# Statement of Solvency and Financial Position of Life Insurance Company SB Draudimas UAB for 2024

4 April 2025, Vilnius

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# SUMMARY

The Statement of Solvency and Financial Position of Life Insurance Company SB Draudimas UAB (formerly Life Insurance Company BONUM PUBLICUM UAB until 1 June 2020) (hereinafter, the "Company") for 2024 covers the period from 1 January 2024 to 31 December 2024. This statement 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

In 2024, the company focused heavily on standardizing and optimizing processes, as well as integrating self-service platforms for policyholders. The Company also reviewed the terms and conditions of life insurance product for consumer loan recipients and has devoted — and will continue to devote — significant attention to product review and governance to ensure that products and their distribution provide maximum value to the customers throughout entire lifecycle of insurance contracts.

The Company operates in Lithuania, as well as through branches in Latvia and Estonia, where previously concluded insurance contracts are administered, however, no new contracts are concluded.

In 2024, the Company offered the following life insurance products to its customers:

- Death insurance;
    - Life risk insurance;
    - Decreasing term life insurance (from 1 October 2024: Life risk insurance for consumer loan recipients; for clients of SB lizingas UAB);
    - Insurance for mortgage borrowers (for clients of Šiaulių Bankas AB);
- Life insurance linked to investment funds;
- Supplementary sickness and accident insurance.

The Company also administers the insurance contracts that were previously concluded by the Company itself and those taken over from "INVL Life" UADB in respect of the insurance products falling within the above-mentioned groups and the survival life insurance.

The insurance risks taken by the Company (death, critical illness and accident risks) until 2023 were reinsured with the reinsurance company Vig Re zajišťovna, a.s. (see more at: 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 2024, the Company wrote life insurance premiums EUR 33,512,345 in total, of which EUR 29,096,825 were written in Lithuania, EUR 2,129,696 in Latvia and EUR 2,285,824 in Estonia. The total amount of premiums written by the Company increased by 2.3 times compared to 2023 (EUR 14,393,874) (in Lithuania, it increased by 2.1 times). In 2024, the Company's net profit was EUR 5,202,345 (in 2023, net loss was EUR 2,226,512).

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

| | 31/12/2024 | 31/12/2023 |
|---|---|---|
| Insurance revenue | 10,893,657 | 4,567,833 |
| Insurance service expenses | -7,384,073 | -5,999,575 |
| Reinsurance result | -83,873 | -149,049 |
| Insurance finance result | 81,991 | 872,657 |
| Investment result | 1,300,152 | 404,238 |
| Investment contracts management result | 645,286 | -1,993,769 |
| Other revenue | 23,395 | 89,326 |
| Other expenses | -224,150 | -16,862 |
| Profit or (loss) before tax | 5,252,385 | -2,225,201 |
| Corporate tax | -50,040 | -1,311 |
| Net profit or (loss) | 5,202,345 | -2,226,512 |

## 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:

- organizational 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 performs stress tests (sensitivity tests). Several balance sheet items measured for the purpose of Solvency Capital Requirements calculations differ from the balance sheet items used to prepare the financial statements, due to different requirements of IFRS and Solvency II directive.

As at 31 December 2024, the Company's solvency ratio was 206.68% (187.72% in 2023).

| Solvency II | 31/12/2024 | 31/12/2023 |
|---|---|---|
| Own funds (equity), EUR | 53,898,674 | 53,409,720 |
| Solvency Capital Requirement, EUR | 26,078,852 | 28,451,093 |
| Solvency ratio, % | 206.68% | 187.72% |

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 (2025–2027) 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

| | |
|---|---|
| **Name and legal form of the Company** | **Gyvybės Draudimo UAB SB Draudimas (formerly Life Insurance Company BONUM PUBLICUM UAB until 1 June 2020)** |
| **Registration number** | **110081788**<br>**Registered in the Register of Legal Entities of the Republic of Lithuania** |
| **Address** | **Gynėjų g. 14, LT-01109 Vilnius** |
| **Tel.** | **(+370~5) 236 27 23** |
| **E-mail** | **info@sb.lt** |
| **Website** | **www.sb.lt** |
| **Supervisory authority** | **Bank of Lithuania, Totorių g. 4, LT-01121 Vilnius (for correspondence)**<br>**Toll-free information line: +370 800 50 500**<br>**E-mail: info@lb.lt**<br>**Website: www.lb.lt** |
| **External auditor** | **KPMG Baltics, UAB, Lvivo g. 101, LT-08104 Vilnius**<br>**Tel. +370 5 210 26 00, e-mail: vilnius@kpmg.lt** |

