

# **ERGO Life Insurance SE**

**Independent Auditor's Report,  
Annual Management Report and Separate Financial Statements  
for the Year Ended 31 December 2023**

## **FINANCIAL STATEMENTS**

Company name:	<b>ERGO Life Insurance SE</b>
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Website:	<b><a href="http://www.ergo.lt">www.ergo.lt</a></b>
Core business:	<b>Life insurance</b>
Beginning of financial year:	<b>1 January 2023</b>
End of financial year:	<b>As at 31 December 2023</b>
Chairwoman of the Management Board and Managing Director:	<b>Ursula Clara Deschka</b>
Auditor:	<b>Ernst &amp; Young Baltic UAB</b>

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Juridinio asmens kodas 110878442  
 PVM mokėtojo kodas LT108784411  
 Juridinių asmenų registras

Code of legal entity 110878442  
 VAT payer code LT108784411  
 Register of Legal Entities

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of ERGO Life Insurance SE

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of ERGO Life Insurance SE, a company registered in accordance with the corporate law of the European Union (hereinafter the Company), which comprise the separate statement of financial position as of 31 December 2023, separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements 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.

#### Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters	How the matter was addressed in the audit
Initial application of IFRS 17 Insurance Contracts	

On 1 January 2023 ERGO Life Insurance SE adopted IFRS 17 Insurance Contracts, which replaced IFRS 4 Insurance Contracts. The Company applied IFRS 17 to insurance contracts issued and reinsurance contracts held retrospectively from 1 January 2022, using the transition approaches as outlined in Note 4 part "Effects from the initial application of IFRS 17" to the financial statements.

Our audit procedures included, among others, evaluation of the appropriateness of the Company's accounting policies and transition requirements related to the transition to IFRS 17 to determine whether they comply with IFRS 17. Furthermore, we have assessed whether assumptions and the methods used for determining the accounting estimates are appropriate.

We involved our actuaries to assist us in performing audit procedures in this area. Our key audit procedures included obtaining an understanding and evaluating the

Key audit matters	How the matter was addressed in the audit
Initial application of IFRS 17 Insurance Contracts	
<p>The 2022 comparative figures as presented in these financial statements have been restated for the adoption of IFRS 17.</p> <p>On transition to the new standard, shareholders equity as of 1 January 2022 decreased by 7.3 million euro, resulting from a change in insurance contract liabilities due to methodological and valuation approaches that IFRS 17 has introduced.</p> <p>Auditing the Company's initial application was complex as it is related to the measurement of the Company's insurance contract liabilities and determining the transition contractual service margin (CSM), which involved evaluating methodological decisions and assumptions used in the application as well as assessing eligibility of the transition method applied. Accordingly, we have identified the initial application of IFRS 17 as a key audit matter.</p>	<p>design of relevant internal controls over the initial application of IFRS 17. Furthermore, we have performed the following specific audit procedures, amongst others:</p> <ol style="list-style-type: none"> <li>1. Evaluating management's assessment of the transition approach and methodological decisions made, and the appropriateness of calculations applied under the modified retrospective application.</li> <li>2. Evaluating the analysis prepared by the Company with respect to the classification of insurance contracts including the applicable measurement model and assessing the grouping of insurance contracts for compliance with IFRS 17 requirements.</li> <li>3. Testing the methodology and calculation of the insurance contract liabilities, reinsurance contract assets and transition CSM/loss component through review of calculation tools that have been used in transition exercise by ERGO Life Insurance SE.</li> <li>4. Testing of the accuracy and completeness of data used in the calculation of the transition balances by reconciliation to the underlying source systems.</li> </ol> <p>Finally, we assessed the adequacy of the disclosures on the initial application of IFRS 17 in Note 4 to the financial statements. In this relation we evaluated in particular whether disclosures adequately convey the accounting policy choices made by ERGO Life Insurance SE, the assumptions used at transition and the financial impact at transition date.</p>

Key audit matters	How the matter was addressed in the audit
Assessment of the Liability for Remaining Coverage (LRC)	
<p>As outlined in Note 14 to the financial statements, the liability for remaining coverage (LRC) as at 31 December 2023 was 196 million euro (net of insurance contract assets). Out of this amount 192 million euro has been measured under the variable fee approach (VFA, the measurement model for contracts with direct participation features) and 4 million euro under the premium allocation approach (PAA, the simplified measurement model).</p>	<p>Our audit procedures included, among others, evaluation of the appropriateness of the Company's accounting policies related to the measurement of insurance contract liabilities according to IFRS 17 <i>Insurance contracts</i> and whether assumptions and the methods for making the accounting estimates are appropriate and have been applied consistently.</p>
<p>At initial recognition, the Company measures a group of insurance contracts under VFA as the total of:</p>	<p>We involved our actuaries to assist us in performing audit procedures in this area. Our key audit procedures included evaluating the Company's methodology for calculating LRC and obtaining understanding and evaluating the design of internal controls in this respect. Furthermore, we performed the following procedures:</p>
<p>(a) fulfilment cash flows, which comprise of estimates of future cash flows, adjusted to reflect the time value of money, required for the settlement of an insurance contract and a risk adjustment for non-financial risks;</p> <p>(b) CSM, as the unearned profit for providing the insurance services in the future.</p>	<ol style="list-style-type: none"> <li>1. Testing of the accuracy and completeness of data as utilized by the Company to value estimated future cash flows by reconciling such data to the underlying records.</li> <li>2. Evaluation of the mathematical accuracy and methodological compliance of the calculation tools developed by the Company for both VFA and PAA measurement models under IFRS 17 <i>Insurance contracts</i>.</li> <li>3. Evaluation of the assumptions on the discount rate (including illiquidity premium) and the cost of capital percentage used in valuation of insurance contract liabilities based on Company's and market data.</li> <li>4. Evaluation of the nature, timing and completeness of changes in key assumptions, models and methods, including their impact on financial reporting.</li> </ol>
<p>The measurement of LRC related to insurance contracts involves judgment over uncertain future outcomes, which involves setting various assumptions regarding the total settlement value of LRC. The determination of LRC related to insurance contracts requires the use of complex (actuarial) models and other computational tools for which it is important that their design and configuration is adequate, the assumptions used are appropriate and the input data is complete and accurate. The use of different actuarial techniques and assumptions could produce materially different estimates of liabilities related to insurance contracts. We therefore consider the estimates used in the calculation of LRC a key audit matter.</p>	<ol style="list-style-type: none"> <li>5. Performing analytical procedures, including period to period analysis of changes in present value future cash flows.</li> </ol>
<p>Furthermore, the insurance service results, including insurance revenue, are also produced to a significant extent with the use of the same processes, tools and assumptions. The specific risk considerations of the Company are included below.</p>	<p>We evaluated ERGO Life Insurance SE disclosures in relation to insurance contract liabilities and insurance service result in</p>
<p>The key economic assumptions used are the discount rate applied to adjust the expected future cash flows for time value of money (including applicable illiquidity premium) and the cost of capital percentage applied in the risk adjustment calculation.</p>	
<p>For Life and Health insurance, the valuation of liabilities requires the application of significant judgement in the setting of operating assumptions such as expenses, lapses, mortality. Furthermore, the CSM release for the period as well as the release of the expected incurred claims and expenses are important drivers in determining the insurance revenue and insurance service result for the period.</p>	

Key audit matters	How the matter was addressed in the audit
Assessment of the Liability for Remaining Coverage (LRC)	

We refer to the Note 14 “Insurance and reinsurance contracts”, Note 6 “Insurance revenue” and Note 7 “Insurance service expense” of the financial statements.

accordance with IFRS 17 *Insurance contracts*. In particular we evaluated that disclosures adequately convey the degree of estimation uncertainty.

#### Other information

Other information consists of the information included in the Company’s 2023 Annual Management Report, other than the financial statements and our auditor’s report thereon. Management is responsible for the other information presentation.

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

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

We also must evaluate, if the financial information included in the Company’s Annual Management Report, corresponds to the financial statements for the same financial year and if the Company’s Annual Management Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed during the audit of financial statements, in all material respects:

- The financial information included in the Company’s Annual Management Report, corresponds to the financial information included in the financial statements for the same year; and
- The Company’s Annual Management Report was prepared in accordance with the requirements of the Law on Reporting by Undertakings of the Republic of Lithuania.

#### Responsibilities of management and those charged with governance for the financial statements

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

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

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

#### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 based on these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 financial statements, including the disclosures, and whether the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on Other Legal and Regulatory Requirements

*Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.*

#### Appointment and approval of the auditor

In accordance with the decision made by shareholder we have been appointed to carry out the audit of the Company's financial statements for the first time on 27 December 2018. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by Shareholders has been renewed and the period of total uninterrupted engagement is 4 years.

#### Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section "Opinion" is consistent with the additional Audit report which we have submitted to the Company and the Audit Committee.

#### Non audit services

We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have not provided to the Company any other services except for the audit of the financial statements and translation assistance services (as outlined in Note 10 to the financial statements).





The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC  
Audit company's licence No. 001335

Jonas Akelis  
Auditor's licence  
No. 000003

5 June 2024

## **Annual management Report 2023**

### **Review of operations**

#### **Strong owner**

Through their parent company, ERGO Group AG, the ERGO insurance companies in the Baltics represent the biggest global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims. Reliability is confirmed by the ratings given to ERGO Group's owner and parent: Munich Re's rating is Aa3 or excellent (according to Moody's); ERGO Group's rating is AA- (according to Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list. ERGO Group serves 37.9 million customers in over 30 countries, mostly in the European and Asian markets. It is the largest health and legal expenses insurer in Europe.

At the end of 2023, 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 ERGO-Platz 1, 40198 Düsseldorf, Germany.

#### **Cooperation with the world's leading re-insurers**

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

#### **Information about the company's Board:**

Ursula Clara Deschka. Chair of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko St. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko St. 6, Vilnius).

Tadas Dovbyšas. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko st. 6, Vilnius).

Marek Ratnik. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko st. 6, Vilnius).

Ljuba Jaufmann. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko st. 6, Vilnius).

Aija Medne. Member of the Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE Lithuanian branch (code: 302912288; address: Geležinio Vilko st. 6, Vilnius).

## Information about the company's Supervisory Board:

1. Dr. Oliver Martin Willmes. Chair of Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: Veskiposti 2/1, Tallinn), Chair of the Board of Management of Ergo International AG, Dusseldorf; Member of the Board of Directors at Ergo Insurance N.V., Brussels; Member of the Board of Directors at DKV Belgium S.A. / N.V., Brussels; Chair of the Board of Directors at Ergo Insurance Company Single Member S.A., Athens; Member of Supervisory Board at HDFC Ergo General Insurance Company Limited, Mumbai; Member of Supervisory Board at Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA, Sopot; Member of Supervisory Board at Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia SA, Sopot.
2. Ilona Mihele. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: Veskiposti 2/1, Tallinn), Member of the Board of Directors at Ergo Insurance N.V., Brussels; Member of the Board of Directors at Ergo Insurance Company Single Member S.A., Athens; Chair of the Board of Directors at Ergo Danismanlik A.S., Istanbul; Member of the Board of Directors at DAS UK Holdings Limited, Bristol; Member of the Board of Directors at Munich Health Daman Holding Ltd., Abu Dhabi; Member of the Board of Directors at DAS Legal Expenses Insurance Company Limited, Bristol. Remark: It is correct for 2023, but on 31 Dec 2023 Ilona Mihele's mandates for DAS UK have ended.
3. Dr. Dirk Christoph Schautes. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code: 10017013; address: Veskiposti 2/1, Tallinn), Member of the Management Board at Sopockie Towarzystwo Ubezpieczen Ergo Hestia SA, Sopot; Member of the Board of Management at Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia SA, Sopot; Member of the Supervisory Board Ergo Technology & Services SA, Warsaw.

### Supervisory Boards

Chairman	ERGO Lebensversicherung AG, Germany
Chairman	Victoria Lebensversicherung AG, Germany
Chairman	ERGO Pensionskasse AG, Germany
Member	ERGO Pensionsfonds AG, Germany
Member	ERGO Hestia SA Life, Poland
Member	ERGO Life Insurance SE, Baltics
Member	Protektor Lebensversicherung AG, Germany
Member	Versorgungsausgleichskasse Pensionskasse VVaG, Germany

### Boards of Directors

Chairman	ERGO Insurance NV, Belgium
Member	ERGO China Life Insurance Co. Ltd., China

### Others

DAV	Chair of the Executive Board
DAV	Working Groups: IFRS (Head)
DAV	Committees: Lebensversicherung, ERM, Rechnungslegung & Regulierung
IAA	Member of Strategic Planning Committee

### Managing Director:

Since 1/2023:	
Thipara GmbH	Managing Director
Cominia Aktuarielle Services GmbH	Managing Director

4. Dr. Maximilian Happacher. Member of the Supervisory Board of ERGO Life Insurance SE (code: 110707135; address: Geležinio Vilko st. 6, Vilnius) and ERGO Insurance SE (code:

10017013; address: Veskiposti 2/1, Tallinn). Chair of the Supervisory Boards: ERGO Lebensversicherung AG, Germany; Victoria Lebensversicherung AG, Germany; ERGO Pensionskasse AG, Germany. Member of the Supervisory Boards: ERGO Pensionsfonds AG, Germany; ERGO Hestia SA Life, Poland; Protektor Lebensversicherung AG, Germany; Versorgungsausgleichskasse Pensionskasse VVaG, Germany. Chairman of the Board of Directors of ERGO Insurance NV, Belgium. Member of the Board of Directors of ERGO China Life Insurance Co. Ltd., China. Chair of Executive Board of DAV, Germany. Managing Director of Thipara GmbH, Germany and Cominia Aktuarielle Services GmbH Germany.

### Cooperation with the world's strongest re-insurers

ERGO works with the world's leading re-insurers (Munich Re, Swiss Re). Re-insurance helps ERGO to manage its potential risk factors and ensure smooth administration of compensations, especially for large-scale damage.

### ERGO Life Insurance SE: Result for 2023

Insurance revenue	EUR 65.03 million
Total assets	EUR 303.42 million
Investments in financial instruments	EUR 265.17 million
Insurance contract provisions	EUR 216.51 million
Equity	EUR 62.01 million
Profit for the year	EUR 12.37 million
Total comprehensive income/expense	EUR 13.87 million
Return on equity	21.77 %
Insurance contracts in force	91,911
Offices	8 in Lithuania, 20 in Latvia, and 1 in Estonia
Employees (FTE)	in total – 269, of which 116 in Lithuania, 115 in Latvia and 38 in Estonia

## **Economic environment**

European Commission's Winter 2024 Economic Forecast lowers the growth outlook amid faster easing of inflation. Growth for 2023 is now estimated at 0.5% in both the EU and the euro area. GDP is revised down to 0.9% in 2024 and is expected to expand by 1.7% in 2025. Headline inflation is forecast to fall from 6.3% in 2023 to 3.0% in 2024 and 2.5% in 2025 in the EU.

Already towards the end of 2022, the economic expansion ended abruptly, and activity has since been broadly stagnating, against the background of falling household purchasing power, collapsing external demand, forceful monetary tightening, and the partial withdrawal of fiscal support in 2023. The EU economy thus entered 2024 on a weaker footing than previously expected. Still, there have been positive developments, particularly when it comes to inflation.

All in all, the conditions for a gradual acceleration of economic activity this year appear to be still in place. As inflation decelerates, real wage growth and resilient employment should support a rebound in consumption. The pace of growth is set to stabilise broadly in line with potential, as of the second half of 2024.

### **Estonia**

Estonian GDP is estimated to have contracted by 3.5% in 2023. The downturn is becoming broad-based and affecting not only investment but also private consumption and, particularly, exports. The latter were impacted by weak external demand and depreciations of major trading partners' currencies. Despite the two-year recession, the labour market continued to be remarkably resilient in 2023. The unemployment rate remained low, while employment increased in the second half of the year. Wages grew strongly, though not yet fully compensating for the purchasing power lost due to high inflation over the last years.

Early indicators point to a weak start of 2024. Business confidence moved sideways in pessimistic territory over the last few months, with some improvement in industry and construction, but worsening in the retail sector. Consumers expect their financial situation to deteriorate due to the higher VAT and excise taxes applied as of 2024, still elevated inflation, and high borrowing costs. This suggests that domestic demand is set to be very modest in the first half of the year. Combined with subdued external demand from the country's main trading partners, this prompts a large downward revision of real GDP growth in 2024, to 0.6%. In 2025, growth is expected to resume on the back of an improving external environment, more favourable financing conditions and rising consumption, as purchasing power is restored through the combination of falling inflation and rising wages. It is projected at 3.2%.

Estonia recorded 9.1% consumer price inflation in 2023, down from double digits in the first half of the year but still above 4% in the last quarter, despite significantly falling global energy prices and moderation in food and industrial goods inflation. The higher VAT applied as of 1 January 2024 is set to keep prices high, but inflation is expected to gradually decline in line with global trends, averaging 3.2% in 2024 and 1.9% in 2025.

### **Latvia**

Real GDP is estimated to have contracted by 0.6% in 2023. This is explained by negative growth in the first two quarters and a very modest rebound in the second half of the year. Private consumption and exports slowed down markedly in 2023, whereas investment and public consumption expenditure showed strong growth. The labour market remained strong, with wage growth above inflation supporting real disposable incomes.

Wage increases are set to decelerate in 2024 but are still expected to support a rebound in private consumption over the forecast horizon, as inflation is assumed to significantly ease. Additionally,

EU-funded investments, including those financed by the RRF, as well as other public expenditure, are projected to remain strong in 2024. Export growth is forecast to remain slightly negative in 2024, mostly because of a negative carry-over. Overall, economic activity is set to recover in 2024 at a rate of 1.7%.

In 2025, growth is forecast to accelerate to 2.7%, driven by domestic demand. Investments should remain particularly strong, supported by EU-fund inflows and easing of financial conditions. Export growth is projected to pick up, in line with a general improvement in demand from main trading partners.

Consumer price inflation rapidly decelerated in the second half of 2023, driven by declining energy prices. Headline inflation averaged a still elevated level of 9.1% in 2023, with inflation excluding unprocessed food and energy posting 9.7%. In 2024, headline inflation is forecast at 2.2% and is projected to remain at 2.2% in 2025 as well.

## Lithuania

Real GDP is estimated to have contracted by 0.3% in 2023. After a negative first quarter, real GDP strongly rebounded in the second quarter, before stagnating in the second half of the year. Despite significant capital investments and a fast deceleration of inflation, the economic recovery was delayed due to subdued private consumption, weak exports, and tightening financing conditions. The labour market remained resilient, with unemployment on a downward trend and growing employment figures thanks to an increasing number of self-employed and persons fleeing war in Ukraine. Wage growth remained strong, driven by higher minimum wages and public sector wage increases, but also due to a persistently tight labour market.

While recent manufacturing, construction and services confidence indicators show rather pessimistic expectations for the near future, consumer confidence started to improve. Private consumption is expected to grow thanks to alleviating price pressures, although geopolitical uncertainties is still expected to weigh on private consumption, as consumers opt for precautionary savings instead. At the same time, continuously weak external demand is limiting growth, which is forecasted at 2.1% in 2024. For 2025, GDP growth is projected to strengthen to 3%, as exports are recovering, and private consumption and investments are expected to become the key growth drivers.

After reaching a record-high of 18.9% in 2022, consumer price inflation moderated to 8.7% in 2023, as growth in prices of energy turned negative in the second half of 2023, while the price of food and manufacturing products continued to decelerate. For 2024-25, inflation is forecast to come down, mainly due to a stronger-than-expected decline in energy prices. Headline inflation is projected to remain slightly above the 2% target, at 2.4%, over the forecast horizon.

## **Regulatory environment**

The main law for insurance industry in Lithuania is the Law on Insurance of the Republic of Lithuania; European Parliament and Council Directive (EU) 2016/97 regarding the distribution of insurance products, Directive 2009/138/EC of the European Parliament and of the Council on the initiation and performance of insurance and reinsurance activities (Solvency II).

Under the Insurance Distribution Directive and implementing and delegated Regulations thereof, the aim is to better protect the interests of customers and increase the transparency of insurance companies, in particular through the provision of insurance-based investment products, including:

- stronger focus on identification of customer needs and acting in the best interest of the insured;

- greater transparency in insurance activities by providing sufficient information to the insured on an insurance product, their parts, intermediaries and their remuneration, potential conflicts of interest (if they are not managed effectively, etc.);
- stronger focus on management of conflicts of interest in order to prioritise activities of the insurance company to provide the best conditions for clients and not to serve business interests;
- rules on transparency and business conduct to help customers avoid buying products that do not meet their needs.

The company also made the necessary amendments concerning the new Technical Standards, in force since 1 January 2023, applicable to the key information documents (KID) for packaged retail and insurance-based investment products (PRIIPs).

The Regulation 2016/679 of the European Parliament and of the Council (EU) effective as of 27 April 2016 on the protection of individuals with regard to processing of personal data and on the free movement of such data repealing Directive 95/46/EB (General Data Protection Regulation) (hereinafter – [GDPR](#)) is of significant importance to activities of the Insurance Company. The GDPR is a European Union legal act of direct application. In implementing the General Data Protection Regulation (GDPR), the Company is continuously maintaining a high level of data protection in its operations, i.e. regularly reviews and updates its internal procedures governing the processing of handling of personal data in order to comply with the provisions of the applicable legal regulation (laws, requirements established by the State Data Protection Inspectorate) and clarifications of relevant court decisions. The Company's employees improve their knowledge in the field of personal data protection through trainings and competence tests.

A further legislative package with significant impact on the activities of ERGO Life Insurance SE related to distribution of life insurance products include the Directive 2018/843 of the European Parliament and of the Council (6th AML Directive) and the Law on the Prevention of Money Laundering and Terrorist Financing of the Republic of Lithuania, which impose requirements comprising control measures implemented both at the time of concluding contracts (appropriate customer due diligence and customer's money-laundering risk assessment) and conducting monitoring of the business relationship, including payment of insurance claims. The 6th AML Directive has increased transparency of information on ultimate owners/beneficiaries of legal entities. The Directive also introduced some amendments concerning the identification of politically exposed persons and customer due diligence. The Company shall continuously strengthen the AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) area in order to properly manage the relevant risks.

On 10 March 2021, [Sustainable Finance Disclosure Regulation \(SFDR\)](#) came into force. This document aimed at disclosing to customers information about the Company's (ERGO Life Insurance SE) approach to sustainability risks and the maximum adverse effect on sustainability factors to ensure that customers are equipped to make informed investment decisions. To this end, and in line with the requirements of the SFDR, the Sustainability Policy has been published on the Company's website, demonstrating how sustainability risks are integrated into the Company's investment decision-making processes. Following the entry into force of the Regulatory Technical Standards (RTS), the companies disclose information on adverse impacts on sustainability at the corporate level using a single format, including sustainability impact indicators specified therein.

In 18 May 2017 the 17th IFRS "Insurance Contracts", which from 1 str of January 2023 replaced the current 4th IFRS "Insurance contracts". From 1<sup>st</sup> of January 2023 after the entry into force of the 17th IFRS, the Company's accounting is carried out according to the new requirements.

The purpose of the new standard is to establish completely new, uniform rules for evaluating insurance contracts, ensuring better comparability of reports from different insurers, as well as providing a lot of new information for recipients of financial statements.

### Financial performance of ERGO Life Insurance SE

In 2023, ERGO generated insurance revenue of EUR 65.03 million, a 12.3% increase on the year before. The largest classes were life VFA insurance contracts and health PAA insurance, the revenue of which amounted to EUR 40.59 million or 61.5% and EUR 25.39 million or 38.5% of the portfolio, respectively. In terms of premium income, ERGO maintained the sixth position in the Lithuanian and the fifth position in the Baltic life insurance market. Claims and benefits in 2023 totalled EUR 31.39 million (2022: EUR 37.20 million).

At the year-end, ERGO Life Insurance SE had assets of EUR 303.42 million (2022: EUR 314.2 million). Investments in financial instruments amounted to EUR 265.17 million (2022: EUR 250.58 million), debt instruments at fair value through other comprehensive income accounted for 55.44% (2022: 60.71%), debt instrument at amortised cost accounted for 8.19% (2022: 8.66%), equity and debt instruments at fair value through profit or loss accounted for 36.37% (2022: 30.63%) of the total. Altogether, investments in financial instruments accounted for 87.39% (2022: 79.75%) of total assets. Insurance contract liabilities totalled EUR -216.51 million (2022: EUR -241.78 million), accounted for 89.68% (2022: 77.87%) of total liabilities and 71.35% (2022: 76.95%) of total assets.

### Insurance activities

Gross insurance revenue by line of business

In euros	2023		2022		Change	
	Insurance Revenue	Share of class, %	Insurance Revenue	Share of class, %	Insurance Revenue	Share of class, pp
Life insurance contracts	24,622,843	37.9	21,782,614	37.6	2,840,229	0.3
Health insurance contracts	40,408,852	62.1	36,141,899	62.4	4,266,953	-0.3
<b>Total</b>	<b>65,031,695</b>	<b>100.0</b>	<b>57,924,513</b>	<b>100.0</b>	<b>7,107,182</b>	

In 2023, ERGO generated insurance revenue of EUR 65.03 million, a 12.3% increase on the year before. The largest classes were life VFA insurance contracts and health PAA insurance, the revenue of which amounted to EUR 40.41 million or 62.1% and EUR 24.62 million or 37.9% of the portfolio respectively.



Incurred claims and benefits paid by insurance class:

<i>In euros</i>	2023		2022		Change	
	Incurred claims and benefits	Share of class, %	Incurred claims and benefits	Share of class, %	Incurred claims and benefits	Share of class, pp
Life insurance contracts	2,210,986	7.0	7,900,999	21.2	-5,690,013	-14.2
Health insurance contracts	29,178,787	93.0	29,303,533	78.8	- 124,746	14.2
<b>Total</b>	<b>31,389,773</b>	<b>100.0</b>	<b>37,204,532</b>	<b>100.0</b>	<b>-6 053 103</b>	

Claims and benefits in 2023 totalled EUR 31.39 million (2022: EUR 37.20 million). The largest share of claims was settled in Health insurance: EUR 29.18 million or 93.0% of claims incurred. The next-largest class was life insurance, where claims and benefits totalled EUR 2.2 million or 7.0%.

### Investment activities

Strategic investment management is the responsibility of the company's asset and liability management team, which includes specialists from Baltic states and Germany. In line with the investment management system, tactical investment management has been outsourced to an external service provider. Since 1st of October 2020, immediate contact for company in all investment related matters is GIM – Group Investment Management department of Munich RE, 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 2023 company maintained conservative investment approach whereas income on assets with interest rate risk amounted to 3.3 million euros. Realisation of debt securities produced a loss of 0.01 million euros. The fair value reserve increased by 7.06 million euros while fair value reserve through profit and loss statement decreased by 0.05 million euros. Dividend income and income from loans amounted to 1.7 million euros. Investment management expenses accounted for 0.15% of the carrying value of managed investments. Thus, the overall yield of the investment portfolio was 6.45 %.

