ERGO Insurance SE

ANNUAL REPORT
2017

ANNUAL REPORT

Company name:	**ERGO Insurance SE**
Registry number:	**10017013**
Address:	**A. H. Tammsaare tee 47, 11316 Tallinn Republic of Estonia**
Telephone:	**+372 610 6500**
Fax:	**+372 610 6501**
E-mail:	info@ergo.ee
Website:	**www.ergo.ee**
Core business:	**non-life insurance**
Beginning of financial year:	**1 January 2017**
End of financial year:	**31 December 2017**
Chairman of the management board:	**Kęstutis Bagdonavičius**
Auditor:	**KPMG Baltics OÜ**
Accompanying documents:	**1. Independent auditors' report** **2. Profit allocation proposal** **3. Information on the sole shareholder** **4. List of business activities**

Contents

Review of operations

A strong owner

Through their parent, ERGO Group AG, the ERGO insurance companies in the Baltics represent a major global financial services group, Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which has been operating successfully since 1880 and has always been able to satisfy its customers' claims.

Reliability is confirmed by the ratings given to ERGO Group's owner and parent: Munich Re's rating is Aa3 or excellent (by Moody's); ERGO Group's rating is AA– (by Standard & Poor's). Munich Re is included in the DAX 30 / EUROSTOXX 50 list.

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

Since 1 April 2017, ERGO Group's international business has been led by the ERGO International Management Committee (EIMC). The committee comprises Alexander Ankel (ERGO Group AG, Chief Operating Officer), Tomasz Smaczny (IT), Lars von Lackum (Strategy and D.A.S. International), Deniss Sazonovs (Chief Financial Officer International), Richard Bader (ERV), Thomas Schöllkopf (Austria and Northern and Eastern Europe), Theodoros Kokkalas (Greece and Turkey), Piotr Sliwicki (Poland and the Baltic countries), Josep Santacreu (Spain), Jürgen Schmitz (China), Ritesh Kumar (India and the Near East) and Michael Bitzer (Middle East and Northern Africa). The members of the EIMC are responsible for business, sales and regional performance management. This means that the local companies' experience and expertise is harnessed to strengthen each region and international portfolio management.

Partnerships with the world's strongest reinsurance providers

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

ERGO Insurance SE: the year 2017 in figures

Gross premium income	166.9 million euros
Total assets	207.1 million euros
Investments in financial instruments	141.0 million euros
Insurance contract provisions	134.2 million euros
Equity	48.1 million euros
Comprehensive income	4.5 million euros

Return on equity	10.9%
Insurance contracts in force	981,926
Offices	21 in Estonia, 23 in Latvia, 63 in Lithuania
Employees	959

Economic environment

In its Winter 2018 Economic Forecast, the European Commission projects that the economic environment in Europe is in transition from recovery to expansion, which is set to continue through 2018 and 2019. This is the result of stronger than expected pickup in economic activity and trade as well as stronger cyclical momentum in Europe where labour markets continue to improve and economic sentiment is high.

Estonia

Thanks to a favourable external environment and high domestic consumption, strong economic growth should continue through the next two years although the growth rate is expected to slow. Private consumption should increase due to amendments to income tax regulations although this will partly be offset by a rise in excise duty rates. According to forecasts, broad-based growth in exports will continue while strong domestic demand will support imports. Investment activity will be fuelled by the public sector's more active use of financing from the EU structural funds.

Latvia

Economic growth is mainly driven by rapid wage growth and an upsurge in investments made with the help of the EU structural funds, which in turn has boosted private consumption.

GDP growth which began in 2017 is expected to continue in 2018 although at a slowing pace. The growth rate will be influenced by the wearing-off of the one-off boost in investment and a tight labour market. Wages will continue to rise, which together with tax increases will increase inflation. Due to slowing domestic demand, in the coming years growth will primarily be driven by exports.

Lithuania

Economic growth has mostly been underpinned by an increase in private consumption. This has been supported by wage growth, which has been partly offset by a rise in consumer prices.

Due to slowing exports and consumption, economic growth is set to moderate. However, investments should support the economy more than in the previous years as the EU investment funding is used more effectively and companies have to step up investment to ensure effective use of their labour resources and to expand their production volumes. Similarly to Latvia and Estonia, Lithuania's consumer prices are expected to increase.

The key issue for the Baltic region continues to be population decline.

Legal environment

On 23 January 2017, the Estonian Financial Supervision Authority issued an advisory guideline setting out requirements to the information technology and information security arrangements of entities subject to financial supervision. The information technology and information security arrangements of companies operating in the finance sector must ensure appropriate support to their business processes and their IT systems must meet the availability, integrity and confidentiality requirements of their business operations and external regulations. The guideline is to be applied in line with the principle of proportionality, i.e. by taking into account the nature of the company's business, the company's impact on the financial sector as a whole and the magnitude of the risks and their potential consequences. The document provides recommendations and requirements for companies' information assets and risk management, physical and environmental security, communication and operations management, data encryption, system development and acquisition, and incident management. The guideline was drawn up based on the guidance of internationally recognised standards ISO/IEC 27001 and ISO/IEC 27002. The updated requirements to information technology and security arrangements took effect on 24 July 2017.

On 26 October 2017, the Estonian parliament adopted amendments to the Insurance Activities Act so that the EU Insurance Distribution Directive (IDD) 2016/97 could be implemented from 23 February 2018. However, as the EU has postponed the application of the IDD (at the European Commission's proposal), the amendments are scheduled to take effect from 1 October 2018 only.

The purpose of the amendments is to achieve undistorted competition in insurance distribution, better consumer protection and a more integrated insurance market in the European Union. The new insurance distribution requirements ensure the same level of protection for the customer regardless of the distribution channel through which insurance is purchased. Insurance contracts may be concluded with or via an insurance undertaking, an agent, a broker, a website, a telecommunication company, a car rental company or other persons. To ensure that the quality of information disclosed to the customer before the conclusion of an insurance contract does not depend on the channel through which the contract is concluded, the IDD applies not only to insurance undertakings and insurance intermediaries but also to persons for whom insurance intermediation is an ancillary business. By law and the directly applicable regulation of the European Union, an insurance service provider that offers an insurance product must give the customer a standardised information document about the insurance product. The amendments enhance cooperation between financial supervision agencies and swift response in situations where consumer protection is at risk. The new legislation strives to ensure that insurance distributors are qualified and their knowledge is commensurate with the complexity of the insurance products they sell. It also harmonises rules for cross-border trade in the EU insurance markets.

On 27 April 2016, the European Parliament approved the General Data Protection Regulation which is going to replace the previous Data Protection Directive. The new regulation is directly applicable which means that together with the national implementing provisions it will also replace Estonia's Personal Data Protection Act. The regulation entered into force on 24 May 2016 and will be applied after a two-year transition period, i.e. from 25 May 2018. The data protection reform requires companies to introduce more stringent rules for protecting the personal data of individuals and provides individuals with better control of their personal data. Since uniform rules will take effect across the EU digital single market, the regulation simplifies intra-community e-commerce. The same rules will apply to non-EU companies providing services or selling goods in the EU single market. Insurance undertakings began preparing for the implementation of the regulation in 2017 already. In Estonia, they have received extensive support from the Estonian Insurance Association.

Financial performance of ERGO Insurance SE

ERGO Insurance SE's gross premium income for 2017 was 166.9 million euros. In terms of premium income, ERGO Insurance SE maintained the second position in the Estonian and the third position in the Baltic non-life insurance market. Claims and benefits incurred totalled 87.9 million euros, accounting for 52.7% of gross premium income. The net expense ratio was 32.0% (2016: 34.9%) and the net loss ratio was 63.1% (2016: 68.2%). Because of the decline in the loss ratio, the net combined ratio for 2017 declined to 95.1% (2016: 103.1%). ERGO Insurance SE ended 2017 with total comprehensive income of 4.5 million euros (2016: comprehensive expense of 0.6 million euros). The insurance result was a profit of 7.2 million euros, net investment income amounted to 0.5 million euros and other activities generated a loss of 1.1 million euros. Income tax expense amounted to 1.6 million euros. The comprehensive result was also influenced by a 0.5 million euro decrease in the value of available-for-sale financial assets.

At the year-end, ERGO Insurance SE had assets of 207.1 million euros (2016: 188.8 million euros). Investments in financial instruments amounted to 141.0 million euros (2016: 121.4 million euros), debt securities accounting for 86.3% (2016: 88.4%), loans for 1.0% (2016: 1.1%) and equities and fund units for 12,7% (2016: 10.5%) of the total. Altogether, investments in financial instruments accounted for 68.1% (2016: 64.3%) of total assets. Insurance provisions totalled 134.2 million euros (2016: 122.1 million euros), accounting for 84.4% (2016: 84.5%) of total liabilities and 64.8% (2016: 64.7%) of total assets. At the reporting date, insurance provisions were backed with investments in financial instruments and reinsurance assets which exceeded insurance provisions by 15.7 million euros (2016: 14.8 million euros), providing the company with an adequate liquidity buffer.

Insurance activities

Gross premium income by insurance class

In euros	2017		2016		Change	
	Gross written premiums	Share of class, %	Gross written premiums	Share of class, %	Gross written premiums	Share of class, pp
Motor liability insurance	66,070,743	39.6%	48,319,189	35.3%	17,751,554	4.3%
Accident insurance	6,469,901	3.9%	5,811,753	4.2%	658,148	-0.4%
Travel insurance	3,934,965	2.4%	3,472,613	2.5%	462,352	-0.2%
Technical risks insurance	5,119,357	3.1%	4,239,995	3.1%	879,362	0.0%
Individuals' property insurance	11,419,977	6.8%	10,609,064	7.8%	810,913	-0.9%
Legal persons' property insurance	9,832,521	5.9%	9,196,273	6.7%	636,248	-0.8%
Agricultural risks insurance	1,786,750	1.1%	1,311,800	1.0%	474,950	0.1%
Motor own damage insurance	43,812,415	26.3%	38,480,855	28.1%	5,331,560	-1.9%
Liability insurance	6,081,685	3.6%	5,449,863	4.0%	631,822	-0.3%
Goods in transit insurance	1,481,341	0.9%	1,441,258	1.1%	40,083	-0.2%
Carrier's liability insurance	2,775,742	1.7%	2,847,232	2.1%	-71,490	-0.4%
Watercraft insurance and watercraft owner's liability insurance	505,723	0.3%	515,316	0.4%	-9,593	-0.1%
Guarantee insurance	2,166,732	1.3%	1,752,458	1.3%	414,274	0.0%
Railway rolling stock insurance	1,222,799	0.7%	1,359,892	1.0%	-137,093	-0.3%
Assistance insurance	1,664,124	1.0%	1,537,650	1.1%	126,474	-0.1%
Financial risks insurance	405,323	0.2%	471,560	0.3%	-66,237	-0.1%
Loss of employment insurance	33,116	0.0%	17,886	0.0%	15,230	0.0%
Legal expenses insurance	2,101,407	1.3%	0	0.0%	2,101,407	1.3%
Total from insurance activities	**166,884,620**	100.0%	**136,834,657**	100.0%	**30,049,963**	0.0%
Accident insurance	0	0.0%	3,412	0.0%	-3,412	0.0%
Legal persons' property insurance	0	0.0%	-61,040	0.0%	61,040	0.0%
Liability insurance	0	0.0%	0	0.0%	0	0.0%
Health insurance	0	0.0%	0	0.0%	0	0.0%
Total from reinsurance activities	**0**	0.0%	**-57,628**	0.0%	**57,628**	0.0%
Total	**166,884,620**	100.0%	**136,777,029**	100.0%	**30,107,591**	

In 2017, ERGO Insurance SE generated premium income of 166.9 million euros, a 22.0% increase on 2016. The largest classes were motor third party liability (hereafter 'motor liability') insurance and comprehensive motor vehicle (hereafter 'motor own damage') insurance, which generated premium income of 66.1 million euros and 43.8 million euros, accounting for 39.6% and 26.3% of the total portfolio, respectively. Individuals' property insurance contributed 11.4 million euros, i.e. 6.8% and legal persons' property insurance 9.8 million euros, i.e. 5.9%. Premiums written in accident insurance and liability insurance totalled 6.5 million euros and 6.1 million euros respectively and their respective contributions were 3.9% and 3.6%. The total contribution of other insurance classes, which each accounted for less than 3.5%, was 23.1 million euros, i.e. 13.9%.

Compared with 2016, the share of motor liability insurance increased by 4.3 percentage points and its premium income grew by 17.7 million euros, i.e. 36.7%. In addition to motor liability insurance, rapid growth was achieved in motor own damage insurance and technical risks insurance where premium income grew by 13.8% and 20.7%, i.e. 5.3 million euros and 0.9 million euros, respectively. In connection with the merger with D.A.S. Õigusabikulude Kindlustuse AS, the portfolio was supplemented with a new product class: legal expenses insurance.

Claims and benefits paid by insurance class.