As at 31 December 2024, all of the Company's shares were held by Šiaulių Bankas AB, whose shares are listed on the Baltic Official List of the NASDAQ Stock Exchange. The registered address of the parent company is Tilžės g. 149, LT-46348, Šiauliai, website: www.sb.lt.

In 2024, the Company focused heavily on standardizing and optimizing processes, as well as integrating self-service platforms for policyholders—previously there had been two, following the merger of the retail businesses of Šiaulių Bankas AB and "Invalda INVL" AB on December 1, 2023, through which the Company acquired the life insurance business from "INVL Life" UADB. The Company also reviewed the terms and conditions of life insurance product for consumer loan recipients and has devoted — and will continue to devote — significant attention to product review and governance to ensure that products and their distribution provide maximum value to the customers throughout entire lifecycle of insurance contracts.

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

**The Company's major classes of insurance**

In 2024, the Company was active in the following classes of insurance:

| Solvency II class of insurance | Product group | Available supplementary cover under health insurance[1] |
|---|---|---|
| Life insurance with profit-sharing | Endowment, annuities[2] | • Accidental death<br>• Accidental disability<br>• Trauma (personal injury)<br>• Total and permanent disability<br>• Critical illness |
| | Universal life insurance/Universal life insurance with guaranteed interest | • Accidental death<br>• Accidental disability<br>• Trauma (personal injury)<br>• Total and permanent disability<br>• Critical illness |
| Unit-linked life insurance | Wealth management | - |
| | Single premium unit-linked life insurance | • Accidental death<br>• Accidental disability<br>• Trauma (personal injury)<br>• Total and permanent disability<br>• Critical illness<br>• Medical expenses |
| | Unit-linked life insurance | • Accidental death<br>• Accidental disability<br>• Trauma (personal injury)<br>• Total and permanent disability<br>• Critical illness<br>• Medical expenses |
| Other life insurance | Term life insurance | • Accidental death<br>• Accidental disability<br>• Trauma (personal injury)<br>• Total and permanent disability<br>• Critical illness |
| | Annuities (payout phase)[3] | - |

## A.2. INSURANCE OPERATING RESULTS

The acquired portfolio of "INVL Life" UADB had the greatest impact on the growth of the Company's insurance activity income and expenses.

During 2024, the Company wrote life insurance premiums EUR 33,512,345 in total, of which EUR 29,096,825 were written in Lithuania, EUR 2,129,696 in Latvia and EUR 2,285,824 in Estonia. The Company's total amount of insurance premiums increased by 2.3 time compared to 2023 (EUR 14,393,874). In 2024, the Company's outpayments were EUR 22,556,124 ant it was 3.1 times more compared to 2023 (EUR 7,322,018) (Table 1).

[1] 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.
[2] Pension annuity (PA).
[3] Annuities without profit sharing

**Table 1. Written premiums and outpayments, excluding reinsurers' share, EUR**

| Class of insurance | Premiums | | Outpayments | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Life insurance with profit-sharing | 1,374,423 | 1,265,891 | 2,001,293 | 1,311,175 |
| Unit-linked life insurance | 24,835,801 | 10,478,600 | 18,625,972 | 5,283,942 |
| Other life insurance | 1,395,232 | 682,516 | 294,876 | 109,204 |
| Health insurance | 5,906,889 | 1,966,867 | 1,633,983 | 617,697 |
| Total | 33,512,345 | 14,393,874 | 22,556,124 | 7,322,018 |