### Development

#### Overview and key focus areas

Insurance revenue by ERGO Life Insurance SE during the reporting year amounted to 65.03 million euros, i.e. 12.3% more than in 2022 (2022: EUR 57.92 million). In terms of insurance revenue in the separate insurance groups, the most rapid increase was in health PAA insurance in Estonia. In overall Life Insurance VFA revenue increased by 10.6%. Portfolio declined mostly in immediate annuities and in run-off portfolio of traditional business (-24.8%). Index-lined, unit-linked, and other life Insurance revenue grew due to focus to regular premium business instead of single premium business and by introducing of new products with strong focus to biometric product sales.

Fast and fair insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative Claims and benefits totalled EUR 31.39 million (2022: EUR 37.20 million).

## **Legal structure of the company**

ERGO Life Insurance SE is one of the leading insurance companies in the Baltics, offering life and health insurance to both private and corporate clients.

ERGO is operating in the Baltic countries, with the headquarters in Lithuania and branches in Estonia and Latvia. ERGO is operated in the legal form of *societas Europaea*, a public company registered in accordance with the corporate law of the European Union.

ERGO Life Insurance SE is 100% owned by ERGO International AG, Germany, which is part of the ERGO Group AG, Germany. ERGO Group is one of the major insurance groups in Germany and Europe.

The Group is represented in around 30 countries worldwide, focusing mainly on Europe and Asia. About 38,000 people worldwide work as salaried employees or sales agents for ERGO Group. It offers a comprehensive range of insurances, pensions, investments, and services.

ERGO Group is part of Munich Re (Münchener Rückversicherungs-Gesellschaft AG, Munich) – one of the world's leading reinsurers and risk carriers.

Reliability is confirmed by the ratings given to ERGO Group's owner and parent: Munich Re's rating is AA3 or excellent (according to Moody's); ERGO Group's rating is AA – (according to Standard & Poor's). Munich Re is included in the DAX 30/EUROSTOXX 50 list.

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

ERGO Group AG consolidates three separate units: ERGO Deutschland AG, ERGO International AG, and ERGO Technology & Services Management.

## **Information on own shares**

In 2023, the Company did not hold, acquire, and transfer its own shares.

## **Strategic vision**

Our strategy is based on people: our customers and our team. We make sure that costumers can trust us and see us as a reliable long-term partner. We encourage our team to contribute and feel valued members of our company. We believe that when connecting these people - our customers and ourselves - will lead us to sustainable success and will fulfil our promise.

### **Our Brand Promise: Simple because it matters.**

We are an insurance company that cares. ERGO's mission is to make insurance simple from the first to the last step: from automated and digitized processes to sincere care and assistance from our consultants in the unfortunate event.

### **Our value system**

We put our customers first.

We want to enable them to be carefree and optimistic by protecting their future in the best possible way.

This is the goal that we have set for ourselves and that we work towards every day with the highest expectations for ourselves and our work.

**Our team: ERGO. Grow together.**

To fulfil all this, our key success comes from within. It is the people who make work here, our employees, who make a difference. For them, and for those who will work with us in the future, we want to create a working environment that promotes diversity and allows everyone to flourish. Our goal is to make ERGO a place that allows us to grow together.

**Our engagement**

Based on ERGO International engagement survey, our employees' sustainable engagement is extremely high in the Baltics - even 91% in 2023. The participation rate also reached a remarkable 96%. Such results show that most of the people really feel a part of our company. It also reflects our success in implementing effective strategies throughout the year, leading to positive results.

The survey results convey that we all continue to have a strong focus on our customers and meeting their needs (customer orientation - 91%). This is much in line with our strategy of being a trusted partner to our customers and exceeding their expectations.

Our employees trust the company management and feel that they provide clear strategic directions and create the culture where employees can give their best (company leadership - 87%). At the same time employees feel supported by their direct manager and build cooperation characterized by mutual trust (direct manager - 93%).

For the first time the survey included a new set of questions on diversity, equity and inclusion (92%). The results show that our employees feel accepted at work and that we treat each other with dignity and respect regardless of personal identities.

The business activities of ERGO Insurance SE stem from the strategic framework of the ERGO Group with the main objective to make insurance easier for the customer.

The focus shifted a little bit from a customer-centric approach to people-centric values. But some of our strategic direction remain the same: improving on digital development and the transition to common systems and operations across the Baltics.

ERGO is continuing with the harmonisation of its processes in the Baltics, following the business model for the company. The objective of these changes is to take advantage of synergies and experiences in the Baltics while respecting the local specificities and making full use of local opportunities.

Changes in the structure and operating principles of ERGO so far support the way of thinking of a company considering the personal needs of customers by providing them with clear added value. In the year 2023, the company renewed its strategy with activities planned till 2025. Changes in the structure and operating principles of ERGO so far support the way of thinking of a company considering the personal needs of customers by providing them with clear added value. In the year 2023, the company renewed its strategy with activities planned till 2025.

**Main achievements / recognitions on company level 2023**

Category	Award-winning performance	Reference	Country
Valued company/ brand	<b>Nielsen IQ Brand Study Brand Awareness</b>		
	<ul style="list-style-type: none"> <li>➤ 2<sup>nd</sup> place (93%)</li> <li>➤ 3<sup>rd</sup> place (83%)</li> <li>➤ 2<sup>nd</sup> place (89%)</li> </ul>	Omnibus Study (CAWI) by Nielsen Consumer LLC	Estonia Latvia Lithuania
Sustainable company	<b>Sustainability awards, collaboration, index</b>		
	<ul style="list-style-type: none"> <li>➤ Annual Sustainability Index, Platinum category</li> </ul>	<a href="https://www.incsr.eu/novertejumi/ilgtspejas-indekss/ilgtspejas-indekss-2023/">https://www.incsr.eu/novertejumi/ilgtspejas-indekss/ilgtspejas-indekss-2023/</a> <a href="https://csr.ee/">https://csr.ee/</a>	Latvia  Estonia
	<ul style="list-style-type: none"> <li>➤ Responsible Business Forum: Silver category in CSR</li> </ul>	<a href="https://humanrights.ee/en/2023/11/mitmekesisuse-kokkulepega-liitus-11-uut-organisatsiooni/">https://humanrights.ee/en/2023/11/mitmekesisuse-kokkulepega-liitus-11-uut-organisatsiooni/</a> <a href="https://diversity.lt/en/nariai/">https://diversity.lt/en/nariai/</a> <a href="https://www.diversity.lv/parakstitaji/">https://www.diversity.lv/parakstitaji/</a>	Estonia Lithuania Latvia
	<ul style="list-style-type: none"> <li>➤ The members of Diversity Charter</li> </ul>	<a href="https://rohetiiger.ee/liikmed/?lang=en">https://rohetiiger.ee/liikmed/?lang=en</a>	Estonia
	<ul style="list-style-type: none"> <li>➤ Member of Green Tiger</li> </ul>		
Client-centric company	<b>Environmental certifications</b>	Bureau Veritas Certifications	Estonia Lithuania Latvia
	<ul style="list-style-type: none"> <li>➤ Environmental ISO Certificate</li> </ul>		
Valued Employer	<b>Mystery Shopping Insurance brands</b>	Customer surveys by <a href="https://dive-group.com/">https://dive-group.com/</a>	Estonia Lithuania
	<b>Humane company</b>		
Valued Employer	<ul style="list-style-type: none"> <li>➤ Family-friendly workplace</li> </ul>	<a href="https://vietagimenei.lv/gimenei-draudziga-darbavieta/programmas-dalibnieki/">https://vietagimenei.lv/gimenei-draudziga-darbavieta/programmas-dalibnieki/</a> <a href="https://www.tooelu.ee/et/peres%C3%B5bralik">https://www.tooelu.ee/et/peres%C3%B5bralik</a>	Latvia  Estonia
		<a href="https://socmin.lrv.lt/lt/veiklos-sritys/darbo-rinka-uzimtumas/imoniu-socialine-atsakomybe-isa/nacionaliniai-atsakingo-verslo-">https://socmin.lrv.lt/lt/veiklos-sritys/darbo-rinka-uzimtumas/imoniu-socialine-atsakomybe-isa/nacionaliniai-atsakingo-verslo-</a>	Lithuania

➤ Diversity empowering employer	<a href="https://apdovanojimai/nacionalinio-atsakingo-verslo-apdovanojimu-laureatai-2023-m/">apdovanojimai/nacionalinio-atsakingo-verslo-apdovanojimu-laureatai-2023-m/</a>	
<b>Best Employer</b>		
➤ CV-online: 11th place on finance sector	<a href="https://tooelublogi.ee/2024/01/30/top-tooandjad-2024-finantssektoris/">https://tooelublogi.ee/2024/01/30/top-tooandjad-2024-finantssektoris/</a>	Estonia
	<a href="#">Finantsvahendusettevõtte 2023.pdf (koda.ee)</a>	Estonia
➤ Estonian Chamber of Commerce and Industry: best insurance company, 9th place in the financial sector	<a href="https://www.topdarbadevejs.lv/">https://www.topdarbadevejs.lv/</a> <a href="https://www.apiedarba.lt/paskelbti-cv-online-top-darbdaviai-2023-naujos-nominacijas/">https://www.apiedarba.lt/paskelbti-cv-online-top-darbdaviai-2023-naujos-nominacijas/</a>	Latvia Lithuania
➤ In TOP 50 of the best employers	<a href="https://www.topdarbadevejs.lv/">https://www.topdarbadevejs.lv/</a>	Latvia
➤ CV-Online Top 10 of the best employers in financial sector		

**Sustainability overview**

**Our dedication**

At ERGO, we understand that protecting the environment and addressing climate change is crucial for our future, and it’s also a vital part of our corporate governance. That’s why we have set an ambitious objective to significantly reduce carbon emissions in our business operations, insurance, and investments as part of our “Climate Ambition 2025” initiative. Further strategic milestones from 2025 onwards will be developed in line with current scientific progress, political and regulatory developments, and in line with international standards. Our goal is to achieve net-zero emissions across all areas by 2050 at the latest.

In addition to our internal efforts, we also strive to contribute to society by helping to mitigate the impact of climate change. Together with Munich Re, we promote international afforestation projects and assist start-ups with innovative business ideas on climate protection.

At ERGO, we are committed to following the ten principles of the United Nations Global Compact. This includes our dedication to preserving and promoting fundamental values, such as human rights, humane working conditions, environmental protection, and anti-corruption efforts, within our sphere of influence.

We also comply with domestic and international environmental protection laws, as well as other binding obligations and self-commitments to environmental protection. We stand by the

Principles of Sustainable Insurance (PSI) and the Principles of Responsible Investments (PRI), as well as the goals of the Net-Zero Asset Owner Alliance (AOA).

We believe in creating a work environment that fosters performance, motivation, and individual diversity. We offer flexible working hours, development opportunities, and strive to inspire our employees through automated processes and agile working methods as we move forward with the process of digital transformation.

We follow Munich Re and ERGO Groups ESG criteria, that stands for environmental, social and governance criteria, which describe sustainable targets and approach.

	<p>Environment: lowering carbon emissions, reducing resource consumption and preventing environmental damage.</p>	
	<p>Social sector: the upholding of human rights and labour rights, equality, health protection.</p>	
	<p>Governance: responsible corporate governance, dialogue with interest groups, transparent reporting.</p>	

## Economical Liability

At ERGO we believe that good governance is an essential prerequisite for sustainable value creation. Our key principles and convictions apply for all our employees and form the framework for our sustainable actions. In everything that we do, we act on the basis of common values, respecting the rights of others and handling the data entrusted to us with care and attention.

We have supplemented the applicable laws and external regulations with in-house codes of conduct for employees and sales staff. These set out binding rules for what we believe constitutes ethical business conduct. All managers must declare their private interests before starting work.

External service providers are required to sign an anti-corruption agreement and observe the principles of the UN Global Compact. The ERGO Anti-fraud Management Guideline, includes principles and rules on preventing, uncovering, and investigating economic crimes.

In order to prevent money laundering, a Group Money Laundering Officer and a deputy were appointed for ERGO Group AG at the beginning of 2020 in line with the statutory requirements. Upon making donations, we do not accept any benefits or favours in return.

We grant possibilities for our employees and customers to give feedback on compliance breaches via our homepage; all claims are solved or given feedback about actions taken within 5 working days.

Employees and external third parties – such as customers and suppliers as well as other business partners – can additionally report suspected breaches on the ERGO international whistle-blowing portal. All employees and managers undergo regular training with the aim of preventing compliance breaches.

## Digitalization and data protection

ERGO places a strong emphasis on driving forward the digital transformation in our corporate strategy. We recognize the potential of digitalization to meet the evolving needs and expectations of our customers, and to maintain our long-term success.

To streamline our operations, we have integrated several robots into our processes, enabling quicker claims handling, improved NPS (Net Promoter Score) processes, more efficient pricing and controlling. We are also proud to offer opportunities to interns who have contributed to programming some of these robots, and many of them have continued to work with ERGO.

At ERGO, we place a high priority on protecting our customers' data by consistent focus on key cybersecurity protection areas: the confidentiality, availability, and integrity of information. Requirements for data protection are driven by statutory and supervisory regulations and are an integral part of ERGO corporate strategy. We collect data in a transparent manner and only to the extent necessary for specific purposes. We have developed in-house guidelines and adopted voluntary industry commitments to supplement legal requirements. Regular employee training is also conducted to ensure compliance with data protection requirements and raise awareness about data protection issues.

In this year we continued development of various digitalization products, increasingly moved towards cloud-based services which helps us to reduce our direct environmental impact as we continuously monitor our environmental footprint. We are continuously expanding and developing our online channels to offer convenient web-based services even in the more traditional insurance industry.



## Human rights

Safeguarding human rights is an integral part of ERGO's value-based corporate governance. We uphold this commitment through the Munich Re Policy Statement on Human Rights, which is also applicable to ERGO. Our dedication to the protection of human rights is reflected in our adherence to the UN Principles on Business and Human Rights, the International Human Rights Charter, the UN Global Compact, and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work.

These principles guide us in preserving, promoting, and implementing fundamental values related to human rights, humane working conditions, environmental protection, and anti-corruption efforts within our sphere of influence.

In 2023 ERGO Group approved the Declaration of Human Rights Principles. It aims to improve the human rights around the world and restrict cooperation with sellers of goods and services if they do not ensure adequate human rights principles.

In this year ERGO signed the Diversity Charter. By joining, we affirmed our respect for people's diversity and commitment to the principle of equal treatment among their employees, partners, and clients.

## Social responsibility

### Customer orientated services and products

At ERGO, we believe that people are the most important in business. We strive to combine customer satisfaction with our employee's engagement.

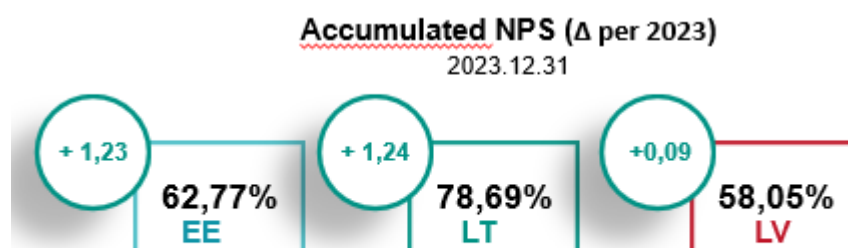
Our goal is to make ERGO a place that allows us to grow together and succeed. This would lead us to the customer-oriented promise – to make insurance as simple as possible.

Our insurance solutions cater to our customers' needs and respond to changes and developments in society. We focus on prevention, which helps to reduce environmental problems as every loss event has a negative impact on the environment. As part of our job, we conduct risk visits to prevent possible damage at the client's property.

We are glad to acknowledge, that based on several research, we have been able to meet our customers' expectations and raise satisfaction also during this challenging year.

Our internal and pan-Baltic accumulated NPS, that is set as one of the most important KPIs for all our employees, continued to grow – in all three countries, both for sales and claims handling. Our NPS process is harmonized on Baltic level since beginning of 2020. It is closely monitored, communicated on a regular basis, and based on the feedback we update our processes constantly. We are glad to receive a lot of positive feedback from our clients, that is also used in our acknowledgement culture.

At ERGO customer satisfaction is ingrained in the company's culture which means that ensuring customer satisfaction is not just a departmental goal or a temporary initiative but rather a fundamental aspect of how the organization operates and how employees behave. ERGO Baltics employees across all levels of the organization understand the importance of customer satisfaction and prioritize it in their everyday work. It's not only about employees who work with clients directly, it's also about back office employees who serve internal customers and have a clear understanding how at the end it effects company clients expectations. Customers' feedback is gathered systematically, it is analysed, and appropriate actions are taken to address issues and improve service.




In 2023, the market research firm Dive conducted a specialized study focusing on insurance companies. Through mystery shopping exercises, they determined that ERGO, operating in Estonia and Lithuania, stood out for its exceptional customer service within the insurance industry.



Our quarterly Mystery Shopping survey / reports by Dive Group in Estonia show, that our service quality level has consistently and steadily increased and even broke the all-time record at 93.4% in the third quarter of 2023. Our service quality average result of all quarters even exceeds 92.8%.

We are especially proud, that in Lithuania the first position among non-life insurance companies was held already four years in a row.



**Thank you! For the fourth year in a row,  
we are the insurance company with  
the best customer service in Lithuania!**

Customer service quality survey 2023,  
DIVE Lithuania.

**ERGO**

*Simple because it matters.*

## Sponsorships / social responsibility actions 2023

As in previous years, ERGO focuses on three global challenges that are closely associated with our core business: mitigating the effects of climate change, improving access to healthcare / promoting healthy lifestyle, and enhancing risk awareness.

We are guided by the United Nations Sustainable Development Goals, which describe the key challenges of our time.

The projects are carried out locally, but group-wide reporting on activities and expenditure ensures transparency and lays the foundations for our social commitment reporting. We prefer projects that go together with our own business activities, that support them, and that help to offer additional value to ERGO's employees and clients.

This year we continued some partnerships that already became a tradition in our company as well as some new initiatives. ERGO in Lithuania celebrated its 11th year of collaboration with the Vilnius International Film Festival "Kino pavasaris" (Cinema Spring) in 2023. The festival features award-winning quality films that highlight current social issues. This year we became a partner of the film category "Šiandienos filmai rytojui" (Present films for future). This collection of films explore the topic of sustainability from a wide range of angles: from ecology to migration and human rights.



Since mid-January, ERGO in Lithuania continued its cooperation with #walk15, a start-up promoting and supporting healthy lifestyles, and relaunched the "Let's plant trees all over Lithuania" challenge. This time, the challenge lasted until the beginning of April, and the aim was to collect so-called virtual trees, which were later used as a basis for planting real trees. In April, the trees were planted – as many as 50,000 young trees are now growing in the Klaipėda and Panevėžys regions thanks to ERGO's initiative. In three years of cooperation, ERGO in Lithuania has involved as many as 450 volunteers and planted a total of 90,000 trees.

ERGO in Latvia was celebrating its 30th anniversary on 2023 and was also focusing on environmental topics in its celebrations. The "30,000 reasons to walk with ERGO" campaign, like the one in Lithuania, invited people to take care of their health and think about nature by counting steps together. The tree planting event took place on 29 September and was attended by 59 employees, many of whom brought along their children, teaching them new skills and a love of nature. Six thousand birches were planted on an area of three hectares.



For the third year in a row, our Lithuanian colleagues gathered on the last weekend of the summer to volunteer in free environmental, educational and cultural festival “Let’s do it by the sea”. With the help of volunteers, a 150-metre stretch of dunes was reinforced, nearly a hectare of beach was landscaped, and over 2,000 litres of rubbish collected. Volunteering and getting involved in similar initiatives is highly encouraged at ERGO, and the employer also provides one paid day for charity activities every year.



In November ERGO in Estonia signed the Estonian Diversity Charter. By signing this agreement organization voluntarily commits to promote diversity and equal opportunities among their employees, partners as well as clients. Earlier in the year the Diversity Charters were signed also in Lithuania and Latvia.

To make our activities even more research-based and effective, ERGO in Estonia decided to become a member of “Green Tiger”, a collaborative platform that aims to devise, teach, and implement a plan for a balanced economy.

ERGO in Latvia continued its scholarship programme this year. In the new academic year, six young people who have just started their studies at Latvian universities joined the ERGO scholarship holders. In total, ERGO will provide scholarships to 16 students this year.

In cooperation with the Estonian Olympic Committee, ERGO has awarded scholarships to young athletes for eight years now in the total amount of €25,000 in order to give a boost to young Estonian athletes.

The aim of the scholarship is to support promising young athletes in preparing for and participating in international competitions. The scholarship is earmarked and designed to cover training and competition costs or the purchase of sports equipment.



As an expression of its environmentally friendly mindset, ERGO joined the Earth Hour initiative together with other Group offices in Germany, Austria, China, etc. and completely switched off the lights in ERGO Vilnius headquarters for one hour. ERGO in Estonia headquarters are located in one of the most environmentally sustainable office buildings in the Baltic States, where all lighting solutions are automated. Thus, we supported Earth Hour in Estonia by sharing the call to action to promote saving energy.



From 13 November all three Baltic countries joined annual ERGO Group initiative – Data deletion challenge. The employees were invited to clean up the digital space – delete as much unnecessary data as possible from their computer’s hard drives. Deleting old or unnecessary data frees up storage space, reduces the load on servers and energy consumption, resulting in fewer greenhouse gas emissions. This means that erasing data helps to sustainably protect the environment and reduce climate change.



During the last quarter we donated 10,000 euros to SOS Children Village in Estonia; earlier in the year the same amount was donated to SOS Children Village Lithuania. ERGO financial support was planned to be used for renovation support of houses for Ukrainian families and mental well-being hours therapy for children.

## People management

ERGO is one of the most valued and recognised employers in the Baltics. In 2023 we were in the top of the best employers' rank by CV-Online in Latvia and Lithuania. Also, we were acknowledged as a workplace that foster diversity in Lithuania and as family-friendly workplace in Latvia and Estonia. Estonian Chamber of Commerce and Industry ranked us in TOP 10 best insurance company in the financial sector.

We are working consistently in order to improve the employee experience in all aspects. This is done through specific programmes, training sessions and information flow/internal communication.

ERGO Baltics strategy that was renewed in September is based on people – our customers and the team. We want to show that ERGO is focused on both, collective and individual success and offers opportunities for personal growth. And we want to reach people who are ready to play a committed role in making the customer promise a reality. This is the result of consistent work to improve the employee experience in all aspects. This is done through specific programmes, training sessions and information flow/internal communication.

ERGO Baltics strategy that was renewed in September is based on people – our customers and the team. We want to show that ERGO is focused on both, collective and individual success and offers opportunities for personal growth. And we want to reach people who are ready to play a committed role in making the customer promise a reality.



### Diversity

Diversity means having a variety of people differing in such personal identity aspects as race, gender, age and more.



### Equity

Equity refers to each person being treated fairly and given the same opportunities (for career, promotion, salary, etc.)



### Inclusion

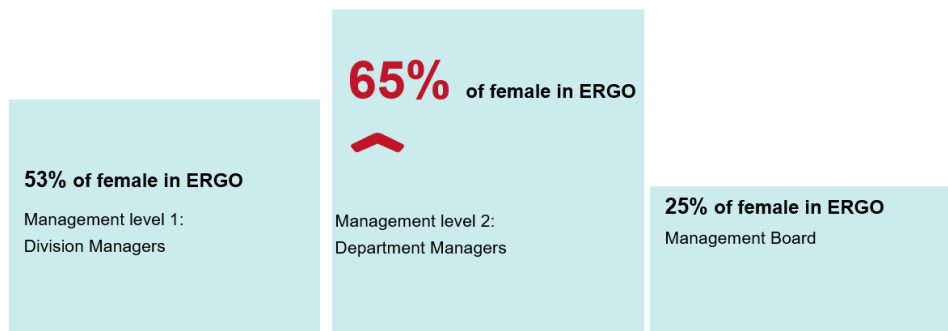
Inclusion means that all community members are embraced and encouraged to make meaningful contributions.

The term "DEI" commonly used in modern leadership, stands for Diversity, Equity, and Inclusion. Essentially, it means working in a place where you're treated fairly, you really feel that you belong here, and you are respected for who you are. This approach fosters diverse perspectives and experiences, making the workplace more creative and successful. Given that it is a key strategic priority for the ERGO Group.

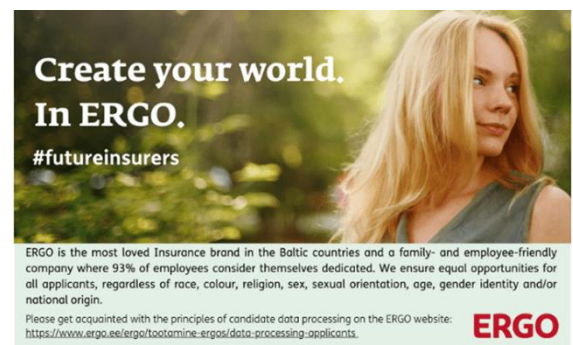
**Diversity** is certainly wider than just age and gender topics. Diversity at workplace is important because collaboration among colleagues of different people gives us a precious opportunity to share the best practices, encourage out of the box thinking, foster a diverse point of views leading to innovative approaches and non-standard solutions. We are lucky to have colleagues dispersed among all age groups, with the majority in 36-45 years group.

There is lot of talk about glass-ceiling in career management for woman, so ERGO Group has identified a specific gender ambition to have both genders on different management levels.

ERGO Baltics has managed to achieve and exceed these targets already by now. We have a lot of efficient leaders, that is not so common in all companies and especially in insurance sector.



**Equity** in the workplace is crucial for creating a positive and productive work environment where every employee is treated fairly and given the same opportunities. There are many actions at ERGO that one may have not considered as equity topics: we encourage our people to aim higher, so internal career opportunities and vacant positions are announced first on the intranet; we promote transparent job postings, meaning that job ads are competency and role-based with no gender-specific wording or keywords;



Our salaries are determined according to the "Hay" methodology (in LT) and "Fontes/ Figure" methodology (in LV and EE), where job positions are evaluated rather than specific individuals.

**Inclusion** in the workplace is vital for creating an innovative, forward-thinking, and engaging work environment that benefits both employees and the organization. It's also about activities that foster a sense of belonging.

To achieve this, we have implemented various initiatives: unconscious bias training - we need to avoid making assumptions. Therefore, we have been conducting workshops for leaders to increase their awareness of unconscious prejudices, stereotypes, and biases in employee-related processes. This awareness is key to overcoming them. Hybrid work and workation – in ERGO we provide an innovative solution and trust our employees, so employees don't have to choose between family/pets and the office. Employees can take up to 28 calendar days of workation per year in European Union countries, to ensure their safety and IT support. In 2023, 47 employees used the workation solution.



