

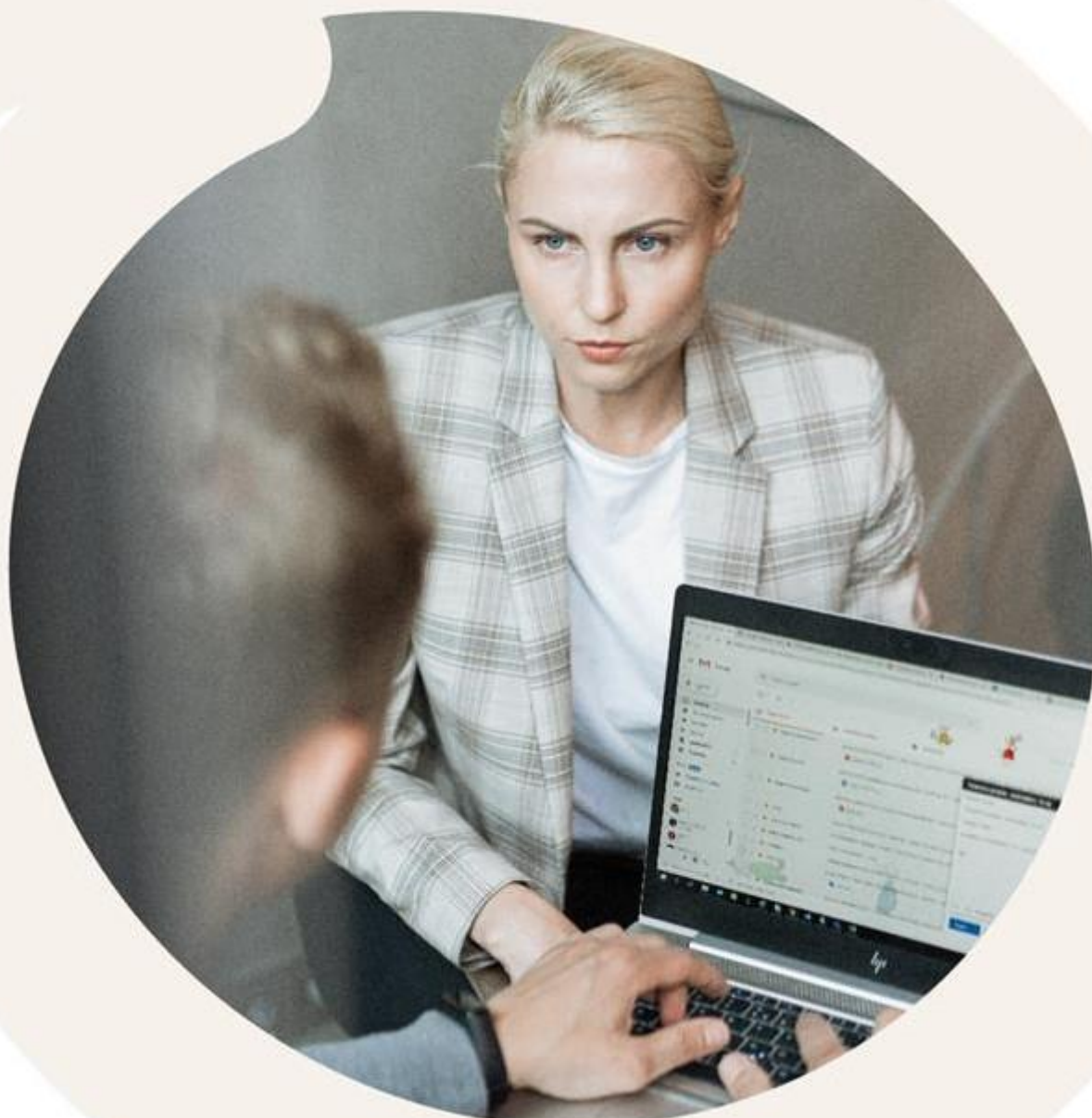


# Solvency and Financial Condition Report

## Life Insurance Company SB Draudimas UAB

### 2023

5 April 2024, Vilnius



# TABLE OF CONTENTS

<b>SUMMARY</b> .....	<b>3</b>
INSURANCE ACTIVITIES .....	3
OPERATING RESULTS .....	3
MANAGEMENT SYSTEM.....	3
SOLVENCY II .....	4
CAPITAL MANAGEMENT .....	4
<b>A. ACTIVITIES AND RESULTS</b> .....	<b>5</b>
A.1. ACTIVITIES .....	5
A.2. INSURANCE OPERATING RESULTS.....	6
A.3. INVESTMENT RESULTS .....	7
A.4. OTHER OPERATING RESULTS .....	8
A.5. OTHER INFORMATION .....	8
<b>B. SYSTEM OF GOVERNANCE</b> .....	<b>9</b>
B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE.....	9
B.2. COMPETENCE AND SUITABILITY REQUIREMENTS.....	12
B.3. RISK-MANAGEMENT SYSTEM, INCLUDING OWN RISK AND SOLVENCY ASSESSMENT .....	12
B.4. INTERNAL CONTROL SYSTEM .....	14
B.5. INTERNAL AUDIT FUNCTION .....	15
B.6. ACTUARIAL FUNCTION .....	15
B.7. OUTSOURCING .....	16
<b>C. RISK PROFILE</b> .....	<b>17</b>
C.1. UNDERWRITING RISK .....	17
C.2. MARKET RISK.....	17
C.3. CREDIT RISK .....	19
C.4. LIQUIDITY RISK.....	19
C.5. OPERATIONAL RISK .....	19
C.6. OTHER SIGNIFICANT RISKS.....	19
C.7. OTHER INFORMATION.....	21
<b>D. ASSESSMENT FOR SOLVENCY PURPOSES</b> .....	<b>22</b>
D.1. ASSETS .....	22
D.2. TECHNICAL PROVISIONS.....	23
D.3. OTHER LIABILITIES .....	26
D.4. ALTERNATIVE ASSESSMENT METHODS.....	26
<b>E. CAPITAL MANAGEMENT</b> .....	<b>27</b>
E.1. OWN FUNDS.....	27
E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT .....	28
E.3. THE APPLICATION OF DURATION-BASED EQUITY RISK SUB-MODULE FOR THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT.....	29
E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY APPLICABLE INTERNAL MODELS.....	29
E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND WITH THE SOLVENCY CAPITAL REQUIREMENT.....	29

## SUMMARY

The Solvency and Financial Position Condition Report of Life Insurance Company SB Draudimas UAB (hereinafter, the “Company”) for 2023 covers the period from 1 January 2023 to 31 December 2023. This report contains information on the Company’s activities and operating results, system of governance, assessment for solvency purposes, capital management and the main developments during the reporting period, as well as information on the Company’s own risk and solvency assessment, as set out in Article 45(6) of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

### Insurance activities

On 1 December 2023, Šiaulių Bankas AB (hereinafter, the “Bank”) and Invalda INVL AB completed the merger of retail businesses under the agreement signed on 22 November 2022 (hereinafter, the “Transaction”). Pursuant to the Transaction, the Company acquired the life insurance services business from INVL Life UADB, thereby expanding its existing business.

As part of the Transaction, the Company established branches in Estonia and Latvia in 2023.

During the implementation of the Transaction, the life insurance products on offer were reviewed and updated. In 2023, the Company offered the following life insurance products to its customers:

- Death insurance;
  - Term life insurance;
  - Term life insurance with decreasing sum insured ;
  - Life insurance for mortgage borrowers (clients of Šiaulių Bankas AB);
- Unit-linked;
- Supplementary sickness and accident insurance.

The Company also administers the insurance contracts of INVL Life UADB previously concluded and taken over as a result of the Transaction in respect of the insurance products falling within the above-mentioned groups and the survival life insurance.

The insurance risks assumed by the Company (death, critical illness and accident risks) were reinsured in 2023 with the reinsurance company VIG RE zajišťovna, a.s. (see more at: [www.vig-re.com](http://www.vig-re.com)). As of 1 December 2023, the risks (death, critical illness) underwritten in new and acquired insurance contracts are reinsured with HANNOVER RÜCK SE, Tyskland Filial.

### Operating results

During 2023, the Company wrote life insurance premiums totalling EUR 14,393,874, of which EUR 13,737,857 were written in Lithuania, EUR 381,986 in Latvia and EUR 274,031 in Estonia. The total amount of premiums written by the Company increased by 36.5% compared to 2022 (EUR 10,546,429) (in Lithuania, it increased by 30.3%). In 2023, the Company’s net loss was EUR 2,226,512 (in 2022, net profit was EUR 3,778,810 (restated in accordance with IFRS17)).

#### Condensed Profit and Loss Account of the Company:

	31/12/2023	31/12/2022 (restated)
Insurance revenue	4,567,833	5,758,109
Insurance service expenses	-5,999,575	-3,446,402
Reinsurance result	-149,049	37,529
Insurance finance result	872,657	1,963,435
Investment result	404,238	164,287
Investment contract management result	-1,993,769	-646,586
Other revenue	89,326	123
Other expenses	-16,862	-5,404
Profit or (loss) before tax	-2,225,201	3,825,091
Corporate tax	-1,311	-46,281
Net profit or (loss)	-2,226,512	3,778,810

### System of governance

The Company has an effective system of governance that is appropriate to the nature, scale, and complexity of the Company’s activities and that ensures sound and prudent management of its business.

The Company's system of governance covers the following important areas:

- organisational structure with a clear allocation and appropriate segregation of responsibilities;
- reputation, qualification, knowledge and experience requirements;
- key functions (risk management, actuarial, compliance and internal audit);
- business continuity planning;
- risk-management system;
- own risk and solvency assessment;
- outsourcing;
- internal control system;
- system for ensuring the transmission of information;
- remuneration system;
- prevention and management of conflicts of interest;
- handling of complaints.

## Solvency II

The Company assesses balance sheet items and the Solvency Capital Requirement in accordance with the requirements of the Law on Insurance of the Republic of Lithuania. The Company carries out this assessment on a quarterly basis using the standard formula model and also performs stress tests (sensitivity tests). A number of balance sheet items measured for the purpose of Solvency Capital Requirements calculations differ from the balance sheet items used to prepare the financial statements, but the differences are not material.

