

ERGO Life Insurance SE

Financial statements for 2014

Contents

Company details	1
Independent Auditor's Report to the Shareholders of ERGO Life Insurance SE	2
Balance sheet	4
Income statement	8
Statement of changes in equity	12
Cash flow statement	13
Explanatory notes	16
Annual report for the year 2014	57

Company details

ERGO Life Insurance SE

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

Supervisory Council

Thomas Hans Schirmer
Thomas Schöllkopf
Malgorzata Makulska

Board

Dr Kęstutis Bagdonavičius
Saulius Jokubaitis
Deniss Sazonovs
Ingrida Kirse
Tarmo Koll

Management

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

Auditor

KPMG Baltics, UAB

Banks

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



KPMG Baltics, UAB
Upės St. 21
LT-08128, Vilnius
Lithuania

Phone: +370 5 210 2600
Fax: +370 5 210 2659
E-mail: vilnius@kpmg.lt
Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of ERGO Life Insurance SE

Report on the Financial Statements

We have audited the accompanying financial statements of ERGO Life Insurance SE ("the Company"), which comprise the balance sheet as at 31 December 2014, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 4–56.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

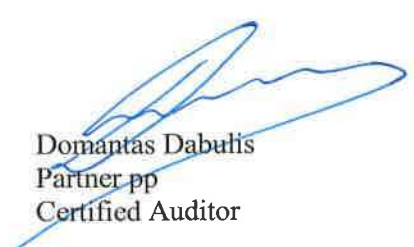
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ERGO Life Insurance SE as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania and with Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania dated 3 February 2004 and all its amendments.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of ERGO Life Insurance SE for the year ended 31 December 2014, set out on pages 57–60 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of ERGO Life Insurance SE for the year ended 31 December 2014.

On behalf of KPMG Baltics, UAB



Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
23 March 2015

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

APPROVED BY

Minutes No. _____ (date)

Balance sheet

(Litas)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
A.	INTANGIBLE NON-CURRENT ASSETS	1	5,311,062	5,077,041
I.	Development costs			
II.	Goodwill			
III.	Patents, licences			
IV.	Software		3,957,236	3,375,680
V.	Other intangible non-current assets		1,353,826	1,701,361
B.	INVESTMENTS		687,477,820	630,746,092
I.	Land, buildings and other real estate	2	793,605	793,605
I.1.	Occupied by insurance company for its own activities			
I.1.1.	Land			
I.1.2.	Buildings			
I.1.3.	Construction in progress and prepayments			
I.1.4.	Other			
I.2.	Other investments into real estate			
I.3.	Investment property		793,605	793,605
I.3.1.	Land		65,377	65,377
I.3.2.	Buildings		728,228	728,228
II.	Investments into subsidiaries and associates	3	14,482,903	13,855,191
II.1.	Shares of subsidiaries		5,265,541	5,265,541
II.1.1.	Listed			
II.1.2.	Non-listed		5,265,541	5,265,541
II.2.	Debt securities of subsidiaries and loans granted to subsidiaries		2,768,136	3,286,056
II.2.1.	Debt securities			
II.2.2.	Loans		2,768,136	3,286,056
II.3.	Shares in associated companies		6,449,226	5,303,594
II.3.1.	Listed			
II.3.2.	Non-listed		6,449,226	5,303,594
II.4.	Debt securities issued by associated companies and loans granted to associated companies			
II.4.1.	Debt securities			
II.4.2.	Loans			
III.	Other financial investments		672,201,312	616,097,296
III.1.	Shares, other variable-yield securities and investment fund units	4	77,678,305	68,428,891
III.1.1.	Listed		75,057,188	66,774,149
III.1.2.	Non-listed		2,621,117	1,654,742
III.2.	Debt and other fixed-income securities	4	594,370,518	546,322,586
III.2.1.	Government, central bank and municipal securities		449,281,881	411,552,353
III.2.2.	Securities issued by other business entities		145,088,637	134,770,233
III.3.	Participation in investment pools			
III.4.	Loans secured in with mortgages			
III.5.	Other loans		140,096	134,152
III.6.	Deposits in credit institutions	5	12,393	1,211,667
III.7.	Other investments			
IV.	Deposits at the reinsured			

Balance sheet

(Litas)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
C.	OTHER LIFE INSURANCE INVESTMENTS	6	55,052,944	43,143,795
I.	Life insurance investments with investment risk taken by the insured		55,052,944	43,143,795
II.	Professional pension accumulation investment			
D.	AMOUNTS RECEIVABLE	7	28,076,823	25,345,493
I.	Amounts receivable from insurance activities		26,798,773	23,189,955
I.1.	The insured		26,795,650	23,188,250
I.2.	Intermediaries		3,123	1,705
I.3.	Others			
II.	Amounts receivable from inward and outward reinsurance activities		646,456	1,356,021
II.1.	The reinsured			
II.2.	Reinsurers		646,456	1,356,021
II.3.	Intermediaries			
II.4.	Others			
III.	Other amounts receivable		631,594	799,517
E.	OTHER ASSETS		23,481,142	21,089,887
I.	Tangible assets and inventories		1,622,786	1,496,802
I.1.	Motor vehicles	9, 10	505,264	556,667
I.2.	Office and other equipment	9, 10	989,355	912,595
I.3.	Inventories		15,081	0
I.4.	Prepayments		113,086	27,540
II.	Cash at bank and in hand	11	21,590,067	19,250,123
III.	Other assets	30	268,289	342,962
F.	ACCRUED INCOME AND DEFERRED COSTS	12	11,091,080	11,559,000
I.	Accrued interest and rental income			
II.	Deferred acquisition costs		10,654,633	10,954,830
II.1.	Deferred acquisition costs for non-life part		1,335,770	1,194,894
II.2.	Deferred acquisition costs for life part		9,318,863	9,759,936
III.	Other accrued income			
IV.	Other deferred costs		436,447	604,170
	TOTAL ASSETS		810,490,871	736,961,308

Balance sheet

(Litas)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
A.	CAPITAL AND RESERVES		90,853,040	86,215,177
I.	Share capital	13	15,124,000	15,124,000
II.	Share premium (surplus of nominal value)	13	52,238,411	52,238,411
III.	Own shares (-)			
IV.	Revaluation reserve			
V.	Reserves	14	2,555,799	2,555,799
V.1.	Legal reserve		1,555,799	1,555,799
V.2.	Reserve for acquisition of own shares			
V.3.	Other reserves		1,000,000	1,000,000
VI.	Profit (loss) to be carried forward from previous year	15	11,463,047	16,049,265
VII.	Retained earnings (losses) of the current year (+/-)	15	9,471,783	247,702
B.	FINANCING (GRANTS AND SUBSIDIES)			
C.	SUBORDINATED LIABILITIES	17	0	0
D.	TECHNICAL PROVISIONS	16	643,025,470	571,572,607
I.	Provision for unearned premiums		43,619,768	28,076,405
I.1.	Gross amount		43,877,732	40,052,027
I.2.	Reinsurers' share (-)		(257,964)	(11,975,622)
II.	Life insurance mathematical technical provision		571,321,251	515,519,086
II.1.	Gross amount		572,593,043	517,671,516
II.2.	Reinsurers' share (-)		(1,271,792)	(2,152,430)
III.	Outstanding claims technical provision		11,855,782	10,305,955
III.1.	Gross amount		12,465,821	12,761,685
III.2.	Reinsurers' share (-)		(610,039)	(2,455,730)
IV.	Technical provision for rebates		16,228,669	17,282,948
IV.1.	Gross amount		16,345,222	17,491,950
IV.2.	Reinsurers' share (-)		(116,553)	(209,002)
V.	Loss equalisation technical provision			
VI.	Other technical provisions		0	388,213
VI.1.	Gross amount		0	388,213
VI.2.	Reinsurers' share (-)			
E.	OTHER TECHNICAL PROVISION FOR LIFE INSURANCE	16	55,052,944	43,143,795
I.	Technical provision for life insurance when the investment risk is borne by the insured		55,052,944	43,143,795
I.1.	Gross amount		55,052,944	43,143,795
I.2.	Reinsurers' share (-)			
II.	Technical provision for professional pension accumulation			
F.	PROVISIONS			
I.	Provisions for pensions and similar liabilities			
II.	Provisions for taxation			
III.	Other provisions			
G.	DEPOSITS OF REINSURERS	17	36,227	303,632

Balance sheet

(Litas)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
H.	LIABILITIES		21,523,190	35,726,097
I.	Liabilities from insurance activities	17	13,141,523	10,281,461
I.1.	Liabilities to the insured		11,013,540	8,373,879
I.2.	Liabilities to intermediaries		2,127,983	1,907,582
I.3.	Other liabilities from insurance activities			
II.	Liabilities from inward and outward reinsurance activities	17	15,432	16,981,688
II.1.	Liabilities to the reinsured			
II.2.	Liabilities to the reinsurers		15,432	16,981,688
II.3.	Liabilities to intermediaries			
II.4.	Other liabilities from inward and outward reinsurance activities			
III.	Issued debt securities converted debts to be specified separately			
IV.	Debts to credit institutions			
V.	Taxes, social insurance and other liabilities	17	8,366,235	8,462,948
V.1.	Taxes		1,882,672	1,375,276
V.2.	Compulsory social insurance contributions		127,267	265,459
V.3.	Salaries		128,769	283,182
V.4.	Other liabilities	19	6,227,527	6,539,031
I.	ACCRUED COSTS AND DEFERRED INCOME			
I.	Accrued costs			
II.	Deferred income			
	TOTAL EQUITY AND LIABILITIES		810,490,871	736,961,308

Head of the insurance company

23/03/2015

(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)

23/03/2015

(signature, date)

Jūratė Muckienė
(first and last names)

Chief Actuary

23/03/2015

(signature, date)

Dr Gintaras Bakštys
(first and last names)

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

APPROVED BY

Minutes No. _____
_____ (date)

