NLB Vita

Solvency and Financial Condition Report for the financial year 2018

March 2019

Table of contents

Summary

The NLB Vita insurance company operates a two-tier governance system. The management and supervisory bodies of NLB Vita include the Management Board, the Supervisory Board and the General Assembly. The Audit Committee is set up within the Supervisory Board. The Company also operates several working committees or collective decision-making bodies. The Company has established an appropriate system for documenting the decisions adopted by the management and the supervisory bodies.

The Company has established a sound and reliable System of governance which is proportional to the nature, scope and complexity of its operations, and includes

- A clear organisational structure, with precisely defined, clear and consistent internal relations in terms of responsibilities;
- An efficient system of information transfer;
- Efficient key management functions integrated in the organisational structure and decision-making processes of the undertaking (the Risk management function, the Compliance function, the Internal audit function and the Actuarial function);
- Risk management strategy, written rules, processes and procedures;
- Measures to ensure business continuity and contingency.

The Company establishes procedures on fit and proper assessment, to ensure that the persons who manage or supervise the Company meet the fit and proper criteria and thereby have appropriate professional qualifications, traits and experience required for a reliable and prudent performance of the tasks while also being persons of good reputation and integrity.

NLB Vita as an insurance company and NLB as an insurance agent remained the leading bancassurance provider in 2018 as the Company increased written premium and grew faster than the overall market in life insurance. The higher premium growth was realized on non-life segment due to higher sales of accidental insurance and travel insurance with medical assitance abroad. Within the life segment, unit-link policies have remained the biggest contributor to life sales.

Despite unfavourable capital markets conditions, the Company managed to increase total assets to EUR 457,929 thousand, an increase of 1.1%, due to new premium collected. Due to capital markets correction in second half of 2018, negative change in amount of EUR -15,525 thousand has been recorded in investments of life insurance holders assuming the investment risk. Higher than in previous year were interest revenues in amount of EUR 7,829 thousand, while revenues from dividends in amount of EUR 987 thousand remained at the same level. Also higher were realized gains and losses from financial assets disposal in amount of EUR 1,154 thousand and EUR -323 thousand respectively, while financial expenses due to impairments of financial assets stood at EUR -531 thousand.

The Company's Risk profile is determined by the insurance liability portfolio, the investment portfolio, the System of Governance, and the general environment in which it operates. It is mainly reflected in the composition and volume of the Solvency Capital Requirement. The largest share of Company's Solvency Capital Requirement is attributed by the Market risk module, followed by the Life underwriting risk module, the Health underwriting risk module, the Operational risk module, and the Counterparty default risk module.

In financial year 2018, the changes in Solvency Capital Requirement for Market risk and Life underwriting risk were the most relevant. The first decreased predominately due to derisking of the financial investment portfolio, while the latter increased predominately due to a change in the assumptions for Mortality risk.

On the asset side, the greatest impact of solvency revaluation stems from market revaluation of hold-to-maturity bond portfolio, followed by revaluation of reinsurance recoverables, intangible assets and property. On the liability side, the greatest effect within solvency revaluation is seen with reclassification of gross technical provisions for guaranteed minimal payout under Index-linked or Unit-linked insurance business. Other differences result from different valuation methodology for valuation of technical provisons under IFRS and Solvency II. The value of Technical provisions otherwise did not change significantly over the reporting period, which is mostly due to maturities of unit-linked life insurance investment packages. The main effect within Other liabilities is represented by revaluation of deferred tax liabilities.

There was no change in the structure or quality of own funds over the reporting period. The amount of own funds increased due to higher excess of assets over liabilities. As at 31 December 2018, the Ratio of Eligible own funds to Solvency Capital Requirement equals 190%, while the Ratio of Eligible own funds to Minimum Capital Requirement equals 758%. These ratios have increased by 8 and respectively by 29 percentage points over the reporting period.

A.Business and Performance

A.1 Business

A.1.1 General information

NLB Vita, življenjska zavarovalnica d.d. Ljubljana (abbreviated name: NLB Vita d.d. Ljubljana, hereinafter: NLB Vita or the Company) was founded in 2003. Its founders and shareholders are Nova Ljubljanska banka d.d., Ljubljana and KBC Insurance NV, Leuven, Belgium, each holding a 50% equity stake.

The Company's share capital as at 31 December 2018 amounted to EUR 7,043,899 and is divided into 1,688 ordinary, registered, dematerialized no-par value shares. Each share grants its holder one vote.

NLB Vita was established with a view to pursuing insurance operations which it is authorized to carry out by the Insurance Supervision Agency, coupled with other activities it is allowed to perform in line with the applicable regulations. The range of products offered by NLB Vita comprises traditional life insurance, unit-linked insurance, accident insurance and health insurance with medical assistance abroad.

Its products are distributed via the branch offices of Nova Ljubljanska banka d.d. all of which are dispersed across the entire territory of the Republic of Slovenia, and through on-line modern distribution channels and other means of remote communication.

NLB Vita strives for efficient cooperation with all supervisory and other state bodies, as well as compliance with the decisions adopted by the competent authorities. The supervisory body in charge of supervising the operations of the Company, to which the latter must regularly report, is the Insurance Supervision Agency - Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana.

Tel.: +386 1 2528 600
Fax: +386 1 2528 630
e-mail: agencija@a-zn.si
www: http://www.a-zn.si/

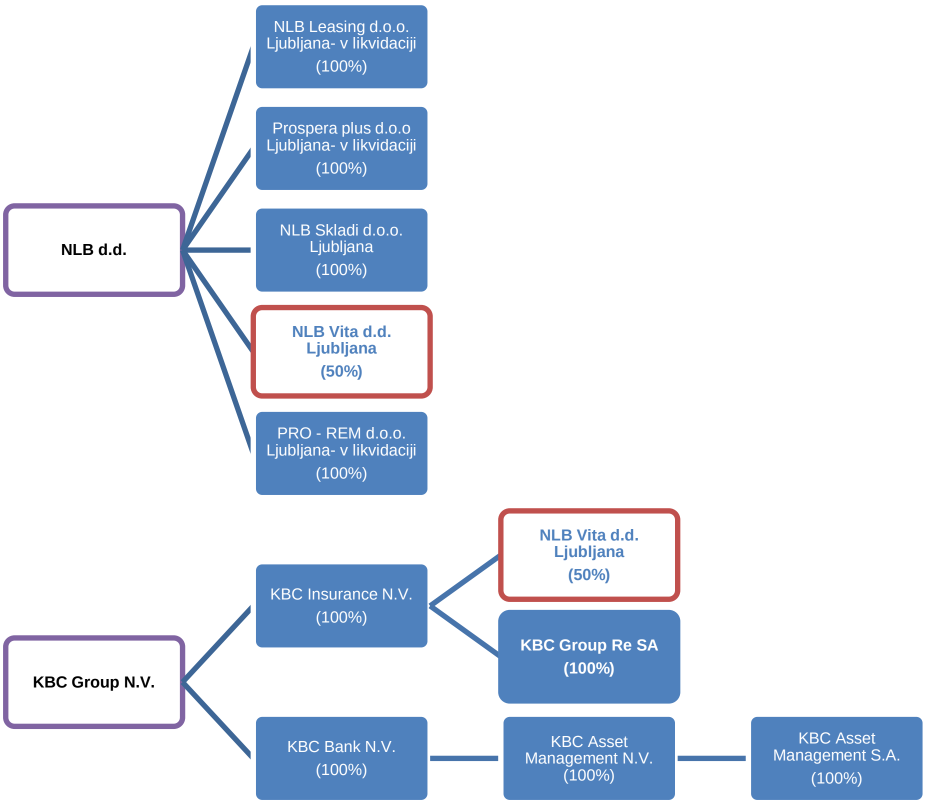
Pursuant to the Insurance Act (Official Gazette of the RS, no. 93/2015, hereinafter ZZavar-1) NLB Vita is subject to audit. The auditing company ERNST & YOUNG, Revizija, poslovno svetovanje, d.o.o., Dunajska cesta 111, 1000 Ljubljana (EY, d.o.o.) was engaged for the auditing of the Company's annual reports for 2016, 2017 and 2018, based on the resolution passed by the General Meeting on 31 March 2016. The opinion of the certified auditor for 2018, which is a part of the Company's annual report for 2018, was signed by Mr. Janez Uranič, Director of EY, d.o.o and Mr. Primož Kovačič, a certified auditor.

Tel.: +386 1 583 17 00
Fax: +386 1 583 17 10
e-mail: info@si.ey.com
www: http://www.ey.com/si/en/home/ey-slovenia

Table 1: The list of related legal entities as at 31 December 2018

	Name	Method of connection	% of participation	NLB / KBC participation in capital
	Broader group			
1	NLB d.d. Ljubljana	direct capital association (parent)	50.00%	
2	KBC Group N.V.	indirect capital association		
	Core group			
1	NLB d.d. Ljubljana	direct capital association (parent)	50.00%	
2	NLB Leasing d.o.o. Ljubljana – v likvidaciji	indirect capital association	50.00%	100.00%
3	Prospera plus d.o.o. Ljubljana – v likvidaciji	indirect capital association	50.00%	100.00%
4	NLB Skladi d.o.o. Ljubljana	indirect capital association	50.00%	100.00%
5	PRO-REM d.o.o. Ljubljana – v likvidaciji	indirect capital association	50.00%	100.00%
6	KBC Insurance N.V.	direct capital association (parent)	50.00%	
7	KBC Asset Management N.V.	indirect capital association	50.00%	100.00%
8	KBC Asset Management S.A.	indirect capital association	50.00%	100.00%
9	KBC Group N.V.	indirect capital association	50.00%	100.00%
10	KBC Group RE SA	indirect capital association	50.00%	100.00%

Figure 1: The placement of NLB Vita within the NLB Group and within the KBC Group as at 31 December 2018



A.1.2 Business overview

NLB Vita carries out insurance operations solely on the territory of the Republic of Slovenia.

Pursuant to the ZZavar-1, NLB Vita sells insurance products from the following insurance groups:
- Non-life insurance; and
- Life insurance.

In the scope of the non-life insurance group NLB Vita markets the following insurance products:
- Insurance class 1 (accident insurance) and
- Insurance class 2 (health insurance).

Within the scope of the life insurance group NLB Vita markets the following insurance products:
- Insurance class 19 (life insurance) and
- Insurance class 21 (unit-linked life insurance).

In comparison to life insurance competitors NLB Vita provides products through which it can successfully compete on the Slovenian market, which is its only market of operation. NLB Vita has upgraded its accidental and health insurance products in 2018 and offered funeral assistance with NLB Vita Senior product. In pure-riske segment we provided NLB Vita Odgovorna on-line for adults aged 18 up to 34.

NLB Vita remained one of the few insurance companies that continued to offer its customers unit-linked life insurance with a partial guarantee in 2018. In cooperation with NLB Skladi we very successfully launched four investment packages within the scope of NLB Naložba Vita Multi and Multi Senior that provide customers with a partial guarantee for invested funds at the maturity date.

The operations of NLB Vita are strongly affected by the situation on the capital markets, particularly the available yields of debt instruments in which the Company invests most of its assets for covering liabilities arising from guaranteed returns. The developments on the stock markets have a less pronounced impact on the Company’s operations, since it has invested only a small part of the assets used for covering liabilities arising from guaranteed returns in shares. The situation on the stock markets also affects the amount of liabilities arising from the unit-linked life insurance contracts; however, in such a case, the Company assumes no investment risks due to the alignment of assets and liabilities; instead, any major changes in the value are reflected in the change of the brokerage fee received by the Company from the investment fund operators and the level of redemptions and/or terminations of such insurance contracts.

A.2 Underwriting performance

Until 31 December 2018, NLB Vita recorded EUR 76,925 thousand of gross insurance premium. Sales were higher by EUR 6,088 thousand or 11% compared to the same period last year. The market share of NLB Vita on the Slovene market of life insurance was higher as at 31 December 2018 compared to the end of 2017, namely 14.6%. NLB Vita thus ranked 3rd place among traditional life insurance companies. NLB Vita as the insurance provider and the NLB as the insurance broker remained the leading institutions in the area of bancassurance in 2018. NLB Vita generated a net profit amounting to EUR 8,330 thousand, which is 21% improvement from last year.

The Company’s total assets as at the end of 2018 amounted to EUR 457,929 thousand, growing by EUR 4,900 thousand or 1.1% since 31 December 2017, mainly on account of new premiums and a larger scope of financial investments.

Table 2: Income statement (EUR thousand)

	31/12/2018	31/12/2017
Net revenue from insurance premiums	76,133	70,108
Gross premiums written	76,925	70,836
Reinsurance premiums written	-646	-619
Change in unearned premium reserved	-145	-109
Financial revenue, of which	10,788	14,940
Revaluation of investments of life insurance holders assuming the investment risk	0	5,856
Revenue from commissions	1,510	1,531
Other operating revenue	61	23
Net amount of loss and change in provisions for outstanding claims	-47,694	-29,638
Gross claims paid	-47,093	-29,388
Reinsurers' share of gross claims paid	452	538
Change in the gross provision for outstanding claims paid	-1,052	-787
Change in other liabilities arising from insurance	-33,375	-30,441
Change in liabilities from life insurance holders assuming the investment risk	23,519	-8,205
Operating expenses	-9,641	-9,144
Financial expenses, of which	-10,686	-349
Revaluation of investments of life insurance holders assuming the investment risk	-9,669	0
Expenses for commissions	0	0
Other operating expenses	-449	-418
Profit before tax	**10,165**	**8,408**
Corporate income tax	-1,835	-1,519
NET PROFIT FOR THE PERIOD	**8,330**	**6,889**

Table 3: Premiums, claims and expenses from Non-life insurance (EUR thousand)

	Line of Business for: **non-life insurance**				**Total**	
	Medical expense insurance		Income protection insurance			
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Premiums written						
Gross	802	734	3,004	2,533	3,806	3,266
Reinsurers' share	0	0	309	301	309	301
Net	802	734	2,695	2,231	3,498	2,965
Premiums earned						
Gross	803	668	2,872	2,503	3,675	3,171
Reinsurers' share	0	0	309	301	309	301
Net	803	668	2,563	2,202	3,367	2,869
Claims incurred						
Gross	201	-28	1,336	1,118	1,538	1,089
Reinsurers' share	0	0	337	381	337	381
Net	201	-28	999	736	1,201	708
Expenses incurred	458	422	1,333	1,182	1,791	1,604

In 2018, the volume of net premiums written arising from non-life insurance reached EUR 3,498 thousand, exceeding the value of the net non-life insurance premiums written in the previous year by EUR 533 thousand or 18%. The largest part, EUR 2,695 thousand, is income loss insurance. Total net losses in 2018 were EUR 1,201 thousand, while in 2017 they were EUR 1,604 thousand. In both periods observed, most of them were related to income loss insurance. The realized costs in 2018 totalled EUR 1,791 thousand, which is more than last year, in accordance with the higher premium, in the most part relating to the income loss insurance. The total earned premium in both observed time periods exceeds the total amount of incurred losses and costs.