As at 31 December 2023, the Company's solvency ratio was 187.72% (197.09% in 2022).

Solvency II	31/12/2023	31/12/2022
Own funds (equity), EUR	53,409,720	10,772,315
Solvency Capital Requirement, EUR	28,451,093	5,465,807
Solvency ratio, %	187.72%	197.09%

The minimum solvency ratio required is 100%.

## Capital management

The Company's capital management process is closely linked to the risk management function. Before making decisions, the Company considers all risks identified and likely to arise in the future in the Company, and determines how the risk-based capital requirements, the Solvency Capital Requirement and the nature of the risks will change (as determined by a forward-looking assessment of own risks and solvency situation).

Risk-based capital requirements and the Company's solvency ratio are calculated periodically, on a quarterly basis, to determine whether the Company's risk appetite and risk tolerance limits are met. The Company's forward-looking (2024–2026) assessment of own risks and solvency situation indicates that the Company's solvency ratio will be in line with the established risk appetite, with no changes in risk profile foreseen.

## A. ACTIVITIES AND RESULTS

### A.1. ACTIVITIES

<b>Name and legal form of the Company</b>	<b>Life Insurance Limited Liability Company SB Draudimas</b>
<b>Registration number</b>	<b>110081788</b> <b>Registered in the Register of Legal Entities of the Republic of Lithuania</b>
<b>Address</b>	<b>Gynėjų str. 14, LT-01109 Vilnius</b>
<b>Tel.</b>	<b>+370 5 236 27 23</b>
<b>E-mail</b>	<b>info@sb.lt</b>
<b>Website</b>	<b>www.sb.lt</b>
<b>Supervisory authority</b>	<b>Bank of Lithuania, Totorių str. 4, LT-01121 Vilnius (for correspondence)</b> <b>Toll-free information line: +370 800 50 500</b> <b>E-mail: info@lb.lt</b> <b>Website: www.lb.lt</b>
<b>External auditor</b>	<b>KPMG Baltics, UAB, Lvivo str. 101, LT-08104 Vilnius</b> <b>Tel. +370 5 210 26 00, e-mail: vilnius@kpmg.lt</b>

At 31 December 2023, all of the Company's shares were held by Šiaulių Bankas AB. The shares of Šiaulių Bankas AB are listed on the Baltic Official List of the NASDAQ Stock Exchange. The registered address of the parent company is Tilžės str.

On 1 December 2023, Šiaulių Bankas AB (hereinafter, the "Bank") and Invalda INVL AB completed the merger of retail businesses under the agreement signed on 22 November 2022 (hereinafter, the "Transaction"). Pursuant to the Transaction, the Company acquired the life insurance services business from INVL Life UADB, thereby expanding its existing business.

As part of the Transaction, the Company established branches in Estonia and Latvia in 2023.

In addition, the Bank has implemented structural changes in order to efficiently organise the work of the Bank and its subsidiaries, including the Company (hereinafter, the "Group companies"), to streamline human resources, to concentrate competences, and to exploit the value created by synergies between similar functions, and the Group companies have moved towards centralisation of some of their functions. As of 1 December 2023, sales, customer service, legal, IT administration and maintenance and some other functions are performed by centralised positions within the Bank and Group companies.

The Company operates in Lithuania, through branches in Latvia and Estonia, and has the right to provide services without an establishment in Latvia, Ireland and Norway.

## The Company's major classes of insurance

In 2023, the Company was active in the following classes of insurance:

Solvency II class of insurance	Product group	Available supplementary cover under health insurance <sup>1</sup>
Life insurance with profit-sharing	Endowment insurance	Insurance against death resulting from an accident, Insurance against incapacity for employment due to an accident, Insurance against personal injury, Total and permanent disability insurance, Critical illness insurance
	Universal life insurance/Universal life insurance with guaranteed interest/Pension annuity insurance <sup>2</sup>	Insurance against death resulting from an accident, Insurance against incapacity for employment due to an accident, Insurance against personal injury, Critical illness insurance, Total and permanent disability insurance
Unit-linked life insurance	Wealth management	-
	Single premium Unit-linked life insurance	Insurance against death resulting from an accident, Insurance against incapacity for employment due to an accident, Insurance against personal injury, Total and permanent disability insurance, Medical expense insurance, Critical illness insurance
	Unit-linked life insurance	Insurance against death resulting from an accident, Insurance against incapacity for employment due to an accident, Insurance against personal injury, Total and permanent disability insurance, Medical expense insurance, Critical illness insurance
Other life insurance	Term life insurance	Critical illness insurance, Insurance against death resulting from an accident, Insurance against incapacity for employment due to an accident, Insurance against personal injury, Total and permanent disability insurance
	Annuities (payout phase)	-

## A.2. INSURANCE OPERATING RESULTS

During 2023, the Company wrote life insurance premiums totalling EUR 14,393,874, of which EUR 13,737,857 were written in Lithuania, EUR 381,986 in Latvia and EUR 274,031 in Estonia. The Company's total amount of insurance premiums increased by 36.5% compared to 2022 (EUR 10,546,429). In 2023, the Company incurred underwriting expenses of EUR 7,322,018, an increase of 64.7 per cent compared to 2022 (EUR 4,446,348) (Table 1).

**Table 1. Underwriting income and underwriting expenses, excluding reinsurers' share, EUR**

Class of insurance	Underwriting income		Underwriting expenses	
	2023	2022	2023	2022
Life insurance with profit-sharing	1,265,891	1,364,935	1,311,175	1,100,089
Unit-linked life insurance	10,478,600	7,144,910	5,283,942	2,788,321
Other life insurance	682,516	551,337	109,204	111,942
Health insurance	1,966,867	1,485,247	617,697	445,996
<b>Total</b>	<b>14,393,874</b>	<b>10,546,429</b>	<b>7,322,018</b>	<b>4,446,348</b>

Tensions over the ongoing war in Ukraine and the predicted economic slowdown have prolonged the time it takes clients to make long-term commitments. During the year, the Government of the Republic of Lithuania has presented proposals for tax reform, including a proposal to scrap tax relief on long-term life insurance premiums, arguing that tax incentives do not benefit society, and add confusion and uncertainty. However, it is relevant and attractive to people who are motivated to save through life insurance because of its benefits – the possibility to receive a benefit in the event of an accident, to save over time for retirement, for children's education or other future plans, and for supplementary cover for critical illness.

<sup>1</sup> The option to choose additional cover is set out in the terms and conditions of the specific insurance product (or group of products), which are publicly available on the Company's website.

<sup>2</sup> Pension annuity (PA).



The Company's employees devoted a lot of attention and effort to the smooth implementation of the Transaction in 2023, but also ensured that the 30.3% growth rate in written premiums was achieved and maintained. Income from unit-linked life insurance and other life insurance grew the most.

The increase in underwriting expenses was mainly driven by an increase in payment of the surrender value pain case of cancellation, which accounted for the majority of claims (65%).

The majority of insurance claims paid out following the occurrence of an insured event consisted of insurance claims in case of termination of the insurance contract (64%), in case of accident (24%) and in case of death (12%).

### A.3. INVESTMENT RESULTS

In 2023, the Company's total net profit from investment activities amounted to EUR 8,113,368 (Table 2).

**Table 2. Net profit on investment activities of the Company according to the financial statements, EUR**

	31/12/2023	31/12/2022 (restated)
Profit from investing activities	404,238	164,287
Gains on other investments in life insurance business*	7,709,130	-4,990,004
<b>Total</b>	<b>8,113,368</b>	<b>-4,825,717</b>

\* Investment result of assets related to insurance contracts where the investment risk is borne by policyholders.

The net result from investment activities in 2023 increased by EUR 239,951 compared to 2022, while the result from other investments in life insurance business increased by EUR 12,699,134.

2023 was a year of appreciation for different asset classes. Slowing inflation and bright prospects for artificial intelligence have led to strong investor optimism. Positive investor sentiment was particularly strong in the last quarter of last year, when share price gains reached double digits. The fall in inflation coincided with a deterioration in expectations about the outlook for the global economy. This change in circumstances has prompted central banks to consider lowering high interest rates, which is good news for investors in both shares and bonds.

The results of the Company's investment activities by nature of income and expenses are shown in Table 3.

**Table 3. Results of the Company's investment activities by nature of income and expenses, EUR**

Income (expenses) from investment activities	31/12/2023	31/12/2022 (restated)
net unrealised gains (losses)	145,025	-148,287
net realised gains (losses)	-3,055	-
interest on coupons	381,964	391,056
interest on term deposits	9,500	16,277
change in value due to changes in exchange rates	-496	-
investment management fees	-128,700	-107,759
other investment income	-	13,000
<b>Total</b>	<b>404,238</b>	<b>164,287</b>

The largest part of income from the investment portfolio in 2023 came from interest on coupons on securities. The main expenses were fees paid to the investment manager for managing the investments (Table 3).

Table 4 shows the income and expenses from the investment portfolio by asset class and Table 5 shows the Company's investments by asset.

**Table 4. Income and expenses from the investment portfolio broken down by asset class, EUR 2023**

Income, expenses from investment activities by asset class	Government securities	Corporate bonds	Term deposits	Units of investment funds	Shares	Total
Income	147,870	363,230	9,500	157,138	-	677,738
Expenses	-71,243	-113,317	-	-85,007	-3,933	-273,500
<b>Total</b>	<b>76,627</b>	<b>249,913</b>	<b>9,500</b>	<b>72,131</b>	<b>-3,933</b>	<b>404,238</b>

**2022**

Income, expenses from investment activities by asset class	Government securities	Corporate bonds	Term deposits	Units of investment funds	Shares	Total
Income	147,870	363,230	16,277	157,138	-	677,738
Expenses	-71,243	-113,317	-	-85,007	-3,933	-273,500
<b>Total</b>	<b>76,627</b>	<b>249,913</b>	<b>16,277</b>	<b>72,131</b>	<b>-3,933</b>	<b>164,287</b>

**Table 5. The Company's investments by asset, EUR**

Investment objects	31/12/2023	31/12/2022
Government securities	12,732,517	5,569,949
Corporate bonds	6,048,631	8,726,307
Units of investment funds	13,599,361	-
Term deposits	500,000	500,000
Cash and cash equivalents	5,094,711	1,153,595
<b>Total</b>	<b>37,975,220</b>	<b>15,949,851</b>

The Company does not invest its investment portfolio in derivatives.