In euros	**2017**		**2016**		**Change**	
	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, %	Claims and benefits paid	Share of class, pp
Motor liability insurance	34,396,697	38.7%	31,430,051	38.7%	2,966,646	0.0%
Accident insurance	2,859,166	3.2%	2,884,611	3.6%	-25,445	-0.3%
Travel insurance	1,940,387	2.2%	1,537,160	1.9%	403,227	0.3%
Technical risks insurance	1,966,262	2.2%	2,725,995	3.4%	-759,733	-1.1%
Individuals' property insurance	5,369,390	6.0%	5,162,491	6.4%	206,899	-0.3%
Legal persons' property insurance	5,718,646	6.4%	4,947,466	6.1%	771,180	0.3%
Agricultural risks insurance	2,993,770	3.4%	411,073	0.5%	2,582,697	2.9%
Motor own damage insurance	27,175,458	30.6%	26,276,018	32.4%	899,440	-1.8%
Liability insurance	1,866,423	2.1%	1,525,136	1.9%	341,287	0.2%
Goods in transit insurance	407,826	0.5%	298,515	0.4%	109,311	0.1%
Carrier's liability insurance	1,381,476	1.6%	1,640,186	2.0%	-258,710	-0.5%
Watercraft insurance and watercraft owner's liability insurance	183,652	0.2%	412,377	0.5%	-228,725	-0.3%
Guarantee insurance	381,295	0.4%	170,610	0.2%	210,685	0.2%
Railway rolling stock insurance	202,807	0.2%	349,232	0.4%	-146,425	-0.2%
Assistance insurance	1,071,963	1.2%	916,845	1.1%	155,118	0.1%
Financial risks insurance	417,829	0.5%	423,782	0.5%	-5,953	-0.1%
Loss of employment insurance	4,854	0.0%	2,614	0.0%	2,240	0.0%
Legal expenses insurance	523,521	0.6%	0	0.0%	523,521	0.6%
Total	**88,861,422**	100.0%	**81,114,162**	100.0%	**7,747,260**	

Claims and benefits paid in 2017 totalled 88.9 million euros (2016: 81.1 million euros). Claims incurrence trends did not change significantly. The largest share of claims was settled in motor liability insurance: 34.4 million euros, i.e. 38.7% of claims paid. The next-largest class was motor own damage insurance where claims and benefits paid totalled 27.2 million euros, i.e. 30.6%.

Investing activities

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

In 2017, ERGO maintained a conservative approach to debt securities' interest rate and credit risk. The credit risk profile of the debt securities portfolio was as follows: 54.7% (2016: 54.5%) had an AAA (by Standard & Poor's) or Aaa (by Moody's) credit rating, 14.1% (2016: 21.2%) were rated AA or Aa, 16.2% (2016: 12.8%) had an A rating and 14.9% (2016: 11.5%) were rated BBB or Baa.

At the year-end, investments consisted of investments in associates of 2.5 million euros (2016: 1.86 million euros), debt securities of 121.7 million euros (2016: 107.3 million euros), loans of 1.4 million euros (2016: 1.4 million euros), and equities and fund units of 17.9 million euros (2016: 12.7 million euros). There were no investments in term deposits.

Income on assets with interest rate risk amounted to 0.57 million euros (2016: 0.67 million euros). Realisation of equities and fund units resulted in a gain of nil euros (2016: 1.13 million euros) and realisation of debt securities produced a gain of 0.1 million euros (2016: 0.2 million euros). Dividend income amounted to 0.21 million euros (2016: 0.31 million euros). The fair value reserve decreased by 0.5 million euros (2016: 1.2 million euros). Thus, the overall yield of the investment portfolio was 0.26% (2016: 2.46%). Investment management expenses accounted for 0.27% of the carrying value of managed investments.

Development

SALES AND SERVICE OFFERING

ERGO's strategic focus areas are strong customer relations, a customer-focused approach, innovation, simplicity and transparency. Based on the customers' willingness to recommend us, ERGO is among the three most popular insurers in the Baltics. We wish to maintain this position. Customer focus determines which insurance market players benefit from market growth. In an environment of stiff competition it is also important to prioritise on efficiency; this can be achieved by automating and digitalising internal processes and innovation.

In 2017, our Estonian team again participated in the Praise the Service Provider campaign. Danika Allika, an insurance consultant from our Haapsalu office was awarded the title of best service provider in other regions of Estonia (regions outside Tallinn).

Service quality is very important for ERGO and we are pleased that it has been improving year by year. The campaign calls on consumers to notice and praise excellent service providers, customer care and services and recognises service providers that customers praise the most. Thanks to customers' recognition, in 2018 a large number of our offices can proudly display the sign Customers Praise 2017.

In June, our Latvian entity gained the fourth place in the finance sector reputation rankings, being the highest-rated insurer. In the same month, it also received the Sustainability Index award.

In April, our Estonian entity launched a telephone sales unit. We value our customers' time and increasingly use electronic channels for both providing advice and signing contracts.

Since September, customers have been able to communicate with our Estonian entity via web chat. Customers' communication needs and expectations have changed and we wish to offer them additional options for contacting us. Web chat is available during business hours and the service is provided by ERGO's contact centre.

During the period, our Lithuanian entity's non-life insurance department renewed its ISO 9001:2015 quality certificate, which reflects that ERGO's customer service meets recognised standards.

SERVICES

On 9 February, ERGO's Lithuanian team launched an innovative product which allows combining motor liability insurance with the driver's life insurance. Until 31 March, those who purchased motor liability insurance from our Lithuanian entity received the supplementary cover free of charge.

On 29 March, professor Liudas Mažylis discovered the original Lithuanian declaration of independence from the German Foreign Office Archive in Berlin. ERGO's Lithuanian entity insured the unique document against all major risks.

In the second quarter, our Lithuanian team started a project for renewing motor own damage, accident and liability insurance offers and policies in order to improve the customer experience.

On 28 April, ERGO's Estonian entity began offering all corporate insurance buyers supplementary general liability cover for all classes of property insurance. Previously, general liability cover could be added to certain classes of property insurance.

From 29 May, corporate customers in Estonia have been able to buy motor own damage insurance via the e-channel.

In September, our Estonian entity and telecommunication operator Telia began offering Telia's customers an innovative e-insurance product which allows insuring a vehicle via a mobile application only for the time when it is used. It is a unique solution that offers motor liability and motor own damage insurance based on its consumption: the insurance price depends on the number of days the car is used. If the car is used for 15 or more days per month, a regular monthly premium has to be paid.

The new solution is particularly useful for those who do not need to drive every day. It is ideal for motorcycle or hobby vehicle owners or families with several vehicles. When the vehicle is not used, insurance can be easily turned off. When motor own damage insurance has been purchased, the vehicle has full cover even when insurance has been turned off.

In Lithuania, ERGO is the first insurer that began offering cyber insurance in autumn 2017. The product provides both civil liability and property insurance cover.

In October, our Lithuanian team began offering customers purchasing home insurance an opportunity to supplement it with extended guarantee insurance for large household appliances.

Since the end of October 2017, in Estonia ERGO's liability cover related to the possession of an insured property also extends to the tenant.

MARKETING

In February, ERGO's Estonian entity conducted a travel insurance campaign under the slogan "We understand that a traveller's final destination is home". ERGO's travel insurance ensures that travellers always get back to their loved ones. When a trip is interrupted, ERGO's customers do not need extra funds because we buy them new tickets to get back home.

In March, our Lithuanian entity launched a campaign highlighting the importance of individuals' liability insurance under the slogan "Sometimes an apology is not enough".

In March, our Estonian team participated in the Parent and Baby cinema screenings, introducing ERGO's accident and life insurance products in different cities across the country.

In March, our Latvian entity supported the event Latvia's Best Building of the Year 2016 which was organised by the Latvian Association of Architects.

In October, our Latvian team organised a campaign to introduce the benefits of purchasing liability insurance together with home insurance.

From 23 October to 12 November, ERGO participated in a campaign arranged by the Estonian Insurance Association to raise awareness of the necessity of accident and life insurance.

From 20 to 30 November, we organised an insurance week "Secure Future" in Estonia during which we provided information about the internet of things and the positioning solution of the Emergency Response Centre. At the Estonian Academy of Security Sciences, we presented the latest IT solutions used in police training: simulating traffic accidents in a virtual 3D environment, taking panoramic shots and videos at the scene of the accident and documenting an accident with a drone. Attorneys explained the judicial practice of legal expenses insurance based on real life cases.

In December, our Estonian entity helped select the best business ideas at the TTU Mektory STARTERtech business ideas competition for student start-up teams from Estonia and abroad.

At a Lithuanian competition for start-ups, ERGO gave an award to the best tech start-up.

SPONSORING AND SOCIAL RESPONSIBILITY

On 7 March, our Estonian entity announced a competition for a young athlete's grant of 25,000 euros. The grant was awarded for the second year to show that ERGO supports healthy lifestyles and wishes to improve the health of the Estonian society as a whole. Due to economic reasons many young people stop playing sports when they become independent. We support the sports activities of dedicated 18-25-year-old athletes with an opportunity to apply for a young athlete's grant.

In 2017, applicants included 70 athletes from 33 fields.

The selection committee decided to support a selection of candidates with 2,500 euros each.

The beneficiaries of 2017 were:

- Aksel Nõmmela, cycling;
- Andres Petrov, snooker;
- Anna Maria Orel, hammer throw;
- Johannes Erm, combined events;
- Kaidi Kivioja, triathlon;
- Kristjan Rosenberg, combined events;
- Marten Liiv, speed skating;
- Marie Turmann and Harri Lill, curling;
- Reena Pärnat, archery;
- Robin Nool, pole vaulting.

The grant selection committee comprised Olympic winner Gerd Kanter, representatives of the Estonian Olympic Committee Martti Raju and Aivo Normak, sports experts Ivar Jurtšenko and Maarja Värv and ERGO's representatives Alo Alunurm and Erko Makienko.

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

In Estonia, ERGO continued to support the Bully Free School Foundation. Every school year, we help around five schools to join the Bully Free School programme. The purpose of the programme is to prevent and reduce bullying at Estonian schools.

In Lithuania, ERGO was the main sponsor of Lithuania's largest cultural event, the Vilnius International Film Festival, for the fifth year already.

In Latvia, ERGO, SEB's leasing entity and Drošas Braukšanas Skola (Safe Driving School) explored what typical passengers are like. Besides the driver's experience, the state of the vehicle and weather conditions, traffic safety often depends on the passengers. The project "Passenger Portrait" identified four distinctive passenger types: caring, knowledgeable, talkative and observant and brought out that passengers also participate in traffic.

For the first time, ERGO was the co-organiser of the Opinion Festival held on 11 and 12 August in Paide, Estonia. We were responsible for arranging a panel discussion about young people's physical activity and obesity. Schoolchildren do not move enough, the number of overweight young people is increasing and a lack of physical activity is reaching epidemic proportions. In an environment of other entertainment and the smart culture it is more and more difficult to attract children to physical activity. Panellists explored the solutions and whether these would suit all young people in Estonia. The discussion was led by communication expert and sport enthusiast Rasmus Kagge, other panellists were Jaan Martinson, Merike Kull, Kristjan Koll and Kristiina Jürisson. During the two days, also other critical physical and mental health topics were discussed: healthy diets, patients' rights, the independence of people with special needs and children's mental health.

On 14 September, our Estonian team planted trees in Harju county together with OÜ Balti Spoon and members of the German-Baltic Chamber of Commerce.

In Latvia, ERGO organises a bicycle riding school for up to 14-year-olds that wish to improve their cycling skills. Those who pass the cycling test receive a certificate. The school is held in different Latvian cities from the beginning of summer until the end of September.

From July to September, our Latvian entity participated in the "Good Relations" campaign organised by the Latvian Road Administration to increase awareness of unwritten rules of courtesy on the road and the importance of being considerate to other road users.

In July, ERGO supported healthy and sporty lifestyles by sponsoring a beach volleyball tournament in Lithuania.

In August, our Latvian entity opened an interactive playground in a lounge of Riga Airport. The playground and the toys were made of eco-friendly materials in Latvia. The toys are attractive and stimulate the brain.

In Estonia, we installed a photo booth in a lounge of Tallinn Airport so that departing passengers could send their loved ones a photo of themselves. The purpose was to raise awareness of the importance of buying travel insurance before a trip.

For the fifth year in a row, we were the main sponsor of the Latvian beach volleyball competition ERGO Open.

In September, our Estonian entity completed a project of visiting summer fairs to provide insurance advice.

For 15 years ERGO's Latvian entity has been providing scholarships to young orphans that need support to acquire higher education. Every year, there is a meeting of new, present and future beneficiaries. On 1 October, our Latvian team greeted the recipients of the ERGO scholarship. In 2017, the scholarship was awarded to 15 young people who wished to study subjects such as IT, economics, business, pharmacy, and medicine.

Within 15 years, we have supported the education of 73 young people. At a gala lunch held in November, the Latvian ministry of education thanked ERGO for contributing to the Latvian education, science and development of the state.

In Lithuania, ERGO has joined the social campaign “For a Safe Lithuania” initiated by president Dalia Grybauskaitė. In the framework of the campaign, ERGO’s staff visited an SOS Village before Christmas and spent time with the children. ERGO also participates in the Idea for Lithuania initiative where people are invited to think of ideas that could make Lithuania a better place. At a conference held on 1 February 2018 three ideas were selected, which will be implemented.

In December, the staff of our Estonian entity were actively involved in making donations to the North Tallinn Social Welfare Centre and the Tähetorni Children’s Centre. In Lithuania, our people collected books for donation to local libraries in the framework of the project “A Book for Christmas”.

Organisation and management

Deniss Sazonovs left the management board of ERGO’s Baltic entities to become the Chief Financial Officer of ERGO Group AG’s international business. Thus, from 1 April 2017 the management board of ERGO’s Baltic entities had four members. At a meeting held on 29 March, the supervisory board approved a new allocation of responsibilities:

- chairman of the management board, IT – Kęstutis Bagdonavičius;
- team Leader in Estonia, finance, chairman of the supervisory board of ERGO Invest SIA – Tarmo Koll;
- team leader in Latvia and director of ERGO Insurance SE Latvian branch – Ingrīda Ķirse;
- team leader in Lithuania – Saulius Jokubaitis.

On 1 September 2017, members of the supervisory board of ERGO Insurance SE Thomas Hans Schirmer and Thomas Schöllkopf were recalled. The term of office of Małgorzata Makulska was extended. On 17 August 2017, the owner of ERGO Insurance SE elected a new supervisory board for the company for the term 1 September 2017 to 1 September 2020 comprising Piotr Maria Śliwicki, Małgorzata Makulska, Grzegorz Szatkowski and Carsten Keune. At the first meeting of the new supervisory board held on 1 September Piotr Maria Śliwicki was elected the new chairman of the supervisory board of ERGO Insurance SE.