In the context of the Baltic States, Lithuania stands out for its economic resilience. Unlike its neighbours, the Lithuanian economy has so far managed to successfully overcome challenges and maintain strong competitiveness and growth positions, demonstrating a vigorous recovery. In the middle of 2024, the Parliament of the Republic of Lithuania adopted amendments to the Personal Income Tax (PIT) law: as of 1 January 2025, the PIT relief for contributions to newly concluded life insurance contracts will be abolished. However, for investment and savings insurance contracts concluded by 31 December 2024, the PIT relief will remain in effect for another 10 years, until 31 December 31 2034. Although the PIT relief should not be the main factor when considering insurance with savings (it is an additional incentive encouraging individuals to take care of their future financial stability), the tax changes led to a spike in the number of new investment life insurance contracts in the final month of 2024—nearly tripling compared to previous months. It is likely that the volume of new investment (savings) life insurance business will decrease in the future, however, it will remain relevant and attractive to clients who are motivated to use this tool to ensure financial security for their relatives in the event of the death of the family breadwinner, serious illness and/or injury, or to accumulate long-term savings for retirement, children's education, or other future plans.

Following the merger of the two portfolios, the Company's life insurance written premiums in Lithuania increased by 111.8%, and its market share grew from 3.9% to 7.9%.

The majority of outpayments (63%) consisted of surrender values and partial surrender values (maturity outpayments accounted for 26%, outpayments due to accidents or illness accounted for 7%, and death-related outpayments accounted for 4%).

## A.3. INVESTMENT RESULTS

In 2024, the Company's total net profit from investment activities amounted to EUR 27,009,356 (Table 2).

**Table 2. Net profit on investment activities of the Company, EUR**

| | 31/12/2024 | 31/12/2023 |
|---|---|---|
| Profit from investing activities | 1,717,625 | 404,238 |
| Gains on other investments in life insurance business* | 25,291,731 | 7,709,130 |
| Total | 27,009,356 | 8,113,368 |

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

The net result from investment activities in 2024 increased by EUR 1,313,387 compared to 2023, while the result from other investments in life insurance business increased by EUR 17,582,601.

The year 2024 was favourable for both equity and bond markets. Stock indices continued to rise following the correction in 2022 and the recovery in 2023. This was influenced by declining inflation and central banks' decisions to start lowering interest rates. Additionally, the growing use of artificial intelligence fuelled investor expectations that it would drive economic growth in the coming years. Bond prices were positively affected by falling interest rates and a shrinking credit premium, which had increased during the corrective year of 2022. Equity markets recorded double-digit returns, and the bond market also appeared strong.

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 | 31/12/2024 | 31/12/2023 |
|---|---|---|
| net unrealised gains (losses) | 1,151,513 | 145,025 |
| net realised gains (losses) | -29,391 | -3,055 |
| interests on coupons | 398,764 | 381,964 |
| interests on term deposits | 1,319 | 9,500 |
| interests on bank account balance | 17,470 | - |
| dividends | 190,716 | - |
| change in value due to changes in exchange rates | 23 | -496 |
| investment management fees | -12,847 | -128,700 |
| other investment income | 58 | - |
| Total | 1,717,625 | 404,238 |

The largest part of income from the investment portfolio in 2024 came from the change of unit-linked assets fair value (Table 4).

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**

**2024**

| Income, expenses from investment activities by asset class | Government securities | Corporate bonds | Term deposits | Units of investment funds | Shares | Cash and cash equivalents | Total |
|---|---|---|---|---|---|---|---|
| Income | 486,935 | 184,711 | 1,319 | 1,363,849 | - | 17,470 | 2,054,284 |
| Expenses | -72,183 | -75,534 | - | -188,942 | - | - | -336,659 |
| Total | 414,752 | 109,177 | 1,319 | 1,174,907 | - | 17,470 | 1,717,625 |

**2023**

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

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

| Investment objects | 31/12/2024 | 31/12/2023 |
|---|---|---|
| Government securities | 13,285,236 | 12,732,517 |
| Corporate bonds | 7,617,339 | 6,048,631 |
| Units of investment funds | 19,878,146 | 13,599,361 |
| Term deposits | - | 500,000 |
| Cash and cash equivalents | 3,683,358 | 5,094,711 |
| Total | 44,464,079 | 37,975,220 |

The Company does not invest its investment portfolio in derivatives.