In April, ERGO employees in Estonia and Latvia had the opportunity to have a peak at the daily work of other departments and colleagues, what they are responsible for and what challenges they face. Our CEO of ERGO Baltics Ursula Clara Deschka also participated in the shadowing days and encouraged colleagues to join as well. Since the job shadowing project received positive feedback and will contribute to improving cooperation, we will continue with this on a pan-Baltic scale next year as well.



In ERGO, employees are involved daily through the activities of line managers as well as through the intranet, the in-house magazine, organic communication in modern offices and joint activities.

For example, a massage therapist at the ERGO head office in Estonia helped to relieve work-related stress; the Health Tuesdays programme, launched at the beginning of the year to bring fresh fruit to our offices, has been well received. As well as Health month which provided our employees with valuable theoretical and practical knowledge about our physical and emotional well-being.

An internal campaign “Idea Box” was implemented in Lithuania, where employees could offer their ideas and one of them was implemented every quarter. One of the ideas implemented was the ERGO Wardrobe. The reuse-focused project helps to give new life to the clothes and shoes of ERGO staff that are still in good condition but no longer find use. Also, at the end of the year the blood donation was organised as one of the ideas offered by employees.



To ensure a smooth onboarding process and provide professional support, ERGO is continuing a mentorship program for its newcomers. Our official mentors have to complete a three-day basic training, so all new employees are supported by a personal mentor. Last year 60 mentors supported our new employees.

Various studies show that the experience gained by employees before/during/after parental leave has a direct impact on people's engagement and motivation, efficiency and psychological health, loyalty, and employer reputation; that is why we have created action plan for both ERGO managers and employees (preparing for, currently on, returning from childcare leave) focused on ensuring and fostering a positive experience at all stages of childcare leave.

One of the examples is “ERGO t veliai” (ERGO parents) initiative. The purpose of this project is to create a positive experience and accompany ERGO employees before/during/after childcare leave and to maintain/foster the feeling of "I still feel part of the ERGO community".



Shared events and joint activities are very important for our employee experience. Employee summer events were held in all Baltic countries during the summer. In winter and early spring events we share a celebration where the best colleagues, teams, and projects were awarded. There were also several events for our children, special team building actions and celebrations. Also, we are participating in the student fairs to introduce ERGO to young people, talk about various career opportunities at ERGO, and be visible among young people.





### Diversity / Main HR Statistics

#### ERGO HR & Diversity statistics

2023

Total number of staff	1,271	
Gender balance (nr/%)	Male:	250 19.7%
	Female:	1,021 80.3%
Managers on Level 1-3 (nr/%)	Male:	58 29.7%
	Female:	137 70.3%
Average age (years)	Male:	43
	Female:	43
Average tenure (years)	8	
Training hours per employee	44	
Employees on maternity leave	53	

### Environmental responsibility

“Protecting the future is in our nature” – with this statement we dedicate ourselves for creating a better tomorrow and especially environment - making an effort to ensure minimal impact on our ecological footprint and to totally become climate-neutral by 2050 (business operations, investments, insurance).

As a financial services provider, our direct impact on the environment is limited since our business model is not energy- or resource-intensive. We become involved in areas where we can have a tangible and beneficial influence and make every effort to keep energy and resource consumption, and carbon emissions, as low as possible.

We raise awareness of environmentally friendly behaviour among our employees and customers alike. We are committed to moving our business operations across the Group to net-zero emissions by 2030.

We will achieve this by focusing on the main factors driving our emissions – energy consumption and business travel. We calculate our carbon emissions from energy, paper and water consumption, business trips and waste generation on an annual basis. In this way, we determine our ecological footprint in accordance with internationally recognised methods and conversion factors, such as the GHG protocol.

Each individual employee is asked to help to reduce the consumption of resources within the company and at home offices. We continuously encourage our employees to reduce use of paper, private and company transport, and increase level of waste sorting for improved recycling purposes.

We continue our improvement activities and raise awareness about digital waste and encourage people to delete data that is no longer required, with the aim of sensitising employees to the fact that data storage uses electricity and creates carbon emissions. In 2023 all three Baltic countries joined annual ERGO Group initiative – Data deletion challenge which helped to reduce greenhouse gas emissions.

Also, we promote climate-neutral travel by preferring bicycles – running social campaigns for clients and employees. In organising tenders and making decisions, we make an effort to ensure minimal impact on our ecological footprint. Already the fifth summer in a row, we offered our motor hull insurance customers the choice between a replacement car or a free bicycle that they could keep after the repair period. All ERGO motor hull insurance customers whose car is in a repair shop between June and August for a least five days were able to choose a bicycle as a more environmentally friendly alternative to a replacement car.

Caring for the environment begins with awareness and small actions, and to ensure that no hazards go unnoticed, ERGO continued use an environmental register through which all employees can report environmental risks they have noticed.

In 2023 ERGO Estonia decided became a member of Green Tiger, a collaborative platform that aims to devise, teach and implement a plan for a balanced economy. With a help of collaboration process want to improve our climate journey even more carefully and involve employees more directly in environmental issues as well as make sure that the insurance sector as a whole takes a more sustainable direction – by engaging in prevention work and reducing the footprint of insurance, which is primarily due to claims handling.

ERGO joined the Earth Hour initiative together with other Group offices and completely switched off the lights in ERGO Vilnius headquarters for one hour. ERGO Estonia headquarters is located in one of the most environmentally sustainable office buildings in the Baltic States, where all lighting solutions are automated. Thus, we supported Earth Hour in Estonia by sharing the call to action to promote saving energy. This year, ERGO Estonia also joined the Digital Cleanup initiative, which was organised by Telia for the fifth consecutive time and focused on returning old electronic equipment to support reuse or recycling.

In 2023 ERGO expanded its cooperation with #walk15 and once again entered the “Let’s plant trees all over Lithuania” challenge. The challenge aim is to first collect virtual trees, which will later be used as a basis for planting real trees. Latvia’s walking challenge “30000 reasons to walk with ERGO” attracted more than 3050 people from different countries. participants took a total of 732308005 steps, walking a total of 523077 kilometres. As a result, six thousand birches were planted on an area of three hectares. Both the Estonian and Lithuanian ERGO teams have joined this initiative carried out for the benefit of the environment and health.

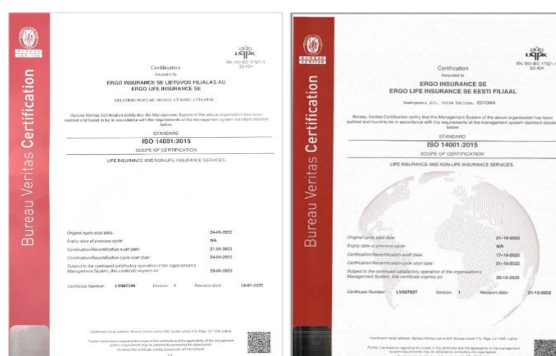


ERGO's broader ESG mindset and actions have been recognized, with the company being awarded the Responsible Business Forum's Silver Label in Estonia and the Latvian Institute of Corporate Sustainability awarded ERGO Latvia with Platinum level category. This high recognition reflects ERGO's exemplary performance in the areas of environment, governance, working environment, social contribution, and sustainability.

### Environmental Management

Our parent companies, Munich Re and ERGO Group, have announced their Strategy Ambition 2025 Shape – Scale – Succeed, which includes the Climate Ambition 2025. The main goal of this initiative is to reduce current CO2 emissions by 12% per employee by 2025. ERGO Baltic has also committed to this goal and wants to be part of the international initiative to take action to reduce carbon emissions in our organization.

To achieve this, we are measuring our 'carbon footprint', monitoring it, and looking for ways to reduce CO2 emissions. Our Management Board has approved and regularly reviews operations of the Environmental Management System, related policies and performance KPI's. The Environmental Management team within its daily operations monitor resource usage by tracking and converting our water, electricity, heating, waste, and travel data into CO2 emissions, developing action plans to reduce CO2 emissions, identifying and monitoring environmental risks within our organization, and educating all employees on how to consider environmental aspects in their daily activities.



During 2023, ERGO Baltics successfully passed ISO14001:2015 surveillance audits in all three countries, ISO14064 surveillance audit in Estonia and transformed previously certified EMAS system to ISO14064:2018 certification in Latvia, which confirm the companies' significant achievements and responsibilities in the environmental and sustainability fields.

ISO 14001:2015 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance. It is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability. ISO 14001:2015 helps an organization

achieve the intended outcomes of its environmental management system, which provide value for the environment, the organization itself, and interested parties. Consistent with the organization's environmental policy, the intended outcomes of an environmental management system include enhancement of environmental performance, fulfilment of compliance obligations, and achievement of environmental objectives.

The ISO 14064 standard is part of the ISO 14000 series of International Standards for environmental management. The ISO 14064 standard provides governments, businesses, regions, and other organizations with a complementary set of tools for programs to quantify, monitor, report, and verify greenhouse gas emissions. The ISO 14064 standard supports organizations to participate in both regulated and voluntary programs such as emissions trading schemes and public reporting using a globally recognized standard. ISO 14064-1:2018 specifies principles and requirements at the organization level for quantification and reporting of greenhouse gas (GHG) emissions and removals. It includes requirements for the design, development, management, reporting, and verification of an organization's GHG inventory.

### Overview of carbon emission

Carbon emissions in all three countries are calculated according to greenhouse gas emissions (GHG) principles and are quantified in following Scope categories:

Scope 1 – Direct emission from primary energy consumption (natural gas, emergency diesel power, fuel for company cars)

Scope 2 – Indirect emissions from procured energy (purchase of electricity, district heating)

Scope 3 – Other indirect emissions (business trips, waste, consumption of paper and water).

As a result, following carbon emissions results were registered in all three ERGO Baltics countries:

<b>ERGO Lithuania key environmental figures</b>					
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Carbon emission in CO2 kilograms	403 606	459 976	398 429	433 264	604 524
Direct carbon emissions from primary energy consumption - Scope 1	295 792	367 540	319 283	339 901	418 205
Indirect carbon emissions from procured energy - Scope 2	41 307	44 817	43 788	45 604	114 632
Other indirect carbon emissions - Scope 3	66 507	47 619	35 358	47 759	71 687
Carbon emissions per employee	572	579	499	555	806
Carbon savings per employee compared to baseline Year 2019	29%	28%	38%	31%	

**ERGO Latvia key environmental figures**

	2023	2022	2021	2020	2019
Carbon emission in CO2 kilograms	106 288	93 141	88 942	96 812	129 511
Direct carbon emissions from primary energy consumption - Scope 1	27 071	28 718	25 743	27 011	42 761
Indirect carbon emissions from procured energy - Scope 2	33 154	48 902	59 888	63 059	61 627
Other indirect carbon emissions - Scope 3	46 063	15 521	3 311	6 742	25 123
Carbon emissions per employee	370	335	326	322	453
Carbon savings per employee compared to baseline Year 2019	18%*	26%	28%	29%	

\* Latvia included new Scope3 components in 2023. With previous Scope3 components result in 2023 - 45%

**ERGO Estonia key environmental figures**

	2023	2022	2021	2020	2019
Carbon emission in CO2 kilograms	89 559	296 700	409 526	397 139	536 663
Direct carbon emissions from primary energy consumption - Scope 1	15 117	12 736	10 679	14 469	40 094
Indirect carbon emissions from procured energy - Scope 2	48 702	266 471	391 402	369 849	412 204
Other indirect carbon emissions - Scope 3	25 740	17 493	7 445	12 821	84 365
Carbon emissions per employee	435	1529	2155	2079	2809
Carbon savings per employee compared to baseline Year 2019	84%*	46%	23%	26%	

\* Estonia adjusted Scope2 and Scope3 calculation methodology plus moved to new office in 2023.

In all three countries carbon emission savings significantly overachieved set 12% saving target. If in Year 2020 and 2021 main reason for carbon emissions improvement was directly related to Covid 19 impact then in Year 2022 and 2023 ERGO identified various impact factors such as energy efficiency activities, change of office premises, implementation of hybrid work principles, higher influence of digitalization processes and other environmental improvement activities.

Partially carbon emission calculations results are impacted by adjusted calculations methodologies and changed Scope components. At the same time ERGO has detailed structure of environmental KPI's which allow to objectively compare exact environmental results in each category.

## **Main activities and actions**

### **Marketing, communication, brand image**

From third quarter of 2023, ERGO Baltics has sharpened its brand profile and from now on we put the focus on “Making insurance easier” in all marketing measures and customer communications using a slogan “Simple because it matters”.

We are communicating proof points that show our dedication to make insurance easier for our clients. Internally we review processes and tasks and evaluate where decisions could be taken quicker and what daily routines could be changed or reduced.

In communication and PR, as in previous years, our goal was to communicate about insurance and prevention in a clear and straightforward manner, using our expertise, statistics, and potential risks to demonstrate our commitment to making the world a safer place.

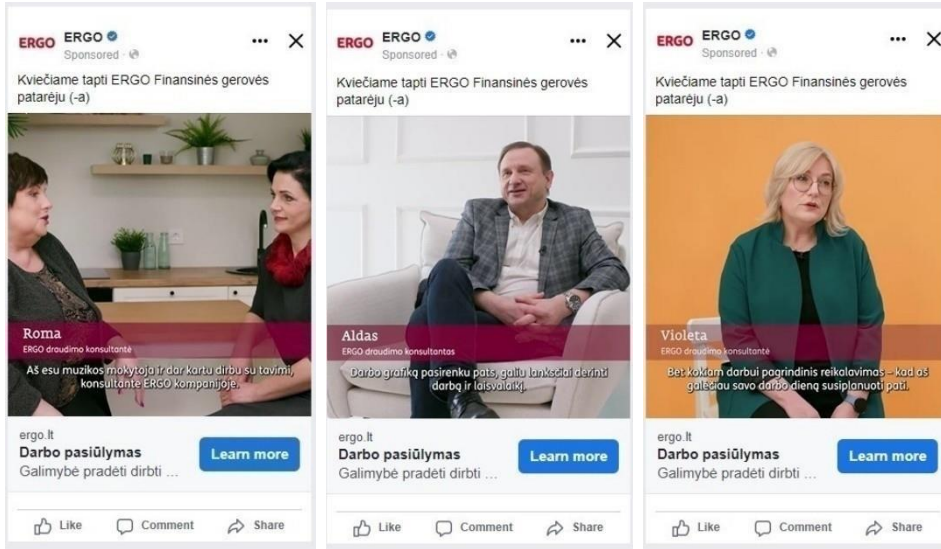
Our goal to simplify insurance was also reflected in our internal communication and sales materials for clients and on our homepage.

### **Sales support & service**

One of our, as insurers, tasks is to raise awareness of our customers and to show the importance of having the insurance products that would satisfy their needs and help in case of accidents and unforeseen bad situations. Therefore, we initiated a campaign during which we asked our customers to review their older life insurance contracts, so that the amounts are more adequate with the changing economy. We have sent emails to selected client database with explanation and arguments why it is important as well as forwarded an invitation to get in touch with their personal consultant.

Many employers nowadays create modern office environment for their employees, are interested in providing additional benefits and care about their employees' physical and emotional health. We strive to create relationships with regional entrepreneurs-employers, so, we have initiated breakfast for representatives of various businesses during which we presented ERGO insurance products, specifically business products and employee insurance solutions.

The need of good salesperson in insurance business is critical. However, insurance business field is not a simple one – one needs to dedicate a lot of time and effort in order to become a professional salesperson. For this reason, our industry faces a challenge to attract new employees to this field. We shared our support from the marketing side and initiated video interviews with real consultants who came from diverse backgrounds and became successful at ERGO, proving that it is never too late to change profession.



Low financial literacy of people in Lithuania is still a big problem. So, we initiated workshops on financial literacy for children in kindergartens and primary classes. We supply tools and help develop material and content for the classes.



## **Statement of the management's responsibility**

The Board of ERGO Life Insurance SE confirms that the separate financial statements for the year ended 31 December 2023 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. The Board of ERGO Life Insurance SE is responsible for preparing these separate financial statements from the books of primary entry. The Board confirms that these separate financial statements for the year ended 31 December 2023 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 judgements and estimates have been made by the Board in the preparation of the separate financial statements for the year ended 31 December 2023.

The Board of ERGO Life Insurance SE is 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. The members of the Board are also responsible for operating the Company in compliance with the legislation of the Republic of Lithuania.

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Ursula Clara Deschka  
Chairwoman of the Management Board

05 June 2024



## Separate financial statements

### Separate statement of profit or loss

<i>in EUR</i>	Note	2023	2022 restated
Insurance revenue	6	65,031,695	57,924,513
Insurance service expense	7	-52,054,641	-51,557,572
<b>Insurance service result before reinsurance contracts held</b>		<b>12,977,054</b>	<b>6,366,941</b>
Allocation of reinsurance premiums	8	-925,399	-697,472
Amounts recoverable from reinsurers for incurred claims	8	286,259	250,833
<b>Net expense from reinsurance contracts held</b>		<b>-639,140</b>	<b>-446,639</b>
<b>Insurance service result</b>		<b>12,337,914</b>	<b>5,920,302</b>
Interest revenue calculated using the effective interest method	9	3,273,448	3,654,351
Other interest and similar income	9	1,698,991	2,028,147
Net fair value gains/(losses) on financial assets at fair value through profit or loss Unit link	9	7,536,035	-5,271,145
Net fair value gains/(losses) on financial assets at fair value through profit or loss	9	414,567	-614,062
Net fair value gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	9	-51,709	-44,528
Impairment loss on financial assets	9	15,331	0
Investment management expenses	9	-278,664	-391,111
Net foreign exchange (expense) / income	9	-19,988	29,631
<b>Total investment income</b>		<b>12,588,011</b>	<b>-608,717</b>
Insurance finance expenses for insurance contracts issued	9	-10,891,089	-1,359,213
Reinsurance finance income for reinsurance contracts held	9	114,220	516,690
<b>Net insurance financial result</b>		<b>-10,776,869</b>	<b>-842,523</b>
Other income and expense	10	-1,797,468	-406,782
<b>Profit before tax</b>		<b>12,351,588</b>	<b>4,062,280</b>
Income tax expense	24	22,269	-169,894
<b>Profit for the year</b>		<b>12,373,857</b>	<b>3,892,386</b>

The accompanying notes are an integral part of these financial statements.

## Separate statement of comprehensive income

<i>In euros</i>	<b>Notes</b>	<b>2023</b>	<b>2022 restated</b>
<b>Profit/loss for the year</b>		<b>12,373,857</b>	<b>3,892,386</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>			
Change in fair value of financial assets	23	7,062,313	-44,255,024
<b>Debt instruments at fair value through other comprehensive income</b>		<b>7,062,313</b>	<b>-44,255,024</b>
Change in insurance/reinsurance finance reserve	9	-5,565,850	31,497,995
<b>Net insurance financial result</b>		<b>-5,565,850</b>	<b>31,497,995</b>
<b>Total other comprehensive income</b>		<b>1,496,463</b>	<b>-12,757,029</b>
<b>Total comprehensive income/expense for the year</b>		<b>13,870,320</b>	<b>-8,864,643</b>

The accompanying notes are an integral part of these financial statements.

## Separate statement of financial position

in EUR

		As at 31 December		As at 1
	Note	2023	2022 restated	January 2022 restated
<b>Assets</b>				
Cash and cash equivalents	11	5,238,616	5,178,003	11,344,030
Equity and debt instruments at fair value through profit or loss	12	96,450,640	76,744,826	93,681,512
Debt instruments at fair value through other comprehensive income	12.1	147,006,089	152,127,594	203,739,113
Debt instruments at amortised cost	12.2	21,709,478	21,704,023	12,006,125
Investments in subsidiaries	13	4,677,870	4,677,870	4,677,870
Insurance contract assets	14	11,420,085	38,950,594	20,159,967
Reinsurance contract assets	14	788,858	1,007,987	68,150
Deferred tax assets		123,774	101,506	107,845
Other receivables	15	10,671,231	9,445,404	2,789,104
Intangible assets	16	3,688,064	2,571,532	1,634,909
Property, plant, and equipment	17	1,649,959	1,689,677	1,211,279
<b>Total Assets</b>		<b>303,424,664</b>	<b>314,199,016</b>	<b>351,419,904</b>
<b>Liabilities</b>				
Insurance contract liabilities	14	216,505,183	241,775,714	264,520,629
Reinsurance contract liabilities	14	10,728	0	5,106
Financial liabilities from investment contracts	18	16,110,998	13,245,239	18,196,409
Lease-related liabilities	19	1,443,231	1,418,798	1,004,666
Other payables and accrued expenses	20	7,349,064	6,111,524	3,896,419
<b>Total liabilities</b>		<b>241,419,204</b>	<b>262,551,275</b>	<b>287,623,229</b>
<b>Equity</b>				
Issued capital	21	4,380,213	4,380,213	4,380,213
Capital reserve	22	15,869,501	15,869,501	15,869,501
Retained earnings		30,979,193	29,339,331	32,623,622
Profit/loss for the reporting year		12,373,857	3,892,386	0
Fair value reserve	23	-9,487,917	-15,290,153	28,964,871
Insurance/reinsurance finance reserve		7,890,613	13,456,463	-18,041,532
<b>Total equity</b>		<b>62,005,460</b>	<b>51,647,741</b>	<b>63,796,675</b>
<b>Total liabilities and equity</b>		<b>303,424,664</b>	<b>314,199,016</b>	<b>351,419,904</b>

The accompanying notes are an integral part of these financial statements.

## Separate statement of changes in equity

<i>In euros</i>	Note	Share capital	Capital reserve	Fair value reserve	Insurance/ reinsurance finance reserve	Retained earnings	Total equity
<b>Balance at 31 December 2021</b>		<b>4,380,213</b>	<b>15,869,501</b>	<b>28,964,871</b>	<b>0</b>	<b>21,892,722</b>	<b>71,107,307</b>
Effects of the transition to IFRS 17	4	0	0	0	-18,041,532	10,730,900	-7,310,632
<b>Balance at 01 January 2022 restated</b>		<b>4,380,213</b>	<b>15,869,501</b>	<b>28,964,871</b>	<b>-18,041,532</b>	<b>32,623,622</b>	<b>63,796,675</b>
Distribution of dividends		0	0	0	0	-3,500,000	-3,500,000
<b>Total transactions with owner</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,500,000</b>	<b>-3,500,000</b>
Profit for the year		0	0	0	0	3,892,386	3,892,386
Other comprehensive income		0	0	-44,255,024	31,497,995	0	-12,757,029
<b>Total comprehensive income for the year</b>		<b>0</b>	<b>0</b>	<b>-44,255,024</b>	<b>31,497,995</b>	<b>3,892,386</b>	<b>-8,864,643</b>
Other changes in equity	4	0	0	0	0	215,709	215,709
<b>Balance at 31 December 2022</b>		<b>4,380,213</b>	<b>15,869,501</b>	<b>-15,290,153</b>	<b>13,456,463</b>	<b>33,231,717</b>	<b>51,647,741</b>
Effects of the transition to IFRS 9	4	0	0	-1,260,077	0	1,247,476	-12,601
Distribution of dividends		0	0	0	0	-3,500,000	-3,500,000
<b>Total transactions with owner</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,500,000</b>	<b>-3,500,000</b>
Profit for the year		0	0	0	0	12,373,857	12,373,857
Other comprehensive income		0	0	7,062,313	-5,565,850	0	1,496,463
<b>Total comprehensive income for the year</b>		<b>0</b>	<b>0</b>	<b>7,062,313</b>	<b>-5,565,850</b>	<b>12,373,857</b>	<b>13,870,320</b>
<b>Balance at 31 December 2023</b>		<b>4,380,213</b>	<b>15,869,501</b>	<b>-9,487,917</b>	<b>7,890,613</b>	<b>43,353,050</b>	<b>62,005,460</b>

The accompanying notes are an integral part of these financial statements.

## Separate statement of cash flows

in EUR

<i>(Inflow +, outflow -)</i>	Note	2023	2022
<b>Net cash flows from operating activities</b>		<b>-905,200</b>	<b>-12,147,090</b>
Premiums received in direct insurance		66,418,585	66,876,770
Claims and benefits incurred, and handling costs paid		-42,348,307	-54,772,973
Settlements with reinsurers		-788,795	-617,879
Paid in operating expenses (including taxes except for income tax) <sup>1</sup>		-26,177,925	-24,848,180
Paid income tax		-201,488	-577,643
Paid other income and expenses		2,192,730	1,792,815
<b>Net cash flows from investing activities</b>		<b>4,465,812</b>	<b>9,481,063</b>
Investment income received		4,828,639	6,384,159
Sums received on maturity and assets sold		20,673,180	48,273,376
New investments done		-20,935,439	-35,533,543
Paid other investment expenses		-100,568	-142,929
Loans granted		0	-9,500,000
<b>Net cash flows from financing activities</b>		<b>-3,500,000</b>	<b>-3,500,000</b>
Dividends paid		-3,500,000	-3,500,000
<b>Net cash inflow/(outflow)</b>		<b>60,612</b>	<b>-6,166,027</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>11</b>	<b>5,178,003</b>	<b>11,344,030</b>
Increase (decrease) in cash and cash equivalents		60,612	-6,166,027
<b>Cash and cash equivalents at the end of year</b>	<b>11</b>	<b>5,238,616</b>	<b>5,178,003</b>

<sup>1</sup> The Company also recorded low-value or short-term lease payments under this caption in the amount of EUR 26,804 as at 31 December 2023 (EUR 55,462 as at 31 December 2022).

The accompanying notes are an integral part of these financial statements.

## **Notes to the separate financial statements**

### **Note 1. Reporting entity**

ERGO Life Insurance SE (hereinafter “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 2023 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 05 June 2024. 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 translation consolidated financial statements of the ultimate parent Münchener Rückversicherungs-Gesellschaft AG (code – HRB 42039, address – Königinstr. 107, 80802 München, Germany) are published on the local website [www.ergo.lt](http://www.ergo.lt). The Company also meets consolidation exemption criteria set out in Article 6 of the Law on Consolidated Reporting of Group Companies of the Republic of Lithuania.

#### **Going concern**

The Management Board has considered the Company’s financial position and sources of liquidity along with the various risks and uncertainties involved in operating a business, including global economic conditions caused by the geopolitical situation, as part of its assessment of the Company’s ability to continue as a going concern.

Based on the previous assessment, when approving the financial statements, the Board reasonably expected that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, the Board agrees that the Company continues to adopt the going concern basis of accounting in preparing the financial statements.

#### **(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 2023.

### **(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 measured at fair value through profit or loss, financial assets at fair value through other comprehensive income and unit-linked and investment contract liabilities, measured at fair value.

### **(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 net carrying values 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 contract liabilities. The Company employs a responsible actuary. Estimation and recognition of insurance contract liabilities are described in policies (k).

Estimates are also used in determining fair value of financial assets (see part (h)), impairment (see part (i)) and deferred tax assets (see part (o)).

