned premiums		**61,824,286**	**-6,052,679**	**55,771,606**
Fee and commission income	e	**0**	**2,715,739**	**2,715,739**
Net investment income	c	11,810,433	-226,072	11,584,361
Other income		393,118	0	393,118
Total income		**74,027,837**	**-3,563,012**	**70,464,824**
Expenses				
Claims and benefits incurred and changes in liabilities	d, e	58,956,134	-5,161,932	53,794,202
Reinsurers' share of claims and benefits incurred	d	-177,395	-400,214	-577,609
Net policyholder claims and benefits incurred		**58,778,739**	**-5,562,146**	**53,216,593**
Change in value of financial liabilities from unit-linked contracts		**0**	**586,486**	**586,486**
Change in value of financial liabilities from investment contracts		**0**	**47,180**	**47,180**
Acquisition costs		10,848,307	0	10,848,307
Administrative expenses		3,320,955	0	3,320,955
Other operating expenses	a	-246,159	-1,587,240	-1,833,399
Investment expenses	c	4,223,631	-3 777,017	446,614
Other expenses		493,991	0	493,991
Total expenses		**77,419,464**	**-10,292,737**	**67,126,727**
Operating profit/loss		**-3,391,627**	**6,729,725**	**3,338,097**
Share of profit of equity-accounted investees		0	0	0
Profit/loss before income tax		**-3,391,627**	**6,729,725**	**3,338,098**
Income tax expense/income		**-141,862**	**0**	**-141,862**
Profit/loss for the year		**-3,249 765**	**6,729,725**	**3,479,960**

Separate statement of comprehensive income

In euros				
Profit/loss for the year		**-3,249,765**	**6,729,725**	**3,479,960**
Items of other comprehensive income that may be reclassified subsequently to profit or loss		0	0	0
Change in the value of available-for-sale financial assets	c	0	-1,056,803	-1,056,803
Total other comprehensive expense/income for the year		**0**	**-1,056,803**	**-1,056,803**
Total comprehensive income/expense for the year		**-3,249,765**	**5,672,922**	**2,423,157**

(a) Under previous GAAP deferred costs included commission remuneration less change in mathematical technical provision of contracts, based on which the remuneration was paid, which occurred due to the Zillmer effect. Deferred costs were amortised in subsequent years on an individual basis for each contract according to a fixed schedule which had to be adjusted when the loss recognition event was identified based on the premium inadequacy test. Under IFRS, the main principles are that the commission, paid for individual policy is amortised in a policy term by taking into account probable policy termination due to lapse or death.

The impact arising from the change is summarised as follows:

In euros	**1 January 2015**	**31 December 2015**
Separate income statement		
Other operating expenses		-1,587,240
Adjustment before income tax		**1,587,240**
Separate statement of financial position		
Deferred acquisition costs	3,854,679	5,441,919
Adjustment to retained earnings	**3,854,679**	**5,441,919**

(b) Under previous GAAP reinsurance assets were recognised in liabilities decreasing insurance contract provisions. Under IFRSs, the Company recognises reinsurance assets in assets. No impact to profit or loss and other comprehensive income.

The impact arising from the change is summarised as follows:

In euros	**1 January 2015**	**31 December 2015**
Separate statement of financial position		
Reinsurance assets	653,484	191,452
Insurance contract liabilities	-653,484	-191,452
Adjustment to retained earnings	**0**	**0**

(c) Under previous GAAP, the fair value of available-for-sale financial assets and changes therein were recognised in the separate income statement. Under IFRSs, the fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve.

The impact arising from the change is summarised as follows:

In euros	**1 January 2015**	**31 December 2015**
Separate income statement		
Net investment income		-2,720,213
Investment expenses		-3,777,017
Adjustment before income tax		**1,056,804**
Separate statement of financial position		
Fair value reserve	4,179,282	3,122,478
Retained earnings	-4,179,282	-3,122,478
Adjustment to equity	**0**	**0**

(d) Under previous GAAP mathematical life reserve was 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 based on the discount rate predefined by the local legislation) and future claim settlement costs and actuary discounted future net insurance premiums. Under IFRS the life insurance reserve has been calculated on an in-force premium basis, applying the Zillmer based valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared and proposed.