## A.4. OTHER OPERATING RESULTS

During 2024, 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

The Company allocated a portion of the 2024 profit related to the performance of certain insurance contracts with guaranteed interest to those contracts (EUR 120,940).

# 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).

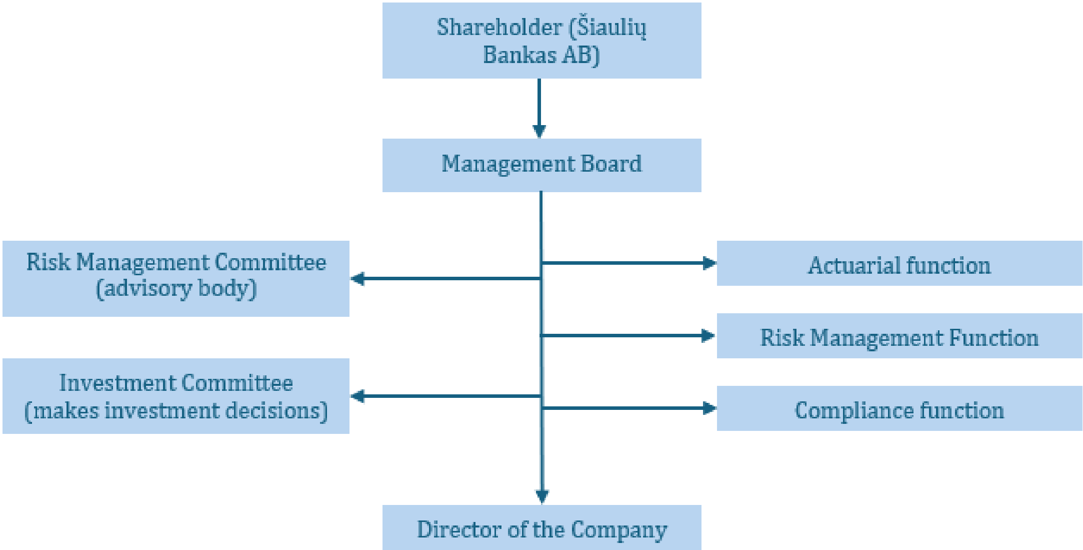
The Company has a Risk Management Committee, an advisory body established by decision of the Management Board of the Company. Investment decisions are made by the Investment Committee, which is also accountable to the Management Board of the Company.

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 (Figure 1) is proportionate to the nature, scale and complexity of the Company's operations and is based on the principles of accountability and 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, Compliance Expert and Compliance specialist.

**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.

**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, as well as other areas defined by legislation.

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.

## Director

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

The Director 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 Director 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 Director 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 unit-linked 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**

No significant changes in the governance system occurred in the Company during the reporting period.

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

The Company applies *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 *Remuneration Policy* are internal equity and external competitiveness, as well as transparency and flexibility. The Company also applies *Remuneration Policy* approved by the Management Board of the Company.

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.

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**

During the reporting period, the Company did not enter into any significant transactions with shareholders, persons having significant influence over the Company, members of the administrative, management 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 Executive Assessment Policy of the Šiaulių Bank Group and the Procedure for the Selection and Assessment of Persons Performing Key Functions and Making Investment Decisions, which are also applied within the Company. During the reporting period, the Company also followed the Procedure for Assessing the Suitability of Executives and Persons Performing Key Functions, as approved by the Company's Management Board.

**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 impeccable reputation 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 Director of the Company must also have an impeccable reputation, possess knowledge in actuarial science and financial mathematics, be familiar with the laws and other legal acts of the Republic of Lithuania regulating the Company's activities, and be capable of applying them in the implementation of the Company's goals, objectives, and functions.

The key function holders are subject to the requirements of good reputation, qualification and experience.

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, 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 assessment of the suitability of the Company's Managers and key function holders is the responsibility of the Human Resources Department of Šiaulių Bankas AB, as the HR function is centralized within the Bank. The suitability of the Company's Managers and key function holders is assessed before they take up their duties (initial assessment), after certain events that may impact their suitability, or on a periodic basis (reassessment).