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

- Note 12. Investments in financial instruments
- Note 14. Insurance and reinsurance contracts
- Note 15. Other receivables
- Note 24. Income tax

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

### **(e) Geopolitical risk**

ERGO Life Insurance SE, including the branches (hereinafter ERGO or the Company), monitors the geopolitical situation in Eastern Europe and carefully assesses all circumstances that could impact the Company's activities and risk profile, including operational and cyber risks. We have carried out several analyses of the potential impact of the conflict situation on the Company's business.

### *Underwriting risk*

ERGO does not run direct business in the conflict area (Russia, Ukraine, and Belarus). However, the Company carefully reviewed the insurance products it sells and implemented additional preventive measures (i.e. set underwriting limitations) to reduce the further possible risk exposure in Ukraine, Russia, and Belarus.

### *Operational risks*

The most significant operational risks derive from sanction management and information and cyber security.

Sanction risks in ERGO are generally managed and grouped into two major categories: targeted and sectoral sanctions. Targeted sanctions are fully covered by an automated screening tool implemented in the Company as part of the Internal Control System. All insured parties and persons participating in the contract (natural or legal persons) who obtain direct or indirect insurance coverage are screened against the sanction lists using this tool. Sectoral sanctions are managed through both: an automated screening tool and manual control, performed to all insurance products to which sanctions could possibly apply.

ERGO Life Insurance SE, being a part of ERGO Group, takes the information and cyber security very seriously. The Company has implemented an information security management system in line with the best international practices (ISO27001). Additionally, there is a cyber security maturity program where ERGO is expected to be on a specific level of cyber security. Such initiatives create the background to be properly prepared for cyber risks. Security trends are closely monitored, to raise employees' awareness of potential cyber-attacks, special communication to all employees was performed. In addition to the above, at the end of December 2023 – beginning of 2024, ERGO carried out a supplementary evaluation of cyber security measures in place and set additional prevention measures to be implemented.

### *Market risks*

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

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

### *(f) Measurement of fair value*

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 might be categorised in different levels of the fair value hierarchy, 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. Material accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

#### **(a) Classification of insurance contracts**

##### **Classification as an insurance contract**

A contract is classified as an insurance contract within the scope of IFRS 17 if it transfers significant insurance risk. The risk is significant if, and only if, there is at least one scenario where the insured event could cause the issuer to pay additional amounts that are significant compared to payments under any other scenario.

We make this assessment as part of risk transfer testing. We classify an insurance risk as significant if an insured event could cause the payment of additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance, and there is a possibility of a loss on a present-value basis. Alternatively, we classify contracts as insurance contracts if they transfer to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts. Contracts that do not transfer significant insurance risk are generally financial instruments and are accounted for in accordance with IFRS 9 requirements. An exception here are investment contracts with discretionary participation features, which fall under the scope of IFRS 17.

##### **Separation of components**

Insurance contracts can contain one or more of the following components:

- embedded derivatives;
- investment components;
- non-insurance services.

If an insurance contract contains embedded derivatives that are themselves not contracts within the scope of IFRS 17, IFRS 9 requirements are applied when assessing the obligation to separate

components and accounting for the given derivative. The company has not identified any significant embedded derivatives components to date.

Distinct investment components and distinct non-insurance services are separated from the insurance contract and accounted for in accordance with IFRS 9 and/or IFRS 15 requirements.

### **Level of aggregation**

Recognition and measurement occur at the level of groups of insurance contracts. We begin by including insurance contracts in a portfolio that are subject to similar risks and managed together. In a second step, we assign each portfolio – based on its profitability – to one of the following three groups of insurance contracts:

- group of contracts that are onerous at initial recognition;
- group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
- group of the remaining contracts in the portfolio.

We classify an insurance contract as onerous at initial recognition if the risk-adjusted present value of all the expected cash flows for contract fulfilment results in a net cash outflow. Due to changes in estimates relating to future service, a group of insurance contracts can become onerous upon subsequent measurement. This nevertheless does not affect the classification into different groups at initial recognition. In other words, the composition of the groups is not reassessed.

We also ensure that all the contracts within a group were issued within one year. We thus do not use the annual cohort exemption.

### **(b) Lease accounting**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

#### *(i) The Company as a lessee*

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located to the condition required by the terms and conditions of the lease, less any lease incentives received.

The right-of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed lease payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "lease-related liabilities" in the statement of financial position.

#### Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### **(c) Property, plant, and equipment**

#### *(i) Recognition and measurement*

Items of property, plant, and equipment are recognised as assets when it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

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	3–5 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.

**(d) Intangible assets**

*(i) Recognition and measurement*

Items of intangible assets are recognised if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. 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	3–12 years
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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.

**(e) 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.

**(f) Investment in subsidiaries and associates**

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

**(g) Assets held-for-sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such non-current assets and disposal groups classified as held for sale are generally measured at the lower of their carrying value and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent losses on remeasurement are recognised in profit or loss. Impairment losses on available-for-sale assets measured at initial recognition, and subsequent gains and losses on revaluation of the assets are included in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised/depreciated.

**(h) Financial instruments**

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

**Recognition and derecognition**

We recognise a financial asset in the statement of financial position at the time when we become a party to the contractual provisions of the financial instrument.

When the contractual rights to receive the cash flows from a financial asset have expired, we derecognise that asset. If a financial asset is transferred, we evaluate whether the derecognition requirements of IFRS 9 are met. In this process, we consider the extent to which we retain the risks and rewards of ownership of the financial asset and – if applicable – whether we retain control. Depending on the outcome of this evaluation, we derecognise the financial asset, or we continue to recognise it in full or to the extent of our continuing involvement.

**Classification**

For subsequent measurement, financial assets are classified as measured at “amortised cost”, fair value through other comprehensive income” or “fair value through profit or loss”.

The classification is determined based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

#### *Business model*

An entity's business model refers to how the entity manages the financial assets to generate cash flows. The business model is determined by management at the level of groups of financial assets; it is based on several factors, such as the risks that affect the performance of the business model and the way in which those risks are managed as well as how the performance is evaluated and reported to management. A distinction is made between the following business models:

In the business model "hold to collect", the financial assets are held with the objective to collect contractual cash flows. The sale of financial assets is not part of the management strategy, but is, under certain circumstances, not incompatible with the application of this business model, for example if there is an increase in the financial asset's credit risk.

The objective of the business model "hold to collect and sell" is achieved by both collecting contractual cash flows and selling financial assets. The sale of assets is a key aspect of the management of the portfolio.

The business model "other" applies to financial assets that are managed neither under the "hold to collect" nor under the "hold to collect and sell" business models. This is the case, for example, if the objective of the business model is to realise cash flows by selling assets, or if a group of financial assets is managed on the basis of their fair value.

#### *Contractual cash flow characteristics*

If financial assets are held within the business model "hold to collect" or "hold to collect and sell", an additional assessment as to whether they pass the "solely payments of principal and interest (SPPI) test" is necessary for the classification for subsequent measurement.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement and pass the SPPI test. In a basic lending arrangement, compensation for the time value of money and for the credit risk are typically the most significant elements of interest. In addition, interest may include compensation for other basic lending risks (such as liquidity risk) and costs (such as administration costs) as well as an appropriate profit margin consistent with a basic lending arrangement.

### **Measurement**

#### *Measurement on initial recognition*

On initial recognition at the trade date, financial assets are recognised at the transaction price or fair value. For financial assets that are not subsequently measured at fair value through profit or loss, directly attributable transaction costs must be included in addition.

#### *Subsequent measurement*

The measurement of a financial asset after initial recognition is based on the classification in accordance with the business model and the result of the SPPI test.

Financial assets managed within the business model "hold to collect" that pass the SPPI test are measured at amortised cost. This includes also financial receivables and cash and cash equivalents.

Financial assets subject to the business model "hold to collect and sell" that pass the SPPI test are measured at fair value through other comprehensive income. This includes a major part of our financial investments. They are mostly used to back insurance liabilities and are managed as

part of our asset-liability management on the basis of their duration and risk profile. This means that the management strategy is aimed at both collecting contractual cash flows and selling financial assets.

Financial assets that are managed under the business model “other” or that do not pass the SPPI test are measured at fair value through profit or loss. In view of the business model this includes in particular the investments for unit-linked life insurance and the insurance-related financial instruments – such as insurance contracts that do not transfer significant insurance risk.

Derivatives and equity instruments are generally measured at fair value through profit or loss. The Company does not make use of the option to designate equity instruments as measured at fair value through other comprehensive income.

In addition, financial assets may be irrevocably designated as measured at fair value through profit or loss on initial recognition if this eliminates or significantly reduces accounting mismatches.

## **(i) Impairment**

### *(i) Financial assets*

IFRS 9 sets out an expected credit loss model for recognising loss allowances, under which expected credit losses are anticipated before they arise and must be recognised as an expense. These impairment requirements primarily affect financial assets measured at amortised cost or at fair value through other comprehensive income, as well as lease receivables. A three-stage impairment model is used to recognise and measure impairment losses on financial assets.

Stage 1: On initial recognition, financial instruments are always assigned to Stage 1 of the impairment model, and they remain at Stage 1 if their credit risk has not increased significantly since they were initially recognised. The loss allowance is measured at an amount equal to the 12-month expected credit losses, which represents the expected credit losses that result from default events that may occur within 12 months of the reporting date.

Stage 2: If the credit risk of a financial instrument has increased significantly since initial recognition but there is no objective evidence of impairment, the loss allowance at Stage 2 of the impairment model is measured at an amount equal to the lifetime expected credit loss.

Stage 3: If in addition to a significant increase in credit risk, there is objective evidence of impairment, the instrument is allocated to Stage 3 of the impairment model (credit-impaired financial assets). As in Stage 2, the loss allowance is measured at an amount equal to the lifetime expected credit losses. Interest revenue is calculated by applying the effective interest method – unlike in Stage 1 and Stage 2 – on the basis of the net carrying amount of the financial asset (i.e. after deducting the loss allowance).

As a matter of principle, a significant increase in credit risk is assumed if this risk (measured in terms of the probability of default) has increased by more than two percentage points since the financial instrument was initially recognised.

We assume that the credit risk of a financial instrument has not increased significantly if it has low credit risk as at the reporting date (low credit risk exception).

For financial instruments with an MEAG rating (Munich Re Group asset manager), we generally assume that changes in the risk of a default occurring over the next 12 months are a reasonable approximation of the changes in the lifetime risk of a default occurring. If there are indications that only an assessment based on the entire lifetime of the financial instrument is appropriate, such an assessment is made.

We generally make use of the rebuttable presumption that the credit risk has increased significantly since initial recognition if a contractual payment is more than 30 days past due unless we have evidence to the contrary.

Objective evidence of credit impairment includes but is not limited to:

- significant financial difficulty of the borrower;
- a breach of contract (such as a default or past due event);
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties.

To measure expected credit losses, we use the probability of default, the loss given default and the exposure at default.

Expected credit losses are equal to the discounted product of these three components. The calculation includes probability-weighted scenarios that take account of reasonable and supportable information that is available without undue cost or effort as at the reporting date and incorporates past events, current conditions, and forecasts of future economic conditions.

Financial assets are written off if, based on a reasonable assessment, it must be assumed that these assets are not recoverable. Indicators for this include a debtor lacking sufficient assets to service their debts or failing to commit to a repayment schedule. Upon completion of insolvency proceedings against a debtor, the financial assets are likewise deemed to be no longer recoverable and are fully derecognised. Such write-offs do not have an impact on profit or loss since the amounts are reflected in the loss allowance and therefore have already been recognised previously through profit or loss.

Our investment guidelines do not provide for the acquisition of purchased or originated credit-impaired financial assets.

We do not exercise the option to measure loss allowances on lease receivables using the simplified approach, i.e. at an amount equal to lifetime expected credit losses.

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

At each reporting date, the Company reviews the carrying values 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, the Company makes estimate of the recoverable amount of such asset. An impairment loss is recognised if the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

#### **(j) 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 consider 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.

Investments are classified into fair value levels as per classification policy of Munich Re on the Group level.

In the case of Level 1, valuation is based on quoted prices in active markets for identical financial assets which the Company can refer to at the statement of financial position date. The financial instruments allocated to this level mainly comprise listed and unlisted equity funds, listed bond funds.

Assets allocated to Level 2 are valued using models based on observable market data. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. Moreover, we have allocated to this level such assets for which prices are provided by price quoters but for which there is no proof that these were based on actual market transactions. The financial instruments we have allocated to this level mainly comprise bearer bonds and unlisted bond funds.

For assets allocated to Level 3, valuation techniques are used that are also based on unobservable inputs – which influences valuation both immaterially and materially. The inputs used reflect the Company's assumptions regarding the factors which market players would consider in their pricing. To this end, we use the best available market information, supplemented with internal company data. The assets allocated to this level of the fair value hierarchy comprise property funds and infrastructure investment funds

## **(k) Insurance contract assets and liabilities**

### **Recognition of insurance contract**

A group of insurance contracts issued is recognised from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group becomes due; or
- for a group of onerous contracts, when the group becomes onerous.

### **Measurement of insurance contract**

IFRS 17 provides a consistent accounting model for all insurance contracts. The basic approach consists in applying the General Measurement Model (GMM), which is mainly used in life reinsurance. In view of the GMM's high complexity, IFRS 17 provides the option of using – primarily for short-term contracts – a simplified measurement model known as the Premium Allocation Approach (PAA). We apply this simplified measurement approach for health insurance business. IFRS 17 also provides for a modified measurement model, the Variable Fee Approach (VFA), for certain participating primary insurance contracts. We apply the VFA for conventional life and unit-linked insurance. Please see below for more detailed explanations of the underlying concepts of these approaches.

The different models are used for the measurement of liability for remaining coverage based on the characteristics of the contracts. Please see below for more detailed explanations of the starting points for the valuation approaches.

### **General Measurement Model (GMM)**

#### **Procedure**

The GMM is based on a building block approach that consists of four blocks. The expected future cash flows for contract fulfilment form the basis for measuring our assets and liabilities from insurance business (building block 1). Cash flows are discounted in order to reflect the time value of money and the financial risks (building block 2). Comparing the present value of expected cash inflows against the present value of expected cash outflows results in the present value of the net cash flows relevant for the measurement. This present value is subjected to a risk adjustment to reflect the uncertainty arising from non-financial risk pertaining to the amount and the timing of cash flows (building block 3). For groups of insurance contracts classified as profitable at initial recognition, we recognise a contractual service margin which represents the unearned profit (building block 4). The latter is recognised over time as insurance contract services are provided over the coverage period.

By contrast, for groups of insurance contracts where the sum of the present value of future cash outflows and the risk adjustment for non-financial risk exceeds the present value of expected future cash inflows, a loss component that reflects the expected loss on initial recognition is recognised directly as an expense.

For subsequent measurement of the LRC, building blocks 1, 2 and 3 are remeasured using updated assumptions and inputs. The contractual service margin is adjusted to reflect changes in non-financial assumptions of future coverage and new business margins, among other things, and is amortised as insurance contract services are provided over time. The carrying amount of the LRC is – at the end of each reporting period – the sum of the present value of expected net outflows, the risk adjustment for non-financial risk and the contractual service margin.

*Cash flows (building block 1)*

The starting point for measuring groups of insurance contracts is based on a current estimate of all cash flows required to fulfil the contract within the contract boundary.

Cash flows that need to be considered include premium payments, expenses for claims and benefits, acquisition and administration costs, and loss adjustment expenses. The cash flows included in the measurement model reflect our current estimates and expectations regarding the fulfilment of our insurance obligations at each reporting date. We include in the cash flows an allocation of certain fixed and variable overheads that can be directly attributed to the fulfilment of insurance contracts.

#### *Discounting (building block 2)*

Under the GMM, future cash flows are discounted using current discount rates. Measurement thus considers the time value of money, so that cash flows expected to occur at different times are made comparable. In this context, we select discount rates that are as consistent as possible with the overall cash flow characteristics of the groups of insurance contracts and make use of observable market inputs wherever possible. Discount rates are determined using a bottom-up approach, with the Solvency II interest-rate curves published by the supervisory authority EIOPA (European Insurance and Occupational Pensions Authority) serving as the starting point for risk-free interest rates. We ensure that credit spreads have no effect on the discounting of the cash flows or the risk adjustment for non-financial risk. The discount rates we use do not take into consideration any type of default risk. But if relevant, an illiquidity premium may be added to the discount-rate curve to take account of the differences in liquidity between the insurance liabilities and the liquid reference instruments used in determining the risk-free interest rate. We do this for the relevant portfolios in life primary insurance business, in particular.

At each reporting date, the fulfilment cash flows for the LRC and LIC are remeasured using current discount rates.

#### *Risk adjustment for non-financial risk (building block 3)*

Cash flows arising from insurance contracts usually involve a high degree of uncertainty regarding the point in time an insured event occurs and the amount of a claim. In addition, there may be changes to the assumptions made about the insurance business as a result of changes in policyholder behaviour, e.g. related to exercising available options. To take this uncertainty into consideration, IFRS 17 provides for a third building block: an explicit risk adjustment for non-financial risk that represents compensation for bearing the risk. The sum of the risk adjustment for non-financial risk and the present value of net cash flows represents the fulfilment cash flows specific to a party that are relevant for measurement.

The risk adjustment for non-financial risk is determined in accordance with our internal risk model, taking Group-wide risk diversification into account. We apply a cost-of-capital method for determining the risk adjustment for non-financial risk. More specifically, we apply a cost-of-capital rate of 6% to the amount of capital required as at each future reporting date on a going-concern basis, and we discount the result using the risk-free rates adjusted for illiquidity. The level of risk adjustment for non-financial risk used by Company corresponds to a confidence level of approximately 88% over a one-year period. Like the present value of the cash flows, the risk adjustment for non-financial risk is reviewed at each reporting date and updated to reflect the current conditions.

#### *Contractual service margin (building block 4)*

The contractual service margin represents the unearned profit at initial recognition that is spread over the coverage period as insurance contract services are provided. If at initial recognition the present value of expected inflows exceeds the present value of expected outflows plus the risk adjustment for non-financial risk, the expected profit from the insurance cover is initially

recognised as a contractual service margin and considered when measuring the liability for remaining coverage. The initial recognition of profitable groups of insurance contracts thus does not affect profit or loss. If additional profitable contracts are added to a group of insurance contracts within an annual cohort over time, the expected profit from the new business is added to the contractual service margin at initial recognition. On subsequent measurement, the change in the contractual service margin is recognised in profit or loss in the statement of profit or loss as part of insurance revenue. The amount of the contractual service margin to be recognised in profit or loss for each period is determined by coverage units. These are used to determine the quantity of services provided for the in-force insurance contracts in the current reporting period in relation to the expected total insurance contract services provided over the whole of the coverage period. For all of our insurance business, we define the coverage units in such a way as to ensure that they reflect the services provided as accurately as possible. We generally use volume-based coverage units such as the sum insured or the capital at risk, which may be adjusted to reflect the specific characteristics of the (re)insurance business concerned.

By contrast, if we expect a loss at initial recognition, we identify a corresponding portion of the present value of the expected net cash flows plus the risk adjustment for non-financial risk as a loss component. We recognise the expected loss in the statement of profit or loss at initial recognition of the group of contracts, or as soon as we become aware that the group of insurance contracts is onerous. When aggregating contracts into groups, we ensure that onerous groups of insurance contracts are not combined with profitable groups. At subsequent measurement, our control procedures are also designed to identify at an early stage any groups of insurance contracts that are to be classified as onerous in terms of future coverage. A loss component will always reflect the expected loss from the insurance contract services still to be provided at a given point in time. We systematically amortise the loss component based on the remaining cash flows and the risk adjustment for non-financial risk until the end of the coverage period.

An initially profitable group of insurance contracts within an annual cohort may become onerous on subsequent measurement. In this case, a loss component has to be recognised. Conversely, a group of insurance contracts classified as onerous can become profitable on subsequent measurement, giving rise to a contractual service margin. At the end of the coverage period, both the loss component and the contractual service margin have been completely amortised in profit or loss.

## **Premium Allocation Approach (PAA)**

### **Scope of application**

We use the PAA for all groups of insurance contracts that meet the requirements for applying the simplified measurement model. This is always the case if the coverage period of such contracts is one year or less – or, if the coverage period is longer, it can be reasonably expected that applying the simplified measurement model will produce a measurement of the LRC for the group that would not differ materially from the measurement that would result from applying the requirements of the GMM. The length of the coverage period is mainly determined by the concept of contract boundaries. We use the PAA for health insurance business.

### **Procedure**

On initial recognition of a group of insurance contracts, we recognise an LRC, equal to the premiums received less acquisition costs paid. For business classified as profitable, neither the present value of the future net cash flows nor the risk adjustment for non-financial risk nor the contractual service margin is explicitly determined and recognised. If the coverage period of the contracts in the group is one year or less, any acquisition costs incurred may be recognised directly as an expense. We use this option for a substantial part of health insurance business.

If we are aware of any indications that contracts should be classified as onerous under the GMM, we compare the insurance liability determined under the PAA with the result of the measurement under the GMM. If the comparison shows that the carrying amount of the LRC (fulfilment cash flows) under the GMM exceeds the carrying amount determined under the PAA, we directly recognise the balance as an expense in the form of a loss component. To this end, we explicitly calculate the present value of the net cash flows and the risk adjustment for non-financial risk to facilitate a comparison with the GMM. Our onerosity testing is geared to identifying onerous contracts as soon as possible and ensures adequate reserving at all times.

For subsequent measurement of a profitable group of insurance contracts, the carrying amount of the LRC is updated as follows. First, the carrying amount is either increased with no impact on profit or loss by adding the further premium payments received or decreased by subtracting directly attributable acquisition costs paid – provided that we do not make use of the option to recognise the acquisition costs as an expense. The LRC is reduced by the amount of insurance revenue earned as insurance contract services are provided. We earn the insurance revenue by spreading the expected total premium for the coverage period within the contract boundaries over the accounting periods in a risk-commensurate manner. Again, for subsequent measurement of profitable groups of insurance contracts, the present value of the net cash flows, the risk adjustment for non-financial risk and the contractual service margin are not explicitly determined, so that the PAA provides for effective simplification. By contrast and consistent with the GMM, we explicitly determine risk-adjusted net outflows for onerous groups of insurance contracts and following the occurrence of an insured event.

Also, for the PAA, a distinction is made between the LRC and the LIC. Likewise, a risk adjustment for non-financial risk needs to be determined for the LIC when using the PAA.

Insurance contracts with direct participation features measured using the **Variable Fee Approach (VFA)**.

## Scope of application

Under an insurance contract, the insurer may not only be liable to pay for a claim after the occurrence of an insured event but may also have to give policyholders a share in the profits.

Contracts with direct participation features are measured using the VFA, subject to certain criteria. Contracts fall within the VFA scope if they provide for policyholder participation in the performance of a reference value for the underlying items. Unit-linked life insurance is another case for application of the VFA.

## Procedure

Because of the special characteristics of insurance contracts with direct participation features, we consider our share of the income from the underlying items to be a variable fee, which we recognise in accordance with the requirements of the VFA. This variable fee comprises our share of the fair value of the underlying items and is our compensation for administering and managing them.

While the initial measurement of participating contracts is the same as under the GMM, special rules apply under IFRS 17 for subsequent measurement. For example, we offset against the contractual service margin any and all effects that have an impact on the fair value of the underlying items and consequently on our variable fee.

The value of the underlying items is based on this profit participation and reflects the present value of both future payments and payments made in current and prior periods. We use the fair values of the net assets backing our liabilities, including the assets backing equity, to measure the fair value of the underlying items.

The fulfilment cash flows for life and health primary insurance business are determined on a market-consistent basis in line with the contractual options and guarantees, applying a risk-neutral measurement where risk-free interest rates only can be generated under the no-arbitrage principle. The actual returns generated from the underlying items are usually higher, and the company's share in any excess return over the risk-neutral measurement is included in the contractual service margin under the VFA. After the contractual service margin has been adjusted, it is recognised in profit or loss based on the expected provision of future services, which are spread proportionally by applying coverage units. For participating contracts, we consider that we provide not only insurance services, but also investment-related services in managing the assets backing our liabilities.

Another difference compared with the GMM relates to the option of recognising the effect of changes in financial inputs on the measurement either in the statement of profit or loss, or in other comprehensive income in equity. This effect is not explicitly captured when using the VFA. Instead, because of the special link to the asset side, the result of the underlying item recognised in profit or loss for the liability side is mirrored in the statement of profit or loss. A positive investment result is offset by corresponding finance expenses from insurance contracts issued. Changes in the fair value of assets that are part of the underlying items and do not have an impact on profit or loss are recognised as insurance finance income or expenses directly in other comprehensive income in equity. This value corresponds to the amounts recognised for the investments in other comprehensive income in equity.

## Presentation in the financial statements

### *Reinsurance contracts held that are assets*

The recognition and measurement of reinsurance contracts held generally follows the requirements for insurance contracts issued.

A group of reinsurance contracts held is recognised from the earlier of the following: the beginning of the coverage period of the group of contracts, or the date when an onerous group of underlying insurance contracts is recognised.

With respect to a group of reinsurance contracts held that provide proportionate coverage, the group is not recognised until the date on which any underlying insurance contract is recognised – if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

We apply the GMM for reinsurance contracts held in life and health business.

The estimates of future cash flows and their discounting are determined at the reporting date on the basis of current assumptions, which are in line with the assumptions we made for measuring the underlying insurance contracts issued. In addition, we adjust the expected cash flows so as to reflect the reinsurer's risk of non-performance. We determine the expected credit risk on the basis of our counterparty's rating. On account of the high credit ratings of our external reinsurance partners, any risk of non-performance does not have a significant impact on the measurement.

We determine the risk adjustment for non-financial risk of reinsurance contracts held as the proportion of the risks that is effectively transferred to the reinsurer, with the net risk capital after retrocession serving here as the basis. We ensure in this context the best possible consistency when determining the risk adjustment for non-financial risk as regards the underlying gross business.

In contrast to insurance contracts issued, the contractual service margin for reinsurance contracts held can be positive or negative. In the case of prospective reinsurance coverage, it is necessary upon purchasing reinsurance to defer both a net gain and a net cost over the coverage period. We offset against the contractual service margin any changes in the fulfilment cash flows, provided that the changes relate to future service. However, if the changes in estimates are attributable to changes that do not adjust the contractual service margin of the group of reinsured insurance contracts, we recognise their impact on the measurement of the reinsurance contract held in profit or loss. In this way, we achieve a consistent presentation of gross business and reinsurance contracts held. Changes in the fulfilment cash flows that result from changes in the reinsurer's non-performance risk do not adjust the net gain or net cost. We instead recognise any such changes in profit or loss. As part of subsequent measurement, the contractual service margin is spread out over the remaining coverage period on the basis of the coverage units.

In the case of retroactive reinsurance contracts held, which provide coverage against adverse development of claims after the occurrence of an insured event, we recognise the net cost of purchasing reinsurance as an expense in profit or loss. Conversely, an expected net gain is spread over the settlement period of the underlying contracts in a contractual service margin on the basis of coverage units.