The owner has decided to change the composition of the supervisory board at all of ERGO’s 37 international companies. The reasons are the restructuring of ERGO Group AG and changes in the management model of the Group’s international operations. For example, Poland, the Baltic countries and Belarus now form one region.

On 15 November 2017, the supervisory board of ERGO Insurance SE approved the changes in the areas of responsibility of the members of the management board, created the position of a new member of the management board: the Chief Transformation Officer (CTO), and appointed Bogdan Benczak as the CTO. His areas of responsibility include IT, IT development, digitalisation, information security and regional development.

Bogdan Benczak has 20 years of experience in life and property-casualty insurance. His strengths include extensive expertise in Eastern European markets, project management, economic analysis and social responsibility projects. From 2014 to 2017 he was the CEO of AAS Balta in the PZU SA group in Latvia. Before that he was in charge of international business and business development. Benczak has also been responsible for developing a new management structure for PZU group.

According to the resolution of the supervisory board, the management board will have five members until 31 March 2018 when the supervisory board will review the present management model.

ERGO Insurance SE's business and future outlook

ERGO Insurance SE's business is determined by the strategic framework of ERGO Group: the main priority is always customer satisfaction. Globally, ERGO Group is also strongly focused on innovation and digitalisation.

In May 2017, ERGO launched a talent programme for its gifted young specialists. The programme provides opportunities to participate in ERGO's local and pan-Baltic projects and to obtain advice for self-development through everyday work.

On 9 August, ERGO started a best practice and knowledge sharing programme "ERGO Explorers" to develop the Polish and Baltic region. The programme, which lasts for a year, can be joined by underwriting, sales, analysis (actuarial, pricing, risk) and claims handling experts.

On 18 September 2017, the Estonian Financial Supervision Authority approved the merger of D.A.S. Õigusabikulude Kindlustuse AS and ERGO Insurance SE. The transaction was entered in the Commercial Register on 28 September 2017. The name of the combined entity is ERGO Insurance SE. In connection with the registration of the merger, D.A.S Õigusabikulude Kindlustuse AS was deleted from the Commercial Register on 28 September 2017. ERGO now offers the widest range of insurance services in Estonia: besides life, health and property-casualty insurance we now also offer legal expenses insurance.

Key financial indicators

In thousands of euros, except for ratios *As at 31 December or for the year*	**2017**	2016
For the year		
Gross written premiums	**166,885**	136,777
Gross earned premiums	**154,360**	130,423
Gross claims and benefits incurred	**87,948**	84,704
Gross expenses	**48,262**	43,877
Gross loss ratio	**57.0%**	64.9%
Net loss ratio	**63.1%**	68.2%
Gross expense ratio	**31.3%**	33.6%
Net expense ratio	**32.0%**	34.9%
Gross combined ratio	**88.2%**	98.6%
Net combined ratio	**95.1%**	103.1%
Claims handling ratio	**10.3%**	10.1%
Claims paid ratio	**53.2%**	59.3%
As at the year-end		
Total assets	**207,156**	188,773
Ratio of investments to total assets	**69.3%**	65.3%
Ratio of equity to total assets	**23.2%**	23.5%
Ratio of insurance provisions to total assets	**64.8%**	64.7%
Profitability indicators		
Insurance result (technical result)	**7,180**	-3,810
Investment result	**-17**	2,460
Profit for the financial year	**5,014**	607
ROE	**10.9%**	1.4%
ROA	**2.5%**	0.3%
ROI	**0.0%**	2.1%

Explanation of figures and ratios

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

Conclusion

The management board of ERGO Insurance SE is pleased to report that in 2017 the company developed in line with the insurance market and achieved its main business goals and targets.

Kęstutis Bagdonavičius

Chairman of the management board

Financial statements

Income statement

In euros	Note	2017	2016
Income			
Gross written premiums	3	166,884,620	136,777,029
Written premiums ceded to reinsurers	3	-8,523,874	-7,462,287
Change in gross provision for unearned premiums	21	-12,524,369	-6,353,881
Reinsurers' share of change in provision for unearned premiums	15	140,486	-452,035
Net earned premiums		**145,976,863**	**122,508,826**
Reinsurance commission income	4	1,577,088	1,103,449
Net investment income	5	861,602	4,001,382
Other income	6	2,177,120	1,785,038
Total income		**150,592,673**	**129,398,695**
Expenses			
Claims and benefits incurred	7	87,947,928	84,704,208
Reinsurers' share of claims and benefits incurred	7	4,164,122	-1,158,487
Net policyholder claims and benefits incurred		**92,112,050**	**83,545,721**
Acquisition costs	8	38,565,263	36,209,014
Administrative expenses	8	7,697,355	6,043,773
Other operating expenses	8	1,999,039	1,623,933
Investment expenses	8	356,874	364,804
Other expenses	8	3,306,226	1,265,135
Total expenses		**144,036,807**	**129,052,380**
Operating profit		**6,555,866**	**346,315**
Share of profit of equity-accounted investees	13	17,045	15,691
Profit before income tax		**6,572,911**	**362,006**
Income tax expense/income	27	**-1,558,932**	**245,148**
Profit for the year		**5,013,979**	**607,154**

Statement of comprehensive income

In euros	Note	2017	2016
Profit for the year		**5,013,979**	**607,154**
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Change in value of available-for-sale financial assets	20	-521,760	-1,176,114
Total other comprehensive expense for the year		**-521,760**	**-1,176,114**
Total comprehensive income/expense for the year		**4,492,219**	**-568,960**

The notes on pages 24 to 84 are an integral part of these financial statements.

Statement of financial position

In euros

As at 31 December	Note	2017	2016
Assets			
Deferred tax assets	27	241,849	1,176,266
Property and equipment	10	7,622,945	9,657,339
Intangible assets			
Deferred acquisition costs	11	7,283,616	5,505,972
Other intangible assets	12	6,115,212	7,170,836
Investments in associates	13	2,534,979	1,855,475
Investments in financial instruments			
Equities and fund units	14	17,893,727	12,726,613
Debt and other fixed-income securities	14	121,736,796	107,325,542
Loans	14	1,380,000	1,384,634
Total investments in financial instruments		141,010,523	121,436,789
Reinsurance assets	15	8,948,187	15,370,195
Insurance and other receivables	16	21,498,810	18,980,895
Cash and cash equivalents	17	11,900,068	7,619,488
Total assets		**207,156,189**	**188,773,255**
Equity and liabilities			
As at 31 December	Note	**2017**	**2016**
Equity			
Share capital	18	6,391,391	6,391,391
Capital reserve	19	3,072,304	3,072,304
Fair value reserve	20	1,231,680	1,753,440
Retained earnings (prior years)		32,373,340	32,493,445
Profit for the year		5,013,979	607,154
Total equity		**48,082,694**	**44,317,734**
Liabilities			
Insurance contract provisions	21	134,244,029	122,055,304
Reinsurance payables	22	2,739,769	2,178,299
Insurance payables	23	8,609,239	7,146,963
Other payables and accrued expenses	24	7,480,458	7,074,955
Subordinated loan	28	6,000,000	6,000,000
Total liabilities		**159,073,495**	**144,455,521**
Total equity and liabilities		**207,156,189**	**188,773,255**

The notes on pages 24 to 84 are an integral part of these financial statements.

Statement of cash flows

In euros

(Inflow + , outflow –)	Note	2017	2016
Net cash from/used in operating activities		**7,244,845**	**-10,308,912**
Insurance premiums received		162,262,476	133,735,265
Claims, benefits and handling costs paid		-87,367,939	-80,240,245
Settlements with reinsurers		-4,063,693	-6,641,813
Settlements with holders of reinsurance policies		10,805	-11214
Paid in operating expenses		-52,528,766	-47,573,403
Other income and expenses		6,139,778	4,249,533
Acquisition of equities and fund units		-5,019,199	-6,750,039
Disposal of equities and fund units		0	13,906,642
Acquisition of debt and other fixed-income securities		-46,440,271	-56,740,196
Disposal of debt and other fixed-income securities		31,809,497	33,175,173
Interest received		2,469,520	2,476,055
Dividends received		111,795	243,202
Paid in investment expenses		-139,158	-137,872
Net cash used in/from investing activities		**-2,964,265**	**8,941,167**
Acquisition of an associate		-612,459	-419,965
Acquisition of subsidiaries net of cash acquired	29	-2,737,041	0
Repayment of loans to group companies		0	720,000
Interest received from group companies		0	134,696
Proceeds from other investments		0	3,750,000
Proceeds from a subordinated loan		0	6,000,000
Paid on acquisition of property and equipment and intangible assets		-1,427,294	-1,256,554
Proceeds from sale of property and equipment and intangible assets		1,812,529	12,990
Net cash inflow/outflow		**4,280,580**	**-1,367,745**
Cash and cash equivalents at beginning of year		**7,619,488**	**8,987,233**
Increase/decrease in cash and cash equivalents		4,280,580	-1,367,745
Cash and cash equivalents at end of year	17	**11,900,068**	**7,619,488**

The notes on pages 24 to 84 are an integral part of these financial statements.

Statement of changes in equity

In euros	Note	Share capital	Capital reserve	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2015		**6,391,391**	**3,072,304**	**2,929,554**	**32,493,445**	**44,886,694**
Profit for the year		0	0	0	607,154	607,154
Other comprehensive expense		0	0	-1,176,114	0	-1,176,114
Total comprehensive expense for the year		**0**	**0**	**-1,176,114**	**607,154**	**-568,960**
Balance at 31 December 2016		**6,391,391**	**3,072,304**	**1,753,440**	**33,100,599**	**44,317,734**
Changes from business combination	29	0	0	0	-509,608	-509,608
Other changes		0	0	0	-217,651	-217,651
Total transactions with owners		**0**	**0**	**0**	**-727,259**	**-727,259**
Profit for the year		0	0	0	5,013,979	5,013,979
Other comprehensive expense		0	0	-521,760	0	-521,760
Total comprehensive income for the year		**0**	**0**	**-521,760**	**5,013,979**	**4,492,219**
Balance at 31 December 2017		**6,391,391**	**3,072,304**	**1,231,680**	**37,387,319**	**48,082,694**

The notes on pages 24 to 84 are an integral part of these financial statements.

Notes to the financial statements

Note 1. Significant accounting policies

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

The financial statements of ERGO Insurance SE for 2017 comprise the financial statements of ERGO Insurance SE's head office in Estonia, the financial information of its Latvian and Lithuanian branches and the financial information of the former D.A.S. Õigusabikulude Kindlustuse AS (the latter from 1 January 2017). On 6 July 2017, ERGO Insurance SE purchased from ERGO Versicherung AG the shares in D.A.S. Õigusabikulude Kindlustuse AS with whom it subsequently merged. For the purposes of the financial statements, the date of the merger was 1 January 2017. In addition, on 18 September 2017 ERGO Insurance SE established a subsidiary, DEAX Õigusbüroo OÜ, whose core business is the provision of claims handling services. The company has not prepared consolidated financial statements because the subsidiary's revenue and assets account for an immaterial share of the company's respective figures.

These financial statements were authorised for issue by the management board on 28 March 2018. Under the Estonian Commercial Code, the annual report including the financial statements that has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report and may demand that a new annual report be prepared.

(a) Statement of compliance

The financial statements of ERGO Insurance SE have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union (IFRS EU) to be effective for the year 2017.

(b) Basis of preparation

The company's functional and presentation currency is the euro.

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

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

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

Use of significant estimates and judgements

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

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

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

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

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

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

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

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

(c) Branches

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

(d) Associates

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

Investments in associates are accounted for using the equity method. Upon initial recognition, investments in associates are measured at cost. The cost of an investment includes directly attributable transaction charges. The financial statements include the company's share of an associate's profit or loss from the date the significant influence commences to the date the significant influence ceases to exist.

(e) Classification of insurance contracts

Non-life insurance

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

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

Incoming reinsurance

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

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

(f) Recognition and measurement of insurance contracts

Insurance premiums

Premium income

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

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

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

Provision for unearned premiums

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

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

Claims and provisions for claims outstanding and unexpired risks

Claims and benefits incurred

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

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

Provision for claims outstanding

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

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

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

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

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

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

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

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

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

Provision for unexpired risks

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

Outgoing reinsurance

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

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

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

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

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

Liability adequacy test

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

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

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

Cash inflows comprise estimated future investment income.

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

(g) Other income

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

(h) Operating lease expenses

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

(i) Income tax

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

In 2017, the tax payable on dividends distributed in Estonia was calculated as 20/80 of the amount distributed as the net dividend. Because of the specific nature of the taxation concept, the term *tax base of assets and liabilities* does not have economic substance and deferred income tax liabilities and assets do not arise.

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

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

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

(j) Foreign currency transactions

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

(k) Property and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

The company as lessor

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

The company as a lessee

Finance leases are recognised in the statement of financial position as assets and liabilities at amounts equal to the fair value of the leased property.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

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

(iii) Subsequent costs

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

(iv) Depreciation

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

The estimated useful lives are as follows:

Computer equipment	3−5 years
Cars, office and communication equipment	5 years
Furniture	5–7 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.

(l) Intangible assets

(i) Deferred acquisition costs – insurance contracts

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

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

(ii) Other intangible assets

Other acquired intangible assets are measured at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (r)). Other intangible assets comprise acquired software and licences which are amortised on a straight-line basis over their estimated useful lives. The estimated useful life of other intangible assets is 3-5 years. As an exception, the useful life assigned to insurance software ALICE is 10 years.

Intangible assets are amortised on the assumption that their residual value is zero. Internally generated goodwill and the costs attributable to the development of brands are recognised as an expense as incurred.