When assessing the reputation of Managers or key function holders, the overall 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 are required to provide information about themselves in a questionnaire of the prescribed form, along with other documents, and are also obligated to promptly report any changes to the information provided in the questionnaire.

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, control and disclose all types of risks in the course of the Company's operations and in the pursuit of its strategic objectives, and to ensure a forward-looking assessment of risks.

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 appetite 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:

- The first line (business units) is responsible for accepting risks within the limits set by the Management Board, implementing risk management measures, and providing risk-related information.
- The second-line functions (compliance, risk management, actuarial) provide control, monitoring, advice, 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 makes 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 governing 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 has internally 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.

An ad-hoc ORSA must be carried out upon the direction of Lithuanian bank 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 2024, regular ORSA was carried out. 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, considering 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 Solvency Capital Requirement. The ORSA process also were determined that the Company will meet the tolerance limits for risk-based capital requirements over the next three (3) years.

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.

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.

The Company calculates the Solvency Capital Requirement, eligible own funds and the Solvency Ratio on a quarterly basis and compares the resulting ratios with the forecasts and actual results. 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 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:
- the operational objective to ensure that the Company's operations are efficient and to protect the Company from potential losses;
- 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;
- 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, organisation and enforcement of compliance controls 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 (quarterly and annual) to the Company's Management Board, advises the Company's employees on compliance matters, prepares training's material and conduct 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 is centralized within the Šiaulių Bank Group. It is carried out by the Internal Audit Division. The Head of Internal Audit Division is appointed by the Company's Management Board as responsible for the implementation of the internal audit function in the Company.

In its activities, the Internal Audit Division is guided by Global Internal Audit standards 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 external and 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.

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:
- accountability of the Internal Audit Division to the Management Board of the Company and functional reporting of the Internal Audit Division to the Audit Committee of Šiaulių Bankas AB;
- the right of the Internal Audit Division to objective and independent scoping of audits and presentation of audit results;
- independence of the Internal Audit Division from other functions of the Company's activities.

## 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 adequacy and quality of the data used to calculate technical provisions;
- comparing the best estimate with experience;
- informing the Company's Management Board of the reliability and appropriateness of the calculation of technical provisions;
- assessment of the underwriting risk policy;
- assessing the validity 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 provides Actuarial function report to the Management Board of the Company at least once a year.

## B.7. OUTSOURCING

During the reporting period, the Company's outsourcing processes as well as the procedures for evaluating and controlling service providers were regulated by the *Outsourcing Procurement and Management Policy approved by the Company's Management Board.* In October 2024, this policy was repealed and the Outsourcing Management Policy applied within the Šiaulių Bank Group, including the Company, was introduced for these processes.

Critical or important functions or activities are those related to the Company's core business, considering 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, including the verification of international sanctions, 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 internal Company's regulations, 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 26.079 million in 2024.

The Company expects to maintain its risk levels within the risk appetite throughout the planning period (2025–2027). In its report for the 2024 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 2024, 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.

**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 2024, almost all insurance contracts were written in euros, except for 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 because of a change in the credit spread or its volatility relative to a risk-free interest rate structure by maturity.

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 because of changes in or volatility of the market price of equity securities.

The Company does not invest its own funds and the funds covering liabilities 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 insurance investment line may lead to an increase in the number of cancellations and therefore a decrease in the value of the Company's unit-linked insurance 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 profile, the investment considers the overrun limits specified in the standard formula, 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 position 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 with which 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 structure at maturity.

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 insurance liabilities, by monitoring and controlling this risk and calculating liquidity ratios, by ensuring that liquidity risk limits are met, by contingency planning, and by obtaining guarantees or by entering into surety agreements.

### Future premiums

When measuring the expected profit from 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. Expected profit from future premiums was EUR 41,005,875 as at 31 December 2024.

## 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, establishing control procedures and controlling processes. The Company has operational risk tolerance limits, i.e., 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 capital requirement is calculated are assessed using qualitative methods, benchmarking and other methods.