#### **A.4. OTHER OPERATING RESULTS**

During 2023, the Company did not generate any other material income or incur any material expenses other than income and expenses from insurance activities or investment activities.

#### **A.5. OTHER INFORMATION**

There is no other relevant information.



## B. SYSTEM OF GOVERNANCE

### B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The Company's management bodies are:

- General Meeting of Shareholders;
- Management Board of the Company (a collegiate management body with supervisory functions);
- Manager of the Company, i.e., Director (a single-person management body).

The Company has a Risk Management Committee, an advisory body established by decision of the Management Board of the Company. Investment decisions are taken by the Investment Committee.

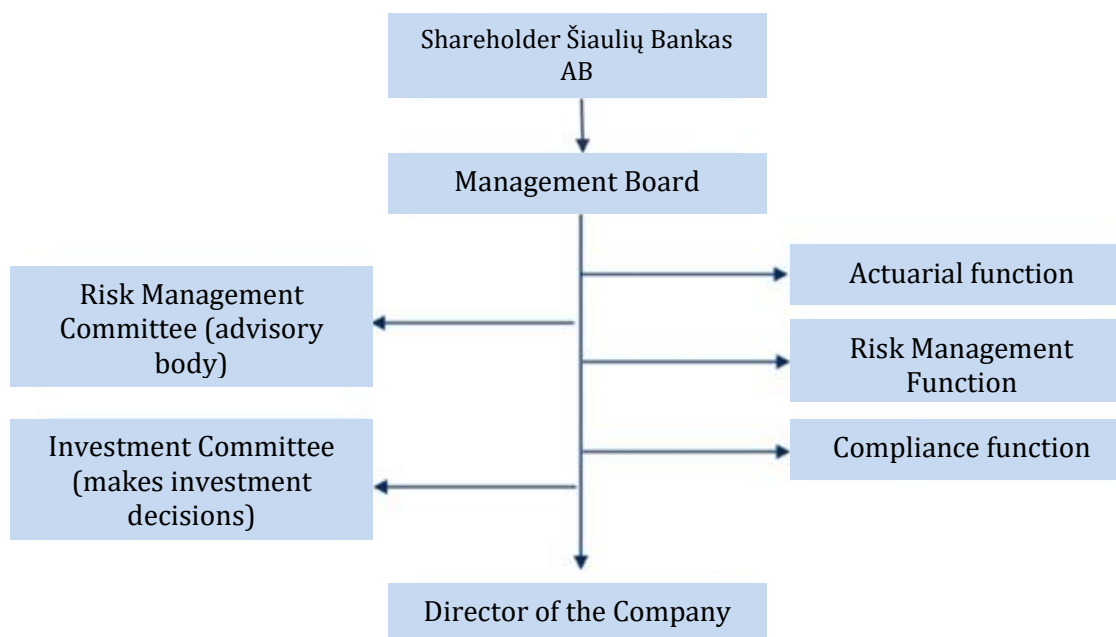
The system of governance of the Company consists of a transparent management/organisational structure and an effective system for ensuring the transmission of information.

The system of governance of the Company also includes the following key functions:

- Risk management – performed by the Head of Risk Management and Risk Management Specialist;
- Actuarial – performed by the Head of Actuarial Function;
- Internal audit – ensured by the Head of Internal Audit Division of Šiaulių Bankas AB;
- Compliance – performed by the Head of Compliance and Compliance Expert.

The system of governance of the Company (Table 1) is proportionate to the nature, scale and complexity of the Company's operations and is based on the principles of accountability and information.

**Figure 1. System of governance of the Company**



All processes and procedures within the Company are regulated and described in the Company's internal documents, which are approved by the Company's Management Board or the Company's Director. The Company is also guided by the internal documents approved by Šiaulių Bankas AB as the sole shareholder of the Company, which specify the conditions/provisions for direct application to the Company.

These documents define their objectives, tasks to be performed and the persons responsible for them, control procedures and measures, reporting and informing, responsibilities, and the obligation of other employees to inform the key function holders of facts related to the performance of their duties, including the duty to inform Šiaulių Bankas AB and the scope of the information, etc.

## General Meeting of Shareholders

The General Meeting of Shareholders is the supreme body of the Company. Since 3 March 2013, the owner of all shares of the Company is a single legal entity – Šiaulių Bankas AB, whose written decisions are equivalent to the decisions of the General Meeting of Shareholders.

## Management Board

The most important decisions in the Company are taken by the Company's Management Board.

The Management Board is the Company's collegiate management body, responsible for formulating the Company's strategy for the development of its business, organising its implementation and representing and protecting the interests of shareholders.

The Management Board of the Company consists of three (3) members elected for four (4) years by the sole shareholder.

The Management Board of the Company is responsible for ensuring safe and stable operations and transparent, sound and prudent management. The Management Board of the Company takes an active part in the management of the Company and each member of the Management Board coordinates his/her area of responsibility.

The Management Board of the Company is informed about the risks faced by the Company, changes that have occurred, threats that have arisen or are likely to arise, the performance of the Company, and the internal control system.

The Management Board of the Company analyses and evaluates the information provided in the financial statements, as well as in the internal audit, risk management, actuarial and compliance reports, and, based on the recommendations made, takes decisions on improving the Company's operations, introducing additional measures, etc.

## Manager

The Manager of the Company is its single-person management body.

The Manager of the Company organises the day-to-day operations of the Company, the implementation of the decisions of the sole shareholder, the resolutions of the Management Board, the implementation of the personnel management policy, and the resolution of operational issues that arise in the practical operation of the Company.

The Manager of the Company acts on behalf of the Company: within the limits of his/her competence, he/she concludes transactions, represents the Company in courts, public institutions, in relations with natural persons and legal entities, and carries out legal actions to ensure the Company's economic and commercial activities. The Manager of the Company is also responsible for the management of the personal securities accounts of shareholders who are holders of uncertificated shares.

## Risk Management Committee

The Risk Management Committee is a committee established by a decision of the Management Board of the Company, which acts as an advisory body to the Management Board on risk management issues: it analyses the risks faced by the Company, monitors the risk management in all areas of risk, and makes proposals to the Management Board of the Company on issues related to risk management and internal control. The objective of the Risk Management Committee is to ensure that the Company's operations are efficient, that it has an effective risk management and internal control system in place, and that it assesses and ensures a level of risk appropriate to the Company's risk appetite.

## Investment Committee

The Committee is a collegiate decision-making body responsible for taking decisions on the assets managed by the Company and for representing and protecting the interests of the Company's clients (policyholders, insureds, beneficiaries). The Committee is a permanent, non-structural unit of the Company. The purpose of the Committee is to ensure, in accordance with investment policies, strategies, best practice standards and risk management, the investment decisions that are consistent with the objectives, investment strategy and risk limits of the assets managed by the Company, and to oversee the implementation of the investment decisions made.

## Duties and accountability of key function holders

The Head of Actuarial Function, the Head of Risk Management and the Head of Compliance report directly to and are

accountable to the Company's Management Board. Internal audit is carried out objectively and independently from other operational functions. The internal audit function is accountable to the Audit Committee of Šiaulių Bankas AB, as well as to the Management Board of the Company.

The duties of key function holders are set out in the Company's internal regulations (procedures, rules) and job descriptions governing their functions.

The **Head of Actuarial Function** ensures that insurance premiums and technical provisions are calculated in accordance with statutory requirements, assesses the adequacy and quality of the data used for the calculation of technical provisions, assesses the adequacy of the overall underwriting risk policy and reinsurance contracts, contributes to the effective implementation of the risk-management system, in particular as regards the risk modelling underlying the calculation of Solvency Capital and Minimum Capital Requirements, and to the Company's assessment of own risk and solvency.

The responsibilities of the **Head of Risk Management** are to organise the Company's risk-management system, to oversee the implementation of the Company's risk management processes and to implement the risk management function within the Company.

**Internal audit** systematically and comprehensively assesses and promotes the effectiveness of the Company's risk management, control and oversight processes in order to support the achievement of the organisation's objectives.

The **Head of Compliance** is responsible for the regular assessment of compliance risk and the application of a risk-based-approach to identify the key aspects of compliance monitoring and compliance advice and for the ongoing monitoring and assessment of the measures and procedures adopted, implemented and maintained by the Company to identify and mitigate compliance and other related risks and for assessing the adequacy of non-compliance prevention measures.

Key function holders regularly prepare and submit reports on their activities to the Company's Management Board.

### **Significant changes to the system of governance during the reporting period**

In 2023, a significant change in the system of governance took place, with the abolition of the Company's Supervisory Board as of 1 December 2023 and its functions being taken over by the Company's Management Board.

### **Information on the remuneration policies and practices for administrative, management and supervisory bodies and for employees**

The Company applies the *Remuneration Policy* of Šiaulių Bankas AB Group, which aims to promote sound and effective risk management. The *Policy* promotes responsible business conduct, fair treatment of clients and avoidance of conflicts of interest. The main principles of the *Remuneration Policy* are internal equity and external competitiveness, as well as transparency and flexibility.

The Company uses the following elements of remuneration system: salary (fixed remuneration); variable remuneration: annual variable remuneration, supplements, one-time bonuses, bonuses and other allowances, and lump-sum allowances (allowances that are not linked to the Company's performance), fringe benefits.

The Company pays all employees a fixed salary.

The Company's sales staff may receive performance-related bonuses on top of their fixed salary.

Employees who have a significant influence on the Company's risk-taking may be granted variable remuneration in accordance with the *Remuneration Policy*. The variable remuneration of key function holders is independent of the performance of the business units and areas under their control.