(m) Financial assets

Financial assets comprise investments in equity and debt instruments, trade and other receivables, cash and cash equivalents, loans provided and derivative financial instruments.
Financial assets are classified into four categories, depending on the purpose of acquisition:

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

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

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

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

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

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

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

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

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

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

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

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

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

(n) Derivative financial instruments

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

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

(o) Receivables

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

(p) Cash and cash equivalents

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

(r) Impairment of assets

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

(s) Employee benefits

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

(t) Allocation of expenses

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

(u) Other provisions

Other provisions are recognised when:

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

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

(v) Dividends

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

(w) Events after the reporting period

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2017) and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

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

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

The following new standards, interpretations and amendments are not yet effective for the annual period ended 31 December 2017 and thus have not been applied in preparing these financial statements. The company plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments* (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. Insurance companies have an option to adopt IFRS 9 together with IFRS 17 as from 1 January 2021.

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

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

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

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

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

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

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

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

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

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

It is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the company’s financial instruments are expected to change.

The company is planning to adopt IFRS 9 together with IFRS 17 in 2021.

At this stage it is still unclear what portion of the company's debt securities will be measured at FVTPL, at FVOCI or amortised cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of at FVOCI.

Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

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

The company, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on its financial statements.

IFRS 15 *Revenue from Contracts with Customers*

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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

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

Management does not expect that the new standard, when initially applied, will have a material impact on the company's financial statements. The timing and measurement of the company's revenues will not change under IFRS 15 because of the nature of the company's operations and the types of revenues it earns.

IFRS 16 *Leases*

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

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

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

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

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

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

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

The company leases office premises and office equipment under operating leases. Contractual arrangements related to the lease of office premises and office equipment would mostly be in the scope of the standard. The company has not yet completed an analysis of the expected quantitative impact of the new standard.

IFRS 17 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted (has not yet been endorsed by the EU).

IFRS 17 replaces IFRS 4, which was brought in as an interim standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The company expects that the new standard, when initially applied, will have a material impact on its financial statements because the company's core business is non-life insurance. There will be changes in valuation models, the classification of insurance contracts (profitable and onerous) and the insurance portfolio's aggregation requirements.

Note 2. Risk profile

As a part of Munich Re group, ERGO is committed to turning risk into value. ERGO's risk management encompasses all strategies, methods and processes used to identify, analyse, assess, control and monitor both long- and short-term risks to which ERGO is exposed or may become exposed in the future.

To achieve the above goal, risk management has been made an integral part of the company's management. We have set up a risk management function to achieve Munich Re's key strategic risk management objectives:

- to maintain financial strength sufficient for ensuring that all commitments to customers can be met at all times;
- to maintain and increase the value of the shareholders' investment;
- to preserve the reputation of Munich Re and all of its entities and units.

Risk-taking is our business and in order to meet the above objectives, we have to take risks of the right type and the right severity/level. This is the purpose of our risk management. The logic of the business model exposes the company to various risks. Therefore, risk awareness and prudent risk management are our priorities. We put a lot of effort in enhancing our 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. Our own risk and solvency assessment integrates both the current and future periods' business strategy, risk strategy and capital management. The chapters below describe the main risks that ERGO has to face because of its business model.

2.1. Insurance risks

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

Insurance risk management is an integral part of the company's risk management system. To ensure a balanced insurance portfolio, the company has established pricing and underwriting guidelines, which are updated on a regular basis.

The core elements of insurance risk management are continuous monitoring of risk developments and regular review of the actuarial assumptions employed to calculate technical provisions. Insurance premiums and provisions are calculated on the basis of carefully selected actuarial assumptions.

The inter-relationship between revision risk and concentration risk may give rise to material losses. Such risks are monitored using scenario analysis and modelling, which provide information about the maximum possible liability. To protect itself against such risks and limit fluctuations in income, the company uses reinsurance.

Policies for mitigating insurance risks

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

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

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

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

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

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

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

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

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

Insurance risk management strategy

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

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

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

General insurance contracts

Liability insurance

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

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

Motor liability insurance is the insurance of the civil liability of a person in possession of a major source of danger. It covers the losses that may be incurred from activities related to ownership or use of a vehicle.

Motor liability insurance is also valid outside the Baltic countries and covers relevant losses incurred in the EU countries and countries that have joined the Green Card Convention. Losses are indemnified in accordance with the liability rates of the country in which the traffic accident occurs.

In some countries liability is unlimited. Therefore, in principle, motor liability insurance contracts are contracts with unlimited liability. This means that policies are written without a limit although rates are set taking into account the actual value of the largest possible claim.

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

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

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

Property insurance

The company offers property insurance to owners of property located in the Baltic countries. Property insurance protects, subject to the limits and restrictions of the insured amounts and insurance conditions, policyholders against financial loss caused by damage to their physical property or financial loss arising from business interruption caused by damage to property.

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

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

Marine and transport insurance

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

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

Pricing risks

Non-life insurance premiums are usually calculated for one year on the basis of established insurance rates. The adequacy of insurance rates is checked on a regular basis. Rates may be changed due to changes in claim incurrence statistics, market trends and the provision of a broader or more limited insurance cover. The company has a routine procedure for changing rates. Rates are calculated based on mathematical assumptions. Therefore, there exists the risk that the frequency and severity of losses will surpass the assumptions. This risk is mitigated by checking the validity of assumptions applied in routine reporting.

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

Claims handling risks

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

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

Provisioning risks

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

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

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

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

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

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

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

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

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

Concentration risks

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

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

The company is engaged in non-life insurance, providing cover for various risks. In property insurance, the company needs to monitor the geographical concentration of risks because external factors such as adverse weather conditions may have an adverse impact on a large proportion of insured property in a particular geographical area. Claim-triggering perils such as storms, floods, fires, explosions, and growth in crime may occur on a regional basis, meaning that the company has to manage its geographical risk dispersion very carefully. The company assesses and mitigates the geographical concentration of risks by using contemporary tools for analysing geographical information.

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

In euros	**2017**			**2016**		
	Gross provisions	**Reinsurers' share**	**Net provisions**	**Gross provisions**	**Reinsurers' share**	**Net provisions**
Estonia	38,561,154	2,566,514	35,994,640	34,341,152	2,702,781	31,638,371
Latvia	29,200,284	2,367,896	26,832,388	30,191,809	6,659,442	23,532,367
Lithuania	66,482,591	4,013,777	62,468,814	57,522,343	6,007,972	51,514,371
Total	134,244,029	8,948,187	125,295,842	122,055,304	15,370,195	106,685,109

Impact of catastrophic events

Probable events that could have the strongest impact on the insurance portfolio are natural disasters such as floods and storms. In Estonia, the probable frequency of a severe natural disaster comparable to the storm on 9 January 2005 is once in twenty years.

In order to limit the impact of a potential catastrophe, the company has bought natural catastrophe reinsurance with an insured amount of 26 million euros and retention of 3.0 million euros. In addition, the company constantly limits its risk concentration by spreading its insurance risks across Estonia and limiting its contractual exposure to any single peril in the event of a natural disaster.

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

Reinsurance strategy

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

Reinsurance is acquired on the guiding principle that the net loss should not exceed 1.5 million euros for each individual insured item or each individual event. Retention for additional natural catastrophe reinsurance is 3.0 million euros. Standard exclusions from reinsurance contracts are losses arising from nuclear energy.

Breakdown of reinsurance retention by insurance class as at 31 December 2017

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

Claims development

The claims development table allows comparing the claims outstanding estimates included in the financial statements with the claims incurred in previous years and reflects the company's ability to estimate the total value of claims.

The table provides an overview of current estimates of cumulative claims (including claims paid and case-based provisions and IBNR, but excluding claims handling costs and the provision for claims handling costs) and demonstrates how claims estimates have changed at subsequent year-ends.

An estimate is increased or reduced as claims are paid and more information becomes available about the frequency and severity of claims outstanding.

Various factors may distort current estimates of provisions and cumulative prior year provisions.

While the information in the table provides a historical perspective of the adequacy of claims outstanding estimates, it does not provide a basis for extrapolating surpluses or shortfalls of the past on current claims outstanding balances. The company believes that the estimates of claims outstanding as at the end of 2017 are adequate. However, due to the inherent uncertainties of the provisioning process, it cannot be guaranteed that the balances will prove adequate.

Analysis of claims development – gross (as at 31 December 2017)

In euros	***Year of loss incurrence***					
Estimate of cumulative claims	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
At end of year of incurrence	69,438,065	77,091,746	64,433,543	72,990,244	83,980,608	91,153,852
One year later	65,021,928	75,950,590	64,306,855	65,771,093	82,607,595	
Two years later	64,122,775	75,873,325	61,875,565	65,495,499		
Three years later	62,954,651	71,225,429	60,924,844			
Four years later	60,224,310	65,472,855				
Five years later	60,002,328					
Cumulative payments until 31 December 2017	58,443,882	58,457,022	57,050,734	62,789,562	74,189,796	59,084,674
Provision for claims outstanding (incl. IBNR) at 31 December 2017	1,558,446	7,015,833	3,874,110	2,705,937	8,417,799	32,069,178

At 31 December 2017, the provision for claims outstanding for earlier years of loss incurrence amounted to 8,964,502 euros (2016: 9,258,338 euros).

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

Results of sensitivity analysis for claims

	As at 31 December 2017		**As at 31 December 2016**	
	Change in net loss ratio in percentage points	Impact on profit or loss and equity in euros	Change in net loss ratio in percentage points	Impact on profit or loss and equity in euros
Motor liability insurance	3.5	-1,969,948	4.1	−1,826,990
Motor own damage insurance	0.6	-251,744	0.7	−249,244
Individuals' property insurance	0.8	-82,551	0.9	−89,631
Legal persons' property insurance	1.9	-140,115	4.1	−274,577
Other classes of insurance	1.9	-555,328	3.8	−963,938

Sensitivity analysis involves applying various methods to assess the volatility of estimates used for creating provisions for claims and its impact on the net loss ratio and net profit or loss. A 5% decrease in premium income for 2017 would have had a -1.1 million euro impact on the company's insurance result.

Liability adequacy test

The company has assessed the insurance liabilities recognised in the statement of financial position as at 31 December 2017 using the liability adequacy test.

The test indicated that in some classes of insurance contractual liabilities may exceed the insurance provisions recognised by a total of 152,558 euros (2016: 690,456 euros). As a result, the company reduced the deferred acquisition costs of the affected classes of insurance (see note 11). No additional unexpired risks provision was recognised. Detailed information on insurance provisions is provided in note 21.

In euros

	As at 31 December 2017		**As at 31 December 2016**	
Class of insurance	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision	Reduction of deferred acquisition costs after liability adequacy test	Additional unexpired risks provision
Motor liability insurance	146,866	0	487,160	0
Motor own damage insurance	0	0	203,296	0
Travel insurance	5,692	0	0	0
Total	**152,558**	**0**	**690,456**	**0**

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

2.2. Market, credit and liquidity risk management

The principles of managing the risks related to financial assets are embedded in the company's risk management policy and observed in adhering to 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 limits and restrictions is monitored by a multi-level structure. Tactical decisions are made and implemented by MEAG, an investment management company hired by ERGO. The compliance of investments with the adopted strategy is monitored by the asset and liability management (ALM) team and the team of the risk management function. If problems arise, they are reviewed by the ALM committee, which includes qualified members from Estonia and Germany, and the management board. Many ERGO group entities are also involved in planning, monitoring and managing investment risks.

Credit risk

The credit risk of investments is the risk that the issuer of a security will not discharge its obligations. The risk is mitigated by acquiring securities from issuers with a high credit rating. The following table describes the company's debt securities portfolio by the issuer's credit rating.

At the year-end, the weighted average rating of fixed-income securities was A+ (2016: AA). The company believes that its credit risk exposure to other financial assets is low due to their small proportion.

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

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

The assets presented in the table below have at least one rating of the respective rating group provided by one of the named rating agencies.

2017	**Standard & Poor's**	**AAA**	**AA**	**A**	**BBB**	**Without rating**	**Total**
In euros	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Without rating**	
Debt securities at fair value		66,642,408	17,204,233	19,755,525	18,134,630	0	**121,736,796**
Proportion of debt securities		54.74%	14.13%	16.23%	14.90%	0.00%	**100.00%**
Reinsurance assets		0	6,411,350	485,785	3,817	2,047,235	**8,948,187**
Proportion of reinsurance assets		0.00%	71.65%	5.43%	0.04%	22.88%	**100.00%**

2016	**Standard & Poor's**	**AAA**	**AA**	**A**	**BBB**	**Without rating**	**Total**
In euros	**Moody's**	**Aaa**	**Aa**	**A**	**Baa**	**Without rating**	
Debt securities at fair value		58,515,065	22,797,573	13,684,438	12,328,466	0	**107,325,542**
Proportion of debt securities		54.52%	21.24%	12.75%	11.49%	0.00%	**100.00%**
Reinsurance assets		1,968,074	10,355,109	1,012,920	3,644	2,030,448	**15,370,195**
Proportion of reinsurance assets		12.81%	67.37%	6.59%	0.02%	13.21%	**100.00%**

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

As at 31 December 2017 *In euros*	**Not past due**	**Less than 30 days past due**	**30 to 60 days past due**	**60 to 180 days past due**	**Total**
Receivables from policyholders	14,360,622	1,832,760	107,600	153,639	**16,454,621**
Receivables from intermediaries	689,390	709,128	58,570	148,496	**1,605,584**
Receivables from reinsurers	11,454	45,139	497,672	222,099	**776,364**
Other receivables	592,114	371,640	41,597	40,495	**1,045,846**
Loan receivables	1,380,000	0	0	0	**1,380,000**
Accrued income – interest receivable	117,456	0	0	0	**117,456**
Total	**17,151,036**	**2,958,667**	**705,439**	**564,729**	**21,379,871**

As at 31 December 2016 *In euros*	Not past due	Less than 30 days past due	30 to 60 days past due	60 to 180 days past due	Total
Receivables from policyholders	9,152,622	4,316,090	61,526	106,508	**13,636,746**
Receivables from intermediaries	503,436	626,358	2,259	168,029	**1,300,082**
Receivables from reinsurers	28,794	98,636	499,334	260,293	**887,057**
Other receivables	1,352,520	361,271	88,132	237,123	**2,039,046**
Loan receivables	1,384,634	0	0	0	**1,384,634**
Accrued income – interest receivable	5,032	0	0	0	**5,032**
Total	**12,427,038**	**5,402,355**	**651,251**	**771,953**	**19,252,597**

Market risk

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

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

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

(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 whose market value is influenced by changes in interest rates. At 31 December 2017, the weighted average yield to maturity of fixed-income available-for-sale debt securities was -0.32% (31 December 2016: −0.13%).