**Asset-liability mismatch risk** is 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 because 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 any reasonably identifiable circumstance related to the use of network and information systems, which, if it occurs, may compromise the security of networks and information systems, any technology-dependent tool or process, operations and procedures, or the provision of services, thereby causing a negative impact on the digital or physical environment.

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 Bank of Lithuania, Annex A of the LST ISO/IEC 27001 standard, the CIS Critical Security Controls best practices, and by applying measures selected from the NIST Cybersecurity Framework. The Group has implemented and monitors key ICT risk management processes that enable ICT risk management functions: access management, cybersecurity monitoring management, ICT and security incident management, ICT change management, ICT business continuity planning, software vulnerability management, secure configuration management, and third-party ICT risk management.

**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 30 September 2024.

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, chnanges in costs, credit rating downgrades, changes in cancellations, decrease in newly concluded contracts. Stress testing was performed or these scenarios:

- macroeconomic;
- personal data breach;
- sustainability risk.

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

- realisation of the economic scenario would have a significant negative impact on the Company, however, it would remain solvent and stay within the established risk appetite limit.
- in the case of a personal data breach scenario, a momentary increase in the solvency ratio is observed, after which the solvency ratio decreases but does not reach the established risk appetite limit.
- in the sustainability scenario, it was determined that, in the short term, sustainability risk does not have a significant impact on the Company. A long-term assessment was not conducted, as the investment strategy would change over a longer period, considering the impact of sustainability risk on the value of investments.

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 | Book value, 31/12/ 2024 | | |
|---|---|---|---|
| | Solvency II | Financial Statements | Difference |
| Financial assets: | 226,878,866 | 227,342,028 | -463,162 |
| Investments (securities) | 226,699,687 | 227,162,849 | -463,162 |
| Receivables | 179,179 | 179,179 | - |
| Cash and cash equivalents | 9,522,405 | 9,522,405 | - |
| Tangible fixed assets | 57,231 | 192,018 | -134,787 |
| Intangible fixed assets | - | 1,696,336 | -1,696,336 |
| Reinsurance assets | -296,164 | 64,328 | -360,492 |
| Deferred corporate tax assets | 2,296 | 2,296 | - |
| Other assets: | - | 70,227 | -70,227 |
| Total | 236,164,634 | 238,889,638 | -2,725,004 |
| **Group of assets** | **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 |
| Total | 208,845,165 | 211,552,406 | -2,707,241 |

Some of the securities in the Financial Statements and all 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, considering 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 concluded until 30 November 2023 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 total.

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

The risk margin for the portfolio of contracts concluded until 30 November 2023 is calculated by approximating the total Solvency Capital Requirement[4] 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 types of insurance based on the share of the Solvency Capital Requirement of the type of insurance concerned in the Total Solvency Capital Requirement. For the remaining portfolio 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.

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. 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.
Technical provisions for solvency and financial reporting purposes are calculated based on a forward-looking actuarial valuation of reserves. The main differences between the assessments are:

[4] 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.

- 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 non-recurring costs) are attributed to insurance contracts, whereas under IFRS 17 "Insurance Contracts", only costs related to the administration of those contracts are attributed 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 technical provisions for the Company as at 31 December 2024 and 31 December 2023 are shown in Tables 7–10. The change in the Company's technical provisions for 2024 was primarily influenced by the increase in technical provisions for life insurance, where the investment risk is borne by the policyholder. This increase was driven by increase of technical provisions calculated as a whole and increase of investment assets in unit-linked insurance (Table 7). The increase of the best estimate over the year was affected by the growth of investment assets in unit-linked insurance due to relatively high investment returns and unfulfilled assumptions related to unit-linked asset payouts, as well as changes in assumptions. The increase in the risk margin was driven by the expanding portfolio, i.e. the newly taken risk amount increased.