Table 4: Premiums, claims and expenses from Life insurance (EUR thousand)

	Line of Business for: **life insurance**						**Total**	
	Insurance with profit participation		Index-linked and unit-linked insurance		Other life insurance			
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Premiums written								
Gross	15,167	16,142	50,428	44,150	7,523	7,277	73,119	67,570
Reinsurers' share	101	96	5	3	231	218	338	318
Net	15,066	16,046	50,423	44,147	7,292	7,059	72,781	67,252
Premiums earned								
Gross	15,174	16,141	50,424	44,149	7,506	7,265	73,104	67,555
Reinsurers' share	101	96	5	3	231	217	338	316
Net	15,073	16,046	50,419	44,145	7,275	7,048	72,766	67,239
Claims incurred								
Gross	8,723	9,147	37,497	19,461	701	766	46,921	29,374
Reinsurers' share	22	65	3	11	90	80	114	156
Net	8,701	9,082	37,494	19,451	611	686	46,807	29,219
Expenses incurred	1,597	1,587	3,651	3,421	2,638	2,559	7,886	7,568

In the segment of life insurance, the amount of net premiums written in 2018 reached EUR 72,781 thousand, mostly (EUR 50,423 thousand) unit-linked life insurance products. Total net losses in 2018 were EUR 46,807 thousand, while in 2017 they were EUR 29,219 thousand. In both periods observed, the major part is related to unit-linked life insurance products, followed by life insurance with participation in profits, while the smallest amount of losses in both periods arose from other life insurance. In 2018, the amount of costs exceeded EUR 7,886 thousand, which is slightly more than the year before (EUR 7,568 thousand); in both periods, most of them were related to unit-linked life insurance. The total earned premium in both observed time periods exceeds the total amount of incurred losses and costs.

The Company markets insurance products (non-life and life) solely on the territory of the Republic of Slovenia.

A.3 Investment performance

The realized net return on investment portfolios, except for the Register of unit-linked assets, amounted to EUR 9,771 thousand.

The net non-realized returns of the Register of unit-linked assets were negative in 2018, amounting to EUR -9,669 thousand, as a result of unfavourable developments in the capital markets.

A.3.1 Investment income and expenses

Table 5: Financial revenue (EUR thousand)

	31/12/2018	31/12/2017
Dividend income	987	987
Equities	987	987
Interest income	7,829	7,310
Bonds	7,829	7,036
Deposits	0	1
Cash and cash equivalents	0	0
Revenue from FX operations	43	13
Cash and cash equivalents	43	13
Realized gains on investments	1,915	760
Equities	1,118	302
Bonds	797	458
Other revenue from investments	14	14
Equities	14	14
Positive change of investments of life insurance holders assuming the investment risk	0	5,856
Investment funds	0	5,856
Total revenue from investments	**10,788**	**14,940**

Table 6: Financial expenses (EUR thousand)

	31/12/2018	31/12/2017
Impairments	-531	-67
Equities	-531	-67
Interest expenses	-2	-2
Leasing	-2	-2
Expenses from FX operations	-28	-76
Cash and cash equivalents	-28	-76
Realized losses on investments	-323	-95
Equities	-323	-87
Bonds	0	-8
Other financial expenses	-133	-109
Equities	-132	-102
Bonds	-1	-7
Negative change of investments of life insurance holders assuming the investment risk	-9,669	0
Investment funds	-9,669	0
Total expenses from investments	**-10,686**	**-349**

Table 7: Net financial result (EUR thousand)

	31/12/2018	31/12/2017
Revenue from investments	10,788	14,940
Expenses from investments	-10,686	-349
Net financial result	**102**	**14,591**

In 2018, the Company recorded lower Financial revenues mainly due to the maturities of some unit-linked investment products and unfavourable developments in the capital markets, therefore negative change of investments of life insurance holders, assuming the investment risk, stood at EUR -9,669 thousand, which is a change in amount of EUR 15,525 thousand respectively. Interest income in amount of EUR 7,829 thousand were 7% higher, while revenues from dividends in amount of EUR 987 thousand did not change from previous year. Realized gains of investments' disposal came in at EUR 1,154 thousand, a 252% increase compared to 2017.

Compared to 2017 Investment expenses in 2018 at EUR 10,686 thousand were higher, mainly due to negative change of investments of life insurance holders assuming the investment risk in amount of EUR 9,669 thousand. Realized losses of investments' diposal stood at EUR -323 thousand (EUR -87 thousand in 2017). Impairments stood at EUR -531 thousand (EUR -67 thousand in 2017), , while other financial expenses were higher and came in at EUR -133 thousand (EUR -102 thousand in 2017).

A.3.2 Profits/losses recognized in capital

The change of fair value of financial investments, classified in the group available for sale, is non-realized profits or losses recognized in the comprehensive income statement as revaluation surplus, which is one of the items of capital.

The revaluation surplus of assets available for sale, taking into account the taxes deferred at the end of 2018, was EUR 9,379 thousand or EUR 10,424 thousand less than at the end of 2017, mostly due to lower revaluation surplus of equity and fixed income investments.

A.3.3 Investment results from securitization investments

The Company does not invest in securitized financial instruments and therefore recorded no income and expenses in this area.

A.4 Performance of other activities

Apart from its core insurance activity, the Company performs no other activities and did not record any extraordinary income or expenses in 2018, that would have a material impact on the company's results (same as in 2017).

A.5 Any other information

No information was available to the Company after the end of the reporting period that would materially affect the achieved results and the status of the Company for the reporting period.

B.System of Governance

B.1 General information on the System of Governance

B.1.1 Structure

The institutional starting points of the organization of the operations of NLB Vita are defined by the Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015, hereinafter referred to as "the ZZavar-1") and the Statute of NLB Vita of 31 March 2016 (hereinafter referred to as "the Statute"). The Rules of Organization of NLB Vita define:

- The standard descriptions of the organizational parts of NLB Vita,
- The organizational structure of NLB Vita and the lines of management and reporting,
- The mission and tasks of the organizational parts of NLB Vita.

The Company operates a two-tier governance system. The management and supervisory bodies of NLB Vita include the Management Board, the Supervisory Board and the General Assembly. Within the Company there are several working bodies or collective decision-making bodies: the Risk Committee, the ALCO Committee, the IT Committee and the Committee for New Products and Marketing Channels whose operations are presented in detail in the next chapter. The Company established an appropriate system for documenting the decisions adopted by the management and the supervisory bodies.

Taking into account the principle of proportionality, NLB Vita's system of governance, organizational structure and decision-making processes include the Company's principal functions as well as all four key functions (risk management function, actuary function, compliance function and internal audit function). All four key functions cooperate with each other and regularly exchange information which is required for their operation. The tasks, responsibilities, processes and obligations of key functions reporting are defined in their founding documents.

a) Management Board

The Company is run by the Management Board in the interests of the Company, independently and at their own liability. The Company is jointly represented and presented by the members of the Board.

The Statute stipulates that the Management Board of NLB Vita has at least two members, of which one is the President of the Management Board. The members of the Management Board must meet the terms and conditions set in the ZZavar-1, its implementing regulations, the Companies Act (hereinafter: the ZGD), the Policy on the Assessment of the Suitability of the Members of the Management Board and the Supervisory Board (Fit&Proper Policy) and other relevant provisions.

The Management Board is appointed and dismissed by the Supervisory Board. As a rule, the president and the members of the Management Board are appointed for a four-year term of office or a shorter period. They can be dismissed from their position prematurely in accordance with the law and the Statute. A member of the Management Board may prematurely step down from their position with a period of notice of three months. The competences of the Management Board, its decision-making, the provisions of the working and advisory bodies of the Management Board are defined in the Rules on the Operation of the Management Board of NLB Vita.

The Management Board of NLB Vita is managed by Irena Prelog, MSc, president of the Management Board, and Tine Pust, MSc, CFA, member of the Management Board. The term of office of the president of the Management Board was determined on the basis of the resolution of the Supervisory Board until 17 October 2021, and term of office of the member of the Management Board was determined on the basis of the resolution of the Supervisory Board until 13 December 2021. The president and the member of the Management Board manage and direct the operations of the Company and are in charge of individual areas of work, namely, the president primarily of the Compliance, HR and General Affairs, Internal Audit, Risk Management, Actuarial and IT, and the member primarily of the Marketing and Sales, Underwriting and Claims, Finance and Accounting, and Strategy and Development. As a subsidiary responsibility, they are also in charge of managing and directing the operations that are primarily not within their areas of responsibility.

In accordance with the Rules on the Operation of the Management Board of NLB Vita, several working and collective bodies for decision-making have been organized in NLB Vita:

- The Risk Committee is a working body in charge of handling, monitoring and reporting on the insurance, market, credit, liquidity and operational risks of the Company.
- The ALCO Committee is a working body which monitors the conditions on financial markets and analyses the situation, changes and trends of the balance sheets of the Company and prepares decisions for investments which comply with the internal rules and regulations;
- The IT Committee is a working body whose main task is confirming requests for the IT development of the Company by setting priorities, confirming the changes of priorities and carrying out umbrella monitoring of all the key activities of IT;
- The Committee for New Products and Marketing Channels monitors the trends in the field of insurance products and marketing channels and confirms the proposals for introducing or refreshing products or marketing channels.

Table 8: Delimitation of the responsibilities of the Management Board members for areas of work

Area of operations	Direct responsibility	Indirect responsibility
Internal Audit Department	Irena Prelog	Tine Pust
Compliance, HR and General Affairs Department	Irena Prelog	Tine Pust
Risk Management Department	Irena Prelog	Tine Pust
Strategy and Development Department	Tine Pust	Irena Prelog
Marketing and Sales Department	Tine Pust	Irena Prelog
Finance and Accounting Department	Tine Pust	Irena Prelog
Actuarial Department	Irena Prelog	Tine Pust
IT Department	Irena Prelog	Tine Pust
Underwriting and Claims Department	Tine Pust	Irena Prelog

b) Supervisory Board

The Supervisory Board of NLB Vita has four members who are all representatives of the shareholders. Only persons who meet the criteria for members of the Supervisory Board, which are stipulated in the ZZavar-1, the ZGD-1, the Policy on Assessing the Competences and the Suitability of Members of the Management Board and the Supervisory Board and other regulations can be appointed to this position.

The Supervisory Board supervises the management and operations of the Company. Its competences and decision-making, the manner and organization of its work, as well as any other issues which are important for its operations, are defined with the applicable regulations and the Statute of the Company and the Rules of Procedure of the Supervisory Board.

Pursuant to the ZZavar-1, the Supervisory Board has appointed the Audit Committee. The tasks and competences of the Audit Committee of the Supervisory Board are defined in the ZGD-1 and the Rules on the Operation of the Audit Committee.

The Audit Committee shall review, monitor and supervise the material of the Company prepared for the meetings of the Supervisory Board and other materials relating to the above tasks, issuing opinions, proposals, positions and potential warnings to the company’s Supervisory Board.