The impact arising from the change is summarised as follows:

In euros	**1 January 2015**	**31 December 2015**
Separate income statement		
Claims and benefits incurred and changes in liabilities		-4,085,680
Adjustment before income tax		**4,085,680**
Separate statement of financial position		
Insurance contract provisions	-5,283,529	-9,369,209
Adjustment to retained earnings	**-5,283,529**	**-9,369,209**

(e) Under previous GAAP, investment contracts were accounted as insurance contracts. Under IFRS, unit linked contracts are unbundled, i.e. insurance and investment parts are split and accounted separately. Unit-linked premium received is split into insurance premium written, unit-linked (saving contract) administering fees and the rest goes to investment result (saving part).

The impact arising from the change is summarised as follows:

In euros	**1 January 2015**	**31 December 2015**
Separate income statement		
Gross premiums written		-6,052,679
Fee and commission income		2,715,739
Investment income		2,494,140
Insurance contract provisions		-1,476,466
Change in value of financial liabilities from unit-linked contracts		586,486
Change in value of financial liabilities from investment contracts		47,180
Adjustment before income tax		**0**
Separate statement of financial position		
Financial liabilities from unit-linked contracts	-3,322,143	-6,265,628
Financial liabilities from investment contracts	3,322,143	6,265,628
Adjustment to retained earnings	**0**	**0**

Signatures to annual report 2016

The management board of ERGO Life Insurance SE has prepared the Company's review of operations and financial statements for 2016.

Kęstutis Bagdonavičius

Chairman of the management board .... 27 March 2017

Tarmo Koll

Member of the management board .... 27 March 2017

Saulius Jokubaitis

Member of the management board .... 27 March 2017

Deniss Sazonovs

Member of the management board .... 27 March 2017

Ingrīda Ķirse

Member of the management board .... 27 March 2017

Annex 1

According to Estonian Insurance Activity Act § 128 an insurance undertaking who enters into pension contracts shall submit upon the preparation of the annual report in an annex to its annual accounts the pension contracts report. ERGO Life Insurance SE Estonian branch enters into pension contract in terms of Funded Pension Act.
Expenses are distributed to pension contracts according following principles:

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

The following table presents pension contracts income report for 2016 and 2015 years:

In euros	**2016**	**2015**
Net written premiums	**1,967,778**	**2,952,205**
Gross written premiums	1,967,778	2,952,205
Acquisition fees	1,166	1,069
Written premiums ceded to reinsurers	0	0
Net income from investments (+/-)	**503,949**	**124,468**
Income from interests and dividends	177,873	150,421
Profit/loss from change in value of investments	326,076	-25,953
Profit/loss from investment realisation	0	0
Other financial income/expenses	0	0
Other operating income	**0**	**0**
Annuity payments and change in liabilities related to annuities (+/-)	**-2,543,375**	**-3,587,888**
Annuity payments	**-632,403**	**-476,424**
Reinsurers share of annuity payments	0	0
Paid surrender values	**0**	**0**
Reinsurance share of paid surrender values	0	0
Change in liabilities related to annuities	**-1,910,972**	**-3,111,464**
Reinsurance part in change in liabilities	0	0
Annuity management fees	-32,500	-108,985
Annuity cancellation fees	-607,015	0
Operation expenses (-)	**-249,104**	**-296,613**
Acquisition expenses	-78,664	-118,045
Acquisition expenses of related parties	0	0
Administrative expenses	-170,440	-178,568
Administrative expenses of related parties	0	0
Investment management expenses	0	0
Investment management expenses of related parties	0	0
Other operating expenses	0	0
Other operating expenses of related parties	0	0
Profit/loss of the reporting period (+/-)	**-320,752**	**-807,828**
Profit to be distributed to annuity policyholders and beneficiaries	**0**	**0**

Annex 2

Profit allocation proposal

The management board of ERGO Life Insurance SE makes the sole shareholder ERGO International AG a proposal that:

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

2) no transfers be made to other reserves;

3) Dividend distribution in the amount EUR 1,000,000 be made to the sole shareholder;

4) the remaining profit for 2016 of EUR 1,043,216 (one million forty-three thousand two hundred sixteen) be transferred to retained earnings;