**Table 7. Technical provisions, total**

| Class of insurance | Total technical provisions, EUR | | Change, EUR | Relative change, % |
|---|---|---|---|---|
| | 31/12/2024 | 31/12/2023 | | |
| Life insurance with profit-sharing | 15,304,915 | 16,174,328 | -869,413 | -5.38% |
| Life insurance linked to investment funds | 185,912,554 | 164,145,128 | 21,767,426 | 13.26% |
| Other life insurance | -938,060 | -139,944 | -798,116 | 570.31% |
| Health insurance | -28,772,150 | -27,178,186 | -1,593,964 | 5.86% |
| Life insurance, total | 171,507,259 | 153,001,326 | 18,505,933 | 12.10% |

**Table 8. Best estimate**

| Class of insurance | Best estimate, EUR | | Change, EUR | Relative change, % |
|---|---|---|---|---|
| | 31/12/2024 | 31/12/2023 | | |
| Life insurance with profit-sharing | 14,890,435 | 15,723,791 | -833,356 | -5.30% |
| Life insurance linked to investment funds | 135,278,525 | 122,623,961 | 12,654,564 | 10.32% |
| Other life insurance | -1,839,036 | -929,646 | -909,390 | 97.82% |
| Health insurance | -37,319,769 | -35,232,504 | -2,087,265 | 5.92% |
| Life insurance, total | 111,010,155 | 102,185,602 | 8,824,553 | 8.64% |

**Table 9. Risk margin**

| Class of insurance | Risk margin (Company), EUR | | Change, EUR | Relative change, % |
|---|---|---|---|---|
| | 31/12/2024 | 31/12/2023 | | |
| Life insurance with profit-sharing | 414,480 | 450,537 | -36,057 | -8.00% |
| Life insurance linked to investment funds | 6,124,020 | 5,752,167 | 371,853 | 6.46% |
| Other life insurance | 900,976 | 789,702 | 111,274 | 14.09% |
| Health insurance | 8,547,619 | 8,054,318 | 493,301 | 6.12% |
| Life insurance, total | 15,987,095 | 15,046,724 | 940,371 | 6.25% |

**Table 10. Technical provisions calculated as a whole**

| Class of insurance | Technical provisions calculated as a whole, EUR | | Change, EUR | Relative change, % |
|---|---|---|---|---|
| | 31/12/2024 | 31/12/2023 | | |
| Life insurance with profit-sharing | 0 | 0 | 0 | 0.00% |
| Life insurance linked to investment funds | 44,510,009 | 35,769,000 | 8,741,009 | 24.44% |
| Other life insurance | 0 | 0 | 0 | 0.00% |
| Health insurance | 0 | 0 | 0 | 0.00% |
| Life insurance, total | 44,510,009 | 35,769,000 | 8,741,009 | 24.44% |

The best estimate is calculated without deducting amounts recoverable under reinsurance contracts. For portfolio of contracts concluded until 30 November 2023, 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 remaining portfolio the amount recoverable under a reinsurance contract is calculated by aggregating: (1) the amount recoverable under the reinsurance contract because of expected claims; (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). The biggest impact for the change of recoverable amounts from reinsurer came from the change of methodology.

**Table 11. Amounts recoverable from reinsurers**

| Class of insurance | Amounts recoverable from reinsurers, EUR | | Change, EUR | Relative change, % |
|---|---|---|---|---|
| | 31/12/2024 | 31/12/2023 | | |
| Life insurance with profit-sharing | -31,106 | 85,798 | -116,904 | -136.25% |
| Life insurance linked to investment funds | -152,913 | 153,683 | -306,596 | -199.50% |
| Other life insurance | -47,538 | -92,255 | 44,717 | -48.47% |
| Health insurance | -64,607 | -75,361 | 10,754 | -14.27% |
| Life insurance, total | -296,164 | 71,865 | -368,029 | -512.11% |

## 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.

The Company forms a deferred tax liability, which is calculated multiplying the discounted future profit value of the Lithuanian portfolio contracts by the profit tax rate applicable in 2025 (16%), applying the same principles and assumptions as in best estimate calculations.