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
I.	TECHNICAL ACCOUNT – NON-LIFE INSURANCE			
I.1.	EARNED PREMIUMS NET OF REINSURERS' SHARE		62,274,908	32,692,988
I.1.1.	Gross premiums written	22	67,022,124	58,026,711
I.1.2.	Outward reinsurance premiums (-)		0	(24,072,048)
I.1.3.	Change in technical provision for premiums unearned +/-(-)		(4,747,216)	(2,345,977)
I.1.4.	Change in the reinsurers' share in technical provision for premiums unearned +/-(-)		0	1,084,302
I.2.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM NON-TECHNICAL ACCOUNT		1,120,227	515,120
I.3.	OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE		73,638	304,191
I.4.	INSURANCE CLAIM, NET OF REINSURERS' SHARE EXPENSES (-)	22	(45,283,136)	(23,693,282)
I.4.1.	Claims paid on insured events (-)		(45,568,692)	(23,413,395)
I.4.1.1.	Claims paid (-)		(43,055,740)	(35,511,118)
I.4.1.2.	Claims settlement expenses (-)		(2,533,521)	(3,238,498)
I.4.1.3.	Amounts recovered (+)		20,569	67,379
I.4.1.4.	Reinsurers' share (+)		0	15,268,842
I.4.2.	Change in the technical provision for claims outstanding (-/ +)		285,556	(279,887)
I.4.2.1.	Gross amount (-)		285,556	(482,142)
I.4.2.2.	Reinsurers' share (+)		0	202,255
I.5.	CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-(-)		388,213	(388,213)
I.5.1.	Gross amount (-)		388,213	(388,213)
I.5.2.	Reinsurers' share (+)			
I.6.	REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)			
I.6.1.	Rebated premiums (profit participation) (-)			
I.6.1.1.	Gross amount (-)			
I.6.1.2.	Reinsurers' share (+)			
I.6.2.	Change in technical provision for rebates (-/+)			
I.6.2.1.	Gross amount (-)			
I.6.2.2.	Reinsurers' share (+)			
I.7.	NET OPERATING EXPENSES (-)	24	(12,423,628)	(5,095,101)
I.7.1.	Acquisition costs (-)		(9,467,302)	(8,106,652)
I.7.2.	Change in deferred acquisition costs (-/+)		140,876	36,835
I.7.3.	Administrative expenses (-)		(3,097,202)	(3,171,205)
I.7.4.	Reinsurance commissions and reinsurers' profit share (+)		0	6,145,921

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
I.8.	OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)		(139,918)	(58,437)
I.9.	TECHNICAL RESULT BEFORE THE FORMATION OF THE LOSS EQUALISATION PROVISION		6,010,304	4,277,266
I.10.	CHANGE IN THE LOSS EQUALISATION PROVISION +/-(-)			
I.11.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE		6,010,304	4,277,266
II.	TECHNICAL ACCOUNT – LIFE INSURANCE			
II.1.	EARNED PREMIUMS, NET OF REINSURERS' SHARE		119,739,127	101,955,748
II.1.1.	Gross premiums written	21	122,657,151	104,847,225
II.1.2.	Outward reinsurance premiums (-)		(3,539,925)	(3,551,243)
II.1.3.	Change in unearned premiums technical provision +/-(-)		921,511	646,665
II.1.4.	Change in reinsurers' share of unearned premiums technical provision +/-(-)	22	(299,610)	13,101
II.2.	INVESTING INCOME	28	31,478,400	25,838,814
II.2.1.	Income from participating in other companies			0
II.2.2.	Income from other investments		29,144,400	23,799,546
II.2.2.1.	Income from land and buildings		44,055	41,057
II.2.2.2.	Income from other investments		29,100,345	23,758,489
II.2.3.	Reversal of impairment		2,016,410	993,246
II.2.4.	Profit from transfer of investments		317,590	1,046,022
II.3.	PROFIT FROM INVESTMENT WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED		2,501,490	3,622,376
II.3.1.	Profit from investment when the investment risk is borne by the insured		2,501,490	3,622,376
II.3.2.	Profit from professional pension accumulation investment			
II.4.	OTHER TECHNICAL INCOME, NET OF REINSURERS' SHARE		7,058,200	1,849,372
II.4.1.	Income from pension accumulation activity	25	6,974,649	1,738,280
II.4.2.	Other technical income		83,551	111,092
II.5.	INSURANCE CLAIM COSTS, NET OF REINSURERS' SHARE (-)		(55,700,839)	(51,921,540)
II.5.1.	Claims paid on insurance events (-)		(55,721,389)	(53,207,948)
II.5.1.1.	Claims paid (-)		(41,403,672)	(35,220,141)
II.5.1.2.	Redeemable amounts (-)		(14,566,515)	(19,536,152)
II.5.1.3.	Claim settlement costs (-)		(1,017,414)	(386,734)
II.5.1.4.	Reinsurers' share (+)		1,266,212	1,935,079
II.5.2.	Change in the technical provision for claims outstanding (-/+)		20,550	1,286,408
II.5.2.1.	Gross amount (-)		10,308	1,170,801
II.5.2.2.	Reinsurers' share (+)	22	10,242	115,607

Income statement

(Litas)

Row No.	ITEMS	Note No.	Financial year	Previous financial year
II.6.	CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURERS' SHARE, NOT SHOWN UNDER OTHER HEADINGS +/-(-)		(67,711,314)	(48,485,515)
II.6.1.	Change in life insurance mathematical technical provision, net of reinsurers' share +/-(-)		(67,711,314)	(48,485,515)
II.6.1.1.	Gross amount (-)		(66,830,676)	(47,557,675)
II.6.1.2.	Reinsurers' share (+)		(880,638)	(927,840)
II.6.2.	Change in other technical provisions, net of reinsurers' share (-/+)			
II.6.2.1.	Gross amount (-)			
II.6.2.2.	Reinsurers' share (+)			
II.7.	REBATED (PAYABLE) INSURANCE PREMIUMS (PROFIT PARTICIPATION), NET OF REINSURERS' SHARE (-)		(150,414)	(2,451,299)
II.7.1.	Rebated premiums (profit participation) (-)		(1,204,693)	(943,811)
II.7.1.1.	Gross amount (-)		(1,320,329)	(1,143,428)
II.7.1.2.	Reinsurers' share (+)		115,636	199,617
II.7.2.	Change in technical provision for rebates (-/+)		1,054,279	(1,507,488)
II.7.2.1.	Gross amount (-)		1,146,728	(1,389,137)
II.7.2.2.	Reinsurers' share (+)		(92,449)	(118,351)
II.8.	NET OPERATING EXPENSES (-)	24	(29,999,565)	(25,107,187)
II.8.1.	Acquisition costs (-)		(23,189,278)	(18,484,851)
II.8.2.	Change in deferred acquisition costs (-/+)		(441,073)	(817,266)
II.8.3.	Administrative expenses (-)		(8,115,517)	(7,345,641)
II.8.4.	Reinsurance commissions and reinsurers' profit share (+)		1,746,303	1,540,571
II.9.	INVESTMENT EXPENSES (-)	28	(2,890,633)	(7,568,182)
II.9.1.	Investment management expenses including interest (-)		(1,409,366)	(1,283,810)
II.9.2.	Decrease in investment value (-)		(999,660)	(5,939,700)
II.9.2.1.	Costs related to participation in other companies activity and other investments (-)			
II.9.2.2.	Loss due to decrease in value (-)		(999,660)	(5,939,700)
II.9.3.	Loss on transfer of investments (-)		(481,607)	(344,672)
II.10.	LOSS ON INVESTMENTS WHEN THE INVESTMENT RISK IS BORNE BY THE INSURED (-)		0	0
II.11.	OTHER TECHNICAL COSTS, NET OF REINSURERS' SHARE (-)		(66,292)	(79,521)
II.12.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED TO NON-TECHNICAL ACCOUNT (-)		(4,757,582)	(3,023,740)
II.13.	PROFIT (LOSS) FROM TECHNICAL ACCOUNT OF LIFE INSURANCE		(499,422)	(5,370,674)
III.	NON-TECHNICAL ACCOUNT			
III.1.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE		6,010,304	4,277,266
III.2.	PROFIT (LOSS) FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE		(499,422)	(5,370,674)

Income statement

(Litas)

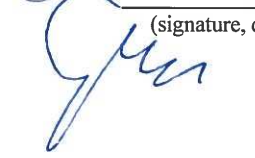
Row No.	ITEMS	Note No.	Financial year	Previous financial year
III.3.	INVESTMENT INCOME			
III.3.1.	Income from participating in other companies			
III.3.2.	Income from other investments			
III.3.2.1.	Income from land and buildings			
III.3.2.2.	Income from other investments			
III.3.3.	Reversal of impairment			
III.3.4.	Profit from transfer of investments			
III.4.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED FROM THE TECHNICAL ACCOUNT OF LIFE INSURANCE		4,757,582	3,023,740
III.5.	INVESTMENT EXPENSES (-)			
III.5.1.	Investment management expenses including interest (-)			
III.5.2.	Decrease in investment value (-)			
III.5.2.1.	Costs related to participation in other companies activity and other investments (-)			
III.5.2.2.	Loss due to decrease in value (-)			
III.5.3.	Loss on transfer of investments (-)			
III.6.	PROFIT (LOSS) FROM INVESTMENTS TRANSFERRED TO THE TECHNICAL ACCOUNT OF NON-LIFE INSURANCE (-)		(1,120,227)	(515,120)
III.7.	OTHER INCOME		1,009,522	91,741
III.7.1.	Finance income	29	635,800	534
III.7.2.	Other income		373,722	91,207
III.8.	OTHER EXPENSES (-)		(162,052)	(1,029,706)
III.8.1.	Finance expenses (-)	29	(54)	(170,776)
III.8.2.	Other expenses (-)		(161,998)	(858,930)
III.9.	PROFIT (LOSS) FROM ORDINARY ACTIVITIES		9,995,707	477,247
III.10.	EXTRAORDINARY INCOME			
III.11.	EXTRAORDINARY EXPENSES (-)			
III.12.	EXTRAORDINARY PROFIT (LOSS)			
III.13.	CURRENT YEAR RESULT – PROFIT (LOSS) –BEFORE TAXATION		9,995,707	477,247
III.14.	PROFIT TAX (-)	30	(523,924)	(229,545)
III.15.	CURRENT YEAR RESULT – PROFIT (LOSS)		9,471,783	247,702

Head of the insurance company  23/03/2015
(signature, date)

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)  23/03/2015
(signature, date)

Jūratė Muckienė
(first and last names)

Chief Actuary  23/03/2015
(signature, date)

Dr Gintaras Bakštyš
(first and last names)

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

APPROVED BY

Minutes No. _____ (date)

Statement of changes in equity

(Litas)