If a loss is recognised for an onerous group of underlying insurance contracts, we set up a loss-recovery component. In proportion to the anticipated recoveries, we thus match the loss component of the underlying gross business recognised as an expense with a loss-recovery component recognised as income. As a consequence, effective reinsurance coverage is thus offset in the financial statements and only the effects of losses from the underlying gross business that are not covered by reinsurance are recognised in profit or loss in the respective period. Reversals of the loss-recovery component adjust the contractual service margin, provided that the reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held.

The loss-recovery component is calculated by multiplying the recognised loss by the percentage of claims on the underlying insurance contracts that are expected to be recoverable. Upon subsequent measurement, the loss-recovery component is adjusted to reflect the changes in the underlying loss component of the underlying insurance contracts.

*Insurance contracts issued that are assets*

Insurance contracts issued that are recognised as assets under the accounting policies are presented separately from the liabilities at a portfolio level in the statement of financial position.

The recognition and measurement of insurance contracts issued that are assets follows the same procedure as for insurance contracts issued that are liabilities.

*Reinsurance contracts held that are liabilities*

Reinsurance contracts held that are recognised as liabilities due to application of the accounting policies are presented separately from the assets at a portfolio level in the statement of financial position.

The recognition and measurement of reinsurance contracts held that are liabilities follows the same procedure as for reinsurance contracts held that are assets.

*Insurance contracts issued that are liabilities*

In the case of insurance contracts issued that are liabilities, we present the following items separately in the statement of financial position: the Liability for remaining coverage (LRC) and the Liability for incurred claims (LIC).

Liability for remaining coverage (LRC)

The LRC comprises the payment obligations for insured events that have not yet occurred and for other insurance contract services that have not yet been provided. Under the GMM, the LRC is the sum of the present value of the risk-adjusted future cash flows (fulfilment cash flows – consisting of building blocks 1, 2 and 3) – and the contractual service margin (building block 4).

We remeasure the estimated present value of the future cash flows and the risk adjustment for non-financial risk at each reporting date on the basis of updated assumptions. In addition, we recognise the expected profit attributable to the provision of insurance coverage for a group of insurance contracts as a contractual service margin, and thus explicitly as part of the liability for remaining coverage. We adjust the contractual service margin for any changes in fulfilment cash flows relating to future services or establish a loss component and recognise it as an expense as soon as the contractual service margin has been depleted.

Under the PAA, in the case of profitable business the LRC is recognised upon initial measurement in a simplified way as the sum of premiums received less the acquisition cash flows paid, provided that the latter are not recognised directly as an expense. In other words, neither the present value of the future cash flows nor a risk adjustment for non-financial risk nor a contractual service margin is determined. Conversely, in the case of onerous groups of insurance contracts a loss component is recognised in line with the GMM and recognised under this balance sheet item. As part of subsequent measurement, we consider the time value of money and consequently achieve the greatest possible consistency with the application of the GMM. In addition, the liability for remaining coverage is discounted on the basis of historical yield curves as determined on initial recognition.

The LRC for groups of insurance contracts measured under the VFA consists of the sum of the present value of the risk-adjusted future cash flows and the contractual service margin. The determination of both the present value of the future cash flows and the risk adjustment for non-financial risk at initial measurement generally follows the requirements under the GMM. Special rules apply under IFRS 17 for subsequent measurement as per the VFA.

Liability for incurred claims



The LIC comprises the payment obligations for incurred claims that have not yet been settled, and for other insurance contract services already provided. It is measured by applying the first three building blocks of the GMM, i.e. by calculating the present value of the risk-adjusted future cash flows. We start by determining, based on our actuarial estimate, the requisite present value of the cash outflows expected to occur by the time the insured event has been definitively settled. The present value of the cash outflows reflects both the expected payments to the policyholder as well as our claims settlement expenses and administration costs. We add a risk adjustment for non-financial risk to the present value of the cash outflows to account for any remaining uncertainty as to the ultimate amount of claims or their payout dates.

In the context of estimates and in line with the LRC, we consider past experience and assumptions about future developments, including social, economic, or technological factors. By applying our actuarial projection methods, we ensure appropriate reserving for incurred claims at all times, near the upper end of adequate expected values.

We use current discount rates when discounting future cash outflows and use the option to recognise the effect of changes in financial inputs on measurement in other comprehensive income in equity. In this context, the measurement is based on different reference interest rates, depending on the specific measurement model used. Under the GMM, current discount rates are used to determine the fulfilment cash flows. By contrast, under the PAA the discount rates at the date of the incurred claim are used to measure fulfilment cash flows. When applying the PAA, we do not make use of the option to refrain from discounting under certain circumstances.

Changes in the measurement of the LIC arising from updated actuarial estimates or updated costs are recognised in profit or loss.

Particularly for participating life and health primary insurance business, the LIC primarily concerns payments to customers. We do not distinguish in our balance sheet presentation of technical liabilities between unit-linked life insurance contracts and other insurance contracts in the VFA scope.

#### Insurance service result

Insurance revenue is defined so as to facilitate comparisons with revenue in other industries; it also distinguishes between various sources of revenue with respect to the GMM and the VFA. Insurance revenue is the consideration we are expected to receive for the insurance contract services we provide; investment components are excluded from insurance revenue. An investment component is the amount that an insurance contract requires us to repay to the policyholder in all circumstances – regardless of whether an insured event occurs, e.g. either as a claims payment or as a participation in profit. An investment component is not recognised as insurance revenue and also the repayment of this amount is recognised with no impact on profit or loss. Particularly surrender values in primary insurance as well as performance-related or fixed commissions and profit commissions in reinsurance are investment components in our business, provided that we first receive the premium before such repayments are made to the policyholder. Excluding investment components from insurance revenue does not affect the insurance service result, as there are corresponding reductions in the insurance service expenses.

When applying the PAA, we recognise as insurance revenue the amount of expected premium receipts allocated to the period, while excluding any investment components and adjusted to reflect the time value of money. We allocate the expected premium receipts to each period on the basis of the expected pattern of release of risk during the coverage period.

The insurance service expenses comprise claims expenses in particular (without repayment of any investment components). We present administration and acquisition costs separately under “Insurance service expenses” in the consolidated income statement. Acquisition costs are

recognised in insurance service expenses in the same amount as used to determine insurance revenue based on systematic allocation to the appropriate periods of the coverage period. We furthermore present changes in the underlying items separately under Insurance service expenses when applying the VFA.

Within the insurance service result, income or expenses from reinsurance contracts held are presented separately (insurance revenue ceded from reinsurance contracts held and income from reinsurance contracts held) and thus separately from insurance revenue and the insurance service expenses from insurance contracts issued.

**(l) Financial liabilities**

*(i) Financial liabilities from 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. This class covers products that contain insignificant insurance risk. Insurance risk is assumed insignificant if sum insured at policy inception does not exceed 5% of first year premium.

*(ii) 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 transaction (less transaction costs). In subsequent periods, they are measured at their amortised cost using the effective interest rate method.

**(m) 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 statement of profit or loss, net of any reimbursement (if any). 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.

**(n) Vacation pays 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.

### **(o) Taxes**

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

- Insurance Supervisory Commission maintenance fee of 0.221% as from May 2022 from insurance premiums written in Lithuania;
- Social insurance contributions of 1.77% in Lithuania, 24.09% in Latvia and 23.59% 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, up to 0.5% 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 Lithuania was 15% (the same as in the previous year). Activity in the Republic of Latvia and Estonia is not subject to corporate income tax. Instead of taxation on the profit of the current year, the tax is applied only upon profit distribution, i.e. upon payment of dividends.

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. 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.

In Latvia and Estonia, income tax is not levied on companies' profits. A new income tax legislation came in effect in Latvia on 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2023 was 20/80 of the amount distributed as the net dividend (20/80 in 2022). In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2023 was 20/80 of the amount distributed as the net dividend (20/80 in 2022).

The Company has undistributed profit in Latvia, accrued after 1 January 2018, which would be taxed upon distribution. In accordance with paragraph 39 of IAS 12, the Company shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches, and associates except the cases than recognition exception apply. The Company has determined that the recognition exception in paragraph 39 of IAS 12 does apply to it because it is not probable that the temporary difference will reverse in the foreseeable future, i.e. no distribution of undistributed profits in Latvia are planned in the foreseeable future.

**(p) 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.

**(r) Capital management**

As from 1 January 2016, the Company assesses capital adequacy based on Solvency II rules. Solvency II entails rules for calculating capital requirements and qualifying capital, risk management and internal control requirements, regulates the reporting of the risk and capital situation. The objective of capital management is to ensure the sustainability and stability of the Company protecting therewith the interests of policyholders and shareholders. Capital management is based on the management of the assets and liabilities of the Company and risks related thereto and consist of regular assessment of the compliance with the capital requirements established in the Insurance Activities Act. Based Insurance Activities Act, the Company should comply with the following requirements:

- The sum of eligible basic own funds shall not be smaller than the floor of the minimum capital requirement, which is EUR 6.7 million.
- The sum of eligible own funds shall not be smaller than the solvency capital requirement.

The Company has sufficient own funds which consists from ordinary share capital, share premium account related to ordinary share capital, retained earnings and revaluation reserve. According to the Solvency II rules, as at 31 December 2023, the eligible own funds exceed the solvency capital requirement by 2.11 times (2.02 times as at 31 December 2022).

**(s) Offsetting and comparative figures**

When preparing the financial statements, assets, and liabilities, as well as revenue and expenses are not set off, except for the cases when certain International Financial Reporting Standard specifically requires such set-off.

The company is applying IFRS 9, Financial Instruments, and IFRS 17, Insurance Contracts, for the first time with effect from 1 January 2023. In the initial application of IFRS 9, we have made use of the option not to restate comparative information, except when we apply the classification overlay approach permissible under IFRS 17.

For insurance contracts within the scope of IFRS 17, however, the transition date is the beginning of the financial year prior to the date of initial application. The comparative information for insurance items recognised in accordance with IFRS 17 has therefore been restated.

Otherwise, the comparative information was calculated on the same basis as in the 2023 financial year.

In connection with the initial application of the new accounting standards, the structure of the statement of the financial position and statement of profit and loss has been revised and the names of the line items adapted. Comparative figures have been reclassified accordingly.

## **Note 4. New and revised International Financial Reporting Standards and new interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC)**

### **1. Changes in accounting policy and disclosures**

The standards/amendments that are effective and have been endorsed by the European Union.

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS and amendments to IFRS which have been adopted by the Company as of 1 January 2023:

- IFRS 17 insurance contracts,
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments),
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments),
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments),
- IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)

#### **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Company assessed its accounting policies disclosure and adopted the materiality concept.

#### **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had not the significant impact on the financial statements of the Company.

#### **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are

attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments had not the significant impact on the financial statements of the Company.

### **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Since the local tax legislation relating to Pillar Two only came into effect on 1 January 2024, and Munich Re Group made use of the obligatory exception under IAS 12 to the obligation to account for deferred tax assets and liabilities, there were no tax effects from the global minimum tax rate in 2023.

In multiple countries where Munich Re Group does business, statutory regulations relating to Pillar Two have already been implemented. Munich Re Group is subject to the scope of application of this enacted tax legislation and has analysed the possible impacts. Based on that analysis, the effective tax rates in the majority of countries in which the Group does business are over 15%. However, in a number of countries we expect additional tax expenditure that, from the Group's perspective, will probably be immaterial. For Munich Re Group, any material impact on the effective tax rate is unlikely.

## **2. Standards issued but not yet effective and not early adopted**

### **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the

reporting period. Management has assessed the effect of the amendments and considers it insignificant.

### **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. Management has assessed the effect of the amendments and considers it insignificant.

### **3. The standards/amendments that are not yet effective and they have not yet been endorsed by the European Union**

#### **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU. Management has assessed the effect of the amendments and considers it insignificant.

#### **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU. Management has assessed the effect of the amendments and considers it insignificant.

## **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed the effect of the amendments and considers it insignificant.

### **4. Effects from the initial application of IFRS 9 and IFRS 17**

A more detailed explanation of the effects from the initial application of IFRS 9 and IFRS 17 follows below. For a general summary of the accounting policies applied, please refer to the Note 3 Material accounting policies.

#### **Effects from the initial application of IFRS 9**

##### **Retrospective application and comparative information**

We have applied the requirements of IFRS 9 for the classification and measurement of financial instruments retrospectively as of 1 January 2023. Initial application is made in accordance with the transition requirements of IFRS 9.

As a general principle, we use the option not to restate comparative information, but continue to present it in accordance with IAS 39. However, in connection with the initial application of IFRS 17, we make use of the classification overlay approach for certain financial instruments in order to avoid accounting mismatches when transitioning to IFRS 17. This approach allows us to present comparative information for these financial instruments as if the classification and measurement requirements of IFRS 9 had already been applied. When applying the classification overlay approach, we do not make use of the concept for recognising expected credit losses under IFRS 9. Further comments can be found in the section entitled “Effects from the initial application of IFRS 17”.

##### **Classification and measurement of financial instruments**

The classification of financial assets is based on the business model under which the financial assets are managed and on the “solely payments of principal and interest” (SPPI) criteria.

Our financial assets will mainly be measured at fair value through other comprehensive income, particularly bonds, that are managed within the business model “hold to collect and sell” and also pass the SPPI test.

There is the same proportion of financial assets measured at amortised cost (AC) and a higher percentage of financial assets measured at fair value through profit or loss than under IAS 39 measurement. Financial assets measured at fair value through profit or loss include, in particular, bonds and loans that do not pass the SPPI test, equities, investment fund units, and derivatives.

Material reclassifications of financial assets with an impact on subsequent measurement involve in particular the following:

Reclassification from the IAS 39 category of “available for sale” (AFS) to the IFRS 9 classification of “at fair value through profit or loss” (FVPL) involves primarily participations and shares. We do



not exercise the option to designate equity instruments as measured at fair value through other comprehensive income.

IFRS 9 does not provide for any material changes to the classification requirements for financial liabilities.

The following table presents the reconciliation of measurement categories from IAS 39 to IFRS 9 for financial assets and the impact on retained earnings following reclassification and/or remeasurement.

#### Reconciliation of measurement categories from IAS 39 to IFRS 9 – Financial assets

<i>In euros</i>	IAS 39 measurement category	Carrying amount at 31.12.2022	IFRS 9 measurement category	Reclassification	Remeasurement	Carrying amount at 01.01.2023	Effects on retained earnings
<b>Financial investments</b>							
Instruments subject to equity risk	AFS	76,744,826	FVPL	0	0	76,744,826	1,385,963
	AC	21,704,023	AC	0	0	21,704,023	0
Instruments subject to interest-rate and credit risk	AFS	152,127,594	FVOCI	0	0	152,127,594	-125,886
<b>Receivables</b>							
Financial receivables	AC	726,219	AC	0	0	726,219	0
<b>Cash and cash equivalents</b>	AC	5,178,003	AC	0	0	5,178,003	0
<b>Total</b>		<b>256,480,665</b>		<b>0</b>	<b>0</b>	<b>256,480,665</b>	<b>1,260,077</b>

#### Impairment

IFRS 9 specifies the use of an expected credit loss model for the recognition of impairment losses; this requires recognising a loss allowance equal to the amount of expected credit losses when a financial asset is initially recognised. The model is applied to recognise impairment losses on financial assets measured at amortised cost or at fair value through other comprehensive income, as well as on lease receivables.

The following table shows the reconciliation of impairment losses under IAS 39 to loss allowances under IFRS 9.

#### Reconciliation of impairment losses under IAS 39 (31.12.2022) to loss allowances under IFRS 9 (01.01.2023).

<i>In euros</i>	IAS 39 measurement category	IFRS 9 measurement category	Impairment loss 31.12.2022	Reclassification	Remeasurement of loss allowance	Loss allowance at 01.01.2023
<b>Financial investments</b>						
Instruments subject to equity risk	AFS	FVPL	0	0	0	0
	AC	AC	0	0	0	0
Instruments subject to interest-rate and credit risk	AFS	FVOCI	0	0	125,886	125,886
<b>Receivables</b>						
Financial receivables	AC	AC	0	0	0	0
<b>Cash and cash equivalents</b>	AC	AC	0	0	0	0
<b>Total</b>				<b>0</b>	<b>0</b>	<b>125,886</b>

## **Impact on equity**

The initial application of the impairment requirements under the expected credit loss model as at 1 January 2023 resulted in the retained earnings decrease and OCI increase by 125,886 euros.

## **Effects from the initial application of IFRS 17**

### **IFRS 17 insurance contracts**

The standard is effective, for annual periods beginning on or after 1 January 2023. IFRS 17, with the objective to provide an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation, and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features. The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and by a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss based on insurance contract services provided over the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period. Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the statement of profit or loss but are recognised directly on the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, IFRS 17 requires extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or fair value approach. Both provide transitional reliefs. The Company adopted modified retrospective approach.

Finally, in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Company did not adopt such a classification overlay.

### **Measurement at the transition date**

We apply IFRS 17 retrospectively with effect from 1 January 2022 unless this is impracticable. Initial application is made in accordance with the transition requirements of IFRS 17. Depending

on the availability of the information required, we use one of the following three transition approaches for the initial application of IFRS 17 to our in-force business.

The full retrospective approach is generally applied to remeasure insurance contracts to the extent that this was practicable based on the information available as at the transition date. To this end, companies identify and measure groups of contracts as if IFRS 17 had always been applied, without making use of transition simplifications. The information used for the full retrospective approach is primarily based on existing regular processes and internal reporting.

Where it was impracticable to apply the full retrospective approach, i.e. information required for the full retrospective approach was not fully available or could not be made available without undue cost or effort, the modified retrospective approach or the fair value approach could be applied to transition the contracts in force as at 1 January 2022 to the new accounting regime.

The aim of the modified retrospective approach is to achieve the outcome that is as close as possible to the full retrospective approach using reasonable and supportable information. Under the modified retrospective approach, we use the simplifications and modifications specified in the standard only to the extent that the information required for a full retrospective approach is not available without undue cost or effort. In particular, this applies to simplifications used in identifying and classifying groups of insurance contracts, determining the contractual service margin or the loss component, and determining insurance finance income or expenses.

The company applied the modified retrospective approach to all portfolios.

### Impact on equity and the result

In applying IFRS 17 for the first time, at the transition date:

- all groups of insurance contracts are identified, recognised, and measured in accordance with the requirements of IFRS 17;
- balances that would not exist in accordance with the requirements of IFRS 17 are derecognised; and
- the resulting net difference is recognised in equity.

Initial application of IFRS 17 had the following impacts on equity as at 1 January 2022:

<i>In euros</i>	<b>2022</b>
<b>Equity (IFRS 4) at 1 January</b>	<b>71 107 307</b>
<b>Change in equity</b>	
Modified measurement basis	33,853,667
Contractual service margin	-22,196,106
Risk adjustment for non-financial risk	-926,661
Loss component	0
Insurance/reinsurance finance reserve	-18,041,532
<b>Total change in equity</b>	<b>-7,310,632</b>
<b>Equity (IFRS 17) at 1 January</b>	<b>63,796,675</b>

The contractual service margin reflects the unearned profits at initial recognition and is recognised in profit or loss over time as insurance contract services are provided. It should be noted that insurance contracts that are accounted for using the PAA do not include a contractual service margin under IFRS 17.

The risk adjustment for non-financial risk is considered in the measurement of insurance contracts. We base the risk adjustment for non-financial risk on the risk capital requirements of our internal risk model. The risk adjustment for non-financial risk is closely aligned with the

calculation of the non-financial risk in accordance with Solvency II. Solvency II requires the value at risk of basic own funds to be calculated with a confidence level of 99.5% over a one-year period.

The loss component reduces equity and reflects the expected loss from services still to be provided under insurance contracts issued. It is amortised over the coverage period. The loss component reflects the generally consistent continuation of our reserving approach to date regarding the application of assumptions to both future cash flows and the risk adjustment for non-financial risk as well as the use of a granular level of aggregation when identifying groups of insurance contracts. The loss component can balance out over time and contribute to run-off profits.

In addition to the above-mentioned effects on equity as at 1 January 2022, initial application of IFRS 17 had the following impacts on the result for the 2022 financial year:

Initial application of IFRS 17 resulted in a decrease in the result for the 2022 financial year amounting to 1,094,135 euros.

At the end of 2022 Company recognised an additional transition effect of 215,709 euros, which was released from different treatment of expenses under IFRS 4 and IFRS 17. It is presented in the equity under the Other reserves position.

The result under IFRS 17 was affected by the interest-rate levels as at the transition date 1 January 2022 and by the interest-rate developments in 2022. Due to the comparatively very low interest-rate levels as at 1 January 2022, there were minor unwinding-of-discount effects on the insurance portfolio overall. By contrast, losses that occurred in the 2022 financial year were discounted at higher discount rates for the 2022 accident year as a result of the substantial rise in interest rates over the course of 2022.

Insurance revenue is considerably lower than gross premiums written because amounts that are repaid to policyholders under all circumstances, regardless of whether an insured event occurs (investment components), are not recognised as insurance revenue under IFRS 17. This relates in particular to commissions and profit commissions in reinsurance business. The reduction in revenue does not affect the insurance service result, as the insurance service expenses are likewise reduced.

The cumulative amounts contained in other comprehensive income from insurance contracts measured as at the transition date by applying the modified retrospective approach came to 18,041,531 euros. At the end of the financial year, these amounts stood at – 7,890,613 euros (2022: – 13,456,462 euros). The cumulative amounts contained in other comprehensive income from investments measured at fair value that are essentially to be allocated to the insurance contracts mentioned above came to 28,964,871 euros. At the end of the financial year, these amounts stood at – 9,487,917 (2022: – 16,550,230 euros). The cumulative amounts of other comprehensive income relating to financial assets include all changes arising from additions and disposals of financial assets in the financial year and at the end of the previous year.

The transition to IFRS 17 has not affected the economic opportunities and risks of the insurance business for the company as such. Detailed information about this can be found in our 2023 Solvency and Financial Condition Report (SFCR).

### **Presentation in the statement of financial position and statement of profit or loss**

With the introduction of IFRS 17, certain items that have previously been presented separately in our financial statements are omitted, since the resulting cash flows are now recognised as part of the measurement models. This mainly concerns the items deferred acquisition costs and insurance-related receivables and liabilities such as accounts receivable and payable.

## **Note 5. Risk management**

As part of the ERGO Group, ERGO is committed to turning risk into value. Risk management is an integral part of our corporate management with regard to achieving this goal. Risk management includes all strategies, methods, and processes to identify, analyse, assess, control, monitor and report the short and long term risks ERGO faces or may face in the future.

Risk management is performed at all levels of ERGO Group and is organized according to the three “lines of defence”: risk takers (1st line), Risk Management Function, Actuarial Function, Compliance Function (2nd line), and Internal Audit Function (3rd line).

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

- Maintain the financial strength, thereby ensuring that the liabilities to the clients are met;
- Protect and increase the value of the shareholders’ investment;
- Safeguard the reputation of the Company and ERGO Group.

The Company needs to take the right type of risks in appropriate amounts in order to achieve these goals. 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 status and outlook of the business strategy, risk strategy and capital management. The chapters below describe the main risks that the Company has to face due to the 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. From 1 January 2016, Lithuania’s, Latvia’s, and Estonia’s laws related to insurance supervision comply with the EIOPA directives prepared for Solvency II regime.

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 market 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 Products with guaranteed investment return in savings phase. The group of products is sensitive to mortality, lapse, expense, and catastrophe risks. The portfolio is mainly under run-off with very small volumes of new business. Risk capital for this product group remains on approximately the same level with slight decrease over time and more volatility is experienced if there are significant down / up movements of risk-free rate. Proper cost evaluation is considered challenging aspect also due to long term projections which lead to expense estimation for the next 40 years.

Another challenging point to forecast is lapse due to different trends depending on company's strategy. Due to well diversified and coordinated life underwriting process, mortality profit margin is rather high and mortality risk is 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, Company's current experience cannot be considered sufficient in order to have prudent actual longevity estimates.

Expense risk is of minor importance due to rather constant expenses for annuity products. Lapse risk is not relevant as no such option present for products currently in company's portfolio.

Annuities after second pillar accumulation are highly influenced by legal environment. Changes in Estonia's legislation resulted in surrender of 63% of corresponding portfolio in September 2021. Remaining part of this portfolio was transferred to State in January 2022. As soon as the portfolio was transferred immediate annuities were not sensitive to lapse risk anymore; longevity risk decreased as well. It is not allowed to choose private company as second pillar annuity's payer since July 2020 in Lithuania, therefore this portfolio is currently in run-off. Annuities after second pillar accumulation are still distributed in Latvia. Due to the definition of annuity structure and clients' preferences, the latter product underwritten until end of the year 2022 has very small portion of uncertainty, therefore corresponding risk capital is mainly linked with investment return. Legal changes in force starting 1<sup>st</sup> of January 2023 result in increase of risk capital within this product as annuity value needs to be fixed within all contract's period, no pay-out decrease is possible anymore.

3 Unit-linked products. The products are sensitive to mortality, disability-morbidity, lapse, expense, and catastrophe risks. The products have longer duration than other non-annuity

products, therefore main underwriting risks for unit-linked business are expense and lapse. Significance of mortality and disability-morbidity risks is increasing due to increasing share of risk riders within this product.

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 guaranteed investment return, insurance linked to investment units and risk-based insurance without savings part.

#### *Insurance with guaranteed investment return*

The group takes the majority of the Company's life 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 market situation before the year 2022, meeting the requirement of guaranteed investment return became challenging. For this reason, distribution of products with guaranteed investment return in savings phase was terminated before 2021. Although, if investigating new bond emissions, significant improvement in investment returns in the market was present within the year 2022 in comparison with emissions of 2021, it was accompanied by extremely high inflation. The inflation triggers significant decrease of value of money by the passage of time, therefore, understanding potential consecutive reputational risks, renewal of distribution of savings products with guaranteed investment return is not planned. Sensitivity to other main risks differs per types of insurance.

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. Considering current market trends, sensitivity of capital endowment, term fix, deferred annuity products to the decrease in lapse risk is downgrading and being replaced by lapse increase risk. Lapse risk for immediate annuities is not relevant for products currently in the Company's portfolio.

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 to portfolio diversification, concentration risk is reduced.

#### *Insurance linked to investment units*

The group of products is currently the most popular in the market. In the Company's portfolio, this group of products is also increasing and is prevalent in the portfolio of newly underwritten products. This product group is almost not sensitive to market risks, as the investment risk is borne by the policyholder; 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 the Company's assets, i.e. deferred acquisition costs. 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.