Assets exposed to interest rate risk, by interest rate

In euros	**As at 31 December 2017**		**As at 31 December 2016**	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Interest rate 0.00−2.50%	89,112,447	89,407,559	66,036,995	66,402,850
Interest rate 2.51−3.50%	7,928,927	7,940,078	11,176,252	11,229,228
Interest rate 3.51−4.50%	9,736,026	9,837,469	14,822,004	15,010,543
Interest rate 4.51−5.50%	7,566,156	7,776,760	8,531,195	9,288,264
Interest rate 5.51−6.50%	1,986,745	1,992,892	913,406	472,279
Total fixed-income debt securities	**116,330,301**	**116,954,758**	**101,479,853**	**102,403,164**
Floating rate debt securities	4,547,235	4,782,038	4,548,385	4,922,378
Total	**120,877,536**	**121,736,796**	**106,028,238**	**107,325,542**

If at 31 December 2017 the yield curve had shifted evenly 100 basis points upward/downward across all maturities, the company's equity would have decreased/increased by 1.9 million euros (2016: 2.1 million euros). The somewhat smaller risk is attributable to a decrease in the modified duration of the debt securities portfolio. There would be no impact on profit or loss because the securities, which are measured at fair value, have been classified as available-for-sale financial assets and changes in their fair value are recognised in other comprehensive income or expense.

(b) Other price risk

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

If at 31 December 2017 the value of investments in equity and debt securities funds had increased/decreased by 10%, the company's equity would have increased/decreased by 1.8 million euros (2016: 1.3 million euros). The increase in risk is attributable to the acquisition of debt securities during the financial year.

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 by issuer's domicile

In euros **As at 31 December**	**2017**	**2016**
Debt and other fixed-income securities		
Australia	1,852,803	507,428
Austria	986,200	2,268,177
Belgium	2,903,159	2,028,631
Estonia	498,098	0
Spain	9,083,590	8,985,143
Netherlands	3,258,665	3,634,415
Hungary	1,432,664	919,296
Ireland	1,392,113	2,650,206
Italy	5,862,655	3,554,801
Canada	6,909,170	5,236,891
Korea	0	505,665
Lithuania	5,363,721	5,371,376
Luxembourg	602,261	502,052
Latvia	1,223,702	776,523
Norway	3,206,585	2,929,446
Poland	2,784,931	1,050,501
France	19,429,492	24,274,848
Sweden	354,208	358,430
Germany	25,192,425	24,361,059
Slovenia	0	650,852
Finland	1,038,579	1,054,930
Great Britain	5,798,838	5,942,075
Switzerland	3,042,839	2,290,775
Denmark	12,654,393	1,073,537
Czech Republic	579,732	1,930,364
New Zealand	2,648,457	3,716,257
European Investment Bank	0	751,864
Romania	2,240,194	0
China	1,397,321	0
Total debt and other fixed-income securities	***121,736,796***	***107,325,542***
Equities and fund units		
Ireland	9,240,509	8,229,274
Lithuania	43,443	43,443
Luxembourg	8,609,775	4,453,896
Total equities and fund units	***17,893,727***	***12,726,613***
Loans		
Lithuania	0	4,634
Belarus	1,380,000	1,380,000
Total loans	***1,380,000***	***1,384,634***
Total investments in financial instruments	**141,010,523**	**121,436,789**

(c) Currency risk

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

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

In euros	**As at 31 December 2017 USD**	**As at 31 December 2016 USD**
Insurance and other receivables	25,000	29,483
Reinsurance assets	95,356	40,159
Investments in financial instruments – available-for-sale debt securities	2,454,503	4,436,556
Other liabilities from direct insurance business	0	1,918
Other liabilities and accrued expenses	4,788	0
Reinsurance payables	22,193	8,011
Total	**2,601,840**	**4,516,127**

Liquidity risk

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

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

The debt securities portfolio is composed by taking into account the average duration of liabilities and modifying the duration of assets and liabilities with duration matching. In addition, a large share of the company's assets is invested in highly liquid securities, which should ensure the availability of sufficient cash even under stressed circumstances. At the year-end, the company's liquid funds totalled 153 million euros (2016: 129 million euros) including available-for-sale debt securities of 122 million euros (2016: 107.3 million euros), equities and fund units of 17.9 million euros (2016: 12.7 million euros), loans of 1.4 million euros (2016: 1.4 million euros) and cash and cash equivalents of 11.9 million euros (2016: 7.6 million euros).

At the year-end, the weighted average duration to maturity of the available-for-sale debt securities portfolio and units in debt securities funds was 1.9 years (2016: 2.1 years). There were no non-cash movements in the portfolio.

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

Financial assets and liabilities exposed to liquidity risk by maturity

In euros

As at 31 December 2017	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	23,531,366	15,704,959	10,424,565	6,876,744	3,456,102	**59,993,736**
Of which net insurance pension payments	21	0	1,748,887	1,881,915	2,237,560	1,903,133	1,409,856	**9,181,351**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 17	29,793,795	20,878,451	60,616,766	41,123,481	498,098	0	**152,910,591**
Other financial assets	16	0	20,001,790	0	0	0	0	**20,001,790**
Other financial liabilities	23, 24, 28	0	14,499,630	0	0	6,000,000	0	**20,499,630**
Net exposure (assets less liabilities)		29,793,795	2,849,245	44,911,807	30,698,916	-12,378,646	-3,456,102	**92,419,015**

In euros

As at 31 December 2016	Note	Without term	Less than 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Net future payment obligations resulting from provisions for claims outstanding	21	0	20,781,229	12,688,885	6,226,454	4,710,156	9,418,653	**53,825,377**
Of which net insurance pension payments	21	0	602,527	706,695	1,105,034	1,499,081	2,104,438	**6,017,775**
Financial assets (investments in financial instruments and cash and cash equivalents)	14, 15	20,346,101	3,544,037	34,836,023	67,428,943	2,901,173	0	**129,056,277**
Other financial assets	16	0	17,881,516	0	0	0	0	**17,881,516**
Other financial liabilities	23, 24, 28	0	13,254,111	0	0	6,000,000	0	**19,254,111**
Net exposure (assets less liabilities)		20,346,101	-12,609,787	22,147,138	61,202,489	-7,808,983	-9,418,653	**73,858,305**

2.3. Capital management

Management's policy is to maintain a strong capital base so as to protect the interests of investors, creditors and policyholders and to sustain future development of the business. Management monitors return on equity (the ratio of profit to the period's average equity) on an ongoing basis. The return for 2017 was 10.9% (2016: 1.4%).

Thorough capital planning, regular monitoring and a system of risk limits and warnings enable the company to identify a decrease in the capital buffer and potential shortfalls sufficiently early. The capital management plan includes the financial and solvency forecasts made during the planning process, which in turn are part of the company's own risk and solvency assessment report. The capital management plan takes into account the changes planned in the company's own funds.

Assessment of the overall solvency needs represents the company's own view of its risk profile and the capital and other funds needed to address these risks.

The Insurance Activities Act which took effect on 1 January 2016 introduced significant changes to insurers' capital requirements accounting. The company's own funds meet the capital requirements set out in the law.

The table below provides information about the structure of available own funds by tier.

In euros

Own funds	As at 31 December 2017	As at 31 December 2016	Tier
Share capital	6,391,391	6,391,391	Tier 1 – unrestricted
Reconciliation reserve	42,544,410	35,631,158	Tier 1 – unrestricted
Subordinated liabilities	6,000,000	6,000,000	Tier 2
Deferred tax assets	241,849	1,163,682	Tier 3
Total	**55,177,650**	**49,186,231**	

2.4. 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 result from a competitive market environment: market competition causes price competition and has an adverse impact on general profitability. Another source of risk is the demographic situation: continuing population ageing may create a need for services different from those offered by us and the number of prospective customers is declining. Also, changes in customer behaviour create the need for digitalisation.

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 addressed at the level of the management board. Where necessary, the management board determines the appropriate measures. In the case of all significant risks the company appoints the persons responsible for the adoption of measures.

2.5. Operational risks

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 elements:

- 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 adequate control of IT applications which have been implemented. 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 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. Corporate misconduct is counteracted by a system of powers and authorities, 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.

2.6. Reputational risks

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 through a number of different ways: directly as a result of the actions of the company itself, indirectly due to the actions of an employee or tangentially through other peripheral parties.

ERGO has identified two subcategories of reputational risk:

- data and information;
- communication risk.

Reputational risk related to the unauthorised disclosure of confidential information is increasing because the public's awareness of matters related to the disclosure of personal data is improving and the member states of the European Union have adopted new data protection regulations.

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;
- an 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 the 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 forthwith.

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 3. Premium income

The following table outlines gross and net premiums for 2017 and 2016 by insurance class.

In euros	2017			2016		
	Gross written premiums	Reinsurers' share	Net earned premiums[1]	Gross written premiums	Reinsurers' share	Net earned premiums[1]
Motor liability insurance	66,070,743	1,105,150	56,776,207	48,319,189	1,359,626	44,348,338
Accident insurance	6,469,901	29,236	6,195,509	5,811,753	19,088	5,489,561
Travel insurance	3,934,965	104,289	3,706,741	3,472,613	268,399	2,891,378
Technical risks insurance	5,119,357	227,089	4,367,900	4,239,995	102,681	3,998,818
Individuals' property insurance	11,419,977	196,403	10,899,318	10,609,064	341,482	9,970,519
Legal persons' property insurance	9,832,521	2,939,208	6,890,982	9,196,273	2,684,259	6,425,511
Agricultural risks insurance	1,786,750	452,104	1,170,100	1,311,800	279,967	923,863
Motor own damage insurance	43,812,415	48,860	41,349,360	38,480,855	27,212	36,334,264
Liability insurance	6,081,685	1,292,321	4,637,603	5,449,863	923,495	4,132,901
Goods in transit insurance	1,481,341	145,804	1,235,455	1,441,258	154,539	1,320,325
Carrier's liability insurance	2,775,742	3,704	2,832,945	2,847,232	0	2,711,297
Watercraft insurance and watercraft owner's liability insurance	505,723	46,974	455,574	515,316	36,391	468,209
Guarantee insurance	2,166,732	987,474	998,588	1,752,458	859,827	817,266
Railway rolling stock insurance	1,222,799	242,659	1,074,358	1,359,892	320,165	970,502
Assistance insurance	1,664,124	0	1,613,147	1,537,650	0	1,448,481
Financial risks insurance	405,323	72,992	351,560	471,560	85,156	295,434
Loss of employment insurance	33,116	0	32,559	17886	0	17364
Legal expenses insurance	2,101,407	645,538	1,373,026	0	0	0
Total from insurance activities	**166,884,620**	**8,539,805**	**145,960,932**	**136,834,657**	**7,462,287**	**122,564,032**
Accident insurance	0	0	0	3,412	0	5,582
Technical risks insurance	0	0	0	0	0	252
Legal persons' property insurance	0	-15931	15931	-61040	0	-61,040
Financial risks insurance	0	0	0	0	0	0
Total from reinsurance activities	**0**	**-15,931**	**15,931**	**-57,628**	**0**	**-55,206**
Total	**166,884,620**	**8,523,874**	**145,976,863**	**136,777,029**	**7,462,287**	**122,508,826**

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

Gross and net changes in the provision for unearned premiums are disclosed in note 21. On the merger with D.A.S. Õigusabikulude Kindlustuse AS, the company acquired insurance provisions of 577,853 euros (including the provision for unearned premiums of 146,237 euros) and reinsurers' share of the provisions of 346,713 euros (including of the provision for unearned premiums of 87,742 euros). Therefore, the change in the provision for unearned premiums in note 21 does not equal the change recognised in the income statement.