All employees of the Company who work beyond their probationary period are eligible to participate in the *Pension Scheme* or the *Unit-Linked Life Insurance Scheme*, where part of the premium is paid by the Company.

### **Information on significant transactions during the reporting period with shareholders, persons having significant influence over the company, members of the administrative, management and supervisory bodies**

In connection with the above-mentioned transaction, the shareholder of the Company resolved to increase the Company's authorised capital to EUR 26,012,800. During the reporting period, the Company did not enter into any other significant transactions with shareholders, persons having significant influence over the Company, members of the administrative, management and supervisory bodies.

## B.2. COMPETENCE AND SUITABILITY REQUIREMENTS

The suitability of the members of the Company's Management Board, the Director (hereinafter, the "Managers") and the key function holders is assessed in accordance with the Procedure for the Assessment of Suitability of Managers and Key Function Holders approved by the Management Board of the Company.

### Description of the Company's specific requirements for the skills, knowledge and experience of those who effectively run the undertaking or are key function holders

The members of the Management Board of the Company must be of good repute and have sufficient qualifications and competence to ensure that their decisions and actions taken collectively are sufficient to ensure the effective management and supervision of the Company. The members of the Management Board of the Company must have experience and expertise in insurance and financial markets, business strategy and model, governance and legal framework, financial and actuarial analysis.

The key function holders are subject to the requirements of good repute and qualification.

The assessment of the qualifications and experience of the Managers or key function holders takes into account their educational background, practical work experience, participation in refresher training, seminars, conferences, traineeships, etc., specific skills and knowledge, and language skills.

### Description of the Company's specific procedures for assessing the competence and suitability of those who effectively run the undertaking or are key function holders

The Personnel Department of Šiaulių Bankas AB is responsible for the assessment of Managers and key function holders, as the personnel management function is centralised in the Bank. The suitability of Managers and key function holders is assessed before they take up their duties (initial assessment) and after certain events that may affect the suitability of the Manager or key function holder, or on a periodic basis (reassessment).

When assessing the reputation of Managers or key function holders, the totality of circumstances that may affect the reputation of a person is taken into account, such as: criminal record, pending/conducted investigations by law enforcement or other authorities, currently/previously imposed sanctions, suspension from the management of a legal entity, default in the performance of financial obligations, other relevant circumstances.

During the assessment, the Director of the Company, members of the Management Board or key function holders must submit the Questionnaire of a Member of the Management Body and/or Key Function Holder of the Financial Market Participant Supervised by the Bank of Lithuania, an undertaking to immediately notify of any changes that may affect the person's suitability for office, and any other necessary documents.

The Company's internal documents contain provisions on the prevention of conflicts of interest, both at the top management level and at lower levels.

## B.3. RISK-MANAGEMENT SYSTEM, INCLUDING OWN RISK AND SOLVENCY ASSESSMENT

The Company's risk-management system, risk management principles, strategy, objectives, processes, responsibilities, and types of risk are defined in the Company's internal documents.

The objectives of risk management are to continuously recognise/identify, assess/analyse, monitor and disclose all types of risks in the course of the Company's operations and in order to achieve strategic goals, to ensure a forward-looking risk assessment.

The Company seeks to maintain an acceptable level of risk so that unexpected changes in the economic environment, fluctuations in market variables and unexpected events in the Company's internal processes and systems do not jeopardise the Company's stable operations or undermine confidence in the Company.

An effective risk-management system is an essential element in controlling uncertainties and ensuring that the Company is prepared for possible future threats. A risk-management system is a set of methods, processes and information procedures to identify, assess, manage, monitor and communicate risks on an ongoing basis. Essential elements of a risk-management system:

- Internal environment, i.e., the internal environment of the Company, including the internal culture, risk management philosophy, ethical values, and the principles based on which risk management is to be conducted.
- Goal and strategy setting, i.e., the process of defining the Company's goals and strategy and defining its risk appetite.

- The risk management process, i.e., a cyclical process that identifies, prioritises, assesses, manages, monitors and properly communicates risks.

The Three Lines Model is used to implement an effective risk-management system. This model ensures that responsibilities are clearly defined and that the independence of functions is guaranteed.

According to the defined Three Lines Model:

- Business units (first line) are responsible for taking risks within the limits set by the Management Board, implementing risk management measures, and providing risk-related information.
- The second-line functions ensure control, monitoring, consultation, information to the Company's Management Board and are responsible for the maintenance and improvement of the risk-management system.
- The third line (internal audit) assesses the effectiveness of the risk-management system and provides recommendations for its improvement.

Based on the identified risks, the Company has developed procedures and methodologies for each risk and group of risks to ensure risk assessment, monitoring, management/response and reporting/communication. Certain risk management methods, assessment procedures, control processes, prudential limits, and the roles of the Company's management and employees in assessing and managing risks have also been defined. The Company's internal documents regulating risk management are regularly reviewed, evaluated and adjusted to reflect the latest internal and external developments.

The Company uses the standard formula for calculating risk-based capital requirements.

### Own risk and solvency assessment

The Company carries out its own risk and solvency assessment (ORSA) at least once a year. The Company has in place and documented ORSA processes, appropriate and adequate assessment methods consistent with the Company's organisational structure and risk-management system. At least once a year, the Company prepares an ORSA report containing all information on the ORSA.

Anad-hoc ORSA must be carried out upon the direction of the insurance supervisory authority or upon the proposal of the Company's Risk Management Committee and the decision of the Company's Management Board in the event of material changes in the risk profile and material risk events, as well as in the event of indications that the Company's own funds may be inadequate in relation to the Solvency II capital requirements.

The ORSA covers all structural units of the Company and is an integral part of the business strategy, which is continuously considered in the Company's strategic decisions.

In 2023, the ORSA was carried out twice. The report of the regular ORSA was approved on 07/03/2023. On 16/06/2023, an ad-hoc ORSA was carried out in relation to the transfer of the rights and obligations of INVL Life UADB to the Company under the Transaction of merger of the retail businesses of Šiaulių Bankas AB and Invalda INVL AB. The following information is provided for the most recent ORSA as it assessed the Company's risk profile and solvency position after the merger of businesses and reflects the Company's current portfolio and situation.

The Company's own funds are sufficient to cover the Solvency Capital Requirement and the Minimum Capital Requirement for a period of three (3) years, taking into account the Company's business strategy as set out in the Business Plan. The Company also ensures ongoing compliance with the technical provisions requirements of the Solvency II Directive.

The Company will meet the risk appetite set by the Company's Management Board at 150% over the entire planning horizon of three (3) years, i.e., eligible own funds are more than 50% above the highest of the following three levels: the Minimum Capital Requirement, the Solvency Capital Requirement, the Own Risk- Capital Requirement (ORSA capital requirement). The ORSA process also determines whether the Company will meet the tolerance limits for risk-based capital requirements over the next three (3) years.

When developing a new product or investment line, or making other strategic decisions, the Company determines whether there will be any new risks, whether there will be any significant change in the risks identified by the Company, whether the Company will need additional capital, etc. In this way, the Company ensures that the risk profile of the Company will remain unchanged and that the Company will continue to meet its solvency capital requirements.

When investing own funds and technical provisions for life insurance contracts, where the investment risk is borne by the Company, it is monitored whether a particular asset exposure will result in a material increase in risk-based capital requirements. The Company monitors indicators that may lead to changes in risk-based capital requirements and takes appropriate decisions when necessary. All of these actions ensure a timely response to situations.

The Company calculates the Solvency Capital Requirement, eligible own funds and the Solvency Ratio on a quarterly basis and compares the results with the forecasts. In the event of discrepancies, the causes are identified. The results of this comparison and recommendations are presented to the Management Board of the Company.

The Company's Management Board considers the results of the ORSA and relies on the overall ORSA report when making business decisions. If business decisions significantly change the risk profile of the Company, the Management Board of the Company may order to perform an ad-hoc ORSA.

## B.4. INTERNAL CONTROL SYSTEM

The effectiveness of the Company's internal control is ensured by the existing internal control system: administrative and accounting procedures, the internal control structure, appropriate reporting principles at all levels of the Company and the performance of the compliance function.

The main objectives of the Company's internal control are as follows:

1. the operational objective to ensure that the Company's operations are efficient and to protect the Company from potential losses;
2. the information objective to ensure that financial and other information used both internally by the Company and for supervisory purposes or by other third parties is reliable, relevant and timely;
3. the compliance objective to ensure that the Company's operations are in line with its strategy, the requirements set out in the legislation of the European Union and the Republic of Lithuania, and the requirements set out in the internal regulations.

The Company's internal control over its activities is ensured by a sound and properly functioning internal control system comprising the following interrelated elements:

- internal control environment/culture;
- internal control procedures and measures;
- compliance function;
- information system;
- monitoring, assessment and improvement of the internal control system.

The following types of internal control are in place:

- ex-ante internal control;
- special (real-time) internal control;
- ex-post internal control.

The types of internal control are selected and applied based on the nature of the specific activity, the objectives pursued or the potential loss to the Company (risk profile). The Company's internal control procedures combine several types of internal control.

The Company's internal control system is monitored and improved on an ongoing basis, which allows internal control weaknesses to be quickly identified and addressed. This monitoring is carried out on a regular basis by the Company's employees and their managers.

Periodic checks allow assessing the effectiveness of the internal control system in a given area of activity and the effectiveness of control measures. These checks are carried out by internal audit.

The Company's Management Board, in turn, is responsible for remedying weaknesses in the internal control system.

### Compliance function

In carrying out the compliance function, the Company's Management Board establishes the basic principles and requirements to ensure that the Company's operations comply with the laws and regulations governing the activities of insurance companies, the guidelines and positions established by the European Insurance and Occupational Pensions Authority and the Bank of Lithuania, and the existing best practices.

The Head of Compliance is responsible for the implementation of the compliance function within the Company.