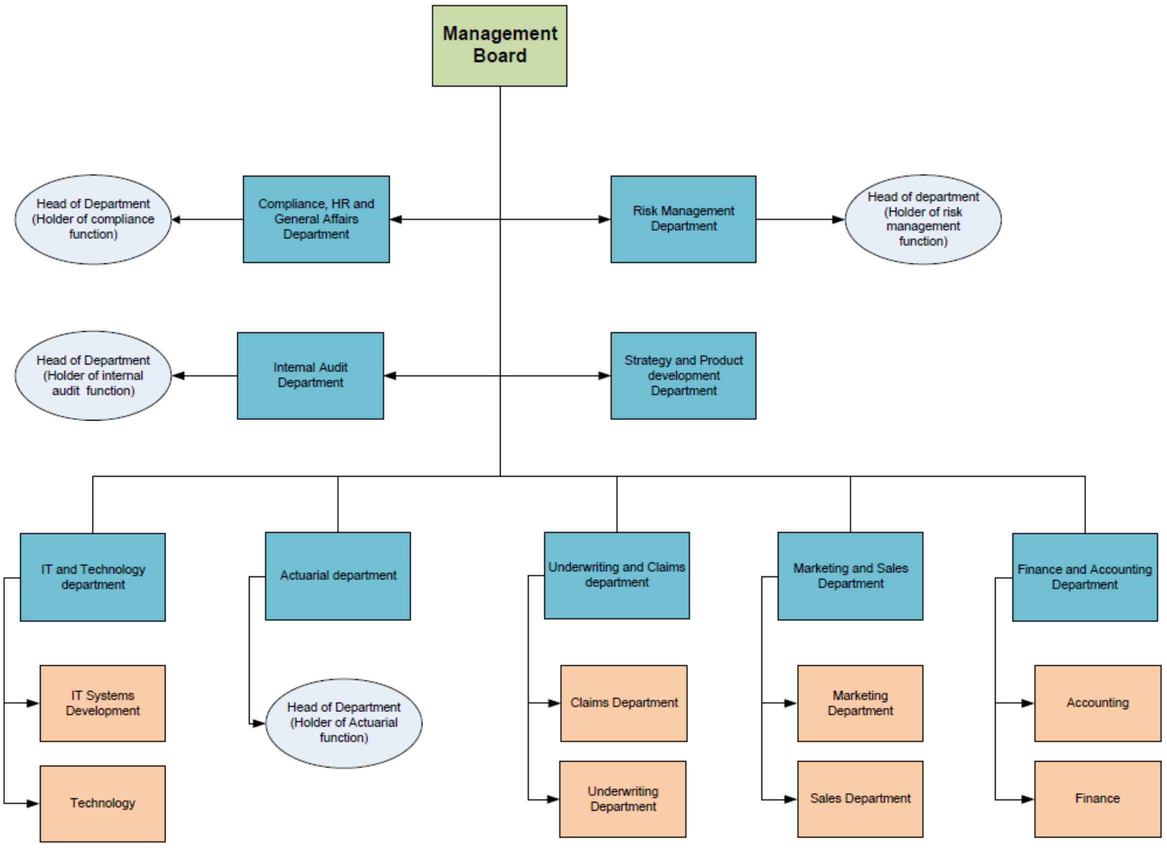
Table 9: Members of the Supervisory Board

Name and surname	Type of membership
Johan P. Daemen	President of the Supervisory Board
Jana Benčina Henigman	Deputy to the President of the Supervisory Board
Nik B. Vincke	Member of the Supervisory Board
Blaž Brodnjak	Member of the Supervisory Board

c) Key functions

The Company has established an efficient system of governance consisting of four key functions: the risk management function, the compliance function, the internal audit function and the actuarial function. They are carried out within the framework of organizational units which are directly subordinated to the Management Board and organized in order to strengthen the structure of the three defence lines in the governance system of the Company. Regular internal reporting processes have been set up for all key functions in the Company. All four key functions cooperate with each other and regularly exchange information which is required for their operation. In its internal document, each key function has arranged in detail at least its tasks, responsibilities, processes and obligations connected with reporting. All key function holders are appointed by the Management Board in agreement with the Supervisory Board.

Figure 2: The organizational chart with a presentation of the key function holders as at 31 December 2018



i. The risk management function

The risk management function comprises all the following tasks:

- Support of the governing, management or supervisory body and other functions in the efficient implementation of the risk management system;
- Supervision of the risk management system;
- Supervision of the general Risk profile of the company as a whole;
- Detailed reporting on risk exposure and consultancy for the management, governing or supervisory body concerning the matters in the area of risk management, also in connection with the strategic matters such as company strategy, mergers and acquisitions and major projects and investments;
- Identification and assessment of emerging risks.

ii. The compliance function

The responsibilities of the compliance function are:

- Monitoring and regular assessment of the suitability and efficiency of the regular procedures and measures that have been adopted for the purpose of eliminating any deficiencies related to the Company's compliance with the regulations and other commitments;
- Consultancy and assistance in the harmonisation of the Company's operations with the obligations stipulated by the regulations or other commitments;
- Assessment of the potential effects of the changes in the legal environment on the operations of the company in terms of the compliance of the operations of the Company with the regulations or other commitments;
- Definition and assessment of the risk of compliance of the operations of the Company with the regulations or other commitments, particularly in the case of new products or new distribution channels or material changes in business practices, outsourcing of services, changes in the organisation, changes in the business model, changes in the strategy and similar;
- Informing the Management Board and the Supervisory Board of the Company of the compliance of operations of the Company with the regulations or other commitments and the assessment of the risk of compliance of the operations of the Company.

The compliance function determines the compliance policy and the plan for its achievement. The compliance policy defines the responsibilities, competences and reporting obligations of the compliance function. The compliance plan sets out the planned compliance activities that take into account all the relevant areas of activity of the Company.

iii. The internal audit function

The internal audit function comprises the assessment of whether the Company's internal control system and the other elements of the management system were efficient. The internal audit function is objective and independent of the operating functions. All findings and all recommendations of the internal audit are reported to the Management Board and the Supervisory Board which define the measures to be adopted in relation to each finding and recommendation of the internal audit and ensure the implementation of the measures.

iv. The actuarial function

The actuarial function comprises the following activities:

- Coordinating the calculation of the technical provisions;
- Ensuring the suitability of the used methods and basic models, as well as the assumptions made in the calculation of the technical provisions;
- Assessing the appropriateness and quality of the data used for the calculation of the technical provisions;
- Comparing the best estimates based on experience;
- Informing the Management Board and the Supervisory Board of the reliability and appropriateness of the technical provisions;
- Overseeing the calculation of the technical provisions;
- Issuing the opinion on the underwriting policy;
- Issuing the opinion on the adequacy of the arranged re-insurance; and
- Contributing to the efficient implementation of the risk management system.

B.1.2 Remuneration policy

The Remuneration Policy supports the business strategy of the Company, the risk management strategy, the risk profile, the goals, risk management practices and long-term interests and the performance of the Company as a whole.

The purpose of the policy is to ensure such implementation of remuneration of the employees performing special work that stimulates the reliable and efficient management of the Company's risks, does not promote the acceptance of non-proportional and irresponsible risks or risks that exceed the limits of acceptable risks of the Company and allows for the acquisition and preservation of qualified, responsible and committed employees holding positions to which the Remuneration Policy applies. The Company has also implemented a target-oriented management system supported by systemic quarterly and annual interviews with all employees. Within the scope of these interviews, the employees and their superiors define their business and development goals, which allows for a more focused operation of each employee and the monitoring of the implementation of goals and/or efficiency of each employee.

The Remuneration Policy in the Company applies to:

- The members of the Management Board,
- Holders of all four key functions (risk management, compliance, actuary and internal audit) as follows:
  - In full, if they carry out only the tasks and activities of the holder of a key function within the framework of tasks and activities carried out in the insurance company;
  - Partial, if in addition to the tasks and activities of the holder of a key function they also carry out other tasks which, according to their nature, do not belong to the tasks and activities of any key function within the framework of the tasks and activities carried out in the insurance company. In such case, the share of tasks and activities of the holder of a key function in relation to all of the tasks and activities they carry out shall be assessed for each holder. The Remuneration Policy shall be used with the assessed share of tasks and activities of the holder of a key function. For remuneration of work performance and tasks and activities which according to their nature are not tasks and activities of key function, the applicable Rules on the Remuneration of Work Performance shall be used;
- The holder of the business function in the Company, Director of Financial Accounting.

The basis for determining the system of remunerations of the employees performing special work is their authorizations and responsibilities, taking into account the efficient risk management and the assurance of compliance.

The employees performing special work are also entitled to an annual variable part of the salary based on the performance of the employee, performance of the organizational unit and the efficiency of the realization of key function tasks and the business results of the Company (or the NLB Group and the KBC Group). The variable part of the remuneration can be adapted to significant risks to which the Company is or could be exposed pursuant to the risk management and strategy. The employee performing special work is not entitled to the annual variable part of salary if they fail to achieve their personal goals, regardless of the fact whether the goals of the NLB Group or the KBC Group the goals of the Company, the goals of the OU or the goals of the key function have been achieved or not. The decision whether the performance criteria have been achieved by the Management Board members is adopted by the Supervisory Board, whereas for other employees performing special work the decision is adopted by the Company's Management and Supervisory Boards together.

The Rules on the Remuneration of Performance regulate the procedure of planning, monitoring, assessment and remuneration of business efficiency for those employees who are not subject to the Remuneration Policy, considering the nature of the work they perform.

The following criteria are applied to measuring the performance of employees:

- NLB Vita performance
- Organizational unit performance
- Individual assessment of performance for an employee

The first two indents of the previous paragraph represent the remuneration arising from performance and the last indent is remuneration from an individual performance.

The variable part of the salary arising from the performance of NLB Vita and the performance of the organizational unit is paid out at the end of the year, as a percentage of the employee's gross salary. The payment of remuneration is subject to Company recording a profit.

The basis for the assessment of the employee's performance and payment of part of the salary based on performance, is the planning of the annual and/or quarterly goals of the employee and the definition of the key competencies.

The Company does not have an additional retirement scheme or a scheme of early retirement for the members of the management, governing or supervisory body and other key function holders.

B.1.3 Information about material transactions

The owners of NLB Vita d.d. Ljubljana (core group) are Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2 and KBC Insurance NV, Leuven, Waaistraat 6, Belgium. As at 31 December 2017 and 31 December 2016, each of them owned a 50% equity stake in the Company.

The Company thus estimates that it has business relationships with the owners and their group members, members of the Management Board and the Supervisory Board and their close family members, and companies controlled by the members of the Management Board and the Supervisory Board and their close family members.

The Company conducts business with its related persons according to the arm's length principle.

B.2 Fit and Proper requirements

B.2.1 General

The members of the Management Board, Supervisory Board, holders of key functions and business functions must be appropriately qualified for performing their functions; they must also be persons of good reputation and integrity, which is established by the Company on the basis of the procedures defined in the internal documents. The Company shall pay attention to the diversity of the composition of its Management and Supervisory Boards as collective bodies and ensure such a structure of bodies that ensures the appropriate diversity of experience and knowledge between the members of individual bodies.

With the aim of ensuring the qualification and suitability of the members of the Management Board, Supervisory Board, key function and business function holders, the persons performing the said functions must meet the requirements related to the criterion of suitability and qualification.

B.2.2 Candidate suitability criterion

Table 10: Requirements of the suitability criterion

Requirement	Key / business function holder	Member of the Management / Supervisory Board
The candidate has never been convicted by a final judgement for a criminal offence	✓	✓
The candidate has not entered into personal bankruptcy	✓	✓
The candidate enjoys a good reputation and integrity	✓	✓

An additional requirement for the key function holder is that the key function holder is not a person who holds the position of a member of the Management Board or an authorized signatory of the Company, while in the case of a member of the Management or Supervisory Board, the candidate must meet an additional condition of having sufficient time available for performing the function.

B.2.3 Candidate qualification criterion

Only a person with sufficient theoretical and practical knowledge with regard to the management of insurance operations can be a member of the Management Board. Unless proved otherwise, the condition specified in this indent shall be deemed to have been fulfilled if the candidate has at least five years of experience in managing the operations of an insurance undertaking or a company of the size and activity comparable to that of the insurance company, and/or other comparable operations.

A member of the Supervisory Board is deemed qualified if he/she has appropriate professional qualifications and possesses the characteristics and experience necessary for supervising the Company's operations. The fit criterion shall be deemed fulfilled, if the candidate has at least five years of experience in managing or supervising the business of a company of a comparable size and activity as the Company and/or other comparable operations.

Only a person with appropriate professional qualifications, traits and experience required for a reliable and prudent performance of the tasks associated with a key function or a business function can be a holder of a key function or a holder of a business function.

Table 11: Requirements of the qualification criterion

Requirement	Key / business function holder	Member of the Management / Supervisory Board
Appropriate level and field of education	✓	✓
Appropriate professional (theoretical and practical) knowhow/experience	✓	✓
Fluent in the English language	✓	✓
Knowledge of the standard and specialized PC tools	✓	✓
Competencies: • reliability and responsibility, • ethics, • co-operation with others, • self-initiative, • focus on objectives, • well-developed written and verbal communication skills • motivation, • delegation, • decision-making, • conflict resolution, • development and training of colleagues.	✓	✓

Additional and specific requirements of individual key function holders:

- Actuarial function holder: has appropriate knowledge in the area of bankassurance products and has performed the tasks of a certified actuary or the actuarial function for at least the last two years prior to authorization on a portfolio comparable to that of which they would be responsible as the holder of the actuarial function; or performed, for at least the last two years prior to authorization, the tasks supervised, controlled or coordinated by a certified actuary or the actuarial function on a portfolio comparable to that of which they would be responsible as the holder of the actuarial function;
- Internal audit function holder: has at least five years of experience in auditing or a related activity and holds the title of a certified internal auditor in line with the law regulating auditing;
- Risk management function holder: possesses the knowledge of using risk management models and methods, knowledge in the broader area of internal management of the insurance company and at least five years of work experience;
- Compliance function holder: has the required knowledge in the area of compliance, knowledge in the broader area of internal governance, a sound knowledge of the legal framework in which the insurance company operates.

Additional requirements of the business function holders:

- Business function holders must have a good knowledge of a broad and narrow (macro)economic environment and a market situation in which the insurance company operates, and other key management skills and the ability to use the basic management tools.

B.2.4 Fit and proper assessment procedure

The fit and proper assessment procedure can be divided into three phases:

- The fit and proper assessment procedure prior to the appointment or issue of authorization to a candidate: the competent body submits the fit and proper assessment questionnaire to the candidate and obtains the relevant evidence to assess whether the candidate meets the required conditions and then, taking into account the requirements, makes a fit and proper assessment of the candidate for assuming the function in question.
- The periodic-regular fit and proper assessment procedure: the members of the Management Board, Supervisory Board and the holders of the key functions shall be obliged to submit to the fit and proper testing once a year, by no later than 15 December of the current year, in accordance with the conditions and requirements from the Policy on the Fit and Proper Assessment of the Management and Supervisory Board Members and Key and Business Function Holders. If it is evident from a statement that a person does not meet the conditions, the competent body shall adopt an appropriate decision concerning the issue and, if necessary, also the appropriate measures.
- Extraordinary fit and proper assessment procedure: in the event of circumstances that raise a reasonable doubt that a person is fit and proper, the competent body shall investigate the circumstances and, based on the documentation and the review of all the relevant facts, adopt a resolution on further measures for ensuring the person in question is fit and proper.