<b>As at 31 December 2023 (unaudited)</b> <i>in EUR</i>	<b>Change in assumptions</b>	<b>Increase/(de crease) in gross liabilities</b>	<b>Increase/(decrease) in net liabilities</b>	<b>Increase/(decrease) in profit before tax</b>
Mortality rate	10%	-776,294	-776,294	-11,340
Lapse and surrenders rate	10%	-64,115	-64,115	34,017
Discount rate	1%	-5,587,591	-5,587,591	169,744
Mortality rate	-10%	30,407	30,407	11,680
Lapse and surrenders rate	-10%	66,109	66,109	-34,006
Discount rate	-1%	8,099,465	8,099,465	-171,269

<b>As at 31 December 2022 (unaudited)</b> <i>in EUR</i>	<b>Change in assumptions</b>	<b>Increase/(de crease) in gross liabilities</b>	<b>Increase/(decrease) in net liabilities</b>	<b>Increase/(decrease) in profit before tax</b>
Mortality rate	10%	-33,279	-33,279	-14,335
Lapse and surrenders rate	10%	-92,697	-92,697	46,540
Discount rate	1%	-3,156,988	-3,156,988	950,496
Mortality rate	-10%	35,373	35,373	14,336
Lapse and surrenders rate	-10%	103,281	103,281	-46,536
Discount rate	-1%	5,975,252	5,975,252	-959,045

### **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 realistic parameters will not be in line with the assumptions set, thus making premium rates and tariffs insufficient. 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.

### **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.

### **Concentration risks**

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

<i>In EUR</i>		2023			
Country	Insurance contract assets	Insurance contract liabilities	Reinsurance contract assets	Reinsurance contract liabilities	Net provisions
Estonia	-5,148,255	24,055,796	-218,162	10,728	18,700,107
Latvia	-835,657	70,950,034	-294,280	0	69,820,097
Lithuania	-5,436,173	121,499,353	-276,416	0	115,786,764
<b>Total</b>	<b>-11,420,085</b>	<b>216,505,183</b>	<b>-788,858</b>	<b>10,728</b>	<b>204,306,968</b>

<i>In EUR</i>		2022			
Country	Insurance contract assets	Insurance contract liabilities	Reinsurance contract assets	Reinsurance contract liabilities	Net provisions
Estonia	-8,849,905	29,573,958	-215,397	0	20,508,656
Latvia	-17,762,555	85,673,961	-444,237	0	67,467,169
Lithuania	-12,338,134	126,527,795	-348,353	0	113,841,308
<b>Total</b>	<b>-38,950,594</b>	<b>241,775,714</b>	<b>-1,007,987</b>	<b>0</b>	<b>201,817,133</b>

### **(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, investment decisions consider 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 2023 tactical decisions were made and implemented by GIM – Group Investment Management department of Munich RE. 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 the member of the Board. 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.

The significant market risks are evaluated within the Solvency II Standard Formula. That means that assets and liabilities are revalued for each simulated market scenario, thus showing the probability distribution for changes to basic own funds in accordance with Solvency II.

Additionally, exposure to fluctuations in market value is assessed on an ongoing basis using one internal model. Net Loss Limit (NLL) monitors the probability of achieving a result that surpasses the minimum investment result fixed by the actuaries. 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 2023, the weighted average purchase yield to maturity of fixed-income portfolio was 2.15% (2.15% as at 31 December 2022).

If as at 31 December 2023 the entire yield curve would have increased/decreased by 100 basis points, then fair value reserve would have decreased/increased by EUR 9.7 million (2022: EUR 10.2 million). Reduced impact is related to smaller fixed income portfolio and lower modified duration of the portfolio.

In order to manage interest rate risk Company has adopted cash flow matching principle i.e. liabilities maturing in 10 years are covered with 10 year bond. Therefore changes in fair value reserve and equity do not convey entire economic situation of the company as it describes movements only on asset side but not in liabilities. In order to understand Company’s financial situation one should look at Solvency II balance sheet where both assets and liabilities are marked-to-market.

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

<i>in EUR</i>	<b>2023</b>	<b>2022</b>
	<b>Carrying amount</b>	<b>Carrying amount</b>
<b>Debt instruments at fair value through other comprehensive income</b>		
Interest rate 0.00-2.50%	89,870,533	84,631,460
Interest rate 2.51-3.50%	7,797,592	10,584,013
Interest rate 3.51-4.50%	18,755,633	24,765,790
Interest rate 4.51-5.50%	17,369,601	17,785,417
Interest rate 5.51-6.50%	13,212,730	14,145,455
Interest rate 6.51-7.50%	0	0
Interest rate 7.51-8.50%	0	215,459
<b>Total Debt instruments at fair value through other comprehensive income</b>	<b>147,006,0890</b>	<b>152,127,594</b>
<b>Debt instruments at amortised cost</b>		
Interest rate 2.51-3.50%	21,709,478	21,704,023
<b>Total Debt instruments at amortised cost</b>	<b>21,709,478</b>	<b>21,704,023</b>
<b>Equity and debt instruments at fair value through profit or loss</b>		
No interest	101,689,256	81,922,829
<b>In total</b>	<b>270,404,823</b>	<b>255,754,446</b>

*(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 of equities and funds available for sale (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 2023 the value of investments in equity and fixed income funds had increased/decreased by 10%, the Company's equity would have increased/decreased by EUR 1.2million (2022: EUR 1.6 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

<i>in EUR</i>		
<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
<b>Debt instruments at fair value through other comprehensive income</b>		
Austria	8,091,141	7,922,871
Australia	4,987,949	4,059,076
Belgium	11,537,098	11,136,304
Great Britain Virgin Islands	195,724	188,628
Cayman Islands	297,942	291,649
Canada	4,097,809	3,825,946
Chile	953,786	920,474
Estonia	1,375,490	3,384,797
Finland	2,252,382	2,056,765
France	17,551,635	21,157,974
Germany	15,126,071	14,075,943
Hungary	3,663,994	3,319,213
Indonesia	295,053	290,704
Ireland	6,580,581	6,189,256
Israel	2,270,942	2,313,490
Italy	6,315,247	6,979,560
Kazakhstan	1,353,990	1,271,110
Latvia	3,118,693	3,004,750
Lithuania	3,043,697	3,050,986
Luxembourg	10,001,010	13,188,463
Mexico	498,946	481,451
Netherlands	8,288,353	10,152,746
New Zealand	626,815	0
Norway	1,656,439	1,595,228
Peru	907,015	864,342
Poland	2,400,445	2,223,073
Portugal	3,198,040	3,049,564
Slovakia	1,836,304	1,758,540
Slovenia	3,785,582	3,478,853
Spain	9,045,410	9,035,781
Sweden	2,206,934	1,300,664
Switzerland	547,169	144,046
Great Britain	1,028,747	1,960,999
USA	7,686,683	7,283,819
Japan	182,974	170,529
<b>Total Debt instruments at fair value through other comprehensive income</b>	<b>147,006,089</b>	<b>152,127,594</b>
<b>Equity and debt instruments at fair value through profit or loss</b>		
Ireland	1,378,197	1,215,968
Germany	1,237,920	829,617
Estonia	7,667,305	7,842,236
Finland	128,261	185,769
Luxembourg	7,310,830	5,564,378

## Investments in financial instruments and cash by issuer's domicile (continued)

<i>in EUR</i>		
<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
<b>Total Equity and debt instruments at fair value through profit or loss</b>	<b>17,722,514</b>	<b>15,637,968</b>
Debt instruments at amortised cost Estonia	21,709,478	21,704,023
<b>Total Debt instruments at amortised cost</b>	<b>21,709,478</b>	<b>21,704,023</b>
<b>Unit-linked</b>		
Ireland	14,721,261	10,714,516
Finland	5,481,916	4,028,088
Luxembourg	58,524,949	46,364,254
<b>Total Unit-linked</b>	<b>78,728,126</b>	<b>61,106,858</b>
<b>Cash and cash equivalents</b>		
Estonia	882,186	545,252
Latvia	1,917,111	2,848,640
Lithuania	2,439,319	1,784,111
<b>Total Cash and cash equivalents</b>	<b>5,238,616</b>	<b>5,178,003</b>
<b>Total investments in financial instruments and cash</b>	<b>270,404,823</b>	<b>255,754,446</b>

*(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 10% of asset manager assets.

At the end of reporting period, The Company has insignificant amount of assets and liabilities exposed to currency risk.

**Credit risk**

The credit risk of investments is the risk that the issuer of a security will not honour/fulfil 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 (A in 2022). The Company believes that its credit risk exposure to other financial assets is low due to their small proportion.

IFRS 9 calls for using an expected credit loss model to recognise impairment losses, under which expected credit losses are anticipated before they arise and must be recognised as an expense. A three-stage impairment model is used to recognise and measure impairment losses on financial assets. The key parameters for calculating expected credit losses are the probability of default, the loss given default and the exposure at default.

Probability of default is calculated on the basis of rating model, which takes account of not only historical information, but also current market conditions and the relevant forward-looking information (such as forecast macroeconomic developments). Rating categories are based on those of the leading international rating agencies. For financial assets allocated to Stage 1 of the impairment model, the probabilities of default are always calculated on the basis of the risk of

default for the next 12 months. If the instrument's remaining maturity is less than one year, the probability is determined for this maturity.

Probabilities of default for maturities of more than one year used to determine lifetime expected credit losses at Stage 2 are determined by extrapolating migration matrices of default probabilities for the next 12 months. Financial assets allocated to Stage 3 of the impairment model are always analysed on a case-by-case basis.

The loss given default and the exposure at default are likewise factored into calculations of expected credit losses. In this context, the loss given default is derived from the recovery and default studies published by rating agencies. The exposure at default corresponds to the gross carrying amount as at the reporting date.

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. A rating of a parent company is presented for cash and cash equivalents.

<i>in EUR</i>	2023	Standard& Poor's Moody's	AAA Aaa	AA Aa	A A	BBB Baa	Not rated Not rated	Amount
Debt instruments at fair value through other comprehensive income			36,156,991	46,547,048	32,336,407	31,965,643	0	147,006,089
<i>Proportion of Debt instruments at fair value through other comprehensive income</i>			24.6%	31.7%	22.0%	21.7%	0%	100.0%
Debt instruments at amortised cost			0	0	0	0	21,709,478	21,709,478
Cash and cash equivalents <sup>1</sup>			0	1,553,265	3,653,830	19,379	12,141	5,238,615
<i>Proportion of cash and cash equivalents</i>			0%	29.7%	69.7%	0.4%	0.2%	100.0%

<i>in EUR</i>	2022	Standard& Poor's Moody's	AAA Aaa	AA Aa	A A	BBB Baa	Not rated Not rated	Amount
Debt instruments at fair value through other comprehensive income			38,680,855	45,437,595	28,527,095	39,482,049	3,812,882	155,940,476
<i>Proportion of Debt instruments at fair value through other comprehensive income</i>			24.8%	29.1%	18.3%	25.3%	2.4%	100.0%
Equity and debt instruments at fair value through profit or loss			0	0	0	0	72,931,944	72,931,944
Debt instruments at amortised cost			0	0	0	0	21,704,023	21,704,023
Cash and cash equivalents <sup>1</sup>			0	3,525,529	1,100,536	548,619	3,319	5,178,003
<i>Proportion of cash and cash equivalents</i>			0%	68.1%	21.3%	10.6%	0.1%	100.0%

<sup>1</sup>Baltic banks do not have their independent credit ratings therefore the credit ratings of their parent (groups) have been used.

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.

<b>As at 31 December 2023</b>					
<i>in EUR</i>	Not due	Less than 30 days past due	Overdue 30–60 days	Overdue 60–180 days	In total
Receivables from policyholders	10,241,393	958,096	437,465	279,461	11,916,415
Receivables from intermediaries	4,178	53	311	0	4,542
Receivables from reinsurers	63,684	100,381	0	206,574	370,639
Other receivables	5,250,512	5,022,192	27,299	169,705	10,469,708
<b>In total</b>	<b>15,559,767</b>	<b>6,080,722</b>	<b>465,075</b>	<b>655,740</b>	<b>22,761,304</b>

<b>As at 31 December 2022</b>					
<i>in EUR</i>	<b>Not due</b>	<b>Less than 30 days past due</b>	<b>Overdue 30–60 days</b>	<b>Overdue 60–180 days</b>	<b>In total</b>
Receivables from policyholders	8,895,195	786,662	257,191	526,298	<b>10,465,346</b>
Receivables from intermediaries	2,563	43	0	0	<b>2,606</b>
Receivables from reinsurers	4,430	0	0	0	<b>4,430</b>
Other receivables	893,811	107,283	27,200	171,305	<b>1,199,599</b>
<b>In total</b>	<b>9,795,999</b>	<b>893,988</b>	<b>284,391</b>	<b>697,603</b>	<b>11,671,981</b>

In its insurance activities, the Company's main credit risk is payment default by a policyholder. The Company's credit risk arises principally from its insurance 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 180 days overdue are written down. Impairment of receivables from policyholders is presented in Note 15.

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 270.4 million (2022: EUR 255.8 million), including available-for-sale securities of EUR 147.0 million (2022: EUR 152.1 million), equities and fund units of EUR 96.5 million (2022: EUR 76.7 million), loans of EUR 21.7 million (2022: EUR 21.7 million), and cash and cash equivalents of EUR 5.24 million (2022: EUR 5.18 million).

Investments in financial instruments and cash (by maturity):

<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
<i>in EUR</i>		
<b>Total contractual cash flows</b>	<b>270,404,823</b>	<b>255,754,446</b>
No maturity	101,689,250	81,922,829
Up to one year	5,580,853	10,202,284
2–3 years	24,307,775	17,592,306
4–5 years	31,944,782	28,324,034
6–10 years	65,087,002	72,950,973
11–15 years	21,243,725	23,670,929
16 years and more	20,551,430	21,091,091



At the year-end, the weighted average duration of fixed income portfolio was 6,7 years (2022: 6,8 years). There were no non-cash movements in the portfolio.

Financial liabilities (based on maturities):

<b>As at 31 December 2023</b> <i>in EUR</i>	<b>Up to 2 year</b>	<b>Between 2 and 5 years</b>	<b>Between 6 and 10 years</b>	<b>More than 10 years</b>	<b>In total</b>
Insurance contract provisions	28,676,344	36,665,627	45,012,362	130,494,313	<b>240,848,646</b>
Reinsurance contracts held	10,728	0	0	0	<b>10,728</b>
Financial liabilities from investment contracts	4,240,341	4,719,609	3,763,119	3,387,929	<b>16,110,998</b>
Lease-related liabilities	770,176	445,016	228,039	0	<b>1,443,231</b>
Insurance payables	0	0	0	0	<b>0</b>
Other payables and accrued expenses	7,349,064	0	0	0	<b>7,349,064</b>
<b>In total</b>	<b>41,046,653</b>	<b>41,830,252</b>	<b>49,003,520</b>	<b>133,882,242</b>	<b>265,762,667</b>

<b>As at 31 December 2022</b> <i>in EUR</i>	<b>Up to 2 year</b>	<b>Between 2 and 5 years</b>	<b>Between 6 and 10 years</b>	<b>More than 10 years</b>	<b>In total</b>
Insurance contract provisions	25,434,923	42,196,845	53,532,997	135,171,039	<b>256,335,804</b>
Reinsurance payables	0	0	0	0	<b>0</b>
Financial liabilities from investment contracts	2,820,018	2,436,872	2,971,067	5,017,282	<b>13,245,239</b>
Lease-related liabilities	754,568	378,413	285,817	0	<b>1,418,798</b>
Insurance payables	4,213,106	0	0	0	<b>4,213,106</b>
Other payables and accrued expenses	6,111,524	0	0	0	<b>6,111,524</b>
<b>In total</b>	<b>39,334,139</b>	<b>45,012,130</b>	<b>56,789,881</b>	<b>140,188,321</b>	<b>281,324,471</b>

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 risks

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

The main strategic risks stem from quality of IT landscape and changing regulatory expectations that could jeopardize achievement of strategic results. Economic turmoil and geopolitical tensions also increase uncertainty and complexity of environment the company operates in. The revised strategy of ERGO continues to address the risk environment adequately. The main strategic risks stem from changes of monetary policies worldwide and scarce implementation of the large strategic projects that could jeopardize achievement of strategic results. The new topic recognized as a strategic risk is associated with general energy supply risk.

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

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

### **Operational risk**

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

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

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

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

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

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

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

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

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

## Reputational risk

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

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

ERGO has identified two subcategories of reputational risk:

- data and information;
- communication risk.

Reputational risk related to the unauthorised disclosure of confidential information stays continuously high. Reputational risks are identified by three methods:

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

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

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

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

## Note 6. Insurance revenue

The table below presents an analysis of the total insurance revenue recognised in the period:

<i>in EUR</i>		2023	2022
Expected insurance service expenses incurred in the period	a	15,135,614	16,161,886
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	b	2,524,069	1,279,045
Change in the risk adjustment for non-financial risk	c	136,293	134,292
Amount of CSM recognised in profit or loss	d	6,826,867	4,207,391
Realisation of premiums attributable to current period (PAA)	e	40,408,852	36,141,899
<b>Insurance revenue</b>		<b>65,031,695</b>	<b>57,924,513</b>

- Expected insurance service expenses incurred in the period comprise claims and other expenses which the Company expects to pay on insured events that occurred during the period.
- Acquisition cash flows are allocated in a systematic way on the basis of the passage of time over the coverage period of the group of contracts.
- Change in risk adjustment shows amount of risk which expired during the period.
- The CSM is recognised in profit or loss over the coverage period of the corresponding group of contracts based on coverage units.
- Insurance revenue from insurance contracts measured using the premium allocation approach.

## Note 7. Insurance service expense

The table below shows the insurance service expenses

<i>in EUR</i>		2023	2022
<b>Insurance service expenses from insurance contracts issued</b>		<b>52,054,641</b>	<b>51,557,572</b>
Claims expenses	a	31,389,773	37,204,533
Changes that relate to past service - adjustments to the LIC	b	-963,335	2,087,261
Administration and acquisition costs	c	13,569,412	10,626,060
Changes from underlying items	d	8,154,153	1,283,160
Other insurance service expenses	e	-95,362	356,558

- Incurred claims and benefits excluding investment components.
- Any LIC remeasurements relating to insurance and other non-financial risk with respect to claims incurred in prior periods (such as changes in expense level assumptions).
- Administration and acquisition costs are presented separately. Acquisition costs are recognised in insurance service expenses in the same amount as used to determine insurance revenue based on systematic allocation to the appropriate periods of the coverage period.
- Some changes in fulfilment cash flows, risk adjustment, estimates of the present value of future cash flows and loss component are closely tied to changes in underlying items. These changes are recognized as insurance service expenses because they reflect the costs incurred in providing services in the period, including incurred claims.
- Changes that relate to future service (i.e. losses/reversals on onerous groups of contracts from changes in the loss components) and other changes have not mentioned above.

## Note 8. Net expense from reinsurance contracts held

The table below shows an analysis of the net expenses from reinsurance contracts held recognised in the reporting period:

<i>in EUR</i>	Note	2023	2022
<b>Allocation of reinsurance premiums</b>		<b>925,399</b>	<b>697,472</b>
Expected recovery for insurance service expenses incurred in the period	a	378,226	311,146
Net cost/gain recognised in profit or loss	b	547,173	386,326
<b>Amounts recoverable from reinsurers for incurred claims</b>		<b>286,259</b>	<b>250,833</b>
Amounts recoverable for claims and other expenses incurred in the period		312,332	74,391
Changes in amounts recoverable arising from changes in liability for incurred claims		-26,073	176,442
<b>Net expense from reinsurance contracts held</b>		<b>639,140</b>	<b>446,639</b>

- a. Expected recovery for insurance service expenses incurred in the period comprise recovery for claims and other expenses which the Company expects to receive from reinsurers on insured events occurred during the period.
- b. Net cost/gain recognised in profit or loss during the coverage period of the corresponding group of reinsurance contracts held based on coverage units.

## Note 9. Total Investment income and net insurance finance result

<i>in EUR</i>	2023	2022
<b>Amounts recognised in the profit loss</b>		
Interest revenue calculated using the effective interest method	3,273,448	3,654,351
Other interest and similar income	1,698,991	2,028,147
Net fair value gains/(losses) on financial assets at fair value through profit or loss Unit link	7,536,035	-5,271,145
Net fair value gains/(losses) on financial assets at fair value through profit or loss	414,567	-614,062
Net fair value gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-51,709	-44,528
Impairment loss on financial assets	15,331	0
Investments management expenses	-278,664	-391,111
Net foreign exchange expenses income	-19,988	29,631
<b>Total amounts recognised in the profit or loss</b>	<b>12,588,011</b>	<b>-608,717</b>
<b>Amounts recognised in OCI</b>	<b>7,062,313</b>	<b>-44,255,024</b>
<b>Total investment income</b>	<b>19,650,324</b>	<b>-44,863,741</b>
<b>Insurance finance income/ (expenses) from insurance contracts</b>		
Interest accreted to insurance contracts	-10,891,089	-1,359,213
<b>Amounts recognised in profit or loss</b>	<b>-10,891,089</b>	<b>-1,359,213</b>
<b>Amounts recognised in OCI</b>	<b>-5,565,850</b>	<b>31,497,995</b>
<b>Total Insurance finance income/ (expenses) from insurance contracts issued</b>	<b>-16,456,939</b>	<b>30,138,782</b>
<b>Reinsurance finance income/ (expenses) from insurance contracts issued</b>		
Interest accreted to reinsurance contracts	114,220	516,690
<b>Amounts recognised in profit or loss</b>	<b>114,220</b>	<b>516,690</b>
<b>Amounts recognised in OCI</b>	<b>0</b>	<b>0</b>
<b>Total Reinsurance finance income/ (expenses) from insurance contracts issued</b>	<b>114,220</b>	<b>516,690</b>
<b>Total net investment income, insurance finance expenses and reinsurance finance income</b>	<b>3,307,605</b>	<b>-14,208,269</b>
Represented by:		
Amounts recognised in profit or loss	1,811,142	-1,451,240
Amounts recognised in OCI	1,496,463	-12,757,029

Reinsurance finance income or expenses is defined as the change in the effect of the time value of money arising from the passage of time and the effect of changes in financial assumptions on the carrying amounts of reinsurance contracts recognised in the statement of profit or loss.

## Note 10. Other income and expenses

<i>in EUR</i>	2023	2022
<b>Other income</b>		
Gain on disposal of property and equipment	377	21,607
Fees, commissions, and charges received	1,018	1,063
Rental income	47,923	63,220
Miscellaneous income <sup>1</sup>	310,808	277,443
<b>Total result from other income</b>	<b>360,126</b>	<b>363,333</b>
<b>Expenses</b>		
Membership fees to Financial Supervision Authority and professional associations	205,863	195,393
Audit and non-audit services and legal permits <sup>3</sup>	313,487	72,663
Business licenses and permits	170,698	152,378
Write down of other intangible assets	0	21,439
Finance lease interest payments	37,010	10,165
State fees, stamp duties and late payment interest	2,398	4,163
Other expenses non-attributable to the insurance portfolio <sup>2</sup>	1,428,138	313,914
<b>Total result from expenses</b>	<b>2,157,594</b>	<b>770,115</b>
<b>Total result from other income and expenses</b>	<b>1,797,468</b>	<b>406,782</b>

<sup>1</sup> Miscellaneous income contains various services rendered and other non-regular income

<sup>2</sup> Other expenses non-attributable to the insurance portfolio contains other personal expenses, training expenses, not related to certain product marketing expenses, product development expenses, etc

<sup>3</sup> Within this amount in 2023 audit services amounted to 206,539 euros and non-audit services (assistant with translation of financial statements) – 3,200 euros (respectively in 2022 – 69,663 euros and 3,000 euros)

The increase of expenses non-attributable to the insurance portfolio in 2023 is not related to any changes in the methodology, but with the organic growth in the categories mentioned above.

## Note 11. Cash and cash equivalents

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

As of 31.12.2023 the bank accounts of ERGO Life Insurance SE amounted to 5,238,616 euros (31.12.2022: 5,178,003 euros), of which 5,190,067 euros were in euros (31.12.2022: 5,077,285 euros) and 48,549 euros in dollars (2022: 100,718 euros).

## Note 12. Investments in financial instruments

<i>in EUR</i>		2023	2022
<b>As at 31 December 2023</b>	<b>Note</b>		
Equity and debt instruments at fair value through profit or loss	14.1	96,450,640	76,744,827
Debt instruments at fair value through other comprehensive income	14.2	147,006,089	152,127,593
<b>Total</b>		<b>243,456,729</b>	<b>228,872,420</b>
<b>Debt instruments at amortised cost</b>			
Debt instruments at amortised cost	14.3	21,709,478	21,704,023
<b>Total Debt instruments at amortised cost</b>		<b>21,709,478</b>	<b>21,704,023</b>
<b>In total</b>		<b>265,166,207</b>	<b>250,576,445</b>

## 12.1. Equity and debt instruments at fair value through profit or loss

<i>in EUR</i>	As at 31 December 2023		As at 31 December 2022	
	Cost	Fair value	Cost	Fair value
Units in listed equity funds	2,250,688	2,503,792	2,384,363	2,407,364
Units in listed debt funds	1,522,215	1,441,407	1,689,500	1,573,243
Units in unlisted equity and debt funds	3,252	3,601	2,275	2,244
Infrastructure debt funds	6,515,569	6,106,410	4,635,523	3,812,882
Real estate funds	6,544,521	7,667,305	6,325,147	7,842,237
Unit-linked	71,589,907	78,728,125	62,206,892	61,106,856
<b>In total</b>	<b>88,426,152</b>	<b>96,450,640</b>	<b>77,243,700</b>	<b>76,744,826</b>

Fund units have been classified as equity and debt instruments at fair value through profit or loss. Unrealised gains and losses on fund units are recognised in profit and loss statement.

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.

## 12.2. Debt instruments at fair value through other comprehensive income

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

<i>in EUR</i>	As at 31 December 2023		As at 31 December 2022	
	Cost	Fair value	Cost	Fair value
<b>Debt instruments at fair value through other comprehensive income</b>				
Government bonds	116,419,124	109,645,197	124,588,182	112,712,953
Financial institutions' bonds	18,972,751	17,859,787	17,954,979	16,060,126
Other debt securities	21,102,064	19,501,105	26,247,880	23,354,515
<b>In total</b>	<b>156,493,939</b>	<b>147,006,089</b>	<b>168,791,041</b>	<b>152,127,594</b>

Fair values of debt instruments at fair value through other comprehensive income and their dynamics during the period:

<i>in EUR</i>	2023	2022
<b>As at 1 January</b>	<b>152,127,594</b>	<b>203,739,113</b>
Purchased debt securities	4,543,782	19,052,370
Disposed debt securities	-5,454,306	-16,324,834
Received on maturity date debt securities	-10,134,134	-9,684,010
Amortisation of debt securities	-426,345	-821,926
Change in revaluation reserve	6,967,746	-43,369,080
Net realised gains	-1,179,417	861,128
Net realised loss	720,963	-982,485
Change in interest accrued	-159,794	-342,682
<b>As at 31 December -</b>	<b>147,006,089</b>	<b>152,127,594</b>

Debt instruments comprise government bonds, debt securities issued by financial institutions and companies and other debt securities.



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 2023 and 2022, the portfolio did not include any debt securities measured at cost or using valuation models.