The main aspects of compliance monitoring and compliance advice are: assessing compliance with and implementation of legislation, the Company's Articles of Association, resolutions of the Management Board, orders of the Director and other internal regulations of the Company and advising the Company's Management Board on compliance with the law; monitoring changes in legislation and assessing their potential impact on the Company, identifying and assessing compliance risks; monitoring compliance risk indicators; assessing the adequacy of measures taken by the Company to prevent non-compliance, providing guidance and advice as the compliance function on measures to prevent and manage conflicts of interest in the Company, etc.

The following principles are applied to ensure the proper functioning of the compliance function within the Company:

- compliance in the Company is based on the Three Lines Model, which aims to clearly separate the rights and responsibilities for organising and ensuring compliance in the Company's day-to-day operations;
- the Company's managers and heads/employees of departments must ensure that in the areas/processes and departments they coordinate, the Company operates properly, as provided for by law, including the Company's internal regulations. heads/employees of departments monitor legislation relevant to their activities/processes and inform other responsible staff in their unit of relevant changes in legislation;
- the compliance function within the Company is carried out independently, on an ongoing and continuous basis;
- the compliance function staff carry out their functions independently, with appropriate authority, sufficient resources and access to all the information necessary for the compliance function.

The Head of Compliance submits periodic reports to the Company's Management Board, advises the Company's employees on compliance matters, assists in training, provides support in the areas of the compliance function, participates in the development and implementation of new internal policies and procedures of the Company, and corresponds with competent authorities on all relevant matters relating to the provision of services or the conduct of activities.

The Head of Compliance is responsible for the regular assessment of compliance risk and the application of the risk-based approach, and for preparing the annual compliance plan.

The compliance function in the Company operates on both an ex-ante (prior to the adoption of the relevant legislation) and an ex-post (in the light of already adopted legislation and the Company's existing regulations, processes and procedures) basis.

## B.5. INTERNAL AUDIT FUNCTION

The internal audit function has been delegated to the Internal Audit Division of the Company's sole shareholder Šiaulių Bankas AB. The Head of Internal Audit Division of Šiaulių Bankas AB is appointed responsible for the implementation of the internal audit function in the Company.

In its activities, the Internal Audit Division is guided by the International Standards for the Professional Practice of Internal Auditing and the Internal Audit Policy approved by the Supervisory Council of Šiaulių Bankas AB, which establishes the basic principles of internal audit organisation in the Bank and its subsidiaries, including the Company, in accordance with which the centralised internal audit system of the Bank Group operates, as well as other internal regulations governing internal audit activities.

In performing the internal audit function in relation to the Company, the Internal Audit Division is guided by the Strategic Internal Audit Plan of the Bank Group approved by the Bank's Audit Committee and the Annual Internal Audit Plan approved by the Management Board of the Company.

Internal Audit carries out focused audits to systematically and comprehensively assess and promote the effectiveness of the Company's risk management, control and oversight processes and to contribute to the achievement of the Company's objectives. The audit results, recommendations and results of monitoring the implementation of recommendations are submitted to the Audit Committee of Šiaulių Bankas AB in accordance with the procedure and at intervals established by the Management Board of the Company, but not less than once a year.

The activities of the Internal Audit Division and their quality are assessed regularly.

The independence of internal audit from the audited activity and the objectivity within the Company are ensured by the following provisions:

- functional reporting of the Internal Audit Division to the Audit Committee of Šiaulių Bankas AB;
- ensuring appropriate methodologies and models and appropriate assumptions for calculating technical provisions;
- the right of the Internal Audit Division to objective and independent scoping of audits and presentation of audit results.



## B.6. ACTUARIAL FUNCTION

The main tasks of the actuarial function within the Company are:

- coordinating the calculation of insurance technical provisions;
- ensuring appropriate methodologies and models and appropriate assumptions for calculating technical provisions;
- assessing the appropriateness, accuracy and completeness of the data used to calculate technical provisions;
- comparing the best estimate with experience;
- informing the Company's Management Board of the reliability and adequacy of the calculation of technical provisions;
- assessing underwriting policies;
- assessing the appropriateness of reinsurance contracts.

In addition, the Company's actuarial function contributes to the effective implementation of the risk-management system, in particular as regards the risk modelling underlying the calculation of the Solvency Capital and Minimum Capital Requirements, to the Company's assessment of own risk and solvency, participates in the process of preparation and monitoring of the Company's short-term and long-term business plans, and collects, organises and analyses information on the Company's insurance business, profitability and competitive position on the insurance market.

The person performing the actuarial function reports to the Management Board of the Company at least once a year on the actuarial function.

## B.7. OUTSOURCING

The Company's outsourcing process, evaluation and control procedures for outsourced service providers are governed by the *Procedure for the Procurement and Management of Outsourced Services* approved by the Management Board of the Company.

The Company has determined that critical or important functions or activities are those related to the Company's core business, taking into account the importance, nature and extent of the business, which affect the Company's:

- ability to conduct insurance business and provide services to policyholders;
- operations and results;
- reputation;
- business continuity.

The Company does not outsource critical or important functions or activities to a service provider if it would:

- materially impair the quality of the Company's system of governance;
- materially and unreasonably increase the level of operational risk;
- impair the ability of the Bank of Lithuania to monitor the Company's compliance with its obligations;
- or impair the continuity and quality of the services provided to policyholders.

When intending to outsource a critical or important function, the Company assesses the reasons for the need to outsource, considers the outsourcing service providers capable of providing the outsourcing services to be outsourced, assesses the outsourcing service provider under consideration, considers the conclusions and arguments on the choice of the most appropriate outsourcing service provider, prepares a draft outsourcing contract that complies with the legal acts and coordinates it with the outsourcing service provider, and informs the Bank of Lithuania of such intention in accordance with the procedure and deadlines established by the legislation.

When assessing a service provider, the Company verifies the following information about the service provider (including but not limited to): financial standing and reliability, competence, resources, experience, reputation, how the quality of the outsourced services is ensured in emergencies, whether the service provider is a member of the same group, whether there is a potential conflict of interest, the qualifications, reputation and experience of the outsourcing service provider's staff responsible for the performance of the outsourcing contract, etc. Outsourcing service providers are evaluated not only before outsourcing contracts are awarded, but also periodically. The Bank of Lithuania is also informed of material changes to existing outsourcing contracts in accordance with the procedures and deadlines established by the legislation.

Service providers are subject to the same information/data security and confidentiality requirements that apply to the Company. Outsourcing is monitored to ensure that it does not violate laws and regulations of the Republic of Lithuania.

The Company assesses the risks (strategic, operational, compliance, etc.) to which the Company is or may be exposed when procuring outsourced services from an outsourcing service provider.

## C. RISK PROFILE

The risks identified and managed by the Company are: life and health insurance (death, survival, morbidity, accidental death, injury, lapse, expense, catastrophe), market (interest rate, currency, equity), liquidity, credit, asset-liability mismatch, concentration, operational, strategic, reputational, compliance, money laundering, terrorist financing and international sanctions, sustainability, IT, and model risks.

The Company's own risk and solvency assessment has determined that the Company's risk profile is not materially different from the risk profile described in the standard formula used in the Solvency II Directive. Strategic and reputational, asset-liability mismatch, compliance, money laundering, terrorist financing and international sanctions, sustainability, IT, and model risks are not assessed according to the standard formula, and other methods of assessing these risks are used, such as testing, scenario analysis, and control of risk indicators.

In order to monitor, measure and control life insurance, health insurance, market, counterparty default and operational risks, the Company calculates risk-based capital requirements using the standard formula. Other risks are managed through methods specified in internal documents: limit setting and compliance monitoring, identification and monitoring of key risk indicators, control procedures in operational processes, testing, know-your-customer procedures, monitoring of premiums and claims.

For the risks included in the standard formula, the Company calculated a Solvency Capital Requirement of EUR 28.45 million in 2023.

The Company expects to maintain its risk levels within the risk appetite throughout the planning period (2024–2026). In its report for the 2023 Own Risk and Solvency Assessment, the Company concluded that the Company's risk management practices are sufficient to maintain the established risk profile (risk levels).

In 2023, the Company's assets were invested in accordance with the prudent person principle set out in Article 132 of the Solvency II Directive. The Company invests funds in accordance with the principles of prudence, caution and conservatism. The Company invests all funds only in assets and instruments the risks of which the Company can reasonably identify, assess, monitor, manage, control and report, and which the Company can properly consider in assessing the Solvency Capital Requirement. When investing funds, the Company seeks security and quality of investments. To this end, the Company has established criteria, limits and restrictions that must be met by the chosen investment. The Company ensures sufficient liquidity of assets.

The Company continuously monitors and assesses, as necessary (when investing in assets, in the event of changes in credit ratings, etc.), how the level of risks will change as a result of specific investment decisions, specific asset exposures chosen.

### C.1. UNDERWRITING RISK

The Company defines underwriting risk as the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

The Company's underwriting risk management methods include: insured person's underwriting risk assessment, premium adequacy assessment, limit setting, reinsurance. The Company has measures in place to reduce and eliminate potentially too low premiums. The Company also provides for cases where it does not assume the underwriting risk.

To reduce its underwriting risk, the Company cedes part of its underwriting risk to reinsurers, i.e., obtains reinsurance.

### C.2. MARKET RISK

The Company is exposed to market risk when investing own funds and funds under life insurance contracts where the Company bears the investment risk. These funds are invested in debt securities, term deposits in banks and units of investment funds. Some funds are held in banks.

Market risk includes interest rate, currency, equity, spread and concentration risks.

The Company invests in simple objects to reduce market risk and does not invest in any derivatives or instruments that are difficult to monitor, evaluate or control.

Interest rate risk is defined as the risk of incurring losses due to fluctuations in market interest rates, which may reduce the value of debt securities and/or increase the value of technical provisions.

The Company manages interest rate risk by calculating the potential depreciation of debt securities, monitoring the magnitude of the potential depreciation, capping it, and setting appropriate limits on the selection of new investments. As part of own risk and solvency assessment and on a quarterly basis, the interest rate risk capital requirement is calculated using the standard formula to calculate the Solvency Capital Requirement.

**Currency risk** is the risk of loss from unfavourable changes in foreign exchange rates.

In 2023, almost all insurance contracts were written in euros, with the exception of a very small number of contracts written in US dollars. To manage the risk, the Company matches the currency composition of its assets and liabilities. As the amount of foreign currency liabilities is insignificant, the Company does not currently invest its own funds in foreign currency.