Breakdown of gross written premiums by currency

In euros	**2017**	**2016**
EUR	166,636,204	136,591,628
USD	248,416	185,401
Total	**166,884,620**	**136,777,029**

Breakdown of gross written premiums by country

In euros	**2017**	**2016**
Estonia	57,422,607	49,992,835
Latvia	30,017,728	25,552,523
Lithuania	79,444,285	61,289,299
Total from insurance activities	**166,884,620**	**136,834,657**
Estonia	0	3,412
Romania	0	-61,040
Total from reinsurance activities	**0**	**-57,628**
Total	**166,884,620**	**136,777,029**

Note 4. Commission income

In euros	**2017**	**2016**
Reinsurance commissions	1,418,423	702,595
Participation in reinsurers' profit	194,258	306,307
Reinsurers' share of deferred acquisition costs	-35,593	94,547
Total	**1,577,088**	**1,103,449**

Note 5. Investment income

In euros	**2017**	**2016**
Interest income on		
Loans	112,563	157 488
Term deposits	1,482	664
Available-for-sale debt securities	451,351	508 000
Total interest income	**565,395**	**666,152**
Dividend income	209,085	310,380
Net realised gains on		
Equities and fund units	0	1 134 648
Available-for-sale debt securities	87,121	216 509
Investments in associates	0	1 673 693
Total net realised gains	**87,121**	**3,024,850**
Total	**861,602**	**4,001,382**

Note 6. Other income

In euros	**2017**	**2016**
Gain on disposal of property and equipment	181,300	41,219
Fees, commissions and charges received	915,119	868,362
Insurance brokerage income	120,948	139,540
Foreign exchange gain	232,960	200,151
Rental income	248,225	134,294
Miscellaneous income	478,568	401,472
Total	**2,177,120**	**1,785,038**

Note 7. Claims and benefits

The following table shows claims paid and incurred in 2017 and 2016 by insurance class

In euros	2017				2016			
	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred	Claims paid[1]	Change in provision for claims outstanding	Reinsurers' share of claims	Net claims incurred
Motor liability insurance	34,396,697	6,781,516	1,158,919	42,337,127	31,430,051	4,260,911	-1,232,203	34,458,759
Accident insurance	2,859,166	-60,015	0	2,799,150	2,884,611	116,812	0	3,001,423
Travel insurance	1,940,387	51,488	-151,386	1,840,490	1,537,160	224,546	-233,956	1,527,750
Technical risks insurance	1,966,262	-4,664,182	4,349,789	1,651,868	2,725,995	-194,562	6,192	2,537,625
Individuals' property insurance	5,369,390	-141,603	0	5,227,786	5,162,491	213,568	0	5,376,059
Legal persons' property insurance	5,718,646	-2,156,168	963,491	4,525,969	4,947,466	-275,767	-125,009	4,546,690
Agricultural risks insurance	2,993,770	198,046	-2,160,340	1,031,476	411,073	3,466	0	414,539
Motor own damage insurance	27,175,458	50,007	7,866	27,233,331	26,276,018	-165,894	3,789	26,113,913
Liability insurance	1,866,423	-398,008	-20,744	1,447,671	1,525,136	-265,993	495,349	1,754,491
Goods in transit insurance	407,826	-320,938	0	86,889	298,515	70,525	0	369,041
Carrier's liability insurance	1,381,476	-358,226	15,487	1,038,739	1,640,186	-226,044	-1,776	1,412,366
Watercraft insurance and watercraft owner's liability insurance	183,652	24,533	0	208,186	412,377	-42,826	0	369,551
Guarantee insurance	381,295	-129,475	-34,166	217,654	170,610	26,907	-70,873	126,644
Railway rolling stock insurance	202,807	388,848	-42	591,613	349,232	-215,891	0	133,342
Assistance insurance	1,071,963	-55,867	0	1,016,097	916,845	56,456	0	973,300
Financial risks insurance	417,829	-164,950	0	252,879	423,782	3,306	0	427,088
Loss of employment insurance	4,854	7,616	0	12,470	2,614	526	0	3,140
Legal expenses insurance	523,521	33,884	35,249	592,654	0	0	0	0
Total	**88,861,422**	**-913,494**	**4,164,122**	**92,112,050**	**81,114,162**	**3,590,046**	**-1,158,487**	**83,545,721**

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

On the merger with D.A.S. Õigusabikulude Kindlustuse AS, the company acquired insurance provisions of 577,853 euros (including the provision for claims outstanding of 431,616 euros) and reinsurers' share of the provisions of 346,713 euros (including of the provision for claims outstanding of 258,971 euros). Therefore, the change in the provision for claims outstanding in note 21 does not equal the change recognised in the income statement.

Claims handling costs

In euros	**2017**	**2016**
Salaries	3,280,324	3,084,565
Social security charges	994,041	935,198
Depreciation and amortisation	334,056	225,465
Services purchased	2,859,876	2,377,543
Other labour costs	63,346	57,414
Business travel expenses	24,426	35,736
Costs of company cars	79,562	71,242
Training and other staff costs	58,303	42,979
Rental and utilities charges	103,842	140,940
Office expenses	187,978	191,454
Communication expenses including mobile phone charges	102,207	96,856
IT costs	426,882	382,866
Miscellaneous costs	671,798	552,570
Total	**9,186,642**	**8,194,828**

The following table provides an overview of income from subrogation and salvage recoveries in 2017 and 2016.

In euros	**2017**	**2016**
Motor liability insurance	1,924,291	1,634,228
Accident insurance	1,113	5,704
Travel insurance	6,503	22,644
Technical risks insurance	20,755	13,235
Individuals' property insurance	349,191	415,400
Legal persons' property insurance	215,647	214,691
Motor own damage insurance	3,604,771	3,287,074
Liability insurance	19,200	78,547
Goods in transit insurance	88,248	223,291
Carrier's liability insurance	22,209	53,019
Watercraft insurance and watercraft owner's liability insurance	150	0
Guarantee insurance	25,972	7,554
Assistance insurance	12,978	5,978
Railway rolling stock insurance	6,201	2,569
Other property insurance	-1,700	0
Legal expenses insurance	1,089	0
Total	**6,296,616**	**5,963,934**

Catastrophes and major losses in 2017

In 2017, there were no natural disasters with a significant impact. The largest loss event reported to the company occurred in Lithuania, was related to agricultural risks insurance and amounted to 2.2 million euros. In 2017, the parties involved arrived at a mutually satisfactory solution in the matter of claims which resulted from to the collapse of a shopping centre in the Zolitude district of Riga, Latvia, in December 2013.

Note 8. Expenses

In euros	Note	2017	2016
Acquisition costs		**38,565,263**	**36,209,014**
Salaries		8,468,776	8,883,339
Social security charges		3,394,105	3,370,283
Depreciation and amortisation		1,824,450	1,490,732
Service fees and commissions		19,502,945	15,767,794
Change in deferred acquisition costs	11	-1,768,415	-860 912
Other labour costs		274,441	293,528
Business travel expenses		85,003	104,343
Costs of company cars		334,410	327,401
Training and other staff costs		148,092	137,246
Rental and utilities charges		1,851,347	1,866,795
Office expenses		571,579	784,217
Communication expenses including mobile phone charges		367,949	347,801
IT costs		1,400,120	1,420,871
Marketing expenses		1,281,382	1,416,104
Miscellaneous expenses		829,078	859,472
Administrative expenses		**7,697,355**	**6,043,773**
Salaries		3,934,759	2,945,814
Social security charges		1,162,887	848,655
Depreciation and amortisation		511,459	360,148
Other labour costs		107,718	96,558
Business travel expenses		131,596	108,147
Costs of company cars		54,803	53,000
Training and other staff costs		146,205	72,501
Rental and utilities charges		769,208	849,069
Office expenses		97,479	129,402
Communication expenses including mobile phone charges		58,830	47,165
IT costs		615,885	422,639
Miscellaneous expenses		106,527	110,675
Other operating expenses		**1 999 039**	**1,623,933**
Membership fee to Estonian Traffic Insurance Fund		1,995,649	1,623,933
Miscellaneous operating expenses		3,390	0
Investment expenses		**356 874**	**364,804**
Salaries		118,253	129,181
Social security charges		28,694	30,207
Services purchased		137,687	118,382
Other labour costs		2,560	6,223
Business travel expenses		18,977	20,579
Training and other staff costs		2,926	1,517
Rental and utilities charges		8,263	13,277
Office expenses		117	1,207
Communication expenses including mobile phone charges		2,417	3,604
IT costs		2,114	0
Other services		21,954	31,464
Miscellaneous expenses		12,913	9,163

In euros	Note	2017	2016
Other expenses		**3,306,226**	**1,265,135**
Fees to the Financial Supervision Authority and membership fees to professional associations		376,861	283,408
Insurance brokerage expenses		118,657	100,389
Audit and legal fees		134,688	123,656
Loss on sale of property and equipment		0	119
Write-off of intangible assets	12	1,448,774	0
Write-off of property and equipment	10	3,150	237,660
Interest paid		205,008	5,055
Expenses related to leasing out premises		30,564	30,061
State fees, stamp duties and late payment interest		30,917	32,116
Foreign exchange loss		746,246	194,890
Miscellaneous expenses		211,361	257,781

Note 9 Foreign exchange differences

In the reporting period, the net amount of foreign exchange differences recognised in profit or loss, excluding those arising on financial instruments at fair value through profit or loss, was a loss of 513,286 euros (2016: a gain of 5,261 euros).

Note 10. Property and equipment

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

At 31 December 2017, the cost of fully depreciated items still in use amounted to 2,899,146 euros (31 December 2016: 3,148,549 euros). ERGO Insurance SE has only such items of property and equipment that are in the company's own use.

In April, the property at Tammsaare tee 118c was sold for 1,800,000 euros. The transaction resulted in a gain of 156,016 euros.

In euros

Asset class	Land	Buildings	Improvements to leased premises	Equipment and other items	Total
Cost					
As at 31 December 2015	**1,247,262**	**10,074,232**	**562,136**	**5,253,650**	**17,137,280**
Value adjustment	0	0	0	0	0
Additions	0	0	208,655	501,117	709,772
Sales	-4,344	-60,820	0	-266,771	-331,935
Write-off	0	0	0	-225,425	-225,425
As at 31 December 2016	**1,242,918**	**10,013,412**	**770,791**	**5,262,571**	**17,289,692**
Business combination	0	0	0	75,144	75,144
Additions	0	0	122,751	186,933	309,684
Sales	-203,630	-2,407,908	0	-69,747	-2,681,285
Write-off	0	0	-39,506	-429,431	-468,937
As at 31 December 2017	**1,039,288**	**7,605,504**	**854,036**	**5,025,470**	**14,524,298**
Accumulated depreciation					
As at 31 December 2015	**0**	**2,804,199**	**433,974**	**3,925,776**	**7,163,949**
Value adjustment	0	0	0	0	0
Depreciation for the year	0	467,784	39,444	461,491	968,719
Sales	0	-16,080	0	-259,991	-276,071
Write-off	0	0	0	-224,244	-224,244
As at 31 December 2016	**0**	**3,255,903**	**473,418**	**3,903,032**	**7,632,353**
Business combination	0	0	0	18,043	18,043
Depreciation for the year	0	174,499	64,599	501,960	741,058
Sales	0	-951,417	0	-69,747	-1,021,164
Write-off	0	0	-39,506	-429,431	-468,937
As at 31 December 2017	**0**	**2,478,985**	**498,511**	**3,923,857**	**6,901,353**
Carrying amount					
As at 31 December 2016	**1,242,918**	**6,757,509**	**297,373**	**1,359,539**	**9,657,339**
As at 31 December 2017	**1,039,288**	**5,126,519**	**355,525**	**1,101,613**	**7,622,945**

Note 11. Deferred acquisition costs

In euros	2017	2016
Balance as at 1 January	**5,505,972**	**4,645,056**
Amortised portion	-5,306,908	-4,470,439
Addition from new contracts	7,237,110	6,021,811
Reduction after the liability adequacy test	-152,558	-690,456
Balance as at 31 December	**7,283,616**	**5,505,972**

Note 12. Other intangible assets

In euros	**Software and licences**
Cost	
As at 31 December 2015	**14,408,135**
Addition through purchase of software and licences	1,717,474
Addition through internally generated IT projects	371,967
Write-off of software and licences	-93412
As at 31 December 2016	**16,404,164**
Addition through purchase of software and licences	1,936,017
Addition through internally generated IT projects	387,070
Write-off of software and licences	-4,398,727
As at 31 December 2017	**14,328,524**
Accumulated amortisation	
As at 31 December 2015	**7,928,783**
Amortisation for the year	1,397,957
Write-off	-93,412
As at 31 December 2016	**9,233,328**
Amortisation for the year	1,929,937
Write-off	-2,949,953
As at 31 December 2017	**8,213,312**
Carrying amount	
As at 31 December 2016	**7,170,836**
As at 31 December 2017	**6,115,212**

Internally generated IT project ALICE

	Carrying amount
As at 31 December 2017	3,257,056
As at 31 December 2016	5,068,722

The useful life of insurance software ALICE is 10 years.

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

In the income statement, amortisation expense is allocated to acquisition costs, administrative expenses and claims handling costs depending on the purpose of use of the asset. Intangible assets comprise various items of software and their licences. In the reporting period, the company did not make any significant investments in insurance software ALICE. ALICE has been implemented at the Estonian entity in motor liability, motor own damage, individuals' property, legal persons' property, liability, accident, and travel insurance. In other classes, the software was implemented on 1 January 2018.

At the end of the year, the company decided to write off old IT developments with a carrying amount of 1,448,774 euros (including developments of ALICE of 1,247,716 euros) because it was determined that they can no longer be used.

No intangible assets were sold in the reporting period. At 31 December 2017, the cost of fully amortised assets still in use was 4,579,313 euros (31 December 2016: 4,511,231 euros).

Note 13. Investments in associates and subsidiaries

On the acquisition of an interest in CJSC ERGO Ins. Co, ERGO Insurance SE acquired significant influence but not control over the entity. Accordingly, the investment is accounted for as an investment in an associate.

In euros	**2017**	**2016**
	CJSC ERGO Ins. Co., Belarus	
Ownership interest, %	35	35
Number of shares held	6,591	6,591
Nominal value of a share	444 rubles	237 rubles
Nominal value of investment	2,926,074 rubles	1,562,067 rubles
Share capital	8,360,910 rubles	4,463,421 rubles
Total number of shares	18,833	18,833
Cost of investment	2,106,233	1,493,774
Company's share of investee's equity	1,687,703	1,296,629
Carrying amount	2,484,979	1,855,475
Company's share of investee's profit	17,045	15,691
Assets	10,900,333	11,389,480
Liabilities	6,077,925	7,684,518
Equity	4,822,408	3,704,961
Income	9,695,454	10,716,517
Expenses	-9,646,749	-10,632,246
Profit	48,705	44,834

On 18 September 2017, DEAX Õigusbüroo OÜ was registered in the Commercial Register. The entity's share capital amounts to 50,000 euros and its sole shareholder is ERGO Insurance SE. As by the reporting date the subsidiary had been operating for less than six months, its assets and revenue accounted for an immaterial share of the assets and revenue of ERGO Insurance SE. Therefore, at 31 December 2017 the investment in the subsidiary was reported at cost.