B.3 Risk Management System including the Own Risk and Solvency Assessment

B.3.1 Risk Management System

a) Risk Management Objectives

The primary objective of risk management is to implement effective mechanisms that enable long-term safe and stable achievement of business objectives as determined by the Company’s Business Plan. Achieving the primary objective is harmonised with the given Risk Appetite Statement and based on performing the following procedures:

- Recognising and understanding risks;
  In accordance with its Risk Management Strategy, the Company recognises following categories or risk areas:
  i. Market risk,
  ii. Credit risk,
  iii. Liquidity risk,
  iv. Underwriting and reserving risk,
  v. Reinsurance,
  vi. Operational risk and
  vii. Business continuity and contingency.

- Managing and mitigating risks;
  The objective of managing and mitigating risks is to reduce the probability or the number of individual loss events, as well as to reduce the amount of loss on the occurrence of the event. For this purpose, the Company adopts the Framework Policy of Risk Management, which determines the Risk

Management System and on basis of which the Policies for individual risk categories and the limit system included in the Appendices of individual policies are derived. Policies for individual risk categories describe subject-specific risks and determine the manner of measuring, monitoring, managing and mitigating risks, as well as the frequency and the manner of reporting, tasks and responsibilities in risk management and the content and frequency of possible stress tests. Appendices of individual policies describe the subject-specific limit system, derived from the Risk Appetite Statement where possible.

- Reporting risks;
  The objective of reporting risks is the provision of timely and accurate data and information that the Management Board and Supervisory Board require in the decision making process.

b) Risk Management Function

The Risk Management Function represents the Company's ability to perform risk management tasks in the broadest sense. The Risk Management Function surpasses the framework of the Risk Management Department, as its activities constitute the complete Risk Management System, including the Own Risk and Solvency Assessment process. The Risk Management System is otherwise set accordingly to the three lines of defence principle.

Organisational units that carry out fundamental business processes in the Company represent the first line of defence[1]. Their responsibility is to consider all the risks related to their daily activities, carry out risk management tasks stemming from the Framework policy and its related acts, and report to the Risk Management Function holder any facts deemed important for the functioning of the Risk Management System.

The Risk Management Department represents the second line of defence[2] and embodies the central organisational unit of the Risk Management System. Apart from the tasks of managing risks, its main responsibility is the coordination and communication with other organisational units, especially the first line of defence and the promotion of risk culture within the Company.

The Internal Audit Department represents the third line of defence and is responsible for auditing the Risk Management System and execution of the Risk Management function. Audits are carried out in accordance to the Annual plan of the Internal Audit Department.

c) Risk Management Function holder

The Management Board, with the consent of the Supervisory Board, appoints a key person within the Risk Management Department – the Risk Management Function holder. The latter is responsible for proper and effective implementation of the function, setup and monitoring of the Risk Management System, coordination and communication with other organisational units of the Company, the Management Board and the Supervisory Board concerning risk management as well as for participating in selected working Committees[3].

Within the quarterly Risk Management Report, the Risk Management Function holder reports to the Risk Committee, the Management Board and the Supervisory Board on risks that were recognized as risks of material importance. The Function holder also reports on other special risk areas on its own initiative or at the request of the Management Board and/or Supervisory Board. The Risk Management Function holder is also responsible for proper implementation and effective coordination of Own Risk and Solvency Assessment process as well as for coordinating the preparation of Own Risk and Solvency Assessment Report, Regular Supervisory Report, Solvency and Financial Condition Report and Quantitative Reporting Templates.

[1] i.e. Underwriting department, Finance and accounting department, Strategy and product development department, and others
[2] The second line of defence is complemented by the Compliance function and the Actuarial function
[3] Risk Committee, ALCO Committee and the Product Committee

The Risk Management Function holder can communicate with any employee on its own initiative and has all the necessary powers, resources and expertise as well as unrestricted access to all relevant information needed to carry out its responsibilities.

d) Review, Monitoring and Reporting of risks

Regular review, monitoring and reporting of risks is performed within the Risk Committee and the Management Board. The Risk Committee is composed of heads of all organisational units and holders of all key functions[4]. Chairman of the Committee, the Risk Management Function holder is responsible for administrating the Committee meetings and coordinating operational duties concerning risk management. The Risk Committee meets regularly or exceptionally, on the initiative of Committee members or the Management Board of the Company. It can also meet in correspondence if necessary. It acts as a consultative authority. The Risk Management Function holder regularly briefs the Management Board on Risk Committee functioning.

Internal reporting comprises reporting to the Management Board, the Audit Committee and/or the Supervisory Board as well as reporting within the framework of selected working Committees of the Company. It is carried out by the Risk Management Function holder in the form of a quarterly Risk Management Report, which includes reporting on key identified risks that are dealt with in individual Policies. The Risk Committee escalates measures stemming from reaching or breaching the limit system.

External reporting comprises reporting to supervisory authorities and public disclosure. It is carried out in the form of quantitative and narrative reports and disclosures.

B.3.2 Own Risk and Solvency Assessment

Own Risk and Solvency Assessment[5] represents the process of identifying, evaluating, monitoring, managing and reporting risks that the Company is or will be exposed to during its business operations with the purpose of determining and providing adequate own funds to meet its solvency needs. The process is forward-looking and encompasses all risks (Risk profile), which derive from business activities of the Company in the planning period, including those described by the Solvency Capital Requirement standard formula. By thoroughly comparing its Risk profile against the scope, assumptions and calibration of the Solvency Capital Requirement, the Company establishes its overall solvency needs at the level of the Solvency Capital Requirement.

Own Risk and Solvency Assessment process integrates Business Planning, Risk Management, Capital Management and other management processes, and as such has an important decision-making role:

- <u>Business Planning;</u>
  The Company's Business planning process is supplemented by the regular Own Risk and Solvency Assessment process. The preliminary results of the Own Risk and Solvency Assessment process serve as the basis for potential early adjustments of key business and financial objectives and/or the Risk Appetite. In addition to the Baseline (planning) scenario, the Own Risk and Solvency Assessment process also utilizes an Alternative (stress) scenario and a series of sensitivity analyses.

- <u>Risk Management;</u>
  Regular risk identification, monitoring and reporting is carried out within the Risk Management System as one of the steps or procedures of the Own Risk and Solvency Assessment process, in which it is determined what existing and potential risks could threaten the realisation of the Company's Business Strategy. Regular solvency position monitoring and reporting is also carried out within the framework of the Risk Management System. It encompasses calculation, assessment and reporting on the Company's solvency position to all key stakeholders. The Limit System derived from the Risk Appetite

[4] The head of the Internal Audit Department acts in an independent advisory capacity and has no voting right in decision making
[5] ORSA

Statement furthermore constitutes the main framework on basis of which the Company attempts to steer its Risk profile and the overall solvency needs.

- Capital Management;
  Within the Own Risk and Solvency Assessment process, the Company projects its solvency position for the planning period, including the amount and composition of its own funds (capital) and the Solvency Capital Requirement and Minimum Capital Requirement, or its overall solvency needs. The Company considers its key business and financial objectives, its foreseen dividend policy and its Risk Appetite in the projection of the solvency position. Based on the projected solvency position and target capital adequacy derived from the Risk Appetite Statement, the Company analyses its possibilities for steering the overall solvency needs and available capital and prepares a capital management plan for the planning period.

- Other management processes;
  The results of the Own Risk and Solvency Assessment process are regularly considered by the Product and Sales Committee and the Asset and Liability Committee (ALCO). The Product and Sales Committee considers the results to draft strategies for design and marketing of insurance products, focusing mainly on profitability and solvency requirements of insurance products. The Asset and Liability Committee considers the results to draft investment strategies, policies and guidelines, focusing mainly on the return on investments and their solvency requirements.

Own Risk and Solvency Assessment process is carried out regularly on an annual basis, or ad hoc, when the Risk profile of the Company or the volatility of its overall solvency need changes materially[6]. The Risk Management Function holder and the Management Board of the Company steer the process execution and have an otherwise active role in it, encompassing:

- Understanding existing and identifying potential risks,
- Challenging the coverage of risks by the standard formula for calculation of Solvency Capital Requirement,
- Challenging the process results,
- Adopting the Own Risk and Solvency Assessment Report after prior consideration at the Risk Committee and
- Solvency position steering and business steering.

B.4 Internal Control System

B.4.1 Description of the undertaking's Internal Control System

The Company has established and manages an appropriate internal control system. When establishing the internal control system, the Company followed the recommended definition of the five inter-connected elements of the internal control system, namely:

- Internal control environment;
- Identification and assessment of risks to be managed by the company in accordance with the set policies;
- Control activities included in individual procedures;
- Information and communication and
- Supervisory activities and measures of improvement or sanctioning of the consequences.

The internal control environment consists of all employees in the Company, with their knowledge, skills and ethical values. The management philosophy and the management style represent important aspects of the internal environment and are reflected in the orientations of the management and the heads of the internal organizational units which affect the method of operation, the setting of goals, the risk

[6] This can possibly be triggered by a financial crisis, change in regulatory environment, merger or acquisition, disinvestment, introduction of a new product and other

assessment, the control activities, the information and the communication system and the supervisory activities.

Identification and assessment of risks means the recognition of internal and external factors that represent a threat or potential threat for the implementation of the set goals. They must be identified for all new insurance services and the identification process must also continue in relation to all existing services. Namely, the risks change constantly because of the changes in the environment, new requirements of the clients, changes of the normative regulation and changes of operations. The assessment of the risks is the studying of the impact of such risks on the achievement of the goals.

Control activities comprise the procedures that help ensure all urgent activities for the management of risks on the way to the achievement of goals are carried out.

Information and communication are essential for a good operation of the internal control system; information must be provided to all employees so that they can perform their work which comprises the recognition, assessment and search for the appropriate risk management tools. The established organizational structure of the Company guarantees communication through the appropriate communication channels so that the correct information in the appropriate content and form reach the right person at the right time.

Supervision is a part of the system of internal controls that constantly assessed its presence and the functioning of all elements. It is implemented in two ways, namely as a permanent activity and as an occasional, separate assessment.

In the area of the internal control system and the other areas, the Company regularly monitors the guidelines and recommendations of the Insurance Supervision Agency, and complies with them.

B.4.2 Description of how the Compliance function is implemented

In NLB Vita, the compliance function is an independent function. Pursuant to the Rules of Organization of NLB Vita it is organized as a management support service within the Compliance, Human resources and General Affairs Department (hereinafter: the SSPKSZ), reporting directly to the Management Board. In agreement with the Supervisory Board, the Management Board of the Company appoints within the SSPKSZ a key person in charge of implementing the compliance function (the compliance function holder), who is entitled to communicate directly with the Management Board of the Company, its Supervisory Board and/or the Audit Committee of the Supervisory Board.
The responsibilities of the compliance function are:

- Monitoring and regular assessment of the suitability and efficiency of the regular procedures and measures which had been adopted for the purpose of eliminating any deficiencies related to the Company’s compliance with the regulations and other commitments;
- Consultancy and assistance in the harmonization of the Company's operations with the obligations stipulated by the regulations or other commitments;
- Assessment of the potential effects of the changes in the legal environment on the operations of the Company in terms of the compliance of the operations of the Company with the regulations or other commitments;
- Definition and assessment of the risk of compliance of the operations of the Company with the regulations or other commitments, particularly in the case of new products or new distribution channels or material changes in business practices, outsourcing of services, changes in the organization, changes in the business model, changes in the strategy, and similar;
- Informing the Management Board and the Supervisory Board of the Company of the compliance of operations of the Company with the regulations or other commitments and the assessment of the risk of compliance of the operations of the Company.

The compliance function in NLB Vita performs preventive tasks (ex ante) in the form of consultancy and training, and curative tasks (ex post) through control.

The compliance function primarily handles the risks resulting from:
- Legal sanctions;
- Measures by supervisory authorities (regulatory sanctions);
- Material financial losses; or
- Loss of the reputation of the Company;

because of the non-compliance of the Company with the relevant provisions and good practice standards which are defined on the basis of:
- Penal clauses of the provision regulating insurance activity;
- Other regulations (laws, secondary legislation, EU acts, etc.) that apply to the Company and which are specifically determined by it in the Compliance Function Policy or the annual action plan of the compliance function.
- Non-compliance of the internal acts of the Company;
- Non-compliance of the signed agreements in the case of contracts of great significance or large value;
- Violation of the guidelines and recommendations by the regulator or good business practices NLB Vita can voluntarily undertake to comply with.

The compliance function holder regularly reports to the Management Board, the Audit Committee of the Supervisory Board and the holder of the BL Compliance and Integrity of NLB d.d.

B.5 Internal Audit function

B.5.1 Implementation of Internal Audit function

The Company's Management Board has set up and organized - as a component part - an independent Internal Audit function that gives assurances and advice on risk management, internal control systems and corporate governance.

The Internal Audit Department is an independent organizational unit, separate from other units of the Company, subordinated directly to the Management Board, and implements an independent and impartial function with due care and diligence, in accordance with the professional principles and the hierarchy of Rules on Internal Auditing and the internal rules regulating the functioning of the Department. In doing so, it complies with the applicable legislation and regulations as well as internal regulations governing the operations of the areas that are being audited.

The Head of the Department is authorized and his/her authorization can be revoked by the Management Board of the Company in agreement with the Supervisory Board according to the provision of Article 161 of the Insurance Act (Official Gazette of the RS, no. 93/15). The Supervisory Board also gives its approval on the remuneration of the Head of the Department. The Department reports on its work directly to the Management Board and Audit Committee.

B.5.2 Independence and objectivity of the Internal Audit function

Independence is established by placing the Department in the Company's organizational structure as a management support service, reporting directly to the Management Board, the Audit Committee and/or to the Supervisory Board. The Audit Committee may request from the internal auditor to provide additional information in addition to the information from the quarterly and annual reports on the work of the Department.

The Department shall not perform any development and operational tasks for the audited areas. It shall have no direct responsibility or powers for taking decisions about the activities it audits.