		Issued authorized capital	Share premium account	Own shares (-)	Revaluation reserve (results)		Legal reserve		Other reserves	Retained earnings (loss)	Total
					Tangible non- current assets	Finan- cial assets	Compulsory	Own shares acqui- sition			
1.	Balance as at 31 December 2012	15,124,000	52,238,411				1,555,799		1,000,000	19,502,065	89,420,275
2.	Result of change in the accounting policy										
3.	Result of corrections of material errors										
4.	Restated balance as at 31 December 2012	15,124,000	52,238,411				1,555,799		1,000,000	19,502,065	89,420,275
5.	Increase (decrease) in value of non-current tangible assets										
6.	Increase (decrease) in value of financial assets										
7.	Purchase/sale of own shares										
8.	Profit (loss) not recognized in the income statement										
9.	Net profit (loss) of the reporting period									247,702	247,702
10.	Dividends									(3,452,800)	(3,452,800)
11.	Other amounts paid out										
12.	Reserves allocated										
13.	Reserves used										
14.	Increase (decrease) in authorized capital										
15.	Balance as at 31 December 2013	15,124,000	52,238,411				1,555,799		1,000,000	16,296,967	86,215,177
16.	Increase (decrease) in value of non-current tangible assets										
17.	Increase (decrease) in value of financial assets										
18.	Acquisition of own shares										
19.	Profit (loss) not recognized in the income statement										
20.	Net profit (loss) of the reporting period									9,471,783	9,471,783
21.	Dividends									(4,833,920)	(4,833,920)
22.	Other amounts paid out										
23.	Reserves allocated										
24.	Reserves used										
25.	Increase/decrease in authorized capital										
26.	Balance as at 31 December 2014	15,124,000	52,238,411				1,555,799		1,000,000	20,934,830	90,853,040

Head of the insurance company


(signature, date) 23/03/2015

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)


(signature, date) 23/03/2015

Jūratė Muckienė
(first and last names)

Chief Actuary


(signature, date) 23/03/2015

Dr Gintaras Bakštys
(first and last names)

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

APPROVED BY

Minutes No. _____
_____ (date)

Cash flow statement

(Litas)

Row No.	ITEMS	Financial year	Previous financial year
I.	CASH FLOWS FROM OPERATING ACTIVITIES +/-	36,873,529	27,988,780
I.1.	Insurance and inward reinsurance premiums received	188,933,468	161,042,390
I.1.1.	Insurance premiums	188,933,468	161,042,390
I.1.2.	Inward reinsurance premiums		
I.2.	Coinsurance premiums		
I.2.1.	Share of insurance undertakings in coinsurance premiums received		
I.2.2.	Share in coinsurance premiums received of other insurance undertakings involved in coinsurance operations		
I.3.	Amounts paid to other insurance undertakings involved in coinsurance operations (-)		
I.4.	Amounts received from other insurance undertakings involved in coinsurance operations		
I.5.	Outward reinsurance premiums (-)	(3,866,578)	(723,884)
I.5.1.	Proportional outward reinsurance premiums (-)	(3,529,964)	(723,884)
I.5.2.	Non-proportional outward reinsurance premiums (-)	(336,614)	0
I.6.	Amounts paid under insurance and reinsurance contracts (-)	(97,873,384)	(89,144,139)
I.6.1.	Rebates upon cancellation of contracts (-)	(64,449)	(57,679)
I.6.1.1.	Insurance (-)	(64,449)	(57,679)
I.6.1.2.	Reinsurance (-)		
I.6.2.	Claims paid (-)	(78,798,313)	(69,841,153)
I.6.2.1.	Insurance (-)	(80,157,203)	(71,207,195)
I.6.2.2.	Reinsurance (-)	1,358,890	1,366,042
I.6.3.	Amounts recovered by way of subrogation and salvage (+)	20,569	67,379
I.6.3.1.	Insurance (+)	20,569	67,379
I.6.3.2.	Reinsurance (+)		
I.6.4.	Surrender values paid (-)	(18,857,406)	(19,138,447)
I.6.4.1.	Insurance (-)	(18,857,406)	(19,186,610)
I.6.4.2.	Reinsurance (-)	0	48,163
I.6.5.	Claim settlement costs paid (-)	(14,148)	(39,996)
I.6.5.1.	Insurance (-)	(14,148)	(39,996)
I.6.5.2.	Reinsurance (-)		
I.6.6.	Rebates (profit participation) paid to the insured upon maturity (-)	(275,273)	(333,860)
I.6.7.	Rebates (profit participation) paid to the reinsured upon maturity (-)	115,636	199,617
I.7.	Other amounts transferred to reinsurers (-)	(384,265)	(259,890)
I.8.	Other amounts received from reinsurers	16,623	0
I.9.	Other amounts transferred to the reinsured (-)		
I.10.	Other amounts received from the reinsured		
I.11.	Operating expenses paid (-)	(44,738,537)	(38,061,588)

Cash flow statement

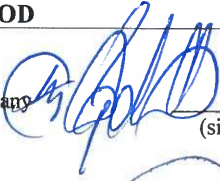
(Litas)

Row No.	ITEMS	Financial year	Previous financial year
I.12.	Taxes on ordinary activities paid (-)	(6,524,487)	(5,383,791)
I.13.	Amounts received from other operating activities	1,435,893	718,630
I.14.	Amounts paid on other operating activities (-)	(125,204)	(198,948)
II.	CASH FLOWS FROM INVESTING ACTIVITIES +/-)	(29,717,608)	(30,224,315)
II.1	Amounts received from investing activities	30,585,034	25,976,868
II.1.1.	Amounts received due to merger		
II.1.2.	Shares, other variable-yield securities and investment fund units	3,315,644	3,198,213
II.1.3.	Debt and other fixed-income securities	20,018,646	20,469,086
II.1.4.	Land		
II.1.5.	Buildings	44,171	43,903
II.1.6.	Loans secured with mortgages	517,920	517,920
II.1.7.	Other secured loans		
II.1.8.	Unsecured loans	15,134	13,865
II.1.9.	Deposits in credit institutions	2,716	4,110
II.1.10.	Other investments	6,670,803	1,729,771
II.2.	Amounts received on maturity or realization of investments	22,287,352	296,881,422
II.2.1.	Subsidiaries and associates		
II.2.2.	Shares, other variable-yield securities and investment fund units	3,190,896	4,745,119
II.2.3.	Debt securities and other fixed-income securities	17,688,389	47,823,097
II.2.4.	Land		
II.2.5.	Buildings		
II.2.6.	Loans secured with mortgages		
II.2.7.	Other secured loans		
II.2.8.	Unsecured loans	111,825	85,769
II.2.9.	Deposits in credit institutions	1,280,705	244,188,534
II.2.10.	Other investments	15,537	38,903
II.3.	Amounts paid on investment (-)	(80,627,979)	(351,146,123)
II.3.1.	Subsidiaries and associates (-)	(1,145,632)	(1,039,137)
II.3.2.	Shares, other variable-yield securities and investment fund units (-)	(24,605,292)	(41,409,023)
II.3.3.	Debt securities and other fixed-income securities (-)	(54,258,017)	(66,988,386)
II.3.4.	Land (-)		
II.3.5.	Buildings (-)		
II.3.6.	Loans secured with mortgages (-)		
II.3.7.	Other secured loans (-)		
II.3.8.	Unsecured loans (-)	(112,928)	(93,615)
II.3.9.	Deposits in credit institutions (-)	(81,485)	(240,855,122)
II.3.10.	Other investments (-)	(424,625)	(760,840)
II.4.	Taxes paid on investing activities (-)	(849,540)	(670,051)
II.5.	Amounts generated from other investing activities		
II.6.	Amounts paid on other investing activities (-)	(1,112,475)	(1,266,431)

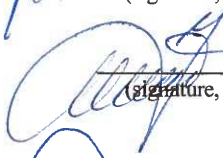
Cash flow statement

(Litas)

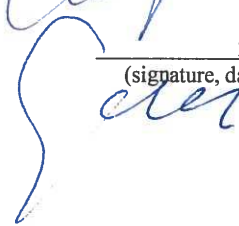
Row No.	ITEMS	Financial year	Previous financial year
III.	CASH FLOWS FROM FINANCING ACTIVITIES +/-	(4,815,977)	(3,477,914)
III.1.	Amounts received on issue of ordinary and preference shares		
III.2.	Amounts paid on purchase of own shares (-)		
III.3.	Amounts received on issue of debt securities		
III.4.	Amounts paid on redemption of debt securities (-)		
III.5.	Loans received		
III.6.	Loans repaid (-)		
III.7.	Dividends paid (-)	(4,833,920)	(3,452,800)
III.8.	Taxes paid on financing activities (-)		
III.9.	Amounts generated from other financing activities	17,943	0
III.10.	Amounts paid on other financing activities (-)	0	(25,114)
IV.	INCREASE (DECREASE) IN CASH	2,339,944	(5,713,449)
V.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	19,250,123	24,963,572
VI.	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	21,590,067	19,250,123

Head of the insurance company  23/03/2015
(signature, date)

Dr Kestutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)  23/03/2015
(signature, date)

Jūratė Muckienė
(first and last names)

Chief Actuary  23/03/2015
(signature, date)

Dr Gintaras Bakštys
(first and last names)

Explanatory notes

1 Introduction

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

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

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

Life insurance group includes the following:

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

Non-life insurance group includes the following:

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

Until November 2014 the Company participated in the II pillar of the pension system by managing two pension funds.

In 2014, the premiums written by the Company increased to 189.68 million Litass, compared to 162.87 million Litass in 2013. Claim costs, except for reinsurers’ share, amounted to 100.98 million Litass in the financial year (75.61 million Litass in 2013).

In 2014, the profit generated by the Company amounted to 9.47 million Litass because of the successful investment activity steadily pursued in the established European Company, balanced risk management, increase in the premiums written, price optimisation as well as development of insurance products.

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

The average number of employees in 2014 amounted to 401 (398 in 2013). The Company has 5 regional centres in the biggest Lithuanian cities, i.e. Vilnius, Kaunas, Klaipėda, Panevėžys, Šiauliai, and 20 territorial client service centres in Lithuania and 3 regional centres, 10 representative offices and 13 sales points in Latvia. The Estonian branch has 8 sales persons.

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

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

On 26 April 2012, 33% of the Company's shares held by ERGO Kindlustuse AS were transferred to another shareholder, i.e. ERGO International AG situated in Germany. As at 31 December 2014, 15,124 shares (100% from the total authorised capital) are owned by the parent company ERGO International AG, the head office of which is situated at the address Victoriaplatz 2, D-40198, Dusseldorf, Germany. Company code 40871.

As at 31 December 2014, the Company had the following subsidiaries and associated companies:

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

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

The Company has been audited by KPMG Baltics, UAB. The shareholders' meeting is foreseen to be held on 26–27 March 2015.