Unit-linked insurance liabilities, where the investment risk is borne by the policyholders, do not give rise to currency risk, even if the liabilities are negotiated in different currencies. Indirectly, this risk may arise from a decrease in the value of the investment portfolio due to exchange rate fluctuations – as the value of the investment decreases, the Company's income decreases due to the collection of lower fees, which are proportional to the value of the investment portfolio.

As part of own risk and solvency assessment and on a quarterly basis, the Company calculates the currency risk capital requirement using the standard formula to calculate the Solvency Capital Requirement.

**Spread risk** is the risk of loss due to fluctuations in the value of an asset as a result of a change in the credit spread or its volatility relative to a risk-free interest rate term structure.

The Company's spread risk is managed by assessing the creditworthiness of issuers and the appropriateness of these assessments, by monitoring credit events on an ongoing basis, by setting limits and monitoring their enforcement, and by assessing the potential change in the value of debt securities (in the same way as for interest rate risk).

On a quarterly basis, the spread risk capital requirement is calculated using the standard formula for the purpose of calculating the Solvency Capital Requirement.

**Equity risk** is the risk of loss due to fluctuations in the value of assets and liabilities as a result of changes in or volatility of the market price of equity securities.

The Company does not invest its own funds and the funds covering technical provisions under life insurance contracts where the investment risk is borne by the Company in the shares of companies, and therefore the Company is not directly exposed to this risk.

Equity risk has an indirect impact on the Company's investment insurance portfolio: some contract and asset management fees are based on the net asset value of the investment lines – if the value of an investment line decreases, the Company receives less fee income. A decrease in the value of the unit-linked investments may lead to an increase in the number of cancellations and therefore a decrease in the value of the Company's unit-linked assets and income. As part of own risk and solvency assessment and on a quarterly basis, the equity risk capital requirement is calculated using the standard formula to calculate the Solvency Capital Requirement.

**Concentration risk** includes all risk exposures where the probability of loss is sufficiently high to threaten the solvency or financial position of the Company.

The Company's concentration risk is managed by calculating actual concentration risk indicators and comparing them with concentration risk limits (per issuer, entity, country, sector), by setting new relevant limits, and by monitoring the credit quality of debt securities held.

To avoid increasing the exposure to this risk, when investing funds the excess exposure thresholds specified in the standard formula are taken into account, depending on the credit rating. The Company also monitors factors that are beyond its control, such as rating downgrades, which could increase the concentration risk, and takes individual decisions based on these situations.

When investing in debt securities, the Company also considers whether the Company has already invested in a particular issuer, and whether certain risks, including concentration risk, will result in a material change in capital requirements.

### C.3. CREDIT RISK

Credit risk is the risk of loss or adverse changes in financial situation due to changes in the solvency of and default by issuers of securities, counterparties and other entities.

The Company manages the credit risk related to the following entities:

- banks in whose accounts the Company's cash is held and/or with which term deposit agreements have been concluded;
- electronic money and payment institutions holding the Company's cash in their accounts;
- reinsurers with whom reinsurance contracts are concluded;
- depositories where the Company's securities are held;
- policyholders, intermediaries and other entities from which receivables are due;
- issuers whose securities may fluctuate in value as a result of changes in the credit spread or its volatility relative to the risk-free interest rate term structure.

Credit risk is managed by assessing the creditworthiness of issuers/counterparties, assessing the appropriateness of the established credit rating, setting limits on counterparties, reinsurers and depositories, and monitoring compliance with limits.

### C.4. LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to realise its investments and assets in a timely and efficient manner to meet its financial obligations as they fall due.

The Company's liquidity risk is managed by diversifying the investments of the Company's own funds and the funds covering technical provisions, by monitoring and controlling this risk and calculating liquidity ratios, by ensuring that liquidity risk limits are met, by back-testing the process of liquidity risk management, by contingency planning, and by obtaining guarantees or by entering into surety agreements.

#### Future premiums

In assessing the expected profit included in future premiums, the Company classifies insurance liabilities into those for which premiums have been paid and those for which future premiums are expected to be received, and calculates technical provisions without a risk margin in the same way as technical provisions for solvency purposes, only on the assumption that premiums expected to be received in the future in respect of existing insurance contracts are not received for any reason other than the occurrence of an insured event, irrespective of the policyholder's legal or contractual rights to cancel the insurance contract, i.e., the premiums paid under insurance contracts are zero.

### C.5. OPERATIONAL RISK

Operational risk includes the risk of losses arising from inadequate or failed internal processes, employee and/or non-employee errors and/or misconduct, and malfunctioning of information systems, or from external events, including legal risks, but excludes risks arising from strategic decisions and reputational risk.

The Company's operational risk is managed through continuous monitoring, recording and analysing operational risk events, assessing the operational risk of business units' activities, identifying the highest-risk areas that may increase the level of operational risk, establishing control procedures and controlling processes. The Company has operational risk indicators.

As part of own risk and solvency assessment and on a quarterly basis, the operational risk capital requirement is assessed using the standard formula to calculate the Solvency Capital Requirement.

### C.6. OTHER SIGNIFICANT RISKS

Other risks relevant to the Company's business for which no Solvency II/ORSA capital requirement is calculated are assessed using qualitative methods, benchmarking and other methods.

**Asset-liability mismatch risk** the risk of loss due to a mismatch between the Company's assets and liabilities in terms of maturity, currency and interest rate.

The risk is managed by assessing liquidity gaps in future periods, setting limits on the duration of reinvested assets and ensuring control, maintaining currency compatibility between assets and liabilities, and benchmarking liabilities spread across guaranteed interest rates and assets spread across yield bands.

**Sustainability risk** includes events or situations arising from environmental, social or governance issues which, if they occur, could have a negative impact on the Company's assets, financial position, reputation and the value of investments.

Sustainability risk is managed by integrating sustainability considerations into investment analysis and decision-making processes, by fostering stakeholder partnerships and engagement opportunities that support the management of sustainability criteria in investment management activities, by seeking appropriate disclosure of sustainability issues by entities in which investment lines or client portfolios invest, by negative screening of investments, and by identifying key risk indicators and monitoring their values.

**Compliance risk** is the risk that the Company's activities will not comply with the laws of the Republic of Lithuania and other legal acts of the Republic of Lithuania and the European Union regulating the activities of insurance undertakings, the guidelines and positions of the European Insurance and Occupational Pensions Authority and the Bank of Lithuania.

Compliance risk is managed by ensuring the functioning and independence of the compliance function within the Company's governance and organisational structure, monitoring changes in legislation and assessing their potential impact on the Company, identifying key risk indicators and monitoring their values, assessing the measures to prevent non-compliance in the Company, organising compliance training for the Company's employees and insurance intermediaries, and engaging in a dialogue on compliance issues with the authorities supervising the Company's operations.

**Risk of money laundering and terrorist financing** is the risk of money laundering and/or terrorist financing being carried out through the Company.

Risk of money laundering and terrorist financing is managed by identifying clients and verifying their identity, regularly implementing know-your-customer (KYC) procedures, periodically updating personal identification information of clients and beneficial owners, monitoring premiums and claims, carrying out client risk assessment, ensuring proper implementation of international sanctions, identifying and monitoring key risk indicators, and by providing training for the Company's employees.

**Strategic risk** arises from changes in the external and internal environment or decisions that may prevent the achievement of the Company's objectives. It also includes the risk of wrong or ineffective strategic choices in response to environmental changes. The risk is managed by controlling the assumptions of the business plan and the delivery of financial indicators through market analysis.

**Reputational risk** may adversely affect the Company's earnings and/or capital as a result of unfavourable perceptions of the Company by clients, business partners or supervisory authorities. The risk is managed in line with the principles of socially responsible business, by continuously improving the quality of cooperation with clients and business partners, responding promptly to complaints, and monitoring the media.

**IT risk** (information and communication technology (ICT) and security risk) is the risk of loss due to a breach of confidentiality, the integrity of systems and data, the inadequacy or unavailability of systems and data, or the inability to change information technology when the environment or business needs change (i.e., responsiveness) within a reasonable time and cost. This includes security risks arising from inadequate or failed internal processes or external events, including cyber-attacks, security aspects of personnel, and insufficient physical security.

IT risk is managed by identifying key risk indicators and monitoring their values, applying measures from the Description of Information and Communication Technology (IT) and Security Risk Management Requirements approved by the Board of the BoL, Annex A of the LST ISO/IEC 27001 standard, the CIS Critical Security Controls, and by applying measures selected from the NIST Cybersecurity Framework.

**Model risk** is the risk of financial loss, wrong business decisions and inaccurate financial statement disclosures arising from the use of models.

Model risk is managed by setting quality criteria for model design and development, identifying the models used in operations, and conducting periodic independent model validation. Model risk is managed centrally at the Group level, the list of models is updated annually, and validation is carried out periodically depending on the significance of the models.

## STRESS TESTING

The Company's most recent stress test was carried out based on data as at 31 March 2023.

The Company has carried out a sensitivity analysis that assesses the direct impact of single parameter shocks on the Company's financial position. The sensitivity to the following parameters was assessed: changes in risk-free interest rates, increase in administrative costs, credit rating downgrades, increase in morbidity and mortality, increase in cancellations. Considering the results of the sensitivity analysis, three stress test scenarios have been developed, covering the parameters that most affect the Company's solvency level:

- an increase in administrative costs;
- a fall in the interest rate;
- a decrease in the volume of new business while administrative costs increase.

Testing the impact of the three adverse scenarios over the projection period showed that:

- an increase in administrative costs would reduce the solvency ratio, but the ratio would also increase moderately as in the baseline scenario. It would also be within the Company's tolerance limits;
- a fall in the interest rate curve would have a negative impact on the Company's solvency ratio, but due to the faster growth in the value of assets than liabilities the solvency ratio would be increasing in 2024;
- failure to deliver on the business plan would reduce the solvency ratio due to the burden of administrative costs.