The Head of the Department shall be objective and unbiased. He/she should avoid conflicts of interest at all times. Objectivity is a state of mind of an internal auditor without prejudice, allowing them to perform tasks in such a manner that they believe in the results of their work, do not subordinate their judgements to others and demand quality without compromise. If objectivity is endangered, the Head of the Department must report such fact to the Management Board, the Audit Committee and/or to the Supervisory Board as soon as possible.

Organizational independence is successfully complied with, the Audit Committee/the Supervisory Board:

- Approves the Charter,
- Approves the Action Plan of the Department, which is risk based,
- Approves the budget and the resource plan of the Department,
- Receives messages from the Head of the Department on the operations of the Department related to its Action Plan and other matters,
- Approves decisions related to the appointment and dismissal of the Head of the Department,
- Approves the remuneration of the Head of the Department,
- Makes suitable inquiries with the management and the Head of the Department to determine if there are any unsuitable restrictions regarding the scope of the work or resources.

B.6 Actuarial function

In NLB Vita, the actuarial function is an independent function. The Management Board of the Company with the approval of the Supervisory Board appoints a key person within the Actuarial Department, who is responsible for implementing the actuarial function (actuarial function holder).

The areas of work of the actuarial function are being carried out in Actuarial Department, Risk Management Department and in Strategy and Product Development Department and comprise the following tasks:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies, models and assumptions applied in the calculation of the technical provisions;
- Reviewing the adequacy, sufficiency and quality of the data used in the calculation of the technical provisions;
- Comparing the amount of technical provisions against experience;
- Overseeing the calculation of the technical provisions if approximations are used;
- Reviewing the appropriateness of general underwriting policy and premium sufficiency for individual products;
- Reviewing the adequacy of the reinsurance;
- Participating in implementation and execution of the risk management system;
- Informing the management and supervisory bodies of the Company about the appropriateness of the technical provisions.

The actuarial function holder shall inform the management and supervisory bodies of the Company about the following:

- The reliability and appropriateness of the methods, models and assumptions applied in the calculation of the technical provisions and about whether the established technical provisions are suitable to cover all the liabilities arising from the underwritten insurance;
- Underwriting policies, including the findings about the amount of insurance premiums for individual products in terms of premium sufficiency for covering all the liabilities arising from these products;
- The suitability of reinsurance or risk transfer to the SPV.

The actuarial function holder shall prepare a written report about the findings for the past business year as at the last day of the past business year. The written report shall be prepared no later than 14 days after submitting the unaudited annual financial statements to the Insurance Supervision Agency.

B.7 Outsourcing

Based on the ZZavar-1, the insurance company may outsource a business function or activity that is crucial or important for its operation (i.e. outsourced operation). On the basis of the outsourced operation the service provider performs a certain work process, function or service instead of the Company, on its behalf and for its account. Regardless of the transfer of a significant segment of the operation to an external service provider, the Company is still fully responsible for the fulfilment of its obligations. Due to its significance for the operation of the insurance company, the outsourced operations are part of the Company's governance system and the rules for managing them are detailed in the Policy on Outsourced Operations.

The Management Board of the Company is responsible for the efficient management of the risks related to the implementation of the outsourced operations. In agreement with the Supervisory Board, the Management Board shall adopt the Policy on Outsourced Operations and conclude contracts on the performance of an outsourced operation or on outsourcing certain segments of operations with a specific service provider. The Management Board shall appoint a contract administrator for each outsourced service, who is in charge of efficient control over the relevant implementation of the outsourced operation. The Compliance, Human Resources and General Affairs Department is in charge of preparing and conducting a legal review of the contracts on outsourced operations and of preparing and reviewing the contracts on outsourced operations in terms of compliance with the provisions hereof.

The following rules apply to the outsourcing of functions or activities:

- Determination of the criteria for the definition of functions or activities that correspond to the definition of the outsourced operation,
- The types of risks related to the outsourcing of activities or function and in connection with the selection of an outsourced provider;
- The process of monitoring the compliance and efficiency of the implementation of outsourced services and managing the risks related to the outsourced operations;
- The essential elements of the outsourcing contract;
- Establishment of the Outsourcing Catalogue.

The insurance company shall detail the rules of outsourcing in the Policy on Outsourced Operations.

Table 12: List of outsourced operations

No.	Type of service
1.	Personal insurance brokerage
2.	IT Services
3.	Financial instrument management
4.	Archiving of documents

B.8 Any other information

B.8.1 Assessment of the adequacy of system of governance

The system of governance in NLB Vita is proportional to the nature, scope and complexity of the company's operations and is the subject of regular updating. All documents regulating the area of the governance system in the Company are subject to at least annual (regular) inspection. If necessary, the documents are regularly updated. To this end, the Company has appointed certain responsible persons in its internal documents who are in charge of regularly updating the governance system policies.

B.8.2 Other information

No other material information applicable.

C.Risk Profile

Company's Risk profile is monitored regularly on the basis of quarterly Risk Management Report, which is considered by the Risk Committee, the Management Board and the Audit Committee at their regular meetings, as well as on the basis of the Risk Register, which is reviewed annually. The Risk profile is determined by the insurance liability portfolio, the investment portfolio, the System of Governance, and the general environment in which the Company operates. It is mainly reflected in the composition and extent of the Solvency Capital Requirement, shown below.

The risks arising from Company's insurance liability portfolio are captured by following modules or sub-modules of the standard formula for Solvency Capital Requirement:

- Market risk;
  - Interest rate risk[7]
- Life underwriting risk;
  - Mortality risk
  - Disability-morbidity risk
  - Lapse risk
  - Life-expense risk
  - Life-catastrophe risk
- Health underwriting risk;
  - NSLT[8] health underwriting risk
  - Health catastrophe risk

The risks arising from Company's investment portfolio are captured by following modules or sub-modules of the standard formula for Solvency Capital Requirement:

- Market risk
  - Interest rate risk[9]
  - Equity risk
  - Spread risk
  - Market risk concentrations
  - Currency risk
- Counterparty default risk

[7] In interdependence to Interest rate risk stemming from Investment portfolio
[8] Not Similar to Life Techniques
[9] In interdependence to Interest rate risk stemming from Insurance liability portfolio

Table 13: Solvency Capital Requirement by sub-module (EUR thousand)

	31/12/2018	31/12/2017	Change
Market risk	**27,896**	**33,091**	**-5,195**
Interest rate risk	0	6,014	-6,014
Equity risk	7,582	8,492	-910
Spread risk	20,802	21,462	-660
Market concentrations risk	0	0	0
Currency risk	2,991	3,394	-402
Diversification	-3,479	-6,271	2,792
Counterparty default risk	**89**	**369**	**-280**
Life underwriting risk	**13,307**	**10,107**	**3,200**
Mortality risk	2,343	2,864	-521
Disability-morbidity risk	116	116	-1
Lapse risk	10,805	6,490	4,315
Life-expense risk	2,686	3,666	-980
Life-catastrophe risk	1,570	1,134	436
Diversification	-4,213	-4,164	-49
Health underwriting risk	**2,736**	**2,540**	**196**
NSLT health underwriting risk	1,819	1,863	-44
Health catastrophe risk	1,638	1,323	316
Diversification	-722	-646	-76
Diversification	**-9,291**	**-8,235**	**-1,056**
BSCR	**34,737**	**37,872**	**-3,134**
Operational risk	1,459	1,432	28
Adjustment (LAC TP)[10]	0	-2,855	2,855
SCR	**36,197**	**36,448**	**-252**

The largest share of Company's Solvency Capital Requirement as at 31 December 2018 is represented by the Market risk module, which is attributed predominately by the Spread risk sub-module. The Market risk module is followed by attribution of the Life underwriting risk module, the Health underwriting risk module, the Operational risk module, and the Counterparty default risk module.

The Company is also exposed to risks that are not explicitly captured by the standard formula for the Solvency Capital Requirement calculation. These risks or risk subcategories are either implicitly captured by the standard formula, are immaterial or cannot be calibrated:

- Inflation risk
- Reputational risk
- Liquidity risk
- Contagion risk
- Legal environment risk
- Other risks

The Company endeavours to capture and mitigate most of these risks within the framework of Risk Management System and the Internal Control System.

[10] Loss-absorbing capacity of technical provisions

C.1 Underwriting risk

The Company underwrites insurance contracts from the following lines of business (LoB[11]):

- 01 – Medical expense insurance
- 02 – Income protection insurance
- 30 – Insurance with profit participation
- 31 – Index-linked and unit-linked insurance
- 32 – Other life insurance

The Medical expense insurance portfolio (LoB 01) of the Company as at 31 December 2018 consists of individual and collective health insurance with medical assistance abroad.

The Income protection insurance portfolio (LoB 02) of the Company as at 31 December 2018 consists of individual and collective accident insurance with coverage for accidental death, accidental death in a car accident, total and partial permanent disability due to accident, permanent disability due to car accident, daily allowance, hospital allowance, bone fracture, death due to an illness, accidental annuity, funeral costs, accidental traumatic events, allowance for severe injuries, allowance for recovery after injuries and allowance for physiotherapy.

The Insurance with profit participation portfolio (LoB 30) of the Company as at 31 December 2018 consists of whole life and endowment insurance with interest rate guarantee and with optional additional covers for accidental death, total permanent disability and critical illness, scholarship life insurance with interest rate guarantee and with optional additional covers for accidental death and total permanent disability, and life insurance for insured persons after 50 years of age.

The Index-linked and unit-linked insurance portfolio (LoB 31) of the Company as at 31 December 2018 consists of whole life unit-linked insurance with death cover, whole life unit-linked insurance with death cover and optional additional covers for accidental death, total permanent disability and critical illness, scholarship unit-linked insurance with optional additional covers for accidental death and total permanent disability, whole life unit-linked insurance with time limited interest rate guarantee with death cover and optional accidental death cover, and life unit-linked insurance with time limited interest rate guarantee and with death and accidental death cover for insured persons after 65 years of age.

The Other life insurance portfolio (LoB 32) of the Company as at 31 December 2018 consists of individual risk life insurance with fixed sum insured, individual and collective risk life insurance with a decreasing sum insured, and collective risk life insurance for overdraft users with a maximum duration of one year and collective accident insurance with funeral costs.

The insurance liability portfolio is exposed to following risks:

Exposure	**Mortality risk**
Underlying portfolio	Insurance liability portfolio – Life insurance (30 – Insurance with profit participation, 31 – Index-linked and unit-linked insurance, 32 – Other life insurance)
Description	Main driver of Solvency Capital Requirement for Mortality risk is the inability to capture the level, trend and volatility in future mortality rates, i.e. the expected mortality rates are set too low compared to actual future mortality rates.
SCR attribution as at 31/12/2018	EUR 2,343 thousand before diversification. The Solvency Capital Requirement for Mortality risk decreased over the reporting period, which is mostly due to changes in mortality tables.
Risk management method	The Company established adequate underwriting procedures (incl. medical eximinations) and is monitoring claim results on product or cover level.

[11] Line of Business (LoB) as defined in Annex I of the Delegated Regulation (EU) 2015/35

Exposure	**Disability-morbidity risk**
Underlying portfolio	Insurance liability portfolio – Life insurance (LoB 30 – Insurance with profit participation, LoB 31 – Index-linked and unit-linked insurance, LoB 32 – Other life insurance)
Description	Main driver of Solvency Capital Requirement for Disability-morbidity risk is the inability to capture the level, trend and volatility in future disability, sickness and morbidity rates, i.e. the expected rates are set too low compared to actual future rates.
SCR attribution as at 31/12/2018	EUR 116 thousand before diversification. There have been no significant changes in the Solvency Capital Requirement for Disability-morbidity risk over the reporting period.
Risk management method	The Company established adequate underwriting procedures (incl. medical eximinations) and is monitoring claim results on product/cover level.

Exposure	**Lapse risk**
Underlying portfolio	Insurance liability portfolio – Life insurance (LoB 30 – Insurance with profit participation, LoB 31 – Index-linked and unit-linked insurance, LoB 32 – Other life insurance)
Description	Main driver of Solvency Capital Requirement for Lapse risk is the inability to capture the level or volatility in future lapse rates. The Company estimates the lapse rates based on past experience.
SCR attribution as at 31/12/2018	EUR 10,805 thousand before diversification. The Solvency Capital Requirement for Lapse risk increased over the reporting period, which is mostly due to changes in mortality tables and introduction of new products.
Risk management method	The Company monitors lapse rates, which are calculated either as percentage between the surrender amounts and the average value of mathematical provision during the period or as percentage between the number of lapsed contracts and the average number of active contracts during the period.

Exposure	**Life-expense risk**
Underlying portfolio	Insurance liability portfolio – Life insurance (LoB 30 – Insurance with profit participation, LoB 31 – Index-linked and unit-linked insurance, LoB 32 – Other life insurance)
Description	Main driver of Solvency Capital Requirement for Life-expense risk is the inability to capture the level, trend and volatility in future expenses incurred in servicing insurance and reinsurance contracts, i.e. the expected expenses are set too low compared to future experienced ones.
SCR attribution as at 31/12/2018	EUR 2,686 thousand before diversification. The Solvency Capital Requirement for Life-expense risk decreased over the reporting period, which is mostly due to changes in the calculation of expense inflation.
Risk management method	The Company performs a cost analysis, which includes the comparison between actual and planed costs.

Exposure	**Life-catastrophe risk**
Underlying portfolio	Insurance liability portfolio – Life insurance (LoB 30 – Insurance with profit participation, LoB 31 – Index-linked and unit-linked insurance, LoB 32 – Other life insurance)
Description	Life-catastrophe risk arises from an individual loss event or a series of correlated events of major magnitude that result in a significant deviation of actual death claims from the total expected death claims.
SCR attribution as at 31/12/2018	EUR 1,570 thousand before diversification. The Solvency Capital Requirement for Life-catastrophe risk increased over the reporting period, which is mostly due to changes in mortality tables.
Risk management method	The Company monitors risk concentration and appropriateness of the reinsurance program.