2 Accounting principles

Statement of compliance

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

Basis of preparation

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

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

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

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

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

Estimates

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

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

Intangible assets

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

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

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

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

Investment property

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

Investments in subsidiaries and associated companies

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

Financial assets

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

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

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

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

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

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

Effective interest method

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

Investment into subsidiaries and associated companies

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

Investments into equity securities

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

Investments into debt securities

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

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

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

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

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

Dividend income is recognized when distributed.

Loans

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Tangible non-current assets

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

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

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

Office equipment	3–10 years
Vehicles	4–10 years

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

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

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

Impairment of non-current tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation cannot be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

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

Other assets

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

Capital and reserves

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

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

As at the end of 2014, the Company had fully formed its compulsory reserve.

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

Technical provisions

The Company forms the following technical provisions:

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

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

The mentioned technical provisions are formed in accordance with the best actuarial practice, with Resolution No. N-117 approved by the Insurance Supervisory Commission of the Republic of Lithuania "Methods for Calculation of Insurance Technical Provisions" and subsequent amendments to this Resolution, and the methodology of ERGO group.

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

Life insurance mathematical technical provision is formed in accordance with the principles of the best actuarial practice and with insurance products technical plans. It is estimated by the principle of actuarial perspective net insurance premiums as a difference between the actuary discounted contractual insurance liabilities (as at the date of the provision calculation) and future claim settlement costs and actuary discounted future net insurance premiums. The actuary basis is actualized annually. The Zillmer method is applied. The calculation of reserve premium was changed in quarter 3–4 of 2014 based on the instructions of the Bank of Lithuania.

Life insurance mathematical technical provision is directly interpolated by the 1/12 method as insurance contracts start on the first day of each month.

Technical provision of compulsory annuities in Estonia is formed following the same methodology; however, it must not be lower than the value of guaranteed cash flows discounted at the risk-free interest rate.

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

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

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

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

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

Derivatives

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

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

Provisions for other liabilities

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

Other liabilities

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

Financial liabilities

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

Premiums written and earned premiums

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

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

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

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

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

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

Claim costs

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

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

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

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

Investment income and expenses

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

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

Recognition of other income and expenses

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

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

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

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

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

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

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

Deferred acquisition costs

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

Acquisition costs and administrative expenses

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

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

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

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

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

Other technical income

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

Taxes

The main rates of the taxes (other than income tax) paid by the Company:

- Insurance Supervisory Commission maintenance fee of 0.234% from insurance premiums written;
- Social insurance contributions of 30.98% in Lithuania, 24.09% in Latvia and 34.10% in Estonia on employment related income calculated for employees;
- Output value added tax of 21% in Lithuania, 21% in Latvia and 20% in Estonia calculated on sales income taxable by VAT less input VAT;
- Real estate tax up to 1% in Lithuania, 0.2% in Latvia and 0% in Estonia calculated on the value of real estate;
- Pollution tax at the rates specified by the legislation.

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

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

In 2014, corporate income tax of 860,113 Litass was calculated for the activity in the Republic of Lithuania which (70%) was covered by the accumulated tax losses. Corporate income tax of 534,179 Litass was calculated for the activity in the Republic of Latvia to be paid to the Budget of the Republic of Latvia. Activity in the Republic of Estonia is not subject to corporate income tax.

Calculation of corporate income tax in the Republic of Lithuania was influenced by the result of the financial activity, attribution of life insurance premiums and investment income to the tax exempt income and attribution of costs, generating tax exempt income, to non-deductible expenses. In 2014 and 2013, a profit tax rate of 15% was applied. The calculated tax decreased the tax loss carried forward, the basis of which is tax losses from the previous accounting periods.

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

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

Foreign currencies

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated into Litass at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

Cash flow statement

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

Post-balance sheet events

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

Risk management

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

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

Credit risk

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

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

Currency risk

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

The main part of the Company's transactions in 2014 is denominated in local currencies: Lithuanian Litas (LTL) and Euro (EUR). On 1 January 2014, Euro became the national currency of Latvia. The risk related to transactions in Euro is considered to be insignificant as the Lithuanian Litas is pegged to Euro at a fixed rate. As mentioned in Note 37, on 1 January 2015 the Republic of Lithuania joined the euro zone and the Lithuanian national currency Litas was replaced by the Euro.

Liquidity risk

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

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

Interest rate risk

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

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

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

	Financial year	Previous financial year
Increase by 100 bp (1%)		
Result for the financial year	15,313	10,848
Decrease by 100 bp (1%)		
Result for the financial year	(19,667)	(11,926)

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

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

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

Risk-taking and provision risk (insurance risk)

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

To manage this risk, the Company uses:

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

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

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

	Financial year	Previous financial year
5% increase		
Result for the financial year	(256)	(374)
5% decrease		
Result for the financial year	258	352

Concentration risk

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

Notes

Note 1. Intangible assets (Litas)

Items	Assets groups		Total
	Software	Other intangible assets	
Acquisition cost			
At the beginning of the accounting period	9,080,776	2,444,242	11,525,018
Acquired assets	1,877,809	88,943	1,966,752
Transferred assets (-)			
Written off assets (-)			
Reclassified assets +/-(-)			
At the end of the accounting period	10,958,585	2,533,185	13,491,770
Accumulated amortization charge			
At the beginning of the accounting period	5,705,096	742,881	6,447,977
Calculated amortization charge	1,296,253	436,478	1,732,731
Restated amortization charge (-)			
Written off amortization charge on disposals (-)			
Written off amortization charge on write-offs (-)			
Reclassified amortization charge +/-(-)			
At the end of the accounting period	7,001,349	1,179,359	8,180,708
Book value			
At the beginning of the accounting period	3,375,680	1,701,361	5,077,041
At the end of the accounting period	3,957,236	1,353,826	5,311,062

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

Other intangible assets item includes the cost of life insurance portfolio of Nordea Life Insurance SE Lithuania Branch acquired on 16 November 2012. These assets were stated at acquisition cost with the amortisation period of 4 years. The assets' value at the moment of acquisition (acquisition cost) was measured based on comparative method, comparing it to the equivalent portfolio held, and amounted to 1,726,400 Litas. The book value of these assets as at 31 December 2014 amounts to 1,097,398 Litas.

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

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

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

Items	Subsidiaries		Associates	
	Shares	Debt securities and loans	Shares	Debt securities and loans
Acquisition cost				
At the beginning of the accounting period	5,265,541	3,286,056	5,303,594	
Acquired assets			1,145,632	
Transferred assets (-)		(517,920)		
Written off assets (-)				
Reclassified assets +/-(-)				
At the end of the accounting period	5,265,541	2,768,136	6,449,226	
Revaluation				
At the beginning of the accounting period				
Increase in value				
Decrease in value (-)				
Written off revaluation result on disposals (-)				
Written off revaluation result on write-offs (-)				
Reclassified revaluation result +/-(-)				
At the end of the accounting period				
Book value				
At the beginning of the accounting period	5,265,541	3,286,056	5,303,594	
At the end of the accounting period	5,265,541	2,768,136	6,449,226	

Investments of the Company into subsidiary and associated companies comprise:

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

The main financial information (not audited) of ERGO Invest SIA as at 31 December 2014 was the following (Litas):

Assets	Liabilities	Equity	Income	Result of the year
26,797,859	6,323,271	20,474,588	3,119,380	632,221

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

The main financial information (not audited) of ERGO Funds AS as at 31 December 2014 was the following (Litas):

Assets	Liabilities	Equity	Income	Result of the year
29,698,948	73,842	29,625,106	2,188,816	12,578,250

- 26.54 per cent of ADB ERGO in Belarus shares. As at 31 December 2013, the acquisition cost of the shares amounted to 965,904 Litas. The additional amount invested in 2014 is 1,145,632 Litas. As at 31 December 2014, the acquisition cost of shares amounted to 2,111,536 Litas. ADB ERGO in Belarus is engaged in insurance activities; its office is registered at Pionierskaja 2, Minsk, Belarus.

The main financial information (not audited) of ADB ERGO in Belarus as at 31 December 2014 was the following (Litas):

Assets	Liabilities	Equity	Income	Result of the year
30,077,449	18,967,251	11,110,198	1,617,626	949,749

Investments into subsidiary and associated companies include a mortgage loan issued to the company's ERGO Invest SIA branch in Lithuania (the loan was granted on 13 December 2012). The repayment term of the loan is 13 December 2017. Part of the loan repaid in 2014 amounted to 517,920 Litas. The interest rate is 2.85% fixed margin and variable part, equal to 12-month EURIBOR. As at 31 December 2014 the interest rate is equal to 3.179% (fixed part of 2.85% and 12-month EURIBOR 0.329% effective as at 13 December 2014).

Note 4. Equity and debt securities (Litas)

Items	Equity securities	Debt securities
Acquisition cost		
At the beginning of the accounting period	68,557,595	529,085,933
Acquired assets	19,367,731	62,627,338
Transferred assets (-)	(11,590,236)	(20,493,441)
Written off assets (-)		
Reclassified assets +/-(-)		
At the end of the accounting period	76,335,090	571,219,830
Revaluation		
At the beginning of the accounting period	(128,704)	17,236,653
Increase in value	1,979,144	30,133,813
Decrease in value (-)	(419,278)	(21,726,689)
Written off revaluation result on disposals (-)	(87,947)	(2,493,089)
Written off revaluation result on write-offs (-)		
Reclassified revaluation result +/-(-)		
At the end of the accounting period	1,343,215	23,150,688
Book value		
At the beginning of the accounting period	68,428,891	546,322,586
At the end of the accounting period	77,678,305	594,370,518

Investments into Government securities at the end of the year amounted to 449 million Litas. The investments into debt securities of other business entities comprised 145 million Litas.

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

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

As at 31 December 2014, the values of the investments into debt securities were as follows:

	Balance value
Debt securities held to maturity	416,868,475
Debt securities available for sale	177,502,043
Total debt securities	594,370,518

As at 31 December 2014, the market value of debt securities classified as held to maturity amounted to 511,077,976 Litas.

Note 5. Deposits in credit institutions (Litas)

Deposits in credit institutions consist of overnight term deposits (12,393 Litas); average annual interest rate is 0.34 per cent.