## 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**

| 31/12/2024<br>Element | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Paid-up share capital | 26,012,800 | - | - | 26,012,800 |
| Reconciliation reserve | 27,885,874 | - | - | 27,885,874 |
| Deferred tax assets | - | - | - | - |
| Total | 53,898,674 | - | - | 53,898,674 |

| 31/12/2023<br>Element | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Paid-up share capital | 26,012,800 | - | - | 26,012,800 |
| Reconciliation reserve | 27,394,624 | - | - | 27,394,624 |
| Deferred tax assets | - | - | 2,296 | 2,296 |
| Total | 53,407,424 | - | 2,296 | 53,409,720 |

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 didn't change in 2024.

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. As of 31 December 2024, the Company formed a deferred tax liability (see section D3. OTHER LIABILITIES), and therefore the deferred tax asset was offset against the deferred tax liability.

**Table 13. Reconciliation reserves**

| Items | 31/12/2024 | 31/12/2023 |
|---|---|---|
| Shareholders' equity as calculated in the Financial Statements | 35,231,290 | 30,045,904 |
| Share capital | -26,012,800 | -26,012,800 |
| Deferred corporate tax assets | -2,296 | -2,296 |
| Reconciliation reserve before recalculation under Solvency II | 9,216,194 | 4,030,808 |
| Differences in valuation of assets between Financial Statements and Solvency II | -2,725,004 | -2,707,241 |
| Differences in valuation of technical provisions between Financial Statements and Solvency II | 26,836,591 | 23,529,009 |
| Deferred tax liabilities | -7,842,338 | - |
| Other differences in valuation of liabilities between Financial Statements and Solvency II | 2,400,431 | 2,542,048 |
| Dividends expected to be paid | - | - |
| Reconciliation reserve in Solvency II reports | 27,885,874 | 27,394,624 |

### 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 2025 and 2027. 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 2023 and 31 December 2024 and their expected levels for each year-end until 31 December 2027 are shown in Table 14.

**Table 14. Capital requirements by risk: actual for 2023–2024 and forecasts for 2025–2027 (EUR thousand)**

| Risk | Capital requirement as at 31/12/2023 | Capital requirement as at 31/12/2024 | Capital requirement as at 31/12/2025 | Capital requirement as at 31/12/2026 | Capital requirement as at 31/12/2027 |
|---|---|---|---|---|---|
| Life underwriting risk | 12,853 | 13,847 | 16,038 | 18,203 | 19,675 |
| Health underwriting risk | 16,144 | 17,098 | 19,830 | 22,586 | 24,484 |
| Counterparty default risk | 1,463 | 552 | 403 | 422 | 470 |
| Market risk | 7,445 | 8,735 | 9,487 | 8,984 | 8,061 |
| Diversification (-) | -11,040 | -11,507 | -12,911 | -13,841 | -14,181 |
| Operational risk | 1,586 | 1,086 | 1,482 | 1,529 | 1,569 |
| Solvency Capital Requirement | 28,451 | 26,079 | 29,897 | 32,826 | 34,705 |
| Amount of dividends | - | - | - | - | - |
| Adjustment on the possibility of covering losses with deferred taxes | - | -3,732 | -4,432 | -5,057 | -5,373 |
| Equity | 53,410 | 53,899 | 60,005 | 65,674 | 71,330 |
| Minimum Capital Requirement | 7,113 | 6,520 | 7,474 | 8,207 | 8,676 |
| Solvency ratio | 188% | 207% | 201% | 200% | 206% |

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 | 31/12/2024 |
|---|---|
| Technical provisions, net of risk margin, relating to guaranteed claims on life insurance with profit-sharing rights, less amounts recoverable under reinsurance contracts with a floor equal to zero | 14,922 |
| Technical provisions, net of risk margin, relating to future discretionary claims on life insurance with profit-sharing rights, less amounts recoverable under reinsurance contracts with a floor equal to zero | - |
| Technical provisions, net of risk margin, relating to index-linked and unit-linked life insurance liabilities in respect of such insurance liabilities, less amounts recoverable under reinsurance contracts with a floor equal to zero | 179,941 |
| Technical provisions, net of risk margin, relating to all other life insurance liabilities, less amounts recoverable under reinsurance contracts with a floor equal to zero | - |
| Total capital at risk, which is the sum of capital at risk in contracts. | 1,781,666 |

## 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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