Based on the results of the sensitivity analysis, back-testing was also performed.

## C.7. OTHER INFORMATION

The Company does not apply any risk mitigation measures other than those mentioned above.



## D. ASSESSMENT FOR SOLVENCY PURPOSES

### D.1. ASSETS

Table 6 shows the asset values by group in the financial statements and in the Solvency II reports:

**Table 6. Assets**

Group of assets Solvency II	Book value, 31/12/ 2023		
	Solvency II	Financial Statements	Difference
Financial assets:	198,444,356	199,288,044	-843,688
Investments (securities)	197,678,634	198,522,322	-843,688
Term deposits	500,000	500,000	-
Receivables	265,722	265,722	-
Cash and cash equivalents	9,522,424	9,522,424	-
Tangible fixed assets	804,224	783,584	20,640
Intangible fixed assets	-	1,866,866	-1,866,866
Reinsurance assets	71,865	14,616	57,249
Deferred corporate tax assets	2,296	2,296	-
Other assets:	-	74,576	-74,576
Deferred acquisition costs	-	-	-
Other assets	-	74,576	-74,576
<b>Total</b>	<b>208,845,165</b>	<b>211,552,406</b>	<b>-2,707,241</b>

Group of assets	Book value, 31/12/2022		
	Solvency II	Financial Statements (restated)	Difference
Financial assets:	42,999,290	44,254,406	-1,255,116
Investments (securities)	42,463,280	43,718,396	-1,255,116
Term deposits	500,000	500,000	-
Receivables	36,010	36,010	-
Cash and cash equivalents	1,153,595	1,329,189	-175,594
Tangible fixed assets	587,058	496,817	90,241
Intangible fixed assets	-	480,569	-480,569
Reinsurance assets	-155,742	146,298	-302,040
Deferred corporate tax assets	2,296	2,296	-
Other assets:	5,002	753,444	-748,442
Deferred acquisition costs	-	728,376	-728,376
Other assets	5,002	25,068	-20,066
<b>Total</b>	<b>44,591,499</b>	<b>47,463,019</b>	<b>-2,871,520</b>

Some of the securities in the Financial Statements and all of the securities in the Solvency II reports are measured on the same basis, i.e., at fair value. The other part of the securities reported in the Financial Statements are measured at amortised cost.

Receivables from clients and other receivables with fixed or determinable payments that are not traded in an active market are classified as 'receivables'. Receivables are initially recognised at fair value. In subsequent periods, such financial assets are carried at amortised cost using the effective interest rate method, less any recognised impairment loss that reflects irrecoverable amounts. Interest income is recognised using the effective interest rate method, except for short-term receivables for which recognition of interest income would be immaterial.

Cash and cash equivalents consist of cash at bank, demand deposits and other short-term investments with a maturity of less than 3 months at the contract date, highly liquid investments that are readily convertible into clear amounts of cash and are subject to insignificant risk of changes in value.

Tangible fixed assets are assets that are owned and controlled by the Company and from which the Company expects to derive economic benefits in future periods and that will be used for more than one year. Tangible fixed assets are carried at



acquisition cost less accumulated depreciation and impairment losses, if any. For Solvency II reports, vehicles are carried at acquisition cost at initial recognition, based on the assumption that the asset was acquired in the ordinary course of business. In subsequent periods, for the purpose of preparing the financial statements, the fair value of vehicles is determined by reference to prices quoted in the principal market for transactions in such assets.

Intangible fixed assets are carried at acquisition cost less accumulated amortisation and impairment losses, if any. The value of intangible fixed assets calculated for the purposes of Solvency II reporting is assumed to be zero.

Under Solvency II, reinsurance assets (reinsurers' share of technical provisions) are calculated as the best estimate of expected future cash flows, taking into account the time value of money, using an appropriate risk-free interest rate curve.

Deferred tax assets are recognised for future tax purposes by noting differences between the carrying amount of assets held in the financial statements and their respective tax bases. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be reduced.

## D.2. TECHNICAL PROVISIONS

The Company's technical provisions are equal to the sum of the best estimate and the risk margin. The best estimate and the risk margin are calculated separately. The best estimate and risk margin of the portfolio of unit-linked life insurance contracts prior to the merger of businesses are calculated for life and health risks, and the value of the cumulative part of the technical provisions is equal to the market value of the financial instruments for which the market value can be reliably measured and which are linked to the cash flows of the technical provisions, and is measured as a whole.

The best estimate is equal to the present value of expected future cash flows, such as premiums (risk charges), claims, claim settlement, acquisition, administrative costs, investment management expenses, investment income, guarantees and options available in insurance contracts. The discounting of cash flows uses the term structure of risk-free interest rates set by the European Insurance and Occupational Pensions Authority.

The risk margin for the portfolio prior to the business merger is calculated by approximating the total Solvency Capital Requirement<sup>3</sup> for the future years of the reference undertaking in a single step (without separately approximating the Solvency Capital Requirement for each of the future years), using the modified duration of the insurance liabilities as a proportionality factor. The risk margin is allocated to lines of business based on the share of the Solvency Capital Requirement of the type of insurance concerned in the Total Solvency Capital Requirement. For the acquired portfolio and for contracts entered into after the business merger, the risk margin is calculated according to the Method 1 (Standard Formula) by approximating the individual risks used to calculate the future capital requirements. For the calculation of the risk margin, a Cost Of Capital rate of 6% is applied to both portfolios.

The assumptions used to calculate the Company's technical provisions:

- The Company's future management actions that are relevant to the measurement of technical provisions relate to:
  - suspension of cover under the insurance contract;
  - payment of insurance claims in case of an uninsured event;
  - distribution of the insurer's share of profits.
- Future management actions of the Company are not considered in the calculation of technical provisions, with the exception of the suspension of insurance cover for the portfolio before the business merger.
- Options provided in insurance contracts:
  - termination of the insurance contract;
  - validity of the insurance contract without payment of premiums;
  - withdrawal of part of the policyholder's investment provision (accumulated capital).
- Mortality of the insured;
- Health insurance losses;
- Costs;
- Event delays;
- The reinsurers' share of written premiums or claims.

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<sup>3</sup> Solvency Capital Requirement of the reference undertaking is the amount of eligible basic own funds equal to the Solvency Capital Requirement necessary to meet the insurance liabilities over their entire lifetime, through the transfer of the entire portfolio of liabilities to another insurance undertaking, while minimising all risks.

The Company's assumptions used to calculate technical provisions are based on changes in the structure and development of the Company's portfolio of insurance liabilities, the impact of external factors on these changes, and the results of an analysis of the adequacy of premiums, mortality, claims ratio, claims delays, and reinsurance activity results. In the case of insufficient statistical data on the Company's portfolio of insurance liabilities, the assumptions are not based on the characteristics of the Company's portfolio of insurance liabilities, but rather on those of a portfolio with the same characteristics. All assumptions are used consistently and are valid for a maximum of three (3) years, and are reviewed against experience at least once a year.

Uncertainties in the amount of technical provisions may arise from the use of optimistic/pessimistic assumptions in the measurement of technical provisions.

Following the change in the accounting standard for insurance contracts, technical provisions for both solvency and financial reporting purposes are calculated based on a forward-looking actuarial valuation of reserves. The main differences between the assessments are:

- **Definition of an insurance contract**  
Under Solvency II, all contracts entered into by the Company are insurance contracts, and under IFRS 17 "Insurance Contracts", the significance of insurance risk is assessed.
- **Definition of contract boundaries**  
Under Solvency II, the assessment of the contract boundary does not take into account a single point in time, but the boundary between the premiums and liabilities under the contract and the premiums and liabilities outside the contract. Therefore, for some contracts, the Solvency II contract boundary is shorter than under IFRS 17 "Insurance Contracts".
- **Allocation of costs to insurance contracts**  
Under Solvency II, all costs (other than some one-off costs) are attributed to insurance contracts, whereas under IFRS 17 "Insurance Contracts", only costs related to the administration of those contracts are attributable to the insurance contracts.  
Under Solvency II, only recurring acquisition costs are modelled, whereas under IFRS 17 "Insurance Contracts", all acquisition costs are modelled.
- **Definition of risk margin**  
Under Solvency II, the risk margin is calculated using the cost of capital approach, and for the risk adjustment under IFRS 17 "Insurance Contracts", the Company has chosen to use a confidence level valuation approach with a 75% confidence level.

The change in the Company's technical provisions in 2023 was mainly driven by business acquisition (Table 7). For the portfolio before the business merger, the increase in the best estimate was due to the new unit-linked insurance contract boundaries and a change in the method used to determine the investment management fee assumption. The decrease in the risk margin of this portfolio was due to a change in the methodology used to determine the boundaries of unit-linked insurance contracts and to a change in the portfolio in the current period. The increase in the pre-merger portfolio provisions calculated as a whole also contributed to the increase in the Company's technical provisions. The increase in the whole was driven by an increase in invested premiums and returns on investments. The technical provisions for the Company as a whole, and separately for the pre-merger portfolio only, as at 31 December 2023 and 31 December 2022 are shown in Tables 7-10.