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

Items	Shares, other variable-yield securities and investment fund units	Debt securities	Cash at bank and in hand
Book value at the beginning of the accounting period	38,452,988	4,484,304	206,503
Assets acquired	19,671,234	968,272	136,516
Assets transferred (-)	(9,423,732)	(579,664)	(206,503)
Assets written off (-)			
Assets transferred from one heading to another +/(-)			
Increase of value	2,006,479	123,313	0
Decrease of value (-)	(740,705)	(46,061)	0
Book value at the end of the accounting period	49,966,264	4,950,164	136,516

The item Cash at Bank and in Hand shows the cash received the last day of 2014 for investment life insurance contracts. According to item 7.5 of the Investment Life Insurance Rules of ERGO Life Insurance SE, the cash, following the insurance contract in force, is translated into investment units within 3 working days as of the premium payment day, if the insurance certificate does not state otherwise. The indicated amount will be recalculated into investment units at the very beginning of 2015.

Note 7. Amounts receivable (Litas)

Items	Financial year			Previous financial year		
	Total amount	Doubtful amounts receivable	Book value	Total amount	Doubtful amounts receivable	Book value
Insurance receivables:	27,639,619	840,846	26,798,773	24,228,349	1,038,394	23,189,955
from the insured:	27,561,605	765,955	26,795,650	24,151,774	963,524	23,188,250
subsidiaries						
associates						
other	27,561,605	765,955	26,795,650	24,151,774	963,524	23,188,250
from intermediaries:	78,014	74,891	3,123	76,575	74,870	1,705
subsidiaries						
associates						
other	78,014	74,891	3,123	76,575	74,870	1,705
from others:						
subsidiaries						
associates						
other						
Amounts receivable from inward and outward reinsurance activities:	646,456	0	646,456	1,356,021	0	1,356,021
from the reinsured:						
subsidiaries						
associates						
other						
from the reinsurers:	646,456	0	646,456	1,356,021	0	1,356,021
subsidiaries						
associates						
other	646,456	0	646,456	1,356,021	0	1,356,021
from intermediaries:						
subsidiaries						
associates						
other						
from others:						
subsidiaries						
associates						
other						
Other receivables:	631,594	0	631,594	799,517	0	799,517
subsidiaries						
associates						
other	631,594	0	631,594	799,517	0	799,517
Total	28,917,669	840,846	28,076,823	26,383,887	1,038,394	25,345,493

Note 8. Doubtful amounts (Litas)

Items	Financial year	Previous financial year
Balance sheet		
Doubtful amounts at the beginning of the period	1,038,394	976,360
Decrease of doubtful amounts during the period	(394,882)	(44,085)
Increase of doubtful amounts during the period	197,334	106,119
Doubtful amounts at the end of the period	840,846	1,038,394
Income statement		
Recovered earlier written off amounts	(197,548)	(100,150)
Change of doubtful amounts during the period	0	162,184
Impact of doubtful amounts during the period	(197,548)	62,034

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

Items	Asset groups		Total
	Transport vehicles	Office equipment	
Acquisition cost			
At the beginning of the accounting period	815,894	2,108,076	2,923,970
Acquired assets	109,699	405,515	515,214
Disposed assets (-)			
Written off assets (-)	(52,077)	(114,228)	(166,305)
Reclassified assets +/-(-)			
At the end of the accounting period	873,516	2,399,363	3,272,879
Revaluation			
At the beginning of the accounting period			
Increase in value			
Decrease in value (-)			
Written off revaluation result on disposals (-)			
Written off revaluation result on write-offs (-)			
Reclassified revaluation result +/-(-)			
At the end of the accounting period			
Accumulated depreciation charge			
At the beginning of the accounting period	259,227	1,195,481	1,454,708
Calculated depreciation charge	161,102	327,652	488,754
Restated depreciation charge			
Written off depreciation on disposals (-)			
Written off depreciation charge on write-offs (-)	(52,077)	(113,125)	(165,202)
Reclassified depreciation charge +/-(-)			
At the end of the accounting period	368,252	1,410,008	1,778,260
Book value			
At the beginning of the accounting period	556,667	912,595	1,469,262
At the end of the accounting period	505,264	989,355	1,494,619

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

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

Asset group	Acquisition cost
Motor vehicles	77,336
Office equipment	476,578
Total	553,914

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

Items	Financial year	Previous financial year
Cash at bank	21,587,875	19,249,075
Cash in hand	2,192	1,048
Total	21,590,067	19,250,123

Note 12. Accrued income and deferred costs (Litas)

Items	Financial year	Previous financial year
Deferred acquisition costs of non-life insurance	1,335,770	1,194,894
Deferred acquisition costs of life insurance	9,318,863	9,759,936
Deferred costs of pension funds	0	302,178
Deferred costs of insurance	117,311	104,936
Other deferred costs	319,136	197,056
Total	11,091,080	11,559,000

In 2013, the major part of other deferred costs consisted of accumulated commission fee related to sales of pension contracts. It was amortised over the period as of the day the contract came into effect up to the term when the pension fund might be changed by the insured. After the sale of the pension funds, the total accumulated commission fee was transferred to costs.

Note 13. Shareholders' equity

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

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

As at 31 December 2014, the authorised capital consists of 15,124 ordinary registered shares with a nominal value of 1,000 Litas each. Share premiums amount to 52,238,411 Litas. All shares are fully paid in.

Note 14. Reserves

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

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

Note 15. Draft appropriation of profit (Litas)

Items	Amount
Retained earnings at the end of the previous financial year	16,296,967
Net result – profit (loss) – for the financial year	9,471,783
Dividends paid in 2014	(4,833,920)
Profit (loss) for distribution at the end of the financial year	20,934,830
Shareholders' contributions against losses	
Transfers from reserves	
Profit for distribution	
Profit distribution:	
- to legal reserves	
- to other reserves	
- dividends	
- other	(4,833,920)
Retained earnings at the end of the financial year	16,100,910

Dividends are planned to be paid from profit for distribution of 2014. The remaining accumulated profit is planned to be carried forward to the following year. The decisions of the Shareholders' Meeting will be reflected in the financial statements for the year 2015.

Note 16. Technical provisions

Unearned premiums technical provision

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

Unearned premiums technical provision on a gross basis as at the end of the period amounted to 43.88 million Litas (31 December 2013: 40.05 million Litas). Reinsurers' share amounted to 0.26 million Litas (31 December 2013: 11.98 million Litas).

Life insurance mathematical technical provision

Quarterly changing interest amount used for reserve calculation has the greatest impact on the life insurance mathematical technical provision. For calculation of this technical provision, the lower of interest rates guaranteed by the insurance contract and the maximum technical insurance rate shall be used in accordance with Resolution No N-90 of the Insurance Supervisory Commission "On Maximum Technical Interest Rates". The Zillmer method is applied. The method of equalisation of fluctuation of the mathematical technical provision is applied, permitted by the Insurance Supervisory Commission of the Republic of Lithuania by Resolution N-117, dated 28 December 2006. The calculation of reserve premium was changed in quarter 3–4 of 2014 based on the instructions of the Bank of Lithuania.

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

Liability of deferred annuity is accounted as mathematical technical provision.

As at the end of the period, the life insurance mathematical technical provision amounted to 572.59 million Litass (31 December 2013: 517.67 million Litass). Reinsurers' share amounted to 1.27 million Litass (31 December 2013: 2.15 million Litass).

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

As at the end of the period, life insurance technical provision, when the investment risk is borne by the insured, amounted to 55.05 million Litass (31 December 2013: 43.14 million Litass). It is calculated as to the value of the investment units related to the insurance contract at the moment of forming of the provision.

Outstanding claims technical provision

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

Until 2014, the technical provision for life insurance incurred but not reported claims (IBNR) was made only for additional non-life insurance risks. As of 2014, based on the instructions of the Bank of Lithuania, IBNR is also made for life insurance risks. IBNR of additional accidents of life insurance is taken as the higher amount between the minimum (5% on earned premiums during the 4 previous quarters) and estimated amounts by "Chain-Ladder" and "Bornhuetter-Ferguson" methods. Provision for incurred but not reported claims in working ability insurance was not estimated by "Chain-Ladder" and "Bornhuetter-Ferguson" methods due to insufficiency of statistics, and minimum IBNR was formed for the risks.

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

Part of the technical provision for outstanding claims consists of outstanding claim settlement costs. This part of the technical provision is formed for all outstanding claims (until 2014 only for non-life insurance outstanding claims) and is calculated as 10% on the technical provision for outstanding claims (incurred and reported events).

The biggest reserved claim in the total portfolio as at 31 December 2014 amounted to 352,623 Litass (accumulative life insurance). Claims, related to events occurred before the beginning of the accounting period, but paid out during 2014, amounted to 3.37 million Litass. At the end of the accounting period, technical provision for events related to previous periods amounts to 3.32 million Litass. The biggest payment of the current year in the total portfolio reached 448,387 Litass (study insurance).

Technical provision for outstanding claims as at 31 December 2014.

Insurance type	Share	RBNS	IBNR	Provision for claim settlement costs	Provision for outstanding claims
Health insurance	Total provision	891,313	3,410,260	6,640	4,308,213
	ELI share	887,042	3,410,260	6,640	4,303,942
Accident insurance	Total provision	379,284	303,280	36,970	719,534
	ELI share	372,845	303,280	36,970	713,095
Life insurance linked to investment funds	Total provision	282,176	26,737	2,340	311,253
	ELI share	149,313	26,737	2,340	178,390
Life insurance	Total provision	7,016,628	0	110,193	7,126,821
	ELI share	6,550,162	0	110,193	6,660,355
Total	Total provision	8,569,401	3,740,277	156,143	12,465,821
	ELI share	7,959,362	3,740,277	156,143	11,855,782

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

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

Technical provision for outstanding claims as at 31 December 2013.

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

The results show that as at 31 December 2013 the formed technical provision for outstanding claims of the direct insurance was adequate in all product groups of ERGO Life Insurance SE.

Insurance type	Share	Provision for outstanding claims 31 12 2013 (3)	Provision for outstanding claims 31 12 2014, related to events occurred in prior years, Litas (4)	Claims paid in 2014 related to events occurred in prior years, Litas (5)	Difference (3)-(4)-(5)
Health insurance	Total provision	4,587,669	9,787	2,453,224	2,124,658
	ELI share	2,731,736	9,787	1,459,935	1,262,014
Accident insurance	Total provision	701,846	148,998	248,433	304,415
	ELI share	695,993	142,560	248,433	305,000
Life insurance related to investment funds	Total provision	194,571	41,293	83,190	70,088
	ELGD share	138,321	41,293	83,190	13,838
Life insurance	Total provision	7,277,599	3,525,087	1,705,312	2,047,200
	ELI share	6,739,905	3,128,106	1,578,562	2,033,237
Total	Total provision	12,761,685	3,725,165	4,490,159	4,546,361
	ELI share	10,305,955	3,321,746	3,370,120	3,614,089

Adequacy of the technical provision for outstanding claims of the direct insurance is checked by comparing the technical provision for outstanding claims as at 31 December 2013 (which consists of the provisions for reported but not paid yet claims, incurred but not paid yet claims, settled but not paid yet claims and for the costs related to claim settlement) to the claims incurred in prior and in previous financial years but paid in the current financial year as well as to the technical provision for outstanding claims as at 31 December 2014 for claims incurred in prior and in previous financial years.