Exposure	**NSLT health underwriting risk**
Underlying portfolio	Insurance liability portfolio – NSLT Health insurance (01 – Medical expense insurance, 02 – Income protection insurance)
Description	The NSLT health underwriting risk consists of the following risks: • NSLT health premium and reserve risk: Premium risk results from fluctuations in the timing, frequency and severity of insured events and also takes into account the costs related to insured events. Premium risk relates to future insured events occurring during and after the solvency assessment period and pertains to coverage under existing as well as new or renewed policies in the following 12 months. The risk is that the costs including indemnities will exceed the premiums collected. Reserve risk stems from two sources: on the one hand, the absolute level of the claims provisions may be misestimated. On the other hand, because of the stochastic nature of future claims payments, the actual claims will fluctuate around their statistical mean value. • NSLT health lapse risk arises from the risk of adverse changes in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates.
SCR attribution as at 31/12/2018	EUR 1,819 thousand before diversification. There have been no significant changes in the Solvency Capital Requirement for NSLT health underwriting risk over the reporting period.
Risk management method	The Company monitors claim results on product/cover level and has established appropriate claims provisions (for incurred reported and not reported claims) and unearned premiums provisions. Additionally, it monitors lapse rates, which are calculated as percentage between the number of lapsed contracts and the average number of active contracts during the period.

Exposure	**Health catastrophe risk**
Underlying portfolio	Insurance liability portfolio – NSLT Health insurance (01 – Medical expense insurance, 02 – Income protection insurance)
Description	The Health catastrophe risk module captures the following risks: • Mass accident risk which arises from the occurrence of an event causing mass accidental deaths, disabilities and injuries with a high impact on the cost of medical treatment sought due to many people being present at a certain location at the same time. The Company does not include health insurance with medical assistance abroad in the calculation of SCR as it estimates the portfolio to be sufficiently diversified by geographical location. Within its portfolio, the Company only has insurance products from which it could experience losses due to deaths and total permanent disability. The highest capital requirement for Mass accident risk stems from Collective accident insurance for credit card holders and Collective accident insurance for bank account holders. • Accident concentration risk arises from the occurrence of an event causing mass accidental deaths, disabilities and injuries in a densely populated location. This risk exists only for the products Collective accident insurance for employees and Collective accident insurance for managers. • Pandemic risk: There is no such risk steming from the portfolio as andemic events are excluded according to general terms and conditions.
SCR attribution as at 31/12/2018	EUR 1,638 thousand before diversification. The Solvency Capital Requirement for Health catastrophe risk increased over the reporting period due to a new product launch.
Risk management method	The Company monitors risk concentration and appropriateness of the reinsurance program.

C.2 Market risk

Exposure	**Interest rate risk**
Underlying portfolio	Investment portfolio and Insurance liability portfolio
Description	Interest rate risk represents the risk of an adverse change in the value of assets and liabilities due to changes in the time structure of interest rates or the volatility of it. A change to market interest rates affects the value of interest sensitive assets and liabilities. In case of a structural mismatch between assets and liabilities (ALM), it also affects the excess of assets over liabilities and thus the level of Available own funds. Main driver of Solvency Capital Requirement for Interest rate risk is the mismatch in term structure and value of cash flows stemming from the investment portfolio and the cash flows stemming from the insurance liability portfolio. The greater the mismatch, the higher the capital requirement.
SCR attribution as at 31/12/2018	EUR 0 before diversification. The Solvency Capital Requirement for Interest rate risk decreased over the reporting period, due to changed level of the risk-free interest rate curve and related future discretionary benefits.
Risk management method	Matching of cash flows from assets and liabilities in terms of maturity and size; limiting the average duration mismatch of cash flows, the Basis Point Value (BPV) and the interest margin for costs and profit.

Exposure	**Equity risk**
Underlying portfolio	Investment portfolio (Equities and Collective investment undertakings)
Description	Equity risk represents the risk of a reduction in investment value due to a change in level or volatility of market prices of equity. Main drivers of Solvency Capital Requirement for Equity risk are the market listing and the level of Symmetric adjustment of the equity capital charge that is based on the historic behaviour of specific equity index. Equities listed in regulated EEA[12] and OECD[13] member markets are subject to lower capital requirement than equities listed elsewhere or equities not listed.
SCR attribution as at 31/12/2018	EUR 7,582 thousand before diversification. The Solvency Capital Requirement for Equity risk decreased over the reporting period, due to lower volume of equity investments in the portfolio and changed Symmetric adjustment of the equity capital charge.
Risk management method	Limiting the equities exposure and the price volatility level.

Exposure	**Spread risk**
Underlying portfolio	Investment portfolio (Bonds and Deposits other than cash equivalents)
Description	Spread risk represents the risk of a reduction in investment value due to a change in level or volatility of credit spread over the term structure of the risk-free interest rate. Main drivers of Solvency Capital Requirement for Spread risk are the credit rating and the modified duration of bond investments. The lower the credit rating and/or higher the modified duration, the higher the capital requirement.
SCR attribution as at 31/12/2018	EUR 20,802 thousand before diversification. The Solvency Capital Requirement for Spread risk decreased over the reporting period, due to lower modified duration and better credit quality of corporate bonds in the portfolio.
Risk management method	Limiting the overall credit rating structure and the price volatility level.

[12] European Economic Area
[13] Organisation for Economic Cooperation and Development

Exposure	**Market risk concentrations**
Underlying portfolio	Investment portfolio
Description	Market risk concentrations represents the risk of a reduction in investment value due to an insufficient diversification of the investment portfolio or a greater exposure to default risk in relation to single name exposures. Main drivers of Solvency Capital Requirement for Market risk concentrations are the credit rating and the relative share of single name exposure within investment portfolio. The lower the credit rating, the lower the excess exposure threshold and higher the capital requirement.
SCR attribution as at 31/12/2018	EUR 0 before diversification. The Solvency Capital Requirement for Market risk concentrations did not change over the reporting period.
Risk management method	Limiting the overall asset class structure, the subordinated securities exposure, the single name exposure, the geographical exposure and the industry exposure.

Exposure	**Currency risk**
Underlying portfolio	Investment portfolio (Equities and Collective investment undertakings)
Description	Currency risk represents the risk of an adverse change in value of investments and liabilities due to a change in the level or volatility of exchange rates. Main driver of Solvency Capital Requirement for Currency risk is the foreign currency exposure[14]. Investments listed in foreign currency or sensitive to foreign currency are subject to capital requirement.
SCR attribution as at 31/12/2018	EUR 2,991 thousand before diversification. The Solvency Capital Requirement for Currency risk decreased over the reporting period, due to lower volume of investments listed in foreign currency or sensitive to foreign currency.
Risk management method	Limiting the open currency position.

C.3 Credit risk

Exposure	**Counterparty default risk**
Underlying portfolio	Reinsurance recoverables, Cash and cash equivalents and Receivables
Description	Counterparty default risk represents the risk of a reduction in investment value due to unexpected default or deterioration of the credit condition of counterparties and debtors of the Company. Main drivers of Solvency Capital Requirement for Counterparty default risk are the credit rating of risk-mitigation contracts or cash at bank and the overdue period length of receivables exposures. The lower the credit rating and/or overdue period longer than 3 months, the higher the capital requirement.
SCR attribution as at 31/12/2018	EUR 89 thousand before diversification. The Solvency Capital Requirement for Counterparty default risk decreased in the reporting period, due to lower volume of receivables in the portfolio.
Risk management method	Limiting the number, share and credit quality of single name exposures.

C.4 Liquidity risk

Liquidity risk is the risk that the Company will be unable to settle its financial liabilities when they fall due. It arises from inability to realise investments and other assets when regular cash flows from assets and liabilities are mismatched. Liquidity risk is not explicitly captured by the standard formula for the Solvency Capital Requirement, yet some elements of it are implicitly captured by the Market risk module.

[14] Foreign currencies are the currencies other than the currency used for the preparation of the Company's financial statements (EUR)

The Company regularly monitors and assesses the alignment of cash flows from assets and liabilities, both in long-term and short-term perspective. The long-term perspective includes a cash-flow matching analysis performed quarterly within the Asset-Liability Management process (ALM). The short-term perspective includes a net liquidity requirement analysis performed quarterly and the Liquidity ratio analysis performed weekly.

Any established need for compulsory realisation of assets is escalated by the ALCO Committee, considering the predefined Action plan of short-term liquidity risk management. The latter includes an operational procedure for ensuring liquidity in conditions of decreased or insufficient liquidity as well as criteria for selection of substitution assets.

To ensure sufficient liquidity of investments, the Company only invests in financial instruments that are listed on regulated and liquid markets (equity investments) and have high enough individual issue size (debt investments).

The Company also performed a calculation of the expected profit included in future premiums in accordance with Article 260(2) of the Delegated Regulation (EU) 2015/35. The amount of expected profit in future premiums as at 31 December 2018 is EUR 57,053 thousand.

C.5 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, personnel or systems, or from external events.

The Solvency Capital Requirement attribution of Operational risk as at 31 December 2018 is EUR 1,459 thousand. The capital requirement for operational risk is calculated based on a linear formula and is therefore not risk-sensitive. This means that the greater the volume of business (in terms of earned premiums and technical provisions held), the greater the company's operational risk.

The Company regularly monitors and assesses its operational risk by running a Loss event record in conjunction with a detailed Inventory of business processes and the Risk register. The Loss event record is a register of operational risk event realisation and includes such elements as the date and description of the event, the process in which it occurred, the reason, its impact, prompt actions, controls and responsibilities. It serves as the basis for potential amendments of the Inventory of business processes, update of the Risk register and Risk Management reporting.

The Company manages its operational risk by maintaining a strong system of internal controls, governance rules and procedures, by providing effective Business Continuity Management, and by embedding risk awareness and culture of learning out of mistakes.

C.6 Other material risks

Other material risks to which the Company is exposed include Reputational risk and various risks mainly driven by the external environment.

Reputational risk is the risk of a decline in company's revenue or its shareholder value due to a general loss of confidence in the company. The Company is exposed to certain risks that imply a potential loss of reputation – compliance risk in the area of legal proceedings on client complaints, media relations and marketing campaigns, misleading sales as well as operational risk in insurance contract processing, due noticing and payment obligation crediting. The Company endeavours to monitor and manage these risks within the framework of the Risk Management System and the Internal Control System by tracking and analysing client complaints, timely execution of internal audit and compliance recommendations and by prioritizing regulatory compliance.

Other risks identified include risk of change or termination of the Insurance distribution agreement by key intermediary, risk of change or termination of the IT services agreement, risk of failure to ensure continuity in operation of IT infrastructure and software, risk of inadequate extent or composition of own funds due to unfavourable market conditions, risk of insufficient provision of own funds by shareholders and the risk of Key personnel substitution. The Company has controls or measures in place to manage these risks, all recorded within the Risk register.

C.7 Any other information

C.7.1 Prudent person principle

a) Investment risk management

The Company's investment activity does not depend solely on the information provided by third persons such as financial institutions, asset managers and rating agencies. To this end, it has established its own key indicators of risks in accordance with the Policy on investment risk management and assets and liabilities management:

- Basis point value (BPV);
- Alignment of the average duration of interest-sensitive assets and liabilities;
- Interest margin for the costs and profit; and
- Open currency position.

The Company has direct or indirect access to data and information of various independent providers (e.g. Bloomberg, NLB Skladi, KBC, etc.).

Within the scope of implementing the investment activity, the Company also takes into account the inherent risks of investments and not merely the risks included in the (model) capital requirement. The examples of such risks taken into account by the Company are:

- Government securities credit risk,
- Subordinated securities credit risk,
- Government securities market risk concentration,
- Subordinated securities market risk concentration,
- Market risk concentration at the level of industry exposure,
- Market risk concentration at the level of geographic exposure, and
- Liquidity risk at the level of the securities markets and at the level of individual securities issues.

b) Assessment of non-routine investment activities

Within the scope of the ALCO Committee, the Company assesses each non-routine investment or investment activity prior to its implementation. At least the following is assessed:

- Method of implementation (own implementation or implementation within the framework of the mandate granted to the outsourced asset manager)
- Market, credit and liquidity risk arising from the potential investment and the incremental impact on the risk of the entire portfolio of financial investments
- Alignment of the characteristics of an investment with the obligations arising from insurance contracts (currency alignment, cash flow alignment, achievement of the required yield, asset localization)
- Capital requirement arising from a potential investment and the incremental impact on the total capital requirement

In addition to the directors and heads of departments, the risk management function holder and the Management Board of the Company are also members of the ALCO Committee. The risk management function holder acts as an independent adviser without voting rights in the process of adopting decisions. The Committee adopts its decisions unanimously; if there is no unanimous agreement, the vote cast by the Management Board is decisive.

c) Unit-linked contracts and index-linked contracts

The Company only places the funds from the Register of unit-linked assets in the investments to which the rights of the insurers under the insurance contracts[15] are linked. The technical provisions related to these rights must be as closely related to these investments as possible.

d) Assets not admitted to trading on the regulated financial market

The Company only places assets in the instruments listed on the regulated markets, whose risks can be defined, measured, monitored, reported and, if necessary, taken into account in the assessment of its overall solvency needs[16].

e) Derivative financial instruments

The Company does not use derivatives.

f) Securitized instruments

The Company does not place assets in securitized instruments.

C.7.2 Risk concentration

The Company regularly monitors, assesses and limits risk concentration within the insurance liability portfolio and the investment portfolio.

The risk concentration scope within the insurance liability portfolio includes concentration of sums at risk per insured person for:

- Death cover
- Accident cover

The risk concentration scope within the investment portfolio includes concentration by:

- Asset class
- Credit rating
- Currency
- Country and geographical region
- Issuer sector
- Issuer

C.7.3 Risk mitigation techniques

The Company utilizes Reinsurance and Asset-Liability Management to transfer or mitigate some of the risks it is exposed to.