**Table 7. Technical provisions, total: for the Company as a whole and for the pre-merger portfolio**

Line of business	Total technical provisions for the Company as a whole, EUR		Change, EUR
	31/12/2023	31/12/2022	
Life insurance with profit-sharing	16,174,328	9,426,477	6,747,851
Life insurance linked to investment funds	164,145,128	27,450,707	136,694,421
Other life insurance	-139,944	275,024	-414,968
Health insurance	-27,178,186	-4,304,021	-22,874,165
Life insurance, total	153,001,326	32,848,187	120,153,139

Line of business	Total technical provisions for the pre-merger portfolio, EUR		Change, EUR
	31/12/2023	31/12/2022	
Life insurance with profit-sharing	9,706,625	9,426,477	280,148
Life insurance linked to investment funds	35,849,710	27,450,707	8,399,003
Other life insurance	580,163	275,024	305,139
Health insurance	-2,187,427	-4,304,021	2,116,594
Life insurance, total	43,949,071	32,848,187	11,100,884

**Table 8. Best estimate: for the Company as a whole and for the pre-merger portfolio**

Line of business	Best estimate (Company), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	15,723,791	
Life insurance linked to investment funds	122,623,961	-1,136,584	123,760,545
Other life insurance	-929,646	217,533	-1,147,179
Health insurance	-35,232,505	-6,347,908	-28,884,597
Life insurance, total	102,185,602	1,792,990	100,392,612

Line of business	Best estimate (pre-merger portfolio), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	9,308,634	
Life insurance linked to investment funds	-287,703	-1,136,584	848,881
Other life insurance	456,604	217,533	239,071
Health insurance	-4,079,986	-6,347,908	2,267,922
Life insurance, total	5,397,549	1,792,990	3,604,559

**Table 9. Risk margin: for the Company as a whole and for the pre-merger portfolio**

Line of business	Risk margin (Company), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	450,537	
Life insurance linked to investment funds	5,752,167	420,267	5,331,900
Other life insurance	789,702	57,491	732,211
Health insurance	8,054,318	2,043,887	6,010,431
Life insurance, total	15,046,724	2,888,173	12,158,551

Line of business	Risk margin (pre-merger portfolio), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	397,991	
Life insurance linked to investment funds	368,413	420,267	-51,854
Other life insurance	123,559	57,491	66,068
Health insurance	1,892,559	2,043,887	-151,328
Life insurance, total	2,782,522	2,888,173	-105,651

**Table 10. Technical provision calculated as a whole: for the Company as a whole and for the pre-merger portfolio**

Line of business	Provision calculated as a whole (Company), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	0	
Life insurance linked to investment funds	35,769,000	28,167,024	7,601,976
Other life insurance	0	0	0
Health insurance	0	0	0
Life insurance, total	35,769,000	28,167,024	7,601,976

Line of business	Provision calculated as a whole (pre-merger portfolio), EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	0	
Life insurance linked to investment funds	35,769,000	28,167,024	7,601,976
Other life insurance	0	0	0
Health insurance	0	0	0
Life insurance, total	35,769,000	28,167,024	7,601,976

The best estimate is calculated without deducting amounts recoverable under reinsurance contracts. For the pre-merger portfolio, the amount recoverable under a reinsurance contract is equal to the best estimate of the present value of the expected future cash flows payable to and recoverable from reinsurers. For the acquired portfolio and for contracts entered into after the merger, the amount recoverable under a reinsurance contract is calculated by aggregating: (1) the amount recoverable under the reinsurance contract as a result of expected claim settlements; (2) the amount recoverable under the reinsurance contract, which is calculated as the sum of the present values of the best estimates of the reinsurers' cash flows. The amount recoverable under a reinsurance contract is not adjusted for expected losses arising from a counterparty default, provided that such an adjustment would not have a material effect (Table 11).

**Table 11. Amounts recoverable from reinsurers: for the Company as a whole and for the pre-merger portfolio**

Line of business	Amounts recoverable from reinsurers, for the Company as a whole, EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	85,798	
Life insurance linked to investment funds	153,683	-78,171	231,854
Other life insurance	-92,255	-383	-91,872
Health insurance	-75,361	-78,621	3,260
Life insurance, total	71,865	-155,742	227,607

Line of business	Amounts recoverable from reinsurers, for the pre-merger portfolio, EUR		Change, EUR
	31/12/2023	31/12/2022	
	Life insurance with profit-sharing	85,798	
Life insurance linked to investment funds	175,379	-78,171	253,550
Other life insurance	5,721	-383	6,104
Health insurance	-59,492	-78,621	19,129
Life insurance, total	207,406	-155,742	363,148

### D.3. OTHER LIABILITIES

Other financial liabilities are measured at fair value less transaction costs in both the Financial Statements and Solvency II reports and are measured at amortised cost using the interest rate method in subsequent periods. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire.

### D.4. ALTERNATIVE ASSESSMENT METHODS

The Company does not use alternative assessment methods.

## E. CAPITAL MANAGEMENT

### E.1. OWN FUNDS

The Company's eligible own funds are continuously monitored. They are calculated quarterly by the Company when assessing the Solvency Capital Requirement and annually during the ORSA. During the ORSA, the Company forecasts own funds for three (3) years ahead, taking into account forecast assets and liabilities. The Company's own funds consist of the following elements (Table 12):

- paid-up ordinary share capital;
- the reconciliation reserve, which is reduced by the amount of dividends and other distributions expected to be paid;
- the net value of deferred tax assets.

**Table 12. Own funds of the Company**

<b>31/12/2023</b>				
<b>Element</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Ordinary share capital	26,012,800	-	-	26,012,800
Reconciliation reserve	27,394,624	-	-	27,394,624
Deferred taxes	-	-	2,296	2,296
<b>Total</b>	<b>53,407,424</b>	<b>-</b>	<b>2,296</b>	<b>53,409,720</b>

<b>31/12/2022</b>				
<b>Element</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Ordinary share capital	4,057,576	-	-	4,057,576
Reconciliation reserve	6,712,443	-	-	6,712,443
Deferred taxes	-	-	2,296	2,296
<b>Total</b>	<b>10,770,019</b>	<b>-</b>	<b>2,296</b>	<b>10,772,315</b>

The company's share capital is held by its sole shareholder, Šiaulių Bankas AB, and all shares are fully paid up. The shareholder does not plan to issue new shares in the short or medium term.

The Company's share capital was increased twice in 2023: 44,886 ordinary registered shares were registered on 07/11/2023 and 30,921 ordinary registered shares with a nominal value of EUR 289.62 each were registered on 18/12/2023. On 07/11/2023, the share capital of the Company was increased by EUR 12,999,884 up to a total amount of EUR 17,057,459, and on 18/12/2023, by a further EUR 8,955,340 up to a total amount of EUR 26,012,800.

Table 13 below shows the differences between the reconciliation reserve in the Financial Statements and the Solvency II reports.

Deferred corporate tax assets are recognised for future tax purposes by noting the differences ("temporary differences") between the carrying amount of assets held in the Financial Statements and their respective tax bases and are recognised only to the extent that they are expected to reduce future taxable profit. The Company has calculated temporary differences and their corresponding deferred corporate tax assets on doubtful debts and taxes related to the leave and pension reserve.

**Table 13. Reconciliation reserves**

<b>Items</b>	<b>31/12/2023</b>	<b>31/12/2022 (restated)</b>
Shareholders' equity as calculated in the Financial Statements	30,045,904	10,306,605
Share capital	-26,012,800	-4,057,576
Deferred corporate tax assets	-2,296	-2,296
Reconciliation reserve before recalculation under Solvency II	4,030,808	6,246,733
Differences in valuation of assets between Financial Statements and Solvency II	-2,707,241	-2,871,521
Differences in valuation of technical provisions between Financial Statements and Solvency II	26,071,057	3,337,231
Dividends expected to be paid	-	-
Reconciliation reserve in Solvency II reports	27,394,624	6,712,443

## Planned changes in own funds

The Company has projected a consistent increase in own funds over the business planning period, i.e., a consistent increase in assets and liabilities. No dividends are to be paid out to the shareholder between 2024 and 2026. In view of the projected assets and liabilities, the Company has carried out own risk and solvency assessment and has determined the levels of own funds for the next three (3) years.

## E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The Company's Solvency Capital Requirement, risk-based capital requirements, the Minimum Capital Requirement, and the Company's solvency ratio as at 31 December 2022 and 31 December 2023 and their expected levels for each year-end until 31 December 2026 are shown in Table 14. In 2023, a significant increase in capital requirements is seen due to the merged portfolio after the business merger.

**Table 14. Capital requirements by risk: actual for 2022–2023 and forecasts for 2024–2026 (EUR thousand)**

Risk	Capital requirement 31/12/2022	Capital requirement 31/12/2023	Capital requirement 31/12/2024	Capital requirement 31/12/2025	Capital requirement 31/12/2026
Life underwriting risk	1,175	12,853	15,707	15,954	16,086
Health underwriting risk	3,789	16,144	22,161	24,079	26,448
Counterparty default risk	167	1,463	696	899	1,095
Market risk	1,706	7,445	9,098	9,671	10,151
Diversification (-)	-1,771	-11,040	-13,333	-14,158	-14,881
Operational risk	368	1,586	1,515	1,609	1,694
Solvency Capital Requirement	5,466	28,451	36,297	38,787	41,200
Dividends	-	-	-	-	-
Equity	10,772	53,410	67,963	77,040	86,648
Minimum Capital Requirement	4,000	7,113	9,074	9,697	10,300
Solvency ratio	197%	188%	187%	199%	210%

The Company uses the Solvency II standard formula to calculate the Solvency Capital Requirement. The Company does not apply the full and/or partial internal model.

The values used to calculate the Minimum Capital Requirement are shown in Table 15.

**Table 15. Values used to calculate the Minimum Capital Requirement (EUR thousand)**

Values	31/12/2023	31/12/2022
Obligations with profit participation - guaranteed benefits	15,724	8,998
Obligations with profit participation - future discretionary benefits	-	59
Index-linked and unit-linked insurance obligations	158,393	27,108
Other life (re)insurance and health (re)insurance obligations	-36,162	-6,051
Total capital at risk for all life (re)insurance obligations	1,696,913	126,849

### E.3. THE APPLICATION OF DURATION-BASED EQUITY RISK SUB-MODULE FOR THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

Not applicable as the Company is not engaged in occupational retirement provision business referred to in Article 304 of the Solvency II Directive, nor in the activity of payment of retirement benefits paid by reference to reaching, or the expectation of reaching, retirement.

### E4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY APPLICABLE INTERNAL MODELS

Not applicable. The Company uses the Solvency II standard formula to calculate the Solvency Capital Requirement. The Company does not apply the full and/or partial internal model.

### E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND WITH THE SOLVENCY CAPITAL REQUIREMENT

**As of the date of entry into force of Solvency II, the Company meets the Minimum and Solvency Capital Requirements. The Company does not foresee any risks during the business planning period that could lead to non-compliance with the Company's Minimum Capital Requirement or Solvency Capital Requirement.**



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