The difference between these two amounts being analysed is positive for all insurance types; therefore, the outstanding claims technical provision as at 31 December 2013 of the direct insurance was adequate.

Technical provision for rebates

Technical provision for rebates at the end of the period amounted to 16.35 million Litas (31 December 2013: 17.49 million Litas). The total amount relates to rebate of insurance premiums (participation in profit). The reinsurers' share amounted to 117 thousand Litas (31 December 2013: 209 thousand Litas).

Other technical provisions

The unexpired risk technical provision was not formed at the end of the reporting period (31 December 2013: 388 thousand Litas).

Note 17. Other liabilities (Litas)

Creditors	Financial year			Previous financial year		
	Within 1 year	After one year but not later than within 5 years	After 5 years	Within 1 year	After one year but not later than within 5 years	After 5 years
Subordinated liabilities						
Reinsurers' deposits	36,227			303,632		
Insurance related liabilities:	13,141,523			10,281,461		
liabilities to the insured:	11,013,540			8,373,879		
subsidiaries						
associates						
other	11,013,540			8,373,879		
liabilities to intermediaries:	2,127,983			1,907,582		
subsidiaries						
associates						
other	2,127,983			1,907,582		
other insurance related liabilities:						
subsidiaries						
associates						
other						
Liabilities of inward and outward reinsurance activities:	15,432			16,981,688		
liabilities to the reinsured:						
subsidiaries						
associates						
other						
liabilities to reinsurers:	15,432			16,981,688		
subsidiaries						
associates						
other	15,432			16,981,688		
liabilities to intermediaries:						
subsidiaries						
associates						
other						
other liabilities of inward and outward reinsurance activities:						
subsidiaries						
associates						
other						
Issued debt securities, converted debts to be specified separately						
Debts to credit institutions:						
subsidiaries						
associates						
other						
Taxes, compulsory social insurance contributions and other liabilities:	8,366,235			8,462,948		
taxes	1,882,672			1,375,276		
compulsory social insurance contributions	127,267			265,459		
salaries	128,769			283,182		
subsidiaries						
associates						
other	6,227,527			6,539,031		
Total	21,523,190			36,029,729		

Note 18. Related parties (Litas)

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

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

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

Information about related party transactions is presented as follows:

Type of transaction	Financial year	Previous financial year
Costs		
Reinsurance premiums	2,162,702	26,857,698
Pension funds' management services	395,662	4,239,942
Dividends	4,833,920	3,452,800
Rent services	1,230,480	634,424
Other services and partial loan repayment	1,617,429	1,970,309
Total	10,240,193	37,155,173
Income		
Reinsurance claims	148,292	15,675,682
Reinsurance commission	990,385	7,299,577
Other services	19,080	19,699
Dividends	111,722	128,717
Rent services	5,478	3,798
Total	1,274,957	23,127,473

Outstanding claims of the related parties are specified as follows:

Company	Financial year	Previous financial year
Amount receivable from the parent company	0	0
Amounts receivable from other related parties	3,289,894	4,590,689
Total	3,289,894	4,590,689
Amount payable to the parent company	326,529	73,060
Amounts payable to other related parties	668,151	17,105,989
Total	994,680	17,179,049

In 2014, the Company had reinsurance contracts concluded with the companies Münchener Rückversicherungs-Gesellschaft, ERGO Insurance SE, BAWAG and Swiss Re Europe S.A., it rented premises from ERGO Insurance SE, sold health insurance to ERGO Insurance SE and purchased vehicle fleet and telecommunication maintenance services from ERGO Invest SIA.

Dividends amounting to 4,833,920 Litass were paid out to ERGO International AG in 2014.

The Company holds 44.25% of shares of the company ERGO Funds AS. Until November 2014, management of the investment portfolio of the pension accumulation activities was delegated to the company.

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

Information regarding financial relations with the management of the Company is disclosed in Note 20. The Company had no liabilities to the management of the Company at the end of 2014.

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

Items	Financial year	Previous financial year
Accrued salary costs	2,644,061	1,923,717
Payable corporate income tax	792,213	121,470
Accrued vacation reserve	762,948	690,407
Liabilities related to maintenance of software	350,246	328,427
Liabilities to the Bank of Lithuania and other taxes	220,552	89,419
Accrued commission for intermediaries	210,161	1,239,355
Liabilities related to Solvency II project	153,758	157,138
Accrued voluntary health insurance costs	103,398	89,288
Audit services	84,098	209,135
Liabilities related to integrated services	49,996	186,737
Liabilities related to advertising services	38,203	107,514
Liabilities related to software update	0	159,597
Liabilities related to acquisition and management of investments	0	127,788
Other accrued costs	41,985	492,799
Other liabilities	775,908	616,240
Total	6,227,527	6,539,031

Note 20. Financial relations with management (Litas)

Items	Financial year	Previous financial year	Balance at the end of the financial year
Annual amounts related to labour relations and redundancy payments to management	184,680	436,637	
Loans issued by the company			
Loans repaid by the company			
Loans received			
Assets given free of charge and gifts			
Guarantees issued on behalf of the company			
Other significant amounts calculated during the year			
Other significant commitments to the company			
Assets sold			
Average number of management	1*	2*	

*In 2014, management comprised Managing Director. In 2013, management comprised 2 Board members: Managing Director and Deputy Managing Director.

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

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

Premiums written	Financial year	Previous financial year
Insurance	122,657,151	104,847,225
Assumed reinsurance	0	0
Total	122,657,151	104,847,225

Premiums written	Financial year	Previous financial year
As to individual contracts	112,048,990	94,534,379
As to group contracts	10,608,161	10,312,846
Single time premiums	16,023,702	10,820,065
Regular (partial) premiums	106,633,449	94,027,160
As to contracts without participation in profits	12,273,324	4,775,822
As to contracts with participation in profits	92,309,544	86,177,612
As to contracts when investment risk is borne by the insured	18,074,283	13,893,791

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	74,089,498	66,593,713
Other member states of the European Union	48,567,653	38,253,512
Total	122,657,151	104,847,225
Result of reinsurance activities	(1,674,229)*	(793,459)*

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

Note 22. Non-life insurance results (Litas)

Financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result*
Insurance	67,022,124	62,274,908	45,283,136	12,423,628	0
Reinsurance					
Total	67,022,124	62,274,908	45,283,136	12,423,628	0

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	67,022,124	62,274,908	45,283,136	12,423,628	0
Accident insurance					
Total	67,022,124	62,274,908	45,283,136	12,423,628	0

Previous financial year:

Items	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result*
Insurance	58,026,711	55,680,734	39,164,379	11,241,022	(1,370,728)
Reinsurance					
Total	58,026,711	55,680,734	39,164,379	11,241,022	(1,370,728)

Types of insurance	Premiums written	Premiums earned	Claim costs	Operating expenses	Reinsurance result
Civil liability insurance					
Health insurance	58,026,711	55,680,734	39,164,379	11,241,022	(1,370,728)
Accident insurance					
Total	58,026,711	55,680,734	39,164,379	11,241,022	(1,370,728)

Country in which insurance policy was signed	Financial year	Previous financial year
Republic of Lithuania	9,241,503	7,348,492
Other member states of the European Union	57,780,621	50,678,219
Total	67,022,124	58,026,711

* Starting from 1 January 2014, the reinsurance contract concluded with ERGO Insurance SE within the insurance type "Health insurance" was terminated by mutual agreement. After the contract termination, the settlement was made with the reinsurer, and the reinsurers' share in the technical provisions for unearned premiums and outstanding claims is not formed in the technical account of non-life insurance. The records related to contract termination are reflected in the accounting in the first quarter of 2014.

	Balance sheet item	Before the contract termination (31 December 2013)	Contract termination records	The reinsurers' share in the technical provision during the current year (31 December 2014)	Change in the reinsurers' share in technical provision, recognized in the income statement
D.	TECHNICAL PROVISIONS				
I.2.	Provision for unearned premiums (reinsurers' share)	(11,975,622)	11,418,048	(257,964)	(299,610)
III.2.	Outstanding claims technical provision (reinsurers' share)	(2,455,730)	1,855,933	(610,039)	10,242
H.	OTHER LIABILITIES				
II.1.	Liabilities to reinsurers for health insurance	16,981,688	(16,181,812)	-	-

Note 23. Segments (Litas)

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

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

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

Financial year:

Items	Lithuania	Latvia	Estonia	Total
Earned premiums net of reinsurers' share (non-life insurance)	8,386,975	51,628,245	2,259,688	62,274,908
Earned premiums net of reinsurers' share (life insurance)	72,637,665	28,752,483	18,348,979	119,739,127
Insurance claim costs, net of reinsurers' share (non-life insurance)	(6,221,602)	(38,656,650)	(404,884)	(45,283,136)
Insurance claim costs, net of reinsurers' share (life insurance)	(37,528,432)	(7,847,394)	(10,325,013)	(55,700,839)
Change in other technical provisions, net of reinsurers' share, not shown under other items	(30,080,800)	(23,955,242)	(13,287,059)	(67,323,101)
Rebated (payable) insurance premiums (profit participation), net of reinsurers' share	(565,965)	(80,304)	495,855	(150,414)
Net operating expenses	(22,056,631)	(14,543,675)	(5,822,887)	(42,423,193)
<i>Including: depreciation and amortization costs</i>	<i>(988,935)</i>	<i>(956,971)</i>	<i>(275,579)</i>	<i>(2,221,485)</i>
Investing income	19,811,404	5,921,340	5,745,656	31,478,400
Profit from investment when the investment risk is borne by the insured	1,091,606	1,409,884	0	2,501,490
Investment expenses	(1,834,521)	(557,358)	(498,754)	(2,890,633)
Loss on investment when the investment risk is borne by the insured				
Other technical income, net of reinsurers' share	7,029,140	98,603	4,095	7,131,838
Other technical costs, net of reinsurers' share	(11,912)	(94,345)	(99,953)	(206,210)
Other income	546,097	399,338	64,087	1,009,522
Other expenses	(6,896)	(33,805)	(121,351)	(162,052)
Current year result – profit (loss) – before taxation	11,196,128	2,441,121	(3,641,542)	9,995,707
Profit tax	10,255	(534,179)	0	(523,924)
Current year result – profit (loss)	11,206,383	1,906,942	(3,641,542)	9,471,783