Note 14. Investments in financial instruments

In euros **As at 31 December**	**Note**	**2017**	**2016**
Available-for-sale financial assets			
Equities and fund units	14.1	17,893,727	12,726,613
Debt and other fixed-income securities	14.2	121,736,796	107,325,542
Total available-for-sale financial assets		**139,630,523**	**120,052,155**
Loans and receivables			
Loans	14.3	1,380,000	1,384,634
Total loans and receivables		**1,380,000**	**1,384,634**
Total		**141,010,523**	**121,436,789**

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

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

According to the hierarchy, at 31 December 2017 the company's available-for-sale debt securities and listed equities and fund units of 140 million euros (2016: 120 million euros) fell into Level 1. The fair value of unlisted securities (carrying amount at 31 December 2017 43,443 euros and at 31 December 2016 43,443 euros) cannot be measured reliably. Therefore, their level has not been determined. More detailed information on the breakdown of assets between the different levels of the fair value hierarchy is provided in note 25 *Fair value of financial instruments.*

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

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

14.1. Equities and fund units

In euros	**As at 31 December 2017**		**As at 31 December 2016**	
	Cost	Fair value	Cost	Fair value
Units in listed debt funds	17,477,901	17,850,284	12,458,702	12,683,170
Unlisted equities	43,443	43,443	43,443	43,443
Total	**17,521,344**	**17,893,727**	**12,502,145**	**12,726,613**

Equities not listed on a public stock exchange comprise other equities of 43,443 euros (2016: 43,443 euros).

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

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

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

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

In euros	**As at 31 December 2017**		**As at 31 December 2016**	
	Cost	Fair value	Cost	Fair value
Fixed-income debt securities				
Government bonds	56,898,614	57,360,293	38,042,349	36,951,495
Financial institutions' bonds	59,431,687	59,594,465	63,437,504	65,451,669
Total fixed-income debt securities	**116,330,301**	**116,954,758**	**101,479,853**	**102,403,164**
Floating rate debt securities				
Financial institutions' bonds	4,547,235	4,782,038	4,548,385	4,922,378
Total floating rate debt securities	**4,547,235**	**4,782,038**	**4,548,385**	**4,922,378**
Total	**120,877,536**	**121,736,796**	**106,028,238**	**107,325,542**

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

The fair value of debt securities is determined by reference to the Bloomberg Generic (BGN) Prices available on the information systems of Bloomberg. Where BGN prices are not available, fair value is determined by reference to quoted market prices. If there is a broker on the market whose price quotation includes the quantity purchased, that quotation is relied on. If a quotation including the quantity purchased is not available, one without quantity is used. If a debt security does not have a listed price, valuation models are applied. If the models cannot be used or it would be impracticable, the security is measured at cost. At 31 December 2017, the portfolio did not include any debt securities measured at cost or using valuation models.

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

14.3. Loans

Other loans by maturity

In euros **As at 31 December**	**2017**	**2016**
One to six months	0	4,634
Total	**0**	**4,634**

Mortgage loans by maturity

In euros **As at 31 December**	**2017**	**2016**
Four to five years	1,380,000	0
Over five years	0	1,380,000
Total	**1,380,000**	**1,380,000**

At 31 December 2017, mortgage loans recognised in the statement of financial position of ERGO Insurance SE comprised a loan provided to CJSC ERGO Ins. Co of 1,380,000 euros (31 December 2016: 1,380,000 euros). During the period 15 December 2016 to 1 July 2017 the interest rate was 9.67% per year and during the period 1 July 2017 to 1 July 2018 the interest rate is 8.14% per year.

Note 15. Reinsurance assets

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

In euros **As at 31 December**	**2017**	**2016**
Provision for unearned premiums	1,336,181	1,107,953
Provision for claims outstanding – claims incurred and reported	*5,987,125*	*12,524,321*
Provision for claims outstanding – IBNR	*43,973*	*39,898*
Provision for insurance pension annuities	*1,580,908*	*1,698,023*
Total provision for claims outstanding	7,612,006	14,262,242
Total	**8,948,187**	**15,370,195**

Information on reinsurance assets is provided also in note 21.

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

Reinsurance result

In euros	Note	2017	2016
Premiums paid to reinsurers	3	-8,523,873	-7,462,287
Reinsurers' share of change in provision for unearned premiums		140,486	-452,035
Commissions and profit participation paid by reinsurers	4	1,612,681	1,008,902
Reinsurers' share of claims paid	7	2,745,083	637,971
Reinsurers' share of change in provision for claims outstanding	7	-6,909,206	520,516
Reinsurers' share of deferred acquisition costs	4	-35,593	94,547
Total		**-10,970,422**	**-5,652,386**

Note 16. Insurance and other receivables

In euros **As at 31 December**	2017	2016
Receivables from policyholders	16,454,620	13,636,746
Receivables from brokers and other intermediaries	1,605,584	1,300,082
Receivables from reinsurers	776,364	887,057
Subrogation and salvage receivables	1,920	13,553
Total insurance receivables	***18,838,488***	***15,837,438***
Other receivables	1,045,846	2,039,046
Accrued income – interest receivable	117,456	5,032
Total other financial assets	***20,001,790***	***17,881,516***
Prepaid taxes	121,773	47,960
Prepaid expenses	1,375,247	1,051,419
Total non-financial assets	***1,497,020***	***1,099,379***
Total	**21,498,810**	**18,980,895**

Note 17. Cash and cash equivalents

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

In euros **As at 31 December**	2017	2016
Demand deposits	11,900,068	7,619,488
Total	**11,900,068**	**7,619,488**

Cash and cash equivalents by original currency

As at 31 December	2017	2016
EUR	11,900,068	7,514,538
USD	0	110,628

Note 18. Shareholders and share capital

	Ordinary shares without par value		Total share capital
	Number of shares	Value in euros	In euros
As at 31 December 2017	384,629	6,391,391	6,391,391
As at 31 December 2016	384,629	6,391,391	6,391,391

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

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

The sole shareholder of ERGO Insurance SE is ERGO International AG (registry number HRB 40871, address Victoriaplatz 2, 40198 Dusseldorf, Germany). The shareholder of ERGO International AG is ERGO Group AG. The consolidated financial statements of ERGO Group AG, prepared in accordance with International Financial Reporting Standards, are available at www.ergo.de. The parent of ERGO Versicherungsgruppe AG group is Münchener Rückversicherungs-Gesellschaft AG whose shares are listed on German stock exchanges.

The entire share capital has been paid in.

Dividends

Based on the decision of the sole shareholder, in 2017 and 2016 no dividend was declared.

Note 19. Capital reserve

The capital reserve is created with annual net profit transfers made based on the resolution of the general meeting. Under the articles of association that have been in effect since 17 August 2017, the capital reserve has to amount to one tenth of share capital and pursuant to section 336(2) of the Estonian Commercial Code every year at least one twentieth of net profit for the year has to be transferred to the capital reserve. When the level outlined in the articles of association has been achieved, transfers may be discontinued. At 31 December 2017, the capital reserve of ERGO Insurance SE exceeded the level required by the articles of association.

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

At 31 December 2017, the capital reserve amounted to 3,072,304 euros (31 December 2016: 3,072,304 euros).

Note 20. Fair value reserve

The fair value reserve comprises the net change in the fair value of available-for-sale financial assets.

When a financial asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

In euros	**2017**	**2016**
At 1 January	**1,753,440**	**2,929,554**
Derecognised from equity and recognised in profit or loss in connection with sale and impairment	-56,300	-1,540,237
Derecognised from equity and recognised in profit or loss in connection with arrival of maturity date	-32	401
Net change in fair value recognised in other comprehensive income or expense during the year	-465,428	363,722
At 31 December	**1,231,680**	**1,753,440**

Note 21. Insurance contract provisions and reinsurance assets

In euros **As at 31 December**	**Note**	**2017**	**2016**
Gross provisions			
Provision for unearned premiums		66,638,287	53,967,682
Provision for claims outstanding – claims incurred and reported		*44,757,463*	*49,000,589*
Provision for claims outstanding – IBNR		*8,748,332*	*8,124,878*
Provision for claims outstanding – indirect claims handling costs		*3,337,687*	*3,246,358*
Provision for insurance pension annuities		*10,762,259*	*7,715,797*
Total provision for claims outstanding		67,605,742	68,087,622
Total gross provisions		**134,244,029**	**122,055,304**
Reinsurers' share of provisions			
Provision for unearned premiums		1,336,181	1,107,953
Provision for claims outstanding – claims incurred and reported		*5,987,125*	*12,524,321*
Provision for claims outstanding – IBNR		*43,973*	*39,898*
Provision for insurance pension annuities		*1,580,908*	*1,698,023*
Total provision for claims outstanding		7,612,006	14,262,242
Total reinsurers' share of provisions	15	**8,948,187**	**15 370 195**
Net provisions			
Provision for unearned premiums		65,302,106	52,859,729
Provision for claims outstanding – claims incurred and reported		*38,577,999*	*36,476,268*
Provision for claims outstanding – IBNR		*8,704,359*	*8,084,980*
Provision for claims outstanding – indirect claims handling costs		*3,530,026*	*3,246,358*
Provision for insurance pension annuities		*9,181,351*	*6,017,774*
Total provision for claims outstanding		59,993,736	53,825,380
Total net provisions		**125,295,842**	**106,685,109**

Movements in provisions for unearned premiums

In euros	**2017**			**2016**		
	Gross provision for unearned premiums	**Reinsurers' share**	**Net provision for unearned premiums**	**Gross provision for unearned premiums**	**Reinsurers' share**	**Net provision for unearned premiums**
At 1 January	53,967,682	1,107,953	52,859,729	47,613,800	1,559,989	46,053,811
Changes from business combination	146,237	87,742	58,495	0	0	0
Premiums written	166,884,620	8,523,874	158,360,746	136,777,029	7,462,287	129,314,742
Premiums earned	-154,360,252	-8,383,388	-145,976,864	-130,423,147	-7,914,323	-122,508,824
At 31 December	**66,638,287**	**1,336,181**	**65,302,106**	**53,967,682**	**1,107,953**	**52,859,729**

Provisions for unearned premiums by insurance class.

In euros

Insurance class	Gross provision for unearned premiums 31 Dec 2017	Gross provision for unearned premiums 31 Dec 2016	Net provision for unearned premiums 31 Dec 2017	Net provision for unearned premiums 31 Dec 2016
Motor liability insurance	26,013,235	17,823,848	26,013,236	17,823,848
Accident insurance	2,589,080	2,345,063	2,589,080	2,343,922
Travel insurance	961,852	856,364	958,997	835,064
Technical risks insurance	2,277,506	1,753,138	2,277,506	1,753,138
Individuals' property insurance	4,952,017	4,627,761	4,952,018	4,627,761
Legal persons' property insurance	3,729,496	3,674,472	3,447,159	3,444,913
Other property insurance	731,797	567,252	731,797	567,253
Motor own damage insurance	18,147,957	15,733,760	18,147,957	15,733,760
Liability insurance	2,645,644	2,344,024	2,173,045	2,021,284
Goods in transit insurance	475,346	375,261	474,711	374,630
Carrier's liability insurance	965,420	1,026,328	965,420	1,026,327
Watercraft insurance and watercraft owner's liability insurance	145,368	142,195	145,368	142,195
Guarantee insurance	1,180,267	955,430	679,957	499,287
Railway rolling stock insurance	987,760	1,081,978	924,462	1,018,680
Assistance insurance	532,383	481,409	532,383	481,408
Financial risks insurance	160,278	178,412	146,128	165,272
Loss of employment insurance	1,544	987	1,544	987
Legal expenses insurance	141,337	0	141,337	0
Total	**66,638,287**	**53,967,682**	**65,302,106**	**52,859,729**

Movements in provisions for claims outstanding

In euros	2017			2016		
	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding	Gross provision for claims outstanding	Reinsurers' share	Net provision for claims outstanding
At 1 January	68,087,622	14,262,242	53,825,380	64,497,576	13,741,725	50,755,851
Changes from business combination	431,616	258,971	172,645	0	0	0
Claims incurred in the reporting period	96,600,338	2,311,572	94,288,766	91,229,104	547,478	90,681,626
Change in claims incurred in prior periods	-8,652,412	-6,475,695	-2,176,717	-6,524,896	611,010	-7,135,906
Claims paid	-88,861,422	-2,745,084	-86,116,338	-81,114,162	-637,971	-80,476,191
At 31 December	**67,605,742**	**7,612,006**	**59,993,736**	**68,087,622**	**14,262,242**	**53,825,380**

Provisions for claims outstanding by insurance class

In euros

Insurance class	Gross provision for claims outstanding 31 Dec 2017	Gross provision for claims outstanding 31 Dec 2016	Net provision for claims outstanding 31 Dec 2017	Net provision for claims outstanding 31 Dec 2016
Motor liability insurance	44,654,858	37,874,011	39,749,704	31,701,382
Accident insurance	1,004,227	1,064,241	1,004,227	1,064,241
Travel insurance	661,351	609,200	597,164	547,275
Technical risks insurance	1,712,803	6,376,986	1,430,280	1,744,674
Individuals' property insurance	1,651,026	1,792,629	1,651,026	1,792,629
Legal persons' property insurance	3,164,473	5,320,041	2,761,648	3,869,640
Other property insurance	310,292	112,245	139,530	112,245
Motor own damage insurance	5,034,878	4,984,870	5,034,878	4,984,868
Liability insurance	5,761,443	6,159,453	4,254,910	4,621,243
Goods in transit insurance	261,786	582,723	248,411	569,347
Carrier's liability insurance	1,541,580	1,899,804	1,541,535	1,884,112
Watercraft insurance and watercraft owner's liability insurance	108,502	83,968	108,502	83,968
Guarantee insurance	500,669	630,145	234,110	253,048
Railway rolling stock insurance	608,354	219,506	608,312	219,506
Assistance insurance	108,894	164,762	108,894	164,762
Financial risks insurance	46,965	212,512	46,965	211,914
Loss of employment insurance	8,142	526	8,142	526
Legal expenses insurance	465,499	0	465,499	0
Total	**67,605,742**	**68,087,622**	**59,993,736**	**53,825,380**

In motor liability insurance, the provision for claims outstanding also includes the provision for insurance pension annuities. At 31 December 2017, annuity claim files were open for 222 persons: 112 in Estonia, 55 in Latvia and 55 in Lithuania.