[15] To regulate the short-term liquidity, the assets can exceptionally be placed in bank deposits
[16] Bank deposits not traded on the regulated financial market are an exception

a) Reinsurance

Reinsurance is a risk mitigation technique, where a total or partial exposure to an individual insured person is shared with a reinsurance company. The Company reinsures following covers:

- Natural death;
- Accidental death;
- Total and partial permanent disability due to an accident;
- Critical illness;
- Hospital allowance due to an accident;
- Daily allowance due to an accident;
- Bone fracture;
- Accident annuity;
- Traumatic events de to an accident;
- Funeral costs;
- Death due to accident;
- Allowance for recovery after injuries;
- Allowance for physiotherapy.

The Company monitors the effectiveness of reinsurance by measuring the suitability of self-retention limits and assessing the optimum self-retention limit. The company also monitors the suitability of self-retention limits and maksimum exposure towards insured persons in the case of excess of loss reinsurance. The methodology for the optimum self-retention limit assessment as well as the results are described in the document Reinsurance Programme, which is annually reported to Insurance Supervision Agency.

The Company also recognises Credit risk or Counterparty Default risk arising from the concluded reinsurance contracts, which it mitigates through conditions for the selection of reinsurance company. The credit rating of the reinsurance company must be at least A- or A3, according to the “Second best” principle.

The Risk Management Department of the Company regularly monitors and reports the credit ratings of reinsurance companies on a quarterly basis as part of the Risk Management Report. Reporting on reinsurance management is part of the Risk Management Report once per year.

b) Asset-Liability Management

Asset-Liability Management (or ALM) is a technique used to mitigate Interest rate risk and Liquidity risk[17]. It involves matching of cash flows from assets and liabilities, in terms of maturity and size. It is performed within the investment process where individual financial instruments that provide the ability to match the liabilities cash flows are selected (Liability-driven investment). Supplemental to cash flow matching, the Company also sets and monitors an internal limit on mismatch in average duration of interest rate sensitive assets and liabilities.

The Company regularly monitors the effectiveness of Asset-Liability Management by performing Stress testing and Sensitivity analysis.

[17] Described in Chapter C.2 (Market risk) and C.4 (Liquidity risk)

C.7.4 Stress testing and Sensitivity analysis

The Company regularly performs stress testing and sensitivity analysis within its Own Risk and Solvency Assessment process.

a) Stress testing

The latest iteration of stress testing was performed in the projection of solvency position for the planning period of 2019-2021. The stress scenario represents an adverse evolution of the macroeconomic environment, which subsequently reflects in the evolution of the Company's insurance liability portfolio and investment portfolio. This has a negative revaluation effect on the Company's balance sheet (Available own funds) and thus on its solvency position.

The stress scenario assumes the global and EU economy entering into a recession because of:

- Emerging markets crisis (combination of political crisis in Brazil, hard landing scenario for China, Turkey situation further escalating)
- Turning of the economic growth cycle in the US
- Specifically for EU:
    - Trade war outcome negatively affecting Europe's car industry
    - Brexit chaos in 2019
    - Italian budgetary tensions resurfacing in such a way that public and private debt sustainability concerns re-affect financial markets

These events are further reflected in following macroeconomic factors and their predicted impact on Company's operations:

- Iinflation remains negligible
- Yields on safer government bonds and higher quality corporate bonds decline, which results in a reduction of the revaluation surplus;
- Economic growth turns negative, which is reflected in lower premium written and increase in surrender rates of selected insurance products;
- In line with the negative economic growth, unemployment rises, which is reflected in lower premium written and increase in surrender rates of selected insurance products;
- Low inflation, reduced liquidity and deteriorated economic outlook lead to a rise of risk premium on lower quality bonds and a decline of equity and real estate prices, which is reflected in a decline in revaluation surplus and increase in yields.

The results of the stress test indicate that even in case all the assumptions of the Alternative scenario were to realize, the Company would not exceed the limit derived from its Risk Appetite statement over the projection period.

b) Sensitivity analysis

The latest iteration of sensitivity analysis was performed in the calculation of Company's solvency position as at 30/6/2018. The analysis gives insight on the sensitivity of Available own funds, Solvency Capital Requirement and the resulting Solvency coverage ratio to individual changes in key market, credit and underwriting risks. The Company also performs a sensitivity analysis of Technical provisions and Available own funds to assumptions considered in the extrapolation of risk-free interest rate curve.

Table 14: Sensitivity Analysis parameters

Key risk or assumption	Change
Interest rate risk	Parallel shift in the risk-free term structure by +/- 100 bps
Spread risk	Spread widening; • AAA-A rated corporate bonds by 100 bps • BBB or lower rated corporate bonds by 200 bps • Sovereign bonds by 100 bps
Equity risk	Decrease in all equity exposure prices by 40%
Credit downgrade risk	Credit rating downgrade on all bonds by one notch
Mortality risk	Change in mortality rates for all insurance products, except for NLB Vita Tujina, Collective accident insurance of employees and Collective accident insurance of managers, in accordance with the NLB Vita portfolio rates
Ultimate Forward Rate[18]	Decrease of Ultimate Forward Rate from 4.05% to 3.60%

The results of the sensitivity analysis imply that the biggest impact on the Company's solvency position arises from shock associated with the credit quality of investment portfolio – Spread risk. By applying this shock, the Solvency coverage ratio potentially decreases by 58 percentage points, relative to unshocked position as at 30/6/2018.

A significant impact on the Company's solvency position also arises from interest rate risk shock. Since some insurance liabilities have embedded interest rate guarantees, a downward shock to the risk-free term structure potentially causes the Solvency coverage ratio to decrease by 20 percentage points, relative to unshocked position as at 30/6/2018.

In terms of its potential impact on the Company's solvency position, all other sensitivities prove less significant.

[18] UFR

D.Valuation for solvency purposes

D.1 Assets

The Company compiles the financial statements according to the International Financial Reporting Standards (IFRS) and reclassifies or revaluates the balance sheet items and the income statement according to the principles of Solvency II. The main quantitative and qualitative differences between the valuation for the purpose of the financial statements and the valuation for solvency purposes are shown below and stem solely from revaluation.

Table 15: Comparison of the value of assets for the purposes of the financial statements and solvency purposes as at 31 December 2018 (EUR thousand)

	IFRS value	**SII value**	**Difference (SII-IFRS)**		
			Reclass	**Reval**	**Total**
Intangible assets	448	0		-448	-448
Property, plant & equipment held for own use	198	0		-198	-198
Investments	335,889	340,068		4,179	4,179
Equities	18,165	18,165			
Bonds	310,046	314,225		4,179	4,179
Government bonds	120,589	124,457		3,868	3,868
Corporate bonds	189,458	189,768		311	311
Collective Investments Undertakings	1,720	1,720			
Deposits other than cash equivalents	5,958	5,958			
Assets held for index-linked and unit-linked contracts	119,416	119,416			
Reinsurance recoverables from:	1,047	-475		-1,522	-1,522
Non-life and health similar to non-life	441	481		40	40
Life and health similar to life, excluding health and index-linked and unit-linked	575	-941		-1,516	-1,516
Life index-linked and unit-linked	30	-15		-46	-46
Insurance and intermediaries receivables	323	323			
Reinsurance receivables	57	57			
Receivables (trade, not insurance)	203	203			
Cash and cash equivalents	35	35			
Any other assets, not elsewhere shown	312	312			
Total assets	**457,929**	**459,939**		**2,010**	**2,010**

a) Intangible assests

For the purpose of financial statements, intangible assets are initially recognized at cost, consisting of the purchase price and the dependent costs of purchase. Intangible fixed assets are afterwards evaluated at cost reduced by the accrued straight-line amortization. Amortization begins when an intangible asset is available for use. The amortization of intangible assets is calculated individually, by applying the straight-line amortization method. Assets excluded in the current year are amortized for the period until exclusion. Calculation of depreciation is based on the acquisition value.

The Company at least annually reviews the value of its intangible assets in order to establish the existence and the amount of impairment. If the carrying amount of an asset exceeds its estimated recoverable amount, i.e. the value in use, it is written down to the recoverable amount against operating expenses.

For the solvency purposes, intangible assets are revaluated to zero. It is namely not possible to separately dispose of intangible assets and there is no value available for the same or similar assets that would be derived on the basis of the published market prices on the active markets. The revaluation difference was EUR -448 thousand as at 31 December 2018.

b) Property, plant & equipment held for own use

Property, plant and equipment for own use[19] are posted at their acquisition cost reduced by the accrued straight-line depreciation. Upon initial recognition, they are evaluated at cost, which consists of the purchase price, taxes, exchange rate differences, direct costs of acquisition and costs related to the decomposition and removal of the asset.

They are amortized as of the day on which the asset is available for its planned use. The items of property, plant and equipment are amortized separately, using the straight-line amortization method, and the amortization rate is determined on the basis of the assessed useful life of each group of assets. Assets excluded in the current year are amortized for the period until exclusion. Calculation of depreciation is based on the acquisition value.

The Company at least annually reviews the value of its property, plant and equipment in order to establish the existence and the amount of impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the lower extent of their fair value less the costs to sell, or the value in use.

In the case of major investments in equipment that either increase the future benefits or extend the useful life of an item of property, plant and equipment, such investments increase the cost of the item. The Company regularly checks the useful life of property, plant and equipment.

Finance leases as assets and liabilities are recognized in the balance sheets of the Company at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The amortization of a leased item is aligned with the amortization of other similar items of property, plant and equipment owned by the Company.

For valuation purposes of property, plant and equipment held for own use, the Company does not employ accredited valuation expertise. It therefore prudently revaluates these assets to zero for the solvency purposes. The revaluation difference was EUR -198 thousand as at 31 December 2018.

c) Investments

Shares, bonds and stakes in investment funds are recognized on the date of trading and are initially measured at fair price which equals the paid amount of money. Indirect costs of brokers arising from the purchase of securities increase the value of investment. An asset is derecognized when the contractual rights to the cash flows from the asset expire or the asset is transferred and transfer qualifies for derecognition. This happens when the company transfers the risks and the yields related to the ownership of the instrument to another legal or natural person. The derecognition is recorded on the date of trading or the date of expiry of the rights. The Company applies the FIFO method to the reduction of stocks upon the sale of a security.

Based on the purpose of acquisition, the Company initialy classifies shares and investment funds into the category of assets available for sale[20] and bonds in either the category of assets available for sale or assets held to maturity[21]. Upon initial recognition, the assets available for sale are again measured at fair value, using the published (i.e. market) price on the active market of securities as at the balance sheet day or the evaluation date[22]. Assets held to maturity are disclosed at amortized cost according to the effective interest rate method decreased by potential impairments. The same method is used for deposits (with banks) which are classified as loans not traded on the active market.

---

[19] The property, plant and equipment of the Company comprise investments in foreign fixed assets, computer equipment, office furniture and other equipment, and equipment in financial lease. The Company uses these assets for performing its activity.
[20] Financial assets available for sale are those intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or prices.
[21] Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity which the Company definitely intends and is able to hold to maturity.
[22] Market prices are provided by the outsourced provider NLB Skladi or NLB Custody.

For the purpose of solvency, the Company does not revaluate the investments in shares, investment funds and bonds available for sale. Bonds held to maturity are revaluated to the fair (market) value; the difference from revaluation as at 31 December 2018 was EUR 4,179 thousand. As at 31 December 2018, NLB Vita only disclosed short-term deposits with NLB d.d. and Unicredit Banka Slovenije d.d. placed according to the arm's length principle and reflecting the current money market situation. Furthermore, the Company estimates that the risk of meeting its liabilities to the banks is minimum because of the high capital adequacy of both banks and the currently valid system measures of the ECB. Consequently, the Company assumes that the amortized or book value of deposits (with banks) equals their fair value, which is why they are not revaluated[23].

d) Assets held for index-linked and unit-linked contracts

Retained assets for unit-linked assets (hereinafter: unit-linked assets) are invested in investment fund units which represent the major part of investments in the Register of unit-linked assets and to which the entitlements of the insured arising from the insurance contracts are linked. Upon initial recognition, such assets are again measured and disclosed at fair value, using the published (i.e. market) price on the active market of securities as fair value.

The Company does not revaluate the unit-linked assets for the purpose of solvency.

e) Reinsurance recoverables

For the purpose of financial statements, the Company also discloses among its assets the amount of technical provisions transferred to reinsurers. This is the actual or assessed amount that represents the share of re-insurers in the obligations arising from the insurance contracts (technical provisions). It is calculated on the basis of the provisions of the reinsurance contracts and the basis for the calculation is the liabilities from insurance contracts. At the end of the year the need for impairing these assets is checked.

For the purpose of solvency, the Company disclosed the recoverable amounts for reinsurance, calculated as the present value of future expected cash flows arising from the signed reinsurance contracts. In view of the application of a considerably different evaluation methodology, the items of the amount of technical provisions transferred to the reinsurers and the recoverable amounts of reinsurance are not directly comparable. The value difference between them was EUR -1,522 thousand as at 31 December 2018.

f) Receivables

Upon initial recognition, receivables are disclosed at fair value, i.e. at invoiced or accounted amounts. After initial recognition, receivables are stated at the amortized cost. If there is objective evidence that an impairment loss has been incurred on an item of receivables carried at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount of that item of receivables and the present value of the estimated future cash flows discounted at its effective interest rate.

The Company estimated that the book value of the receivables corresponds to the market value, which is why the receivables are not revaluated.

[23] Except when there are clear indications of financial difficulties of the issuer banks, due to which they might be unable to settle their obligations.

g) Cash and cash equivalents

The item cash and cash equivalents comprised the assets on the Company's own accounts with the banks, free cash assets on the transaction account with the external manager of financial investments and call deposits that can be immediately converted into cash. Cash and cash equivalents are measured at nominal value.

The Company estimates that the risk of meeting its liabilities to the bank is minimum because of the high capital adequacy of both banks and the currently valid system measures of the ECB. Consequently, the Company assumes that the amortized or book value of cash assets equals their fair value, which is why they are not revaluated.

h) Other assets

Other assets include short-term deferred costs or expenses and accrued revenues. They are measured on the basis of the contractual amounts or amounts supported by appropriate documents.