Items	Lithuania	Latvia	Estonia	Total
Assets	464,808,804	198,832,753	146,849,314	810,490,871
Liabilities	420,550,171	160,787,222	138,300,438	719,637,831
<i>Including:</i>				
<i>Technical provisions</i>	<i>376,447,007</i>	<i>130,736,784</i>	<i>135,841,679</i>	<i>643,025,470</i>
<i>Other technical provisions for life insurance</i>	<i>32,841,136</i>	<i>22,211,808</i>	<i>0</i>	<i>55,052,944</i>
<i>Other liabilities</i>	<i>11,262,028</i>	<i>7,838,630</i>	<i>2,458,759</i>	<i>21,559,417</i>

Previous financial year:

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

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

Note 24. Net operating expenses (Litas)

Net operating expenses	Financial year	Previous financial year
Total commission costs:	15,003,374	13,893,936
Commission acquisition costs	14,990,700	13,880,146
Commission for products of other companies	12,674	13,790
Total staff costs:	17,569,243	15,001,671
Remuneration costs	16,443,355	13,978,626
Other staff costs	1,125,888	1,023,045
Pension accumulation costs	1,119,328	894,665
Maintenance costs of premises and office	2,174,836	1,934,471
Change in deferred acquisition costs	300,197	779,900
Reinsurance commission and profit share of reinsurers	(1,746,303)	(7,685,961)
Depreciation and amortisation expenses	2,221,485	1,555,586
Other	5,781,033	3,828,020
Total	42,423,193	30,202,288
<i>Including:</i>		
Non-life insurance	12,423,628	5,095,101
Life insurance	29,999,565	25,107,187
Total	42,423,193	30,202,288

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

Income and expenses of pension accumulation activity	Financial year	Previous financial year
Total income from pension accumulation activity	6,974,649	1,738,280
Fee for management of pension funds	1,653,062	1,733,982
Income from sale of pension funds*	5,318,457	0
Other income	3,130	4,298
Total expenses of pension accumulation activity	1,119,328	894,665
Fee for depository services	99,703	84,817
Costs of drawing up of pension accumulation contracts	348,982	162,213
Advertising	7,362	15,308
Administration costs	395,662	423,994
Other costs	267,619	208,333

* In November 2014, the Company sold two pillar II pension funds – ERGO Balans and ERGO Konservatyvusis.

Note 26. Commission (Litas)

Types of commission	Financial year	Previous financial year
Insurance activity commission:	14,990,700	13,880,146
acquisition commission	14,990,700	13,880,146
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
Reinsurance activity commission:		
acquisition commission		
agreement renewal commission		
premium collection commission		
portfolio management commission		
other commission		
Total	14,990,700	13,880,146

Note 27. Payroll costs (Litas)

Items	Financial year	Previous financial year
Administration:		
Remuneration	9,662,103	8,484,497
Social insurance contributions	2,706,034	2,393,071
Salesmen:		
Variable part of remuneration	280,139	14,512
Fixed part of remuneration	2,881,845	2,382,442
Social insurance contributions	913,234	704,104
Total	16,443,355	13,978,626

The Company incurred remuneration costs of 12,824,087 Litas and paid social insurance contributions of 3,619,268 Litas. In Lithuania, remuneration costs of employees amounted to 5,236,785 Litas and social insurance contributions paid amounted to 1,619,267 Litas. In Estonia, remuneration costs of employees amounted to 2,740,513 Litas and social insurance contributions paid amounted to 942,120 Litas. In Latvia, remuneration costs of employees amounted to 4,846,789 Litas and social insurance contributions paid amounted to 1,057,881 Litas. The amount of persons employed at the Company in 2014 was 401, including administrative staff of 85 persons and 51 sales persons in Lithuania, administrative staff of 60 persons, 37 sales persons in Estonia and administrative staff of 115 persons, 53 sales persons in Latvia.

Note 28. Result of investing activities (Litas)

Items	Financial year	Previous financial year
<i>Income from investing activity</i>		
Interest	638,026	336,903
Interest for securities	22,503,231	22,009,871
Increase in value of securities	7,975,498	2,404,961
Profit from disposals of investment	317,590	1,046,022
Income from rent of non-current assets	44,055	41,057
Total	31,478,400	25,838,814
<i>Costs of investing activities</i>		
Costs of investment management	1,409,366	1,283,810
Decrease in value of securities	999,660	5,939,700
Loss from disposals of investment	481,607	344,672
Total	2,890,633	7,568,182

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

Income from financial activity includes income of 635,800 Litas related to currency exchange rate (income for 2013 related to changes in currency exchange rate amounted to 534 Litas).

Expenses from financial activity include expenses of 54 Litas related to currency exchange rate (expenses for 2013 related to currency exchange rate amounted to 170,776 Litas).

Note 30. Corporate income tax (Litas)

Items	Financial year	Previous financial year
Financial year	792,213	229,545
Change in deferred taxes	(268,289)	0
Total	523,924	229,545

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

Items	Lithuania	Latvia	Estonia	Financial year, total
Current year profit (loss) before taxes	11,196,128	2,441,121	(3,641,542)	9,995,707
Differences	(5,462,041)	1,120,072	3,641,542	(700,427)
Amount of doubtful debts	(244,711)	47,163	0	(197,548)
Other non-deductible expenses	725,576	1,486,368	0	2,211,944
Non-deductible expenses related to non-taxable income	82,511,992	0	0	82,511,992
Income from investment and other non-taxable income	(20,737,025)	(413,459)	0	(21,150,484)
Life insurance premiums	(67,717,873)	0	0	(67,717,873)
Taxable profit (loss) of the accounting year	5,734,087	3,561,193	0	9,295,280
Used tax loss of the previous years	(4,013,861)	0	0	(4,013,861)
Current year income tax	258,034	534,179	0	792,213
Change in deferred tax asset	(268,289)	0	0	(268,289)
Current year income tax	(10,255)	534,179	0	523,924

In 2014 and 2013 income tax rates were equal to 15% in Lithuania and Latvia and 0% in Estonia.

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

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

As at 31 December 2014, the tax loss accumulated in the Republic of Lithuania carried forward to the following year amounted to 108 million Litas. Tax losses can be carried forward for unlimited period of time if activities of the Company do not change.

Deferred tax

The Company has a deferred tax asset from accumulated tax loss amounting to approximately 16.2 million Lit. This deferred tax asset was not recognized as at the balance sheet date due to uncertainty of realization.

In 2014, the Company recognized deferred tax asset of 268 thousand Lit. arising from the temporary differences for accounting and tax purposes. Deferred tax asset is stated under *Other assets*.

Note 31. Earnings per share

Basic earnings per share were calculated dividing the Company's net profit (loss) of the reporting period by number of shares, i.e. 15,124. The profit of 6,686,441 Lit. of 2011, profit of 9,996,144 Lit. of 2012, profit of 247,702 of 2013, profit of 9,471,783 Lit. of 2014 is divided by 15,124.

Earnings per share:

2011 – 442.11 Lit. per share;

2012 – 660.95 Lit. per share;

2013 – 16.38 Lit. per share;

2014 – 626.27 Lit. per share.

Note 32. Regulatory compliance

The Insurance Supervisory Commission of the Republic of Lithuania requires that insurance companies maintained minimum solvency reserves, which should be not less than the determined solvency minimum of 41,648,201 Lit. (as at 31 December 2013: 38,044,915 Lit.) and the guarantee fund should not be smaller than the minimum guarantee fund. Currently, the minimum guarantee fund required is of 13,882,734 Lit. (4.021 million EUR) (as at 31 December 2013: 12,775,360 Lit. (3.7 million EUR)). As at 31 December 2014 and 2013, the Company's actual solvency reserve was 74,395,145 Lit. and 69,536,800 Lit., respectively.

Solvency reserve of the Company

Items	Financial year	Previous financial year
Amounts increasing solvency reserve:	90,853,040	86,215,177
Paid in authorized capital	15,124,000	15,124,000
Share premium	52,238,411	52,238,411
Legal reserve	1,555,799	1,555,799
Other reserves	1,000,000	1,000,000
Retained profit (loss)	20,934,830	16,296,967
Subordinated loan		
Amounts decreasing solvency reserve:	16,457,895	16,679,097
Intangible assets	5,311,062	5,077,041
Deferred costs	11,091,080	11,559,000
Overdue debtors liabilities		
Other assets of limited reliability		
Contingent liabilities	55,753	43,056
Actual solvency reserve	74,395,145	69,536,800
Guarantee fund	13,882,734	12,775,360

Compulsory solvency reserve for non-life insurance

Items	Financial year	Previous financial year
Premiums ratio (1)	12,150,236	10,444,807
Claims ratio (2)	10,317,239	9,200,881
Reinsurance ratio (3)	1	1
Compulsory solvency reserve $[\max \{(1),(2)\}] \cdot (3)$	12,150,236	10,444,807
Compulsory solvency reserve after adjustment	12,150,236	10,444,807

Compulsory solvency reserve for life insurance

Items	Financial year	Previous financial year
Insurance technical provision ratio	23,332,605	21,121,042
Technical risk ratio	2,307,161	2,760,693
Supplementary insurance ratio	1,177,689	1,226,604
Tontine ratio	0	0
Investment insurance ratio	2,400,678	2,268,103
Pension accumulation activity ratio	279,832	223,666
Compulsory solvency reserve (life insurance activity)	29,497,965	27,600,108

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

Note 33. Off-balance sheet liabilities

Row No.	Liability	Amount as at the end of the accounting period, Litas	Amount at the beginning of the accounting period, Litas
I.	Guarantees and warranties granted	0	0
II.	Assets of the clients managed*	0	168,903,245
II.1	Pension fund ERGO Balans (not audited)**	0	123,217,950
II.2	Pension fund ERGO Konservatyvūs (not audited)**	0	45,685,295
III.	Other contingent liabilities	55,753	43,056

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

** In November 2014, the Company sold two pillar II pension funds – ERGO Balans and ERGO Konservatyvūs.

Note 34. Potential future liabilities and commitments

As at 31 December 2014, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the financial statements.