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

In euros	Year of incurrence						
	2017	**2016**	**2015**	**2014**	**2013**	**2012 and earlier**	**Total**
Gross provision for pension annuities	914,849	1,780,885	406,514	1,199,500	363,195	6,097,315	10,762,259
Net provision for pension annuities	914,849	1,780,885	406,514	1,199,500	363,195	4,516,407	9,181,351

Unexpired risks provision

In accordance with the company's accounting policies, the adequacy of insurance provisions has to be tested with a liability adequacy test. Where the test indicates a shortfall in provisions, the company has to first reduce deferred acquisition costs and then, if necessary, recognise an additional provision for unexpired risks. The liability adequacy test performed as at 31 December 2017 indicated that the provisions made for some classes of insurance were not adequate to cover ERGO Insurance SE's obligations in these classes. Based on the test results, deferred acquisition costs were reduced by 152,558 euros (2016: 690,456 euros). No additional unexpired risks provision was recognised (see notes 2.1 and 11). The company's action plan foresees increasing the proportion of property insurance classes in order to balance the portfolio structure and reduce reliance on a single insurance class. The company also reviews its expense structure on a regular basis and has set itself the target to consistently lower the expense ratio in the next few years.

Note 22. Reinsurance payables

In euros **As at 31 December**	**2017**	**2016**
Payables to reinsurers	2,432,453	1,905,894
Reinsurers' share of deferred acquisition costs	307,316	272,405
Total	**2,739,769**	**2,178,299**

Note 23. Insurance payables

In euros **As at 31 December**	**2017**	**2016**
Payables to policyholders	5,245,692	4,229,904
Payables to brokers and other intermediaries	3,279,195	2,848,375
Other payables	84,352	68,684
Total	**8,609,239**	**7,146,963**

Note 24. Other payables and accrued expenses

In euros **As at 31 December**	**2017**	**2016**
Other payables	653,191	344,951
Payables to suppliers	746,665	1,133,968
Accrued vacation pay payable	773,340	656,640
Payables to employees	1,996,120	1,812,906
Other accrued items	1,721,075	2,158,683
Total other financial liabilities	***5,890,391***	***6,107,148***
Personal income tax payable	266,314	247,192
Corporate income tax payable	582,817	0
Value added tax payable	80,964	134,999
Social security tax payable	631,645	566,864
Income tax payable on fringe benefits	4,915	1,628
Social security tax payable on fringe benefits	5,495	0
Payables to 2nd pillar pension funds	17,916	17,124
Total non-financial liabilities	***1,590,066***	***967,807***
Total	**7,480,458**	**7,074,955**

Note 25. Fair value of financial instruments

In euros		**As at 31 December 2017**				
	Note	**Carrying amount**	**Fair value**	**Level I**	**Level III**	**Total**
Financial assets measured at fair value						
Units in listed debt funds	14.1	17,893,727	17,893,727	17,893,727	0	17,893,727
Unlisted equities[1]	14.1	43,443	N/A[1]	N/A[1]	0	0
Government bonds	14.2	57,360,293	57,360,293	57,360,293	0	57,360,293
Financial institutions' bonds	14.2	64,376,503	64,376,503	64,376,503	0	64,376,503
Financial assets measured at amortised cost						
Loans	14.3	1,380,000	1,391,504	0	1,391,504	1,391,504

In euros		**As at 31 December 2016**				
	Note	**Carrying amount**	**Fair value**	**Level I**	**Level III**	**Total**
Financial assets measured at fair value						
Units in listed debt funds	14.1	12,683,170	12,683,170	12,683,170	0	12,683,170
Unlisted equities[1]	14.1	43,443	N/A[1]	N/A[1]	0	0
Government bonds	14.2	36,951,495	36,951,495	36,951,495	0	36,951,495
Financial institutions' bonds	14.2	70,374,047	70,374,047	70,374,047	0	70,374,047
Financial assets measured at amortised cost						
Loans	14.3	1,384,634	1,405,624	0	1,405,624	1,405,624

[1] Fair value cannot be measured reliably.

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

Note 26. Operating and finance leases

The company as a lessee – operating leases

The company uses office premises, office equipment and cars under operating leases. In 2017, operating lease expenses on premises totalled 1,736,353 euros (2016: 1,642,033 euros). Operating lease expenses on other assets totalled 493,400 euros (2016: 108,028 euros).

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

Note 27. Income tax

At 31 December 2017, the company's retained earnings totalled 37,387,319 euros (31 December 2016: 33,100,599 euros) and the carrying amount of intangible assets was 6,115,212 euros (31 December 2016: 7,170,836 euros). Thus, distributable profit amounted to 31,272,107 euros (31 December 2016: 25,929,763 euros). The maximum income tax liability that could arise if all of the distributable profit as at the reporting date were distributed as dividends amounts to 6,254,421 euros (31 December 2016: 5,185,953 euros) and the maximum amount that could be distributed as the net dividend is 25,017,686 euros (31 December 2016: 20,743,810 euros).

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

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

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the dividend tax recognised in the income statement for 2018 cannot exceed the company's distributable profit as at 31 December 2017.

On 1 January 2018, a new Corporate Income Tax Act took effect in Latvia which established a new regime for paying taxes. The new tax rate is 20% in place of the previous 15% and the taxation period is one month in place of a year. The tax base comprises:

- profit distributions (dividends calculated, payments equivalent to dividends, contingent dividends);
- conditional or theoretical profit distributions (non-business expenses, doubtful receivables, excessive interest payments, loans to related parties, revenue reductions or excessive costs resulting from transactions at prices other than market prices, benefits provided by a non-resident to its staff or members of the management or supervisory boards if they relate to the operation of a permanent establishment in Latvia).

This means that in Latvia profit is no longer taxed when it is earned but when it is distributed.

In addition, the use of tax losses carried forward from previous periods is limited: the losses can be used to reduce the amount of tax payable on dividends in the reporting period by up to 50%. Unused tax losses can be carried forward and used in the above manner until 2022 only.

Due to the changes, the company reversed a deferred tax asset of 976,831 euros, which had an impact on the income tax expense for the period:

In euros

Income tax expense/income	**2017**	**2016**
Income tax expense	624,515	59,269
Change in deferred income tax	934,417	-304,417
Total income tax expense/income	**1,558,932**	**-245,148**

In euros

Recognised deferred income tax assets	**2017**	**2016**
Deductible temporary differences on non-current assets	0	-119,311
Tax loss carry-forward	0	995,758
Deductible temporary differences on other liabilities	241,849	299,819
Total	**241,849**	**1,176,266**

In euros

Reconciliation of accounting profit and income tax expense/income	**2017**	**2016**
Profit before tax	6,572,911	362,006
Tax rate 0%	0	0
Effect of tax rates in foreign jurisdictions	9,278	-567,682
Effect of non-deductible expenses	615,237	626,951
Change in recognised deferred tax assets	934,417	-304,417
Income tax expense/income for the year	**1,558,932**	**-245,148**

Note 28. Transactions with related parties

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

- the parent company ERGO International AG and the ultimate controlling party Münchener Rückversicherungs-Gesellschaft AG;
- associates;
- other companies belonging to the same group;
- members of the company's management and supervisory boards and individuals with a significant shareholding, unless the above persons 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 persons.

The remuneration, performance bonuses and benefits provided to the members of the management board for the year totalled 605,640 euros (2016: 554,386 euros). The members of the supervisory were not remunerated.

The remuneration of a member of the management board consists of fixed remuneration and performance benefits. Performance benefits depend on the achievement of targets which are agreed between the chairman of the supervisory board and the member of the management board before the beginning of the financial year. Payment of performance benefits is decided by the chairman of the supervisory board after the general meeting has approved the company's results for the financial year. When the agreed targets are partly not achieved, the company may decide not to pay any performance benefits. The share of maximum performance benefits in the annual income of members of the management board is considerably smaller than that of their basic remuneration. The targets that underlie provision of performance benefits include financial metrics applicable to the whole group as well as personal metrics applicable at the local level. Depending on the terms of their contracts and the circumstances of termination, members of the management board may be eligible to termination benefits for a period that may extend to the end of their term of office. Generally the term of office of members of the management board is three years.

In euros

As at 31 December Related party	Receivables 2017[1]	Receivables 2016[1]	Payables 2017[2]	Payables 2016[2]
Parent of the group – Münchener Rück	0	10,219	410,365	354,916
Other group companies	1,671,905	1,699,669	6,666,514	6,537,700

In euros

Related party	Services purchased 2017[4]	Services purchased 2016[4]	Services sold 2017[3]	Services sold 2016[3]
Other group companies	989,221	755,456	814,207	885,168

[1] Including a loan of 1,380,000 euros (2016: 1,380,000 euros) provided to CJSC ERGO Ins. Co.
[2] Including a subordinated loan of 6,000,000 euros (2016: 6,000,000 euros) received from ERGO Life Insurance SE.
[3] Including interest of 146,521 euros (2016: 125,246 euros) on the loan provided to CJSC ERGO Ins. Co and interest of nil euros (2016: 9,450 euros) on the loan provided to ERGO Invest SIA.
[4] Including interest of 205,008 euros (2016: 5,055 euros) on the loan received from ERGO Life Insurance SE.

Recognised in profit or loss on the basis of reinsurance contracts

In euros

Reinsurance contracts	**2017**	**2016**
Münchener Rückversicherungs-Gesellschaft AG		
Ceded reinsurance premiums	406,109	473,172
Reinsurers' share of claims paid	48,436	91,636
Reinsurance commissions and profit participation	-17,889	40,830
Other group companies		
Ceded reinsurance premiums	951,379	11,560
Reinsurers' share of claims paid	462,759	1,500
Reinsurance commissions and profit participation	676,584	2,272
Gross premiums from incoming reinsurance	0	3,412
Commissions to holders of reinsurance policies	0	682

Note 29. Business combination

On 6 July 2017, ERGO Insurance SE acquired from ERGO Versicherung AG 100% of the shares in D.A.S. Õigusabikulude Kindlustuse AS with whom it subsequently merged. For the purposes of the financial statements, the date of the merger was 1 January 2017.

The acquired entity's assets and liabilities as at 1 January 2017 were as follows:

In euros Assets and liabilities	**D.A.S. Õigusabikulude Kindlustuse AS**
Cash and cash equivalents	882,480
Investments in financial instruments	3,245,152
Other assets	488,739
Total assets	**4,616,371**
Insurance provisions	577,853
Other liabilities	978,606
Equity	3,059,912
Total liabilities and equity	**4,616,371**

The acquisition cost of the shares in D.A.S. Õigusabikulude Kindlustuse AS amounted to 3,569,520 euros. The subsidiary's net assets were identified as at 1 January 2017. The business combination had the following effect on the financial statements of ERGO Insurance SE as the acquirer:

In euros

Cost of 100% of the shares in D.A.S. Õigusabikulude Kindlustuse AS	3,569,520
Net assets of D.A.S. Õigusabikulude Kindlustuse AS at 31 December 2016	3,059,912
Effect on the equity of ERGO Insurance SE	-509,608

As the business combination occurred between entities under common control, the transaction was accounted for using the modified purchase method. This means that the difference between the cost of the subsidiary and the carrying amount of the net assets acquired was recognised directly in equity.

The acquisition of the subsidiary for 3,569,520 euros and the cash and cash equivalents included in the current assets of the acquired subsidiary of 882,480 euros are reported in the statement of cash flows under cash flows from investing activities within *Acquisition of subsidiaries net of cash acquired*.

Signatures to annual report 2017

The management board of ERGO Insurance SE has prepared the company's review of operations and financial statements for 2017.

Kęstutis Bagdonavičius
Chairman of the management board .....28 March 2018

Tarmo Koll
Member of the management board .....28 March 2018

Saulius Jokubaitis
Member of the management board .....28 March 2018

Ingrīda Ķirse
Member of the management board .....28 March 2018

Bogdan Benczak
Member of the management board .....28 March 2018

Independent auditors' report

Profit allocation proposal

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

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

3) the net profit for 2017 of 5,013,979 (five million thirteen thousand nine hundred and seventy-nine) euros be transferred to retained earnings;

4) no distribution be made to the sole shareholder;

5) As at 1 January 2018, retained earnings amount to 37,387,319 (thirty-seven million three hundred and eighty-seven thousand three hundred and nineteen) euros.

On behalf of the management board of ERGO Insurance SE

Kęstutis Bagdonavičius
Chairman of the management board

Information on the sole shareholder

This information is presented as at 20 March 2018.

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

Name of sole shareholder:	**ERGO International Aktiengesellschaft**
Legal address:	Victoriaplatz 2, 40198 Düsseldorf, Germany
Registry number:	HRB 40871, entered in the Commercial Register of Dusseldorf District Court, Germany

Dates of acquisition and subscription of the shares

1. Ordinary shares with no par value:

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

List of business activities

Activities during the period 1 January 2017 – 31 December 2017	Amount
Non-life insurance (65121)	166,884,620

Activities planned for the period 1 January 2018 – 31 December 2018

Non-life insurance (65121)