Cash movements related to debt securities are presented in the separate statement of cash flows. Non-cash movements such as changes in the fair value reserve are presented in the table above.

### 12.3. Debt instruments at amortised cost

Debt instruments at amortised cost by maturity

<i>in EUR</i>		
<b>As at 31 December</b>	<b>2023</b>	<b>2022</b>
3–4 years	6,011,246	6,010,870
4 years and more	15,698,233	15,693,153
<b>In total</b>	<b>21,709,478</b>	<b>21,704,023</b>

As of 31 December 2023, the following loans were issued: EUR 21,709,478 (31 December 2022: EUR 21,704,023) to ERGO Insurance SE, of which EUR 209,478 were accrued interest. The first loan of EUR 6,000,000 was granted in 2016, matures on 22 December 2026. The second loan of EUR 6,000,000 was granted in 2021 at 1.29% fixed interest per year for the period 2021–2026 and variable interest of 1.42%+12-month Euribor from the period 2026–2031. The loan matures on 30 December 2031. The third loan of EUR 9,500,000 was granted on 27 June 2022 at 3.85% fixed interest per year for the period 2022–2027 and variable interest of 1.98%+12-month Euribor for the period 2027–2032. The loan matures on 22 June 2032.

### Note 13. Investments in subsidiaries

Investment in subsidiary: 100% 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.

The Company has assessed the impairment of investment into a subsidiary and having regard to the fact that the Company's equity is higher than the carrying amount of investment in the subsidiary as well as the subsidiary was profitable have concluded that no impairment indications exist.

<i>in EUR</i>	
<b>Carrying amount of investment in subsidiary</b>	
<b>As at 31 December 2021</b>	<b>4,677,870</b>
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
<b>As at 31 December 2022</b>	<b>4,677,870</b>
Assets acquired	0
Disposed assets -	0
Written off assets -	0
Reclassified assets +/-	0
<b>As at 31 December 2023</b>	<b>4,677,870</b>

The main financial information (unaudited) of ERGO Invest SIA as at 31 December 2023 was the following (EUR):

Assets	Liabilities	Equity	Revenue	Result of the year
5,174,434	113,495	5,060,939	875,352	153,149

## Note 14. Insurance and reinsurance contracts

According to IFRS 17.95, an entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics. Company presents information aggregated to insurance contracts issued and reinsurance contracts held.

### 14.1. Insurance contracts issued and reinsurance contracts held

The variable fee approach applied to majority of insurance contract issued portfolios – conventional life insurance, term-life insurance, unit-linked insurance. The profit allocation approach applied to health insurance. The general measurement model applied to reinsurance contracts held.

#### 14.1.1. Roll-forward of net asset or liability for life insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

##### 14.1.1.1. Insurance contracts issued

The tables below show the changes in carrying amounts of the insurance contracts issued broken down by liability component. The reconciliation tables therefore show the changes between the opening and closing balances for the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage is split into the liability for remaining coverage excluding the loss component and the loss component. Changes in the liability components arise from the insurance service result, investment components, insurance finance income or expenses, other value changes, changes recognised in other comprehensive income, and changes in cash inflows or outflows.

The liability for remaining coverage (LRC) as of 31 December 2023 was 196 million euro (net of Insurance contract assets). Out of this amount 192 million euro has been measured under the variable fee approach (VFA, the measurement model for contracts with direct participation features) and 4 million euro under the premium allocation approach (PAA, the simplified measurement model). Respectively for remaining coverage (LRC) as of 31 December 2022 was 192 million euro (net of Insurance contract assets). Out of this amount 185 million euro has been measured under the variable fee approach (VFA, the measurement model for contracts with direct participation features) and 7 million euro under the premium allocation approach (PAA, the simplified measurement model).

Insurance contracts (gross) - Movement in liabilities	2023			
	Liability for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
Opening balance - insurance portfolios in asset position	-38,524,477	240,883	-667,001	-38,950,595
Opening balance - insurance portfolios in liability position	230,600,213	3,301	11,172,199	241,775,713
<b>Opening balance</b>	<b>192,075,736</b>	<b>244,184</b>	<b>10,505,198</b>	<b>202,825,118</b>
<b>Insurance service result</b>	<b>-48 780 250</b>	<b>-232 050</b>	<b>36 035 247</b>	<b>-12 977 053</b>
Insurance revenue	-65 031 694	0	0	-65 031 694
Expected incurred claims and other expenses for the period	-15 135 614	0	0	-15 135 614
Expected release of risk adjustment for the period	-136 293	0	0	-136 293
Contractual Service Margin for the service provided in the period	-6 826 867	0	0	-6 826 867
Recovery of insurance acquisition cash flows	-2 524 069	0	0	-2 524 069
Insurance revenue for short term contracts	-40 408 852	0	0	-40 408 852
Insurance service expenses	16 251 444	-232 050	36 035 247	52 054 641
Incurred claims and other incurred service expenses	0	0	36 998 573	36 998 573
Changes that relate to past service	0	0	-963 327	-963 327
Changes that relate to future service	0	-232 050	0	-232 050
Changes in estimates that do not adjust the CSM	0	-233 116	0	-233 116
Reversal of losses	0	1 067	0	1 067
Changes through underlying items that relate to future services	8 154 153	0	0	8 154 153
Amortisation of insurance acquisition cash flows	8 097 292	0	0	8 097 292
<b>Investment components</b>	<b>-28 816 860</b>	<b>0</b>	<b>28 816 860</b>	<b>0</b>
<b>Insurance finance income or expenses</b>	<b>10 876 609</b>	<b>0</b>	<b>14 481</b>	<b>10 891 090</b>
Accretion of interest	235 516	0	14 247	249 763
Interest expense/income	0	0	234	234
Changes caused by changes in the fair value of underlying items	10 641 093	0	0	10 641 093
<b>Other effects</b>	<b>-552</b>	<b>0</b>	<b>0</b>	<b>-552</b>
Effects from currency exchange rate differences	-552	0	0	-552
<b>Changes recognised in OCI</b>	<b>5 565 849</b>	<b>0</b>	<b>0</b>	<b>5 565 849</b>
Changes caused by changes in the fair value of underlying items	5 565 849	0	0	5 565 849
<b>Cash flows</b>	<b>64 872 643</b>	<b>0</b>	<b>-66 091 997</b>	<b>-1 219 354</b>
Premiums received	80 499 446	0	0	80 499 446
Insurance acquisition cash flows paid	-15 626 804	0	0	-15 626 804
Claims and other insurance service expenses paid	0	0	-66 091 997	-66 091 997
<b>Closing balance</b>	<b>195,793,175</b>	<b>12,134</b>	<b>9,279,789</b>	<b>205,085,098</b>
Closing balance - insurance portfolios in asset position	-9,150,723	12,134	-2,281,496	-11,420,085
Closing balance - insurance portfolios in liability position	204,943,898	0	11,561,285	216,505,183

Insurance contracts (gross) - Movement in liabilities	2022			
	Liability for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
Opening balance - insurance portfolios in asset position	-22,671,993	0	2,512,026	-20,159,967
Opening balance - insurance portfolios in liability position	258,930,128	0	5,590,501	264,520,629
<b>Opening balance</b>	<b>236,258,135</b>	<b>0</b>	<b>8,102,527</b>	<b>244,360,662</b>
<b>Insurance service result</b>	<b>-51 130 972</b>	<b>244 184</b>	<b>44 519 847</b>	<b>-6 366 941</b>
Insurance revenue	-57 924 513	0	0	-57 924 513
Expected incurred claims and other expenses for the period	-16 161 886	0	0	-16 161 886
Expected release of risk adjustment for the period	-134 292	0	0	-134 292
Contractual Service Margin for the service provided in the period	-4 207 391	0	0	-4 207 391
Recovery of insurance acquisition cash flows	-1 279 045	0	0	-1 279 045
Insurance revenue for short term contracts	-36 141 899	0	0	-36 141 899
Insurance service expenses	6 793 541	244 184	44 519 847	51 557 572
Incurred claims and other incurred service expenses	0	0	42 431 877	42 431 877
Changes that relate to past service	0	0	2 087 970	2 087 970
Changes that relate to future service	0	244 184	0	244 184
Losses at initial recognition	0	92 774	0	92 774
Changes in estimates that do not adjust the CSM	0	151 548	0	151 548
Reversal of losses	0	-139	0	-139
Changes through underlying items that relate to future services	1 283 160	0	0	1 283 160
Amortisation of insurance acquisition cash flows	5 510 381	0	0	5 510 381
<b>Investment components</b>	<b>-32 346 453</b>	<b>0</b>	<b>32 346 453</b>	<b>0</b>
<b>Insurance finance income or expenses</b>	<b>1 362 381</b>	<b>0</b>	<b>-3 170</b>	<b>1 359 211</b>
Accretion of interest	-50 304	0	-2 935	-53 239
Interest expense/income	0	0	-235	-235
Changes caused by changes in the fair value of underlying items	1,412,685	0	0	1,412,685
<b>Changes recognised in OCI</b>	<b>-31 497 993</b>	<b>0</b>	<b>0</b>	<b>-31 497 993</b>
Changes caused by changes in the fair value of underlying items	-31 497 993	0	0	-31 497 993
<b>Cash flows</b>	<b>69 430 638</b>	<b>0</b>	<b>-74 460 459</b>	<b>-5 029 821</b>
Premiums received	82 320 042	0	0	82 320 042
Insurance acquisition cash flows paid	-12 889 405	0	0	-12 889 405
Claims and other insurance service expenses paid	0	0	-74 460 459	-74 460 459
<b>Closing balance</b>	<b>192,075,736</b>	<b>244,184</b>	<b>10,505,198</b>	<b>202,825,118</b>
Closing balance - insurance portfolios in asset position	-38,524,477	240,883	-667,001	-38,950,595
Closing balance - insurance portfolios in liability position	230,600,213	3,301	11,172,199	241,775,713

### 14.1.1.2. Reinsurance contracts held

The following table present the changes during the fiscal year, broken down by asset components, for reinsurance contracts held that are measured using the general measurement model and the premium allocation approach. The reconciliation tables thus show the changes from opening to closing balances for the assets for remaining coverage and the assets for the recovery of incurred claims. The assets for remaining coverage are broken down further into assets with and without a loss-recovery component. Changes in the asset components arise from the insurance service result, investment components, insurance finance income or expenses, other value changes, changes recognised in other comprehensive income, and changes in cash inflows and outflows.

Reinsurance contracts held - Movement in liabilities / assets	2023			Total
	Expected recovery (remaining coverage)		Expected recovery for incurred claims	
	Excluding loss-recovery component	Loss-recovery component		
Opening balance - insurance portfolios in asset position	594,326	0	413,662	1,007,988
Opening balance - insurance portfolios in liability position	0	0	0	0
<b>Opening balance</b>	<b>594,326</b>	<b>0</b>	<b>413,662</b>	<b>1,007,988</b>
<b>Reinsurance service result</b>	<b>-925,399</b>	<b>0</b>	<b>286,259</b>	<b>-639,140</b>
Reinsurance expense	-925,399	0	0	-925,399
Expected incurred claims and other expenses for the period	-373,102	0	0	-373,102
Expected release of risk adjustment for the period	-5,124	0	0	-5,124
Net cost/gain for the service received in the period	-547,173	0	0	-547,173
Reinsurance service income	0	0	286,259	286,259
Recoveries of incurred claims and other insurance service expenses	0	0	312,332	312,332
Changes that relate to past service	0	0	-26,073	-26,073
<b>Insurance finance income or expenses</b>	<b>114,091</b>	<b>0</b>	<b>129</b>	<b>114,220</b>
Accretion of interest	-1,311	0	-146	-1,457
Interest expense/income	115,402	0	276	115,678
<b>Cash flows</b>	<b>607,394</b>	<b>0</b>	<b>-312,332</b>	<b>295,062</b>
Premiums paid	607,394	0	0	607,394
Claims and other insurance service expenses reimbursed	0	0	-312,332	-312,332
<b>Closing balance</b>	<b>390,412</b>	<b>0</b>	<b>387,718</b>	<b>778,130</b>
Closing balance - insurance portfolios in asset position	575,603	0	213,256	788,859
Closing balance - insurance portfolios in liability position	-185,191	0	174,462	-10,729

Reinsurance contracts held - Movement in liabilities / assets	2022			
	Expected recovery (remaining coverage)		Expected recovery for incurred claims	Total
	Excluding loss-recovery component	Loss-recovery component		
Opening balance - insurance portfolios in asset position	-3,161	0	71,312	68,151
Opening balance - insurance portfolios in liability position	-94,063	0	88,957	-5,106
<b>Opening balance</b>	<b>-97,224</b>	<b>0</b>	<b>160,269</b>	<b>63,045</b>
<b>Reinsurance service result</b>	<b>-697,472</b>	<b>0</b>	<b>250,833</b>	<b>-446,639</b>
Reinsurance expense	-697,472	0	0	-697,472
Expected incurred claims and other expenses for the period	-306,418	0	0	-306,418
Expected release of risk adjustment for the period	-4,727	0	0	-4,727
Net cost/gain for the service received in the period	-386,327	0	0	-386,327
Reinsurance service income	0	0	250,833	250,833
Recoveries of incurred claims and other insurance service expenses	0	0	74,391	74,391
Changes that relate to past service	0	0	176,442	176,442
<b>Insurance finance income or expenses</b>	<b>518,054</b>	<b>0</b>	<b>-1,364</b>	<b>516,690</b>
Accretion of interest	-722	0	0	-722
Interest expense/income	518,775	0	-1,364	517,411
<b>Cash flows</b>	<b>870,968</b>	<b>0</b>	<b>3,924</b>	<b>874,892</b>
Premiums paid	870,968	0	0	870,968
Claims and other insurance service expenses reimbursed	0	0	3,924	3,924
<b>Closing balance</b>	<b>594,326</b>	<b>0</b>	<b>413,662</b>	<b>1,007,988</b>
Closing balance - insurance portfolios in asset position	594,326	0	413,662	1,007,988
Closing balance - insurance portfolios in liability position	0	0	0	0

## **14.1.2. Roll-forward of the net asset or liability for insurance contracts issued and reinsurance contracts held showing estimates of the present value of future cash flows, risk adjustment and CSM**

### **14.1.2.1. Insurance contracts issued**

The tables below show how the measurement components that make up the liability for remaining coverage and the liability for incurred claims changed during the fiscal year. The reconciliations show the changes from the opening to the closing balances for the measurement components of the present value of the expected net cash flows, risk adjustment and the contractual service margin. Changes in the measurement components also arise from the insurance service result, investment components, insurance finance income or expenses, other changes in value and changes in cash inflows and outflows. Consequently, the tables reveal which changes arose in the present values of expected net cash flows and in the risk adjustment for non-financial risk during the year and how these changes affected the contractual service margin.

The measurement components include the entire liability from insurance contracts issued which were measured using the general measurement model and the variable fee approach, and the liability for incurred claims for insurance contracts issued which were measured using the premium allocation approach.

The liability for remaining coverage for insurance contracts issued which were measured using the premium allocation approach is not included. When applying the premium allocation approach, neither the present value of expected net cash flows nor a risk adjustment for non-financial risk or a contractual service margin for the liability for remaining coverage are explicitly determined.

Insurance contracts (gross) - Movement in components	2023			
	Estimates of the present value of the future cash flows	Risk adjustment for nonfinancial risk	Contractual Service Margin	Total
Opening balance - insurance portfolios in asset position	-13,378,608	29,305	1,382,916	-11,966,387
Opening balance - insurance portfolios in liability position	185,514,305	1,034,362	20,362,230	206,910,897
<b>Opening balance</b>	<b>172,135,697</b>	<b>1,063,667</b>	<b>21,745,146</b>	<b>194,944,510</b>
<b>Insurance service result</b>	<b>10 512 572</b>	<b>42 464</b>	<b>11 544 493</b>	<b>22 099 529</b>
Changes that relate to current service	30 191 298	-135 975	-6 826 867	23 228 456
Contractual Service Margin for the service provided in the period	0	0	-6 826 867	-6 826 867
Changes in the risk adjustment	0	-136 287	0	-136 287
Incurred claims from short term contracts	30 191 298	313	0	30 191 611
Changes that relate to future service	-19 212 117	178 431	18 371 360	-662 326
Contracts initially recognised in the period	-5 780 244	400 183	5 380 061	0
Changes in the estimates reflected in the Contractual Service Margin	-13 440 174	-221 217	12 991 299	-670 092
Changes in estimates that do not adjust the Contractual Service Margin	8 302	-535	0	7 767
Changes that relate to past service	-466 609	8	0	-466 601
Changes in fulfilment cash flows relating to incurred claims	-466 609	8	0	-466 601
<b>Insurance finance income or expenses</b>	<b>10 655 477</b>	<b>26</b>	<b>0</b>	<b>10 655 503</b>
Accretion of interest	14 227	19	0	14 246
Interest expense/income	157	7	0	164
Changes caused by changes in the fair value of underlying items	10 641 093	0	0	10 641 093
<b>Changes recognised in OCI</b>	<b>5 565 849</b>	<b>0</b>	<b>0</b>	<b>5 565 849</b>
Changes caused by changes in the fair value of underlying items	5,565,849	0	0	5,565,849
<b>Cash flows</b>	<b>-32 226 415</b>	<b>0</b>	<b>0</b>	<b>-32 226 415</b>
Premiums received	43 919 163	0	0	43 919 163
Insurance acquisition cash flows paid	-10 053 581	0	0	-10 053 581
Claims and other insurance service expenses paid	-66 091 997	0	0	-66 091 997
<b>Closing balance</b>	<b>166,643,180</b>	<b>1,106,157</b>	<b>33,289,639</b>	<b>201,038,976</b>
Closing balance - insurance portfolios in asset position	-16,176,378	103,850	4,652,444	-11,420,084
Closing balance - insurance portfolios in liability position	182,819,558	1,002,307	28,637,195	212,459,060



Insurance contracts (gross) - Movement in components	2022			
	Estimates of the present value of the future cash flows	Risk adjustment for nonfinancial risk	Contractual Service Margin	Total
Opening balance - insurance portfolios in asset position	-8,841,460	75,643	129,520	-8,636,297
Opening balance - insurance portfolios in liability position	221,464,642	911,496	22,066,586	244,442,724
<b>Opening balance</b>	<b>212,623,182</b>	<b>987,139</b>	<b>22,196,106</b>	<b>235,806,427</b>
<b>Insurance service result</b>	<b>25 677 160</b>	<b>76 538</b>	<b>-450 960</b>	<b>25 302 738</b>
Changes that relate to current service	30 322 430	-134 277	-4 207 391	25 980 762
Contractual Service Margin for the service provided in the period	0	0	-4 207 391	-4 207 391
Changes in the risk adjustment	0	-134 292	0	-134 292
Incurred claims from short term contracts	30 322 430	15	0	30 322 445
Changes that relate to future service	-4 118 100	210 107	3 756 431	-151 562
Contracts initially recognised in the period	-3 372 617	217 257	3 248 135	92 775
Changes in the estimates reflected in the Contractual Service Margin	-654 476	-8 823	508 297	-155 002
Changes in estimates that do not adjust the Contractual Service Margin	-91 007	1 672	0	-89 335
Changes that relate to past service	-527 170	708	0	-526 462
Changes in fulfilment cash flows relating to incurred claims	-527 170	708	0	-526 462
<b>Insurance finance income or expenses</b>	<b>1 409 527</b>	<b>-10</b>	<b>0</b>	<b>1 409 517</b>
Accretion of interest	-2 931	-4	0	-2 935
Interest expense/income	-227	-6	0	-233
Changes caused by changes in the fair value of underlying items	1 412 685	0	0	1 412 685
<b>Changes recognised in OCI</b>	<b>-31 497 992</b>	<b>0</b>	<b>0</b>	<b>-31 497 992</b>
Changes caused by changes in the fair value of underlying items	-31 497 992	0	0	-31 497 992
<b>Cash flows</b>	<b>-36 076 180</b>	<b>0</b>	<b>0</b>	<b>-36 076 180</b>
Premiums received	47 042 348	0	0	47 042 348
Insurance acquisition cash flows paid	-8 658 069	0	0	-8 658 069
Claims and other insurance service expenses paid	-74 460 459	0	0	-74 460 459
<b>Closing balance</b>	<b>172,135,697</b>	<b>1,063,667</b>	<b>21,745,146</b>	<b>194,944,510</b>
Closing balance - insurance portfolios in asset position	-13,378,608	29,305	1,382,916	-11,966,387
Closing balance - insurance portfolios in liability position	185,514,305	1,034,362	20,362,230	206,910,897

### 14.1.2.2. Reinsurance contracts held

The table below shows the changes in the measurement components of reinsurance contracts held in the fiscal year that are measured using the general measurement model and the premium allocation approach. The measurement components include all elements of reinsurance contracts held that are measured using the general measurement model. In this reconciliation, the present value of the future net cash flows and the risk adjustment for our insurance portfolios measured using the premium allocation approach only includes the assets for the recovery of incurred claims.

Reinsurance contracts held - Movement in components		2023			
		Estimates of the present value of the future cash flows	Risk adjustment	Net cost/gain	Total
	Opening balance - insurance portfolios in asset position	-2,307,634	64,943	3,250,679	1,007,988
	Opening balance - insurance portfolios in liability position	0	1	-1	0
<b>Opening balance</b>		<b>-2,307,634</b>	<b>64,944</b>	<b>3,250,678</b>	<b>1,007,988</b>
<b>Reinsurance service result</b>		<b>-1,899,909</b>	<b>198,579</b>	<b>1,062,190</b>	<b>-639,140</b>
	Changes that relate to current service	-60,770	-5,124	-547,173	-613,067
	Net cost/gain for the service received in the period	0	0	-547,173	-547,173
	Changes in the risk adjustment	0	-5,124	0	-5,124
	Experience adjustments	-60,770	0	0	-60,770
	Changes that relate to future service	-1,813,066	203,703	1,609,362	-1
	Changes in the estimates reflected in the net cost/gain	-1,813,066	203,703	1,609,362	-1
	Changes that relate to past service	-26,073	0	0	-26,073
	Changes in fulfilment cash flows relating to incurred claims ceded to reinsurer	-26,073	0	0	-26,073
<b>Insurance finance income or expenses</b>		<b>179,735</b>	<b>-51,975</b>	<b>-13,540</b>	<b>114,220</b>
	Accretion of interest	12,485	-403	-13,540	-1,458
	Interest expense/income	167,250	-51,572	0	115,678
<b>Cash flows</b>		<b>295,063</b>	<b>0</b>	<b>0</b>	<b>295,063</b>
	Premiums paid	607,395	0	0	607,395
	Claims and other insurance service expenses reimbursed	-312,332	0	0	-312,332
<b>Closing balance</b>		<b>-3,732,745</b>	<b>211,548</b>	<b>4,299,328</b>	<b>778,131</b>
	Closing balance - insurance portfolios in asset position	-2,891,483	208,012	3,472,330	788,859
	Closing balance - insurance portfolios in liability position	-841,262	3,536	826,998	-10,728

Reinsurance contracts held - Movement in components		2022			
		Estimates of the present value of the future cash flows	Risk adjustment	Net cost/gain	Total
	Opening balance - insurance portfolios in asset position	-1,349,293	60,064	1,357,380	68,151
	Opening balance - insurance portfolios in liability position	-968,236	414	962,716	-5,106
<b>Opening balance</b>		<b>-2,317,529</b>	<b>60,478</b>	<b>2,320,096</b>	<b>63,045</b>
<b>Reinsurance service result</b>		<b>-1,416,678</b>	<b>25,915</b>	<b>944,122</b>	<b>-446,641</b>
	Changes that relate to current service	-232,028	-4,727	-386,328	-623,083
	Net cost/gain for the service received in the period	0	0	-386,328	-386,328
	Changes in the risk adjustment	0	-4,727	0	-4,727
	Experience adjustments	-232,028	0	0	-232,028
	Changes that relate to future service	-1,361,092	30,642	1,330,450	0
	Changes in the estimates reflected in the net cost/gain	-1,361,092	30,642	1,330,450	0
	Changes that relate to past service	176,442	0	0	176,442
	Changes in fulfilment cash flows relating to incurred claims ceded to reinsurer	176,442	0	0	176,442
<b>Insurance finance income or expenses</b>		<b>551,679</b>	<b>-21,449</b>	<b>-13,540</b>	<b>516,690</b>
	Accretion of interest	13,164	-346	-13,540	-722
	Interest expense/income	538,515	-21,104	0	517,411
<b>Cash flows</b>		<b>874,894</b>	<b>0</b>	<b>0</b>	<b>874,894</b>
	Premiums paid	870,970	0	0	870,970
	Claims and other insurance service expenses reimbursed	3,924	0	0	3,924
<b>Closing balance</b>		<b>-2,307,634</b>	<b>64,944</b>	<b>3,250,678</b>	<b>1,007,988</b>
	Closing balance - insurance portfolios in asset position	-2,307,634	64,943	3,250,679	1,007,988
	Closing balance - insurance portfolios in liability position	0	1	-1	0

## 14.2. Liability for remaining coverage

In the following table, we present the underwritten or acquired insurance contracts recognised in the fiscal year for the first time in which the general measurement model is predominantly used in order to explain the change in the contractual service margin. The underwritten insurance contracts issued and recognised in the fiscal year for the first time and measured under the general measurement model – had the following amounts.

<b>Insurance contracts issued</b>			
<b>2023</b> <i>In euros</i>	<b>Contracts issued</b>		<b>Total</b>
	<b>Non-Onerous</b>	<b>Onerous</b>	
Estimates of the present value of future cash inflows	-42,434,598	0	<b>-42,434,598</b>
<b>Estimates of the present value of future cash outflows</b>	<b>36,654,353</b>	<b>0</b>	<b>36,654,353</b>
Expected future claims, expenses, and investment components	32,188,589	0	<b>32,188,589</b>
Expected insurance acquisition cash flows	4,465,764	0	<b>4,465,764</b>
Risk adjustment	400,184	0	<b>400,184</b>
Contractual Service Margin	5,380,061	0	<b>5,380,061</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>
<hr/>			
<b>2022</b> <i>In euros</i>	<b>Contracts issued</b>		<b>Total</b>
	<b>Non-Onerous</b>	<b>Onerous</b>	
Estimates of the present value of future cash inflows	-29,631,870	-1,221,442	<b>-30,853,312</b>
<b>Estimates of the present value of future cash outflows</b>	<b>26,171,371</b>	<b>1,309,324</b>	<b>27,480,695</b>
Expected future claims, expenses, and investment components	24,079,827	954,753	<b>25,034,580</b>
Expected insurance acquisition cash flows	2,091,544	354,571	<b>2,446,115</b>
Risk adjustment	212,364	4,893	<b>217,257</b>
Contractual Service Margin	3,248,135	0	<b>3,248,135</b>
<b>Total</b>	<b>0</b>	<b>92,775</b>	<b>92,775</b>

The table below shows our forecast of the recognition in profit or loss of the contractual service margin for insurance contracts issued that are measured under the general measurement model or the variable fee approach, including the corresponding revenue recognised. The recognition of the contractual service margin in profit or loss will influence the amount of insurance revenue, and thus the insurance service result and the amount of the liability for remaining coverage, in subsequent reporting periods.