Note 35. Exchange of goods and services

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

Note 36. Information about correction of errors

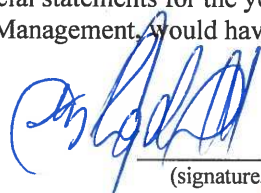
There were no corrections of errors either in the current and previous financial year.

Note 37. Post-balance sheet events

On 1 January 2015 the Republic of Lithuania joined the euro zone and the Lithuanian national currency Litas was replaced by the Euro. As a result, ERGO Life Insurance SE converted its financial accounting to Euros as from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in Euros. Comparative information will be translated into Euros using the official exchange rate of LTL 3.4528 to EUR 1.

As at the date of the financial statements for the year 2014, there were no other material post-balance sheet events which, as to Management, would have significant effect on these financial statements.

Head of the insurance company


23/03/2015
(signature, date)

Dr Kestutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)


23/03/2015
(signature, date)

Jūratė Muckienė
(first and last names)

Chief Actuary


23/03/2015
(signature, date)

Dr Gintaras Bakštys
(first and last names)

Annual report for the year 2014

Dear Clients,

We want to thank you for your trust demonstrated in 2014. Together we successfully coped with all the challenges and further strengthened our financial stability and capacity. Only with your help for the second consecutive year we became the favourable trademark in the Baltic States, were announced winners in the *Verslo gurmanai* awards for the nomination *Verslo skonis (The Taste of Business)*, and were the most attractive employer among large insurers. We smoothly adopted the euro in Lithuania, implemented innovative claim administration solutions in the field of health care in Latvia.

We are an insurance company by which you, dear clients, have been insured for more than 20 years now. This is the best recognition of our activities.

The ERGO companies in the Baltic States continued following their direction to achieving their goals, met high requirements for the quality of claim administration and product development as well as price optimization. You've given us an opportunity to improve and to apply innovative insurance solutions.

ERGO is one of the leading insurance groups in the Baltics offering non-life, life and health insurance. The ERGO companies operating in the Baltic States form part of ERGO Group, which has been assigned high ratings: A+ (Fitch), A (S&P). It is one of the largest insurance groups in Europe. ERGO is represented in over 30 countries in Europe and Asia. The main shareholder of ERGO is one of the world's largest reinsurance groups Munich Re, acting since 1880 and maintaining high ratings (Aa3 (Moody's), AA-) for many years.

Financial stability, exceptional attention to you, high-quality services and professionalism are our milestones, allowing ERGO companies in the Baltics achieve good performance results. Our achievements indicate the right path chosen.

ERGO Life Insurance SE further increased its financial capacity and stability

Insurance premiums signed by ERGO Life Insurance SE during the reporting year amounted to 189.68 million Litass, i.e. about 16 per cent more than in 2013. In terms of premiums written in the separate life insurance groups, the most rapid increase was in investment life insurance and pension annuities insurance premiums.

During the reporting year, operating result of the European Company was profit of 9.472 million Litass. Such result was mainly due to the increase in the profit from investment (increase of 56%) and due to the sale of pillar II pension funds ERGO Balans and ERGO Konservatyvuss.

In 2014, the result from investment activities of ERGO Life Insurance SE was profit of 28.588 million Litass. During the reporting year, the administrative costs ratio decreased and was 6% (6.5% in the previous year).

Fast and proper insurance claim settlement is the main goal of the insurance company. During the reporting year, accumulative life insurance payments of ERGO Life Insurance SE amounted to 99 million Litass. Most payments were in accumulative life insurance.

At the end of 2014, solvency reserve of the European Company amounted to 74 million Litass, which exceeded the compulsory solvency reserve established by the Lithuanian legislation almost twice.

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

The authorised capital of ERGO Life Insurance SE amounts to 15,124,000 Lit. At the end of 2014, the share capital of the European Company consisted of 15,124 ordinary registered shares with a nominal value of 1,000 Lit.

100% of shares are owned by ERGO International AG situated in Germany.

In 2015, we have plans to grow and strengthen our position in the market. At the end of 2014, ERGO Life Insurance SE held 9.4% of the Baltic life insurance market. The number of premiums written by ERGO Life Insurance SE is expected to grow approximately by 6 per cent.

Special attention to client protection

In 2014, ERGO Life Insurance SE revised the terms and conditions of its insurance services considering the experience gained and increasing client needs. At the end of the year, a brand new critical illness insurance for children was introduced, which is now available not only for new clients, but can be added to the life insurance policies of the current clients. The list of critical illness insurance for adults was updated and expanded to include 17 positions. Terms and conditions of a highly popular additional accident insurance were revised by adding to the list additional assistance services. In Latvia, pension annuity insurance services were introduced, which proved to be successful in Latvia and Estonia over years.

The company, taking account of ERGO intentions to focus on life insurance business in the Baltics, disposed its pension funds in the previous year and strengthened its positions in voluntary pension insurance and pension annuity. ERGO offers to its clients other independent saving instruments for pension, and for the retired members of pillar II pension funds it continues providing pension annuity service.

ERGO is seeking to become one of the leading companies in banking insurance

Banking insurance is a very important part of the ERGO insurance group strategy; the group successfully carries out these activities in Europe and Asia. ERGO has five year experience in the banking insurance in the Baltic States gained through co-operation with DNB bank in Latvia and in Lithuania. In 2014, the partnership agreement was extended for another five years. During the reporting year, we continued implementing our strategic goals and started our co-operation with DNB bank in Estonia and ABLV bank in Latvia, which provides an opportunity for ERGO of becoming one of the leaders of banking insurance companies in the Baltic States.

ERGO Life Insurance SE in the Baltic States successfully cooperates with the Nordea bank. In 2013, Nordea banks in Estonia and in Lithuania started active distribution of ERGO credit receiver life insurance, which volumes continued to grow in 2014. Nordea bank in Latvia actively distributes investment life insurance intended for savings and family protection.

In 2014, premiums of newly signed banking insurance policies amounted to over 3 million EUR.

Significant growth of health insurance

A 15% growth was recorded in the health insurance segment in 2014.

In 2014, the growth of ERGO Life Insurance SE health insurance segment exceeded the market growth rates. We took a firm step towards achieving our goals, which focus on the client, its needs and expectations. In the previous year ERGO introduced an electronic health insurance system in Latvian partners' medical institutions, was the first in the market to introduce a mobile application, which allows the clients to apply for health insurance payment via their mobile phones or tablets. In addition, a number of personal claim handling processes were automated.

We seek to ensure a simpler and more efficient claim administration process. The surveys show the client's expectation on claim settlement within 7–10 days from the notice on the event. Ergo in Latvia settles a health insurance claim in 2 working days. In 2013 in Estonia, the development of the health insurance information system continued, which results in a more efficient and smooth claim administration and handling.

Ergo Life Insurance in Lithuania provides health insurance services, which compensate the expenses of out-patient treatment, diagnostics, dental services, prophylactic and wellness services. ERGO life insurance in Lithuania grew by 25.8% if compared to 2013. Currently, ERGO holds 19% of the health insurance market in Lithuania and is the third in this country. The growth resulted from competitive prices, fast compensation of expenses. On average, expenses are covered in 4 days.

ERGO family – professional and appreciated staff

In 2014, ERGO Life Insurance SE had 402 employees, i.e. 4% more if compared to the year 2013. The company appreciates employees' loyalty; therefore, it puts efforts in providing attractive employment conditions, provides additional social guarantees, promotes and provides opportunities for professional development.

The employee involvement research has shown that the employees are actively involved in the company's activities. The research results have proven that the employees feel occupying the right position allowing them to fully use their potential and feel important doing their job. The employees emphasized fair and respectful attitude of the management towards employees, and convenient working conditions. Also, the employees value the opportunities for learning and development. Therefore, in 2014, much attention was given to training. For education of managers, seminars on leadership and team management were organized. In order to strengthen the clients' loyalty by improving the quality of client service from the sale of the insurance service until the moment of claim settlement, the trainings on client service, stress and conflict management were organized for employees responsible for client service. Also, the employees of the companies had lectures in effective work organization methods, project management, trainings on educating internal lecturers were organized.

The company takes care of the security of its employees; therefore, it provides them accident insurance, health insurance and travel insurance in business trips. The prophylactic health examination is conducted every two years and is financed by the company, the employees get additional days off and vacation every year. The company supports its employees in their important moments of life.

ERGO as a part of society

We seek successful business development and sharing its results with the society. Therefore, we participate in long-term social initiatives with the aim to add value not only to our clients and employees, but to the whole population of the Baltic States as well.

ERGO in Lithuania joined the good business practice memorandum on fair pricing – not to increase prices. ERGO strictly follows mathematical rounding principles ensuring a favourable and fair LTL/EUR conversion. ERGO in Estonia and in Latvia had also joined the initiative *Fair Euro Adoption*, when they had adopted the euro in 2011 and 2013.

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

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

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

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

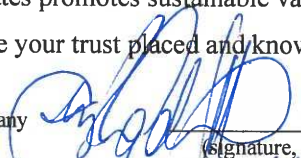
Traditionally, ERGO organises annual blood donation campaigns, its employees join the environmental campaign *Let's Do It*. Every year, employees of ERGO in Latvia replant forests: in three years, the employees of the company replanted more than 10 thousand trees. In 2014, ERGO in Lithuania joined the project for the commemoration of January 13 *Neužmirštuolės*.

ERGO supports various cultural and sporting activities: the national opera and ballet houses of Estonia, the Estonian Olympics Committee, national skiing and biathlon teams. For several years now, ERGO in Lithuania has been the key partner of Velomarathon. This initiative, based on four values (ecology, safety, health and family), is aimed at strengthening the cycling culture in Lithuania by forming new and exceptional tradition. We are glad that this marathon is the event attracting the record number of cyclists in Lithuania and has a large potential of becoming the largest event in the Baltic States fostering the cycling culture. In Lithuania, for several years now ERGO has been the main partner of the international film festival *Kino pavasaris*.

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

We sincerely appreciate your trust placed and know that together we can achieve even more.

Head of the insurance company


(signature, date)

23/03/2015

Dr Kęstutis Bagdonavičius
(first and last names)

Chief Financial Officer
(Accountant)


(signature, date)

23/03/2015

Jūratė Muckienė
(first and last names)

Chief Actuary


(signature, date)

23/03/2015

Dr Gintaras Bakštyš
(first and last names)

Sidevahendid

Liik	Sisu
Telefon	+372 6106677
Faks	+372 6106676
E-posti aadress	infoelu@ergo.ee