<i>In euros</i>	<b>2023</b>		<b>2022</b>	
	<b>Insurance contracts issued</b>	<b>Reinsurance contracts held</b>	<b>Insurance contracts issued</b>	<b>Reinsurance contracts held</b>
<b>Carrying amount at 31 December - Contractual service margin</b>	<b>33,289,639</b>	<b>4,299,328</b>	<b>21,745,146</b>	<b>3,250,678</b>
<b>Expected amounts recognised in profit or loss</b>				
Year 1 change	3,833,112	476,005	2,557,415	455,972
Year 2 change	3,374,783	416,274	2,270,128	349,035
Year 3 change	3,075,436	376,350	2,036,059	309,093
Year 4 change	2,836,191	340,720	1,835,116	275,189
Year 5 change	2,620,980	314,340	1,639,884	245,385
Year 6 change	2,423,269	289,384	1,481,639	219,302
Year 7 change	2,217,246	263,167	1,332,637	194,748
Year 8 change	1,869,029	221,763	1,186,260	171,122
Year 9 change	1,341,587	186,071	999,193	140,204
Year 10 change	1,089,774	159,238	771,002	113,656
Year 11 and subsequent change	8,608,232	1,256,016	5,635,813	776,972

The following tables present the effects on the contractual service margin resulting from the initial measurement of insurance contracts issued that were measured at the transition date applying the full retrospective, modified retrospective, and fair value approaches. This disclosure is only relevant for insurance contracts measured under the general measurement model or the variable fee approach. The associated insurance revenue also includes insurance contracts issued measured as at the transition date by applying the premium allocation approach.

<i>In euros</i>	2023				2022			
	Contracts measured using the fully retrospective approach	Contracts measured using the modified retrospective approach	Contracts measured using the fair value approach	Total	Contracts measured using the fully retrospective approach	Contracts measured using the modified retrospective approach	Contracts measured using the fair value approach	Total
<b>Insurance revenue from insurance contracts issued</b>	0	6,408,600	0	6,408,600	0	27,502,193	0	27,502,193
<b>Carrying amount at 1 January – Contractual service margin from insurance contracts issued</b>	0	19,289,728	0	19,289,728	0	22,196,106	0	22,196,106
Contractual service margin for services provided in the reporting period	0	-4,724,007	0	-4,724,007	0	-3,384,268	0	-3,384,268
Changes in estimates adjusting the contractual service margin	0	9,830,035	0	9,830,035	0	477,889	0	477,889
Effects of contracts initially recognised in the period	0	0	0	0	0	0	0	0
Insurance finance income or expenses	0	0	0	0	0	0	0	0
Other effects	0	0	0	0	0	0	0	0
<b>Carrying amount at 31 December – Contractual service margin from insurance contracts issued</b>	<b>0</b>	<b>24,395,756</b>	<b>0</b>	<b>24,395,756</b>	<b>0</b>	<b>19,289,727</b>	<b>0</b>	<b>19,289,727</b>

<i>In euros</i>	2023				2022			
	Contracts measured using the fully retrospective approach	Contracts measured using the modified retrospective approach	Contracts measured using the fair value approach	Total	Contracts measured using the fully retrospective approach	Contracts measured using the modified retrospective approach	Contracts measured using the fair value approach	Total
<b>Allocation of reinsurance premiums from reinsurance contracts held</b>	0	925,399	0	925,399	0	697,472	0	697,472
<b>Carrying amount at 1 January – Contractual service margin from reinsurance contracts held</b>	0	3,250,679	0	3,250,679	0	2,320,096	0	2,320,096
Contractual service margin for services provided in the reporting period	0	547,173	0	547,173	0	386,327	0	386,327
Changes in estimates adjusting the contractual service margin	0	501,478	0	501,478	0	544,257	0	544,257
Effects of contracts initially recognised in the period	0	0	0	0	0	0	0	0
Insurance finance income or expenses	0	0	0	0	0	0	0	0
Other effects	0	0	0	0	0	0	0	0
<b>Carrying amount at 31 December – Contractual service margin from reinsurance contracts held</b>	<b>0</b>	<b>4,299,330</b>	<b>0</b>	<b>4,299,330</b>	<b>0</b>	<b>3,250,680</b>	<b>0</b>	<b>3,250,680</b>

### 14.3. Underlying items for insurance contracts with direct participation features

The composition of underlying items for insurance contracts with direct participation features is as follows:

<i>In EUR</i>	2023	2022
<b>Financial investments</b>	<b>212,218,445</b>	<b>196,011,502</b>
Fixed income	155,171,449	146,174,334
Investments for unit-linked life insurance	57,046,996	49,837,169

### Note 15. Other receivables

<i>in EUR</i>	2023	2022
<b>As at 31 December 2023</b>		
Other receivables	850,608	726,219
<b>Total other financial assets</b>	<b>850,608</b>	<b>726,219</b>
Deferred expenses	194,370	307,315
Prepaid taxes	359,086	166,067
<b>Total non-financial assets</b>	<b>553,456</b>	<b>473,382</b>
<b>Other insurance receivables</b>	<b>9,267,167</b>	<b>8,245,803</b>
<b>In total</b>	<b>10,671,231</b>	<b>9,445,404</b>

**Note 16. Other intangible assets***in EUR*

	Software and licences	Other intangible assets	Total intangible assets
<b>Cost</b>			
<b>As at 31 December 2021</b>	<b>4,433,620</b>	<b>598,567</b>	<b>5,032,187</b>
Purchase of software and licences	1,407,381	0	1,407,381
Addition – internally generated IT projects	113,265	0	113,265
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	0	0	0
<b>As at 31 December 2022</b>	<b>5,954,266</b>	<b>598,567</b>	<b>6,552,833</b>
Purchase of software and licences	1,538,435	0	1,538,435
Addition – internally generated IT projects	146,883	0	146,883
Write off – internally generated IT projects	0	0	0
Write-off of software and licences	-21,000	0	-21,000
<b>As at 31 December 2023</b>	<b>7,618,585</b>	<b>598,567</b>	<b>8,217,152</b>
<b>Accumulated amortisation</b>			
<b>As at 31 December 2021</b>	<b>2,828,485</b>	<b>568,793</b>	<b>3,397,278</b>
Amortisation for the year	568,342	15,681	584,023
Write-off	0	0	0
<b>As at 31 December 2022</b>	<b>3,396,827</b>	<b>584,474</b>	<b>3,981,301</b>
Amortisation for the year	553,277	11,806	565,081
Write-off	-17,296	0	-17,296
<b>As at 31 December 2023</b>	<b>3,932,808</b>	<b>596,280</b>	<b>4,529,088</b>
<b>Carrying amount</b>			
<b>As at 31 December 2021</b>	<b>1,605,135</b>	<b>29,774</b>	<b>1,634,909</b>
<b>As at 31 December 2022</b>	<b>2,557,439</b>	<b>14,093</b>	<b>2,571,532</b>
<b>As at 31 December 2023</b>	<b>3,685,777</b>	<b>2,287</b>	<b>3,688,064</b>

In 2023, on a joint agreement of the Baltic States, in order to improve the efficiency of processes and compatibility between the three countries, .NET/AIS project was continued. As at 31 December 2023, the cost of fully amortised assets still in use was EUR 4,272,022 (as at 31 December 2022: EUR 3,204,855).



## Note 17. Property, plant, and equipment

Property, plant, 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 2023, the cost of fully depreciated items still in use was EUR 609,910 (31 December 2022: EUR 535,414). ERGO Life Insurance SE has only such items of property and equipment that are in the Company's own use.

in EUR

Category of assets	Land	Buildings	Equipment and other items	In total
<b>Cost</b>				
<b>As at 31 December 2021</b>	<b>0</b>	<b>2,359,845</b>	<b>1,132,993</b>	<b>3,492,838</b>
Additions	0	0	189,990	189,990
Additions under IFRS 16	0	1,216,823	26,605	1,243,428
Terminations and corrections under IFRS 16	0	-295,089	-22,423	-317,512
Disposals	0	0	-49,094	-49,094
Write-off	0	0	-2,904	-2,904
<b>As at 31 December 2022</b>	<b>0</b>	<b>3,281,579</b>	<b>1,275,167</b>	<b>4,556,746</b>
Recognition of right-of-use assets on initial application of IFRS 16	0	0	0	0
Additions	0	0	55,545	55,545
Additions under IFRS 16	0	318,350	205,481	523,831
Terminations and corrections under IFRS 16	0	-4,360	0	-4,360
Write-off	0	0	-152,633	-152,633
<b>As at 31 December 2023</b>	<b>0</b>	<b>3,595,569</b>	<b>1,383,560</b>	<b>4,979,130</b>
<b>Accumulated depreciation</b>				
<b>As at 31 December 2021</b>	<b>0</b>	<b>1,413,042</b>	<b>868,517</b>	<b>2,281,559</b>
Depreciation of assets recognised under IFRS 16	0	491,547	28,666	520,213
Depreciation for the year	0	0	110,272	110,272
Disposals	0	0	-44,078	-44,078
Write-off	0	0	-897	-897
<b>As at 31 December 2022</b>	<b>0</b>	<b>1,904,589</b>	<b>962,480</b>	<b>2,867,069</b>
Depreciation of assets recognised under IFRS 16	0	453,452	44,988	498,440
Depreciation for the year	0	0	116,295	116,295
Write-off	0	0	-152,633	-152,633
<b>As at 31 December 2023</b>	<b>0</b>	<b>2,358,041</b>	<b>971,130</b>	<b>3,329,170</b>
<b>Carrying amount</b>				
<b>As at 31 December 2021</b>	<b>0</b>	<b>946,803</b>	<b>264,476</b>	<b>1,211,279</b>
<b>As at 31 December 2022</b>	<b>0</b>	<b>1,376,990</b>	<b>312,687</b>	<b>1,689,677</b>
<b>As at 31 December 2023</b>	<b>0</b>	<b>1,237,529</b>	<b>412,430</b>	<b>1,649,959</b>

## Note 18. Financial liabilities from investment contracts

Financial liabilities from investment contracts are determined based on the market values of the securities linked to the investment contracts. The following table present movements in the liabilities.

As at 31 December	2023	2022
<b>Financial liabilities from investment contracts</b>		
Opening balance	13,245,239	18,198,353
Payments received	4,114,048	5,020,385
Fees and service charges	-475,934	-530,047
Provisions and payments made	-2,051,201	-7,217,924
Change in value, interest accrued	1,278,846	-2,225,528
<b>Closing balance</b>	<b>16,110,998</b>	<b>13,245,239</b>

## Note 19. Leases

The Company uses office premises, office equipment and cars under operating leases. In 2023, operating lease expenses on premises totalled EUR 26,804 (2022: EUR 58,891). These lease agreements on initial recognition and analysing new agreements of 2023 were recognised as low-value or short-term leases under IFRS 16. No operating lease expenses on other assets were incurred (in 2022, no operating lease expenses on other assets were incurred).

### Leases as lessee (IFRS 16)

The Company leases office premises, office equipment, and IT equipment under operating leases. Most lease contracts for office premises are of indefinite duration. The expected contract end dates are assessed by responsible persons according to business forecasts. For some leases, contract conditions provide for an increase in the rental price according to a pre-agreed index.

IT and office equipment lease contracts have contract terms of two to four years. Information about leases for which the Company is a lessee is presented below.

### Right-of-use assets and lease liabilities

Right of use assets related to leased properties that do not meet the definition of investment property are presented as property and equipment (see Note 17 "Property, plant and equipment").

	Buildings	Equipment and other items	In total
<b>2023</b>			
Balance as at 1 January 2023	1,376,991	24,065	1,401,056
Depreciation for the year	-453,452	-44,988	-498,440
Additions to right-of-use assets	318,350	205,479	523,829
Disposal of right-of-use assets	-4,360	0	-4,360
<b>As at 31 December 2023</b>	<b>1,237,529</b>	<b>184,556</b>	<b>1,422,085</b>

	Buildings	Equipment and other items	In total
<b>2022</b>			
Balance as at 1 January 2022	946,804	48,551	995,355
Depreciation for the year	-491,547	-28,665	-520,212
Additions to right-of-use assets	1,216,823	26,604	1,243,427
Disposal of right-of-use assets	-295,089	-22,425	-317,514
<b>As at 31 December 2022</b>	<b>1,376,991</b>	<b>24,065</b>	<b>1,401,056</b>

Some office rent agreements were terminated during the year, and some new contracts were concluded.

Set out below are the carrying amounts of lease liabilities and their dynamics during the period:

<i>in EUR</i>	2023	2022
<b>As at 1 January</b>	<b>1,418,798</b>	<b>1,004,666</b>
Additions	519,471	1,356,064
Increase in interest	30,940	10,164
Payments	-525,259	-522,394
Write-offs and disposals	-718	-429,702
<b>As at 31 December 2023</b>	<b>1,443,232</b>	<b>1,418,798</b>

#### Amounts recognised in profit or loss

<b>2023 Leases under IFRS 16</b>	<b>2023</b>
Interest on lease liabilities	37,010
Depreciation for the year	498,440
Expenses relating to short-term leases	6,279
Expenses relating to leases of low-value assets	20,525

<b>2022 – Leases under IFRS 16</b>	<b>2022</b>
Interest on lease liabilities	10,164
Depreciation for the year	520,212
Expenses relating to short-term leases	45,804
Expenses relating to leases of low-value assets	13,087

In accordance with IFRS 16, in 2019 and in subsequent periods the Company recognises depreciation and interest costs in relation to the mentioned lease instead of recognising operating lease expenses. Interest rate used for discounting lease payments was in the range from 0.15% to 3.85% as at 31 December 2023 (2022: in the range from 0.16% to 3.17%). When measuring right-of-use assets, the Company assessed each contract separately.

#### Maturity analysis of lease liabilities

<b>As at 31 December 2023</b>				
<i>in EUR</i>	Up to 1 year	Between 1 and 5 years	Over 5 years	In total
Lease-related financial liabilities	416,476	798,717	228,039	1,443,232
<b>In total</b>	<b>416,476</b>	<b>798,717</b>	<b>228,039</b>	<b>1,443,232</b>

<b>As at 31 December 2022</b>				
<i>in EUR</i>	<b>Up to 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>	<b>In total</b>
Lease-related financial liabilities	450,015	682,965	285,818	1,418,798
<b>In total</b>	<b>450,015</b>	<b>682,965</b>	<b>285,818</b>	<b>1,418,798</b>

## Note 20. Other payables and accrued expenses

<i>in EUR</i>	<b>2023</b>	<b>2022</b>
<b>As at 31 December</b>		
Trade payables	3,736,762	3,325,036
Other payables	889,125	805,370
Accrued vacation pay payable	539,184	491,297
Personal income tax payable	654,005	427,326
Personal income tax payable for additional reliefs	8,077	8,984
Social security tax payable	247,407	101,694
Mandatory payment for second pillar pension funds	4,066	3,318
Payable value added tax	161,008	145,626
Payables to employees	341,787	234,693
Other accrued items	767,643	568,180
<b>In total</b>	<b>7,349,064</b>	<b>6,111,524</b>

## Note 21. Shareholders and issued capital

	<b>Number of shares</b>	<b>Total issued capital</b>
As at 31 December 2022	15,124	4,380,213
As at 31 December 2023	15,124	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. Under the Articles of Association, shares may be pledged only subject to the consent of the Board.

The sole shareholder of ERGO Life Insurance SE is ERGO International AG (registry number HRB 40871, address ERGO-Platz 1, 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](http://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 2023, 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.

## Note 22. Capital reserve

Capital reserve as at 31 December 2023 consisted of the following: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621 (as at 31 December 2022: share premium – EUR 15,129,289, legal reserve – EUR 450,591, and other reserves – EUR 289,621).

The authorised capital of the Company is booked, as per 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 the General Meeting of Shareholders, in line with 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 legal reserve 5% of the profit for distribution until the reserve makes up 10% of the Company's issued capital. The legal reserve may be used only for covering losses of the Company. The share of the legal reserve in excess of 10% of the issued capital may be distributed when distributing the profit for the succeeding financial year.

As at the end of 2023, the Company had fully formed its legal reserve.

## Note 23. Fair value reserve

The fair value reserve comprises the net change in the fair value of financial assets measured at fair value through other comprehensive income. When a financial asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

<i>in EUR</i>	2023	2022
<b>As at 1 January</b>	<b>-15,290,153</b>	<b>28,964,871</b>
Transition effect from implementation of IFRS9	-1,260,077	0
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	472	-96,076
Derecognised from equity and recognised in profit or loss in connection with redemption and impairment	-1,693	-13,903
Net change in fair value recognised in other comprehensive income or expense during the year	7,063,534	-44,145,045
<b>As at 31 December</b>	<b>-9,487,917</b>	<b>-15,290,153</b>

## Note 24. Income tax

Corporate income tax consists of current and deferred tax.

In 2023, payable corporate income tax for the activity in the Republic of Lithuania amounted to EUR 227,731.

For calculation of corporate income tax in the Republic of Lithuania in 2023 and 2022, 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 depends on the expected future use of the asset and the settlement of future liabilities and substantially enacted tax rate expected to apply.

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. Deferred tax asset recognised as at 31 December 2023: EUR 123,774.

The Company's lease payments are deductible upon payment for tax purposes. In accounting for the deferred tax relating to the lease, the Company considers both the lease asset and liability separately. The Company separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and temporary differences.

*in EUR*

<b>Income tax expense</b>	<b>2023</b>	<b>2022</b>
Income tax expense	0	-163,555
Change in deferred income tax	22,269	-6,340
<b>Total income tax (expense) gain</b>	<b>22,269</b>	<b>-169,895</b>

*in EUR*

<b>Recognised deferred income tax asset</b>	<b>2023</b>	<b>2022</b>
Deductible temporary differences on other liabilities: (vacation pay liabilities to employees)	123,774	101,506
Lease liabilities related to right of use asset	69,014	0
<b>Total deferred income tax asset</b>	<b>192,788</b>	<b>101,506</b>
Less: deferred tax liability netted with deferred income tax asset	-69,014	0
<b>Deferred income tax asset, net</b>	<b>123,774</b>	<b>101,506</b>

<b>Recognised deferred income tax liability</b>	<b>2023</b>	<b>2022</b>
Right of use asset	-69,014	0
<b>Total deferred income tax liability</b>	<b>-69,014</b>	<b>0</b>
Less: deferred tax asset netted with deferred income tax liability	69,014	0
<b>Deferred income tax liability, net</b>	<b>0</b>	<b>0</b>

Tax losses relate to Company's operations in Lithuania. Those do not expire and may be used to offset taxable income in Lithuania.

*in EUR*

<b>Unrecognised deferred tax asset</b>	<b>2023</b>	<b>2022</b>
Tax losses	2,797,999	2,626,081
<b>In total</b>	<b>2,797,999</b>	<b>2,626,081</b>

*in EUR*

<b>Reconciliation of profit for accounting purposes and income tax expenses</b>	<b>2023</b>	<b>2022</b>
Profit before tax	12,373,857	9,055,031*
Parent company's domestic tax rate	1,856,079	1,358,255
Effect of tax rates in foreign jurisdictions	-1,210,482	-167,258
Effect of exempt income and taxable expenses	-304,892	-673,099
Non-deductible expenses	41,282	33,625
Transition to IFRS 17 tax impact	-576,137	0
Unrecognised deferred tax assets movement:	171,881	0
Recognition of previously unrecognised tax losses	0	-381,628
Effect of income tax of previous years	0	0
<b>Income tax expense (gain) for the year</b>	<b>-22,269</b>	<b>169,895</b>

\*as calculated based on IFRS 4 figures, prior to transition to IFRS 17

## Note 25. 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. No transfers between levels occurred.

<i>in EUR</i>		Carrying amount				Fair value			
As at 31 December 2023		Equity and debt instruments at fair value through profit or loss	Debt instruments at fair value through other comprehensive income	Debt instruments at amortised cost	In total	Level I	Level II	Level III	In total
Note									
<b>Financial assets measured at fair value</b>									
Units in listed equity funds	12.1	2,503,793	0	0	2,503,793	2,503,793	0	0	2,503,793
Units in listed debt funds	12.1	1,441,407	0	0	1,441,407	0	1,441,407	0	1,441,407
Units in unlisted equity and debt funds	12.1	3,601	0	0	3,601	0	3,601	0	3,601
Infrastructure debt funds	12.1	6,106,410	0	0	6,106,410	0	0	6,106,410	6,106,410
Real estate funds	12.1	7,667,305	0	0	7,667,305	0	0	7,667,305	7,667,305
Unit-linked	12.1	78,728,125	0	0	78,728,125	51,113,366	27,614,760	0	78,728,125
Government bonds	12.2	0	109,645,198	0	109,645,198	0	109,645,198	0	109,645,198
Financial institutions' bonds	12.2	0	17,859,787	0	17,859,787	0	17,859,787	0	17,859,787
Other debt securities	12.2	0	19,501,105	0	19,501,105	0	19,501,105	0	19,501,105
<b>Financial assets not measured at fair value</b>									
Loans	12.3	0	0	21,709,478	21,709,478	0	21,709,478	0	21,709,478
Other receivables	15	0	0	850,608	850,608	0	850,608	0	850,608
Cash	11	0	0	5,238,615	5,238,615	5,238,615	0	0	5,238,615
<b>Financial liabilities measured at fair value</b>									
Financial liabilities from investment contracts		16,110,998	0	0	16,110,998	0	16,110,998	0	16,110,998

<i>in EUR</i>		Carrying amount				Fair value				
As at 31 December 2022		Equity and debt instruments at fair value through profit or loss	Debt instruments at fair value through other comprehensive income	Debt instruments at amortised cost	In total	Level I	Level II	Level III	In total	
Note										
<b><i>Financial assets measured at fair value</i></b>										
	Units in listed equity funds	12.1	2,407,364	0	0	2,407,364	2,407,364	0	0	2,407,364
	Units in listed debt funds	12.1	1,573,243	0	0	1,573,243	815,795	757,448	0	1,573,243
	Units in unlisted equity and debt funds	12.1	2,244	0	0	2,244	0	2,244	0	2,244
	Infrastructure debt funds	12.1	0	0	0	0	0	0	0	0
	Real estate funds	12.1	7,842,237	0	0	7,842,237	0	0	7,842,237	7,842,237
	Unit-linked	12.1	61,106,857	0	0	61,106,857	38,689,238	22,417,618	0	61,106,857
	Government bonds	12.2	0	112,712,953	0	112,712,953	0	112,712,953	0	112,712,953
	Financial institutions' bonds	12.2	0	19,873,008	0	19,873,008	0	16,060,127	3,812,882	19,873,008
	Other debt securities	12.2	0	23,354,515	0	23,354,515	0	23,354,515	0	23,354,515
<b><i>Financial assets not measured at fair value</i></b>										
	Loans	12.3	0	0	21,704,023	21,704,023	0	21,704,023	0	21,704,023
	Other receivables	15	0	0	726,219	726,219	0	726,219	0	726,219
	Cash	11	0	0	5,178,003	5,178,003	5,178,003	0	0	5,178,003
<b><i>Financial liabilities measured at fair value</i></b>										
	Financial liabilities from investment contracts	18	13,245,239	0	0	13,245,239	0	13,245,239	0	13,245,239



## Note 26. Related party transactions

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.

On 15 June 2021, the Company made first investment into MEAG alternative investment fund MEAG Infrastructure Debt Fund II (LU2182118013). As of 31.12.2023 Company has made investments into the fund in amount of 6.5 million euros. Company's total commitment is EUR 8,000,000.

*MEAG Infrastructure Debt Fund II* invests in selected infrastructure projects in Germany, Europe and USA. These projects can be implemented in any segment, e.g. transport, energy supply, renewable energy, communication, or social infrastructure. MEAG, together with the experts from Munich Re, carries out a due diligence process for all projects before deciding to invest in certain assets.

### Remuneration of key management personnel

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

	2023	2022
Salary	250,047	182,794
Social security contributions	0	4,552
Other short-term employment benefits	0	0
Bonuses	0	0
<b>Total remuneration of key management personnel</b>	<b>250,047</b>	<b>187,346</b>

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 Board for the year totalled EUR 322,627 (2022: EUR 352,879). The chair of the Board receives remuneration only as the Company's director. The members of the Supervisory Board were not remunerated.

The remuneration of a member of the Board consists of fixed remuneration and performance benefits. Performance benefits depend on the achievement of targets and objectives that are agreed between the chair of the Supervisory Board and each member of the Board before the beginning of the financial year.

Transactions with related parties are presented below:

*in EUR*

<b>As at 31 December</b>				
	<b>Receivables in 2023<sup>1</sup></b>	<b>Receivables in 2022<sup>1</sup></b>	<b>Payables in 2023</b>	<b>Payables in 2022</b>
Related parties				
Parent of the group – Münchener Rück	0	0	663,300	471,823
Other group companies	21,772,093	21,767,624	231,461	203,482

*in EUR*

	<b>Services purchased in 2023</b>	<b>Services purchased in 2022</b>	<b>Services sold in 2023<sup>2</sup></b>	<b>Services sold in 2022<sup>2</sup></b>
Related parties				
Parent of the group – Münchener Rück	731,996	553,113	90,413	107,331
Other group companies	4,899,157	5,019,295	1,019,882	433,969

<sup>1</sup> Including a loan of EUR 21,500,000 (2022: EUR21,500,000) provided to ERGO Insurance SE.

<sup>2</sup> Including interest of EUR 209,478 (2022: EUR 204,023) on the loan provided to ERGO Insurance SE.

## **Note 27. Contingencies**

As at 31 December 2023 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.

The Company has remaining commitment to invest up to 0.46 million euros in the Eften Residential real estate fund. The capital will be called if the asset manager allocates another attractive investment opportunity.

The liability is qualified as a commitment and is not reflected in the Company's financial statements.

The Company has remaining commitment to invest up to 1.48 million euros in the MEAG Infrastructure Debt Fund II. The capital would be called when the asset manager signs a loan agreement with another infrastructure Company.

## **Note 28. Events after the reporting date**

After the end of the financial year and until the approval of the financial statements, there were no significant events, which should be disclosed in the financial statements.

## Signatures to annual report 2023

The management board of ERGO Life Insurance SE has prepared the Company’s review of operations and financial statements for 2023.

**Ursula Clara Deschka**

Chairwoman of the Management Board ..... 05 June 2024

**Ljuba Jaufmann**

Member of the Management Board ..... 05 June 2024

**Tadas Dovbyšas**

Member of the Management Board ..... 05 June 2024

**Marek Ratnik**

Member of the Management Board ..... 05 June 2024

**Aija Medne**

Member of the Management Board ..... 05 June 2024

## **Annex 1.**

### **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 5,000,000 be made to the sole shareholder.