The Company estimated that the book value of the other assets corresponds to the market value, which is why this item is not revaluated.

D.2 Technical provisions

D.2.1 Valuation of Technical provisions

The Technical provisions represent the amount the Company would have to pay if it would need to transfer its insurance obligations immediately to another company.

The Company calculated the Technical provisions as sum of Best estimate of liabilities and Risk margin.

a) Best estimate

Best estimate is calculated as probability weighted present value of future cash flows arising from insurance contracts. It is calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The time value of cash flows is calculated using a relevant risk-free interest rate term structure.

In future cash flows all cash in- and out-flows required to settle future insurance obligations are considered:

- Premium,
- Commission,
- Expenses (maintainance expenses, aquisition expenses, direct debit expenses, management fees and claim management expenses),
- Claim benefit payments,
- Surrender and maturity payments,
- Exit fees in case of surrender,
- Guarantees,
- Profit sharing.

Investments returns are not included in the cash flow projection. In addition, inflation is taken into account in the calculaton of best estimate, including the inflation of cost and indexation.

In the cash flow projection, the following cash flow characteristics are considered:

- Uncertainty in timing, frequency and severity of claim events,
- Uncertainty in the claim amounts and in the period needed to settle and pay claims,
- Uncertainty in the amount of expenses,
- Uncertainty in policyholder behaviour,
- Interdependency between two or more causes of uncertainty,
- Cash flow dependence on circumstances existing before the cash flow date.

For life insurance products, for majority of medical expense insurance products and income protection insurance products the best estimate is calculated on policy level using a cash flow model. The probability weighted present values of future cash flows on policy level are then aggregated in groups of products with similar cash flow structure. Additionally, the value of claims provision for reported but not settled claims and the fund value for unit-linked products on 31 December 2018 are added.

Results of the cash flow projections are based on the portfolio as at 31 December 2018, including contracts that were signed until 31 December 2018 but have the initial recognition date in the following year, and assumptions based on adequate, applicable and relevant actuarial and statistic methods. The assumptions were formed according to the Rules on methodology and key assumptions in modeling liabilities.

b) Risk margin

For the calculation of the risk margin the Company uses Method 2 (Article 58 (a) of the Delegated Acts EU 2015/35 and Guideline 62 (1.113) in the Guidelines on valuation of technical provisions (EIOPA-BoS-14/166)). In case of index-linked and unit-linked insurance the fund value is excluded from the net best estimate used for the risk margin calculation, but the management fees for funds are taken into account.

D.2.2 Description of level of uncertainty associated with the value of Technical provisions

The major uncertainty in the calculation of Technical provisions steems from the assumptions used. The amount of Technical provisions is most sensitive to changes in the risk-free interest rate term structure and changes in the assumptions regarding expenses and mortality rates.

The Company performed a sensitivity analysis of technical provisions to changes in the risk-free interest rate term structure and mortality rates as at 30 June 2018. The results are presented in the table below.

Table 16: Sensitivity analysis of Technical provisions as at 30 June 2018 (EUR thousand)

Scenario description	Change in Technical provison
Changes in the risk-free rate curve for +100 bps	-17,502
Changes in the risk-free rate curve for -100 bps	21,074
Changes of the ultimate forward rate from 4.05 % to 3.60 %	60
Change in mortality rates for all insurance products, except for NLB Vita Tujina, Collective accident insurance of employees and Collective accident insurance of managers, in accordance with the NLB Vita portfolio rates	-5,141

D.2.3 Differences between IFRS and Solvency II valuation

Table 17: Comparison of Technical provisions valued according to SII principles and IFRS as at 31 December 2018 (EUR thousand)

	IFRS value	SII value	Difference (SII-MSRP)		
			Reclass	Reval	Total
Health insurance (similar to non-life)	3,275	3,384		109	109
Best estimate		2,186			
Risk margin		1,198			
Life insurance (excluding index-linked and unit-linked)	269,392	133,295	-131,388	-4,708	-136,097
Best estimate		127,947			
Risk margin		5,348			
Index-linked and unit-linked insurance	119,739	243,902	131,388	-7,225	124,163
Best estimate		240,487			
Risk margin		3,415			
Total technical provisions	**392,405**	**380,582**		**-11,824**	**-11,824**

The difference between Technical provisions valued according to SII principles and valued according to IFRS at 31 December 2018 is EUR -11,824 thousand.

The difference in case of Technical provisions for life insurance (excluding index-linked and unit-linked) and index-linked and unit-linked insurance is partly the consequence of the fact that the provisions for the minimum guaranteed payment of EUR 131,058 thousand were included in technical provisions for life insurance (excluding index-linked and unit-linked) under IFRS, but the whole technical provisions for those products were included in technical provisions for index-linked and unit-linked insurance under SII. Part of the difference for life insurance (excluding index-linked and unit-linked) and index-linked and unit-linked insurance also arise from the fact that claims provision and unearned premium reserve of unit-linked and index-linked insurance (330 thousand) were included in technical provisions for life insurance (excluding index-linked and unit-linked) under IFRS. Other differences arise from different methodologies of valuation of technical provisions.

The Company does not apply any matching adjustment to the relevant risk-free interest rate term structure (Article 77b Directive 2009/138/EC), volatility adjustment to the relevant risk-free interest rate term structure (Article 77d Directive 2009/138/ES), transitional measure on the risk-free interest rates (Article 308c Directive 2009/138/ES) or transitional measure on technical provisions (Article 308d Directive 2009/138/ES).

D.2.4 Information about Recoverables from reinsurance contracts

Adjusted reinsurance recoverables are calculated as the difference between the present value of expected cash flows arising from existing reinsurance contracts and expected losses due to counterparty default.

Expected losses due to counterparty default at time t are calculated as:

$$CDL(t) = -(1 - RR) \cdot CFR(t) \cdot PD_t \ ,$$

where $CFR(t)$denotes the present and future undiscounted expected cash flows arising from reinsurance contracts, RR the recovery rate and PD_t the probability of default at time t. The probability of counterparty default is estimated as 0.01%.

D.2.5 Material changes in the assumptions

Compared to previous reporting period there were changes in mortality rates affecting all insurance products, with an exception of NLB Vita Tujina, Collective accident insurance for employees and Collective accident insurance for managers, in accordance with the NLB Vita portfolio rates.

D.3 Other liabilities

Table 18: Comparison of the value of liabilities for the purposes of the financial statements and solvency purposes as at 31 December 2018 (EUR thousand)

	IFRS value	SII value	Difference (SII-IFRS)		
			Reclass	Reval	Total
Provisions other than technical provisions	234	234			
Deferred tax liabilities	2,027	4,684		2,657	2,657
Insurance & intermediaries payables	1,802	1,651	-151		-151
Reinsurance payables	151	151			
Payables (trade, not insurance)	1,503	1,503			
Total other liabilities	**5,717**	**8,223**	**-151**	**2,657**	**2,506**

a) Provisions other than technical provisions

The Company's Provisions other than technical provisions include provisions for employee bonuses, i.e. long-term provisions for jubilee awards and severance pays upon retirement. The present value of liabilities is calculated according to the method of projected unit, taking into account the following assumptions and data:

- The growth in salaries is the result of inflation, longer service period, career advancement and potential legal provisions.
- The EUR swap curve known as at the day of the end of the business year is used for the discount year.
- The current data on the employees of the insurance company (duration of employment, age, gender, average earnings) and the assessment based on recorded data on the employees of the insurance company in the previous years.

Because of the use of market parameters (discount rate), the Company deems that the book value of the provisions and bonuses of the employees corresponds to the market value, which is why the Company does not revaluate other provisions for the purpose of solvency.

b) Deferred tax liabilities

The Item of deferred tax liabilities comprises the net liability, i.e. the difference between deferred tax liabilities and deferred tax assets. The largest item is deferred taxes which are related to assets available for sale valued at fair value (the effect of the change in the fair value of the assets available for sale is shown in the balance sheet under the item of revaluation surplus, which is part of the capital). Smaller amounts are related to the impairment of financial assets, the amortization of assets and provisions for the employees.

For solvency purposes, the Company revaluates the deferred tax liabilities in order to reflect potential tax effect of the difference between SII and IFRS valuations. The revaluation difference was EUR 2,657 thousand as at 31 December 2018.

c) Insurance & intermediaries payables

The item of insurance & intermediaries payables comprises the liabilities for direct insurance business and the liabilities for the assessed tax. The largest part of liabilities arising from direct insurance is the liabilities to the insurers for the amounts of damage compensations (e.g. in the case when the costs of redemptions, sums insured, or matured amounts have already been accounted but not yet paid out on the balance sheet date). The liabilities for the assessed tax represent the difference between the accounted corporate income tax for the current year and the advance payments of such tax, made during the year. Based on the extremely short-term nature of the liabilities, the Company uses their book value as fair value.

Within insurance and intermediaries payables, the Company excludes prepaid premiums (which are otherwise included in Technical Provisions) to avoid double counting. The reclassification difference was EUR -151 thousand as at 31 December 2018.

d) Reinsurance payables

The item of reinsurance payables comprises the liabilities to reinsurance companies arising from reinsurance premiums. It is accrued quarterly based on provisions of the reinsurance contracts.

The Company estimated that the book value of the liabilities arising from reinsurance corresponds to the market value, which is why this item is not revaluated.

e) Payables (trade, not insurance)

The item of payables (trade, not insurance) comprises the liabilities to suppliers, employees, the state and accrued costs and deferred revenues. Based on the extremely short-term nature of the liabilities, the Company uses their book value as fair value.

The Company estimated that the book value of liabilities arising from activity corresponds to the market value, which is why this item is not revaluated.

D.4 Alternative methods for valuation

The Company does not use alternative methods for valuation.

D.5 Any other information

No other material information applicable.

E. Capital Management

E.1 Own funds

E.1.1 Principles of the Own funds management

The principles of own funds management are determined by the Company in the Capital Management Policy of NLB Vita, which defines the key elements of the Company's capital, the procedures for ensuring the target amount of capital and defines the use of the dividend policy.

The primary goal of the Policy is to define the procedures for ensuring the target amount of the capital and the long-term capital adequacy of NLB Vita.

a) Provision of capital adequacy

The target level of capital adequacy is set in the currently applicable document Risk Appetite, which is approved by the Company's Supervisory Board.

In the implementation of the Capital Management Policy, NLB Vita focuses primarily on the result of its Own Risk and Solvency Assessment process and the valid business plan of the Company for the future mid-term period.

In its mid-term planning process, the Company carefully plans the level of capital adequacy through the calculation of SCR and different scenarios by minimizing the necessary capital for the achievement of business goals.

b) Dividend policy

The Company's dividend policy is driven by confirmed Business plan, under which forseeable dividends are projected. Dividend policy is further determined by Company's solvency position as compared against the Risk Appetite Statement.

c) The monitoring of the capital adequacy and tasks

The reporting on the capital adequacy under the Solvency II regulation is an essential part of the quarterly Risk Management Report. The Risk Management Department is in charge of the preparation of the Risk Management Report. The data needed for the calculation of capital adequacy are provided by the Financial Accounting and the Actuary Department, namely within the set deadline following the end of the quarter. The Risk Management Report is discussed by the Risk Committee.

E.1.2 Information about Own funds structure

As at 31 December 2018, the Company holds EUR 68,636 thousand of Available and Eligible own funds to meet its Solvency Capital Requirement and Minimum Capital Requirement. All own funds qualify exclusively as Tier 1 unrestricted, and within which Basic own funds are composed of Ordinary share capital, Share premium account related to ordinary share capital and Reconciliation reserve. The Company does not have any Deductions from Basic own funds nor does it hold Ancillary own funds. Relative to 31 December 2017, there was no change in the structure or quality of own funds. The amount of own funds increased due to higher excess of assets over liabilities.

Table 19: Own funds structure and amount (EUR thousand)

	31/12/2018	31/12/2017	Change
Total basic own funds	68,636	66,390	2,246
Ordinary share capital	7,044	7,044	0
Share premium account	59	59	0
Reconciliation reserve	61,533	59,288	2,246
of which excess of assets over liabilities	71,135	68,457	2,678
of which foreseeable dividends	-2,499	-2,067	-432
of which other basic own fund items	-7,103	-7,103	0
Total available and eligible own funds to meet SCR and MCR	**68,636**	**66,390**	**2,246**

E.1.3 Differences between IFRS and Solvency II valuation

As at 31 December 2018, the Company holds EUR 59,807 thousand of total Equity, as shown in the IFRS financial statements. It is composed of Ordinary share capital, Share premium account and Reconciliation reserve[24].

Table 20: IFRS and Solvency II equity valuation (EUR thousand)

	31/12/2018
Total Solvency II available own funds	68,636
Total IFRS equity	59,807
Difference	**8,829**

The amount of Available own funds according to Solvency II valuation is higher than the amount of Equity according to valuation for IFRS financial statements. The total difference of EUR 8,829 thousand is attributed to balance sheet reclassification and revaluation for solvency purposes (EUR 11,328 thousand) and foreseeable dividend distribution (EUR -2,499 thousand), which is otherwise not considered as a deductible item in Equity valuation for IFRS financial statements.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Detailed depiction of the Solvency Capital Requirement

The Company calculates its Solvency Capital Requirement using the standard formula without any simplifications or undertaking-specific parameters. Transitional measures on calculation of capital requirement for Market risk module are being utilized[25].

Table 21: Solvency Capital Requirement by module (EUR thousand)

	31/12/2018	31/12/2017	Change
Market risk	27,896	33,091	-5,195
Counterparty default risk	89	369	-280
Life underwriting risk	13,307	10,107	3,200
Health underwriting risk	2,736	2,540	196
Diversification	-9,291	-8,235	-1,056
BSCR	**34,737**	**37,872**	**-3,134**
Operational risk	1,459	1,432	28
Adjustment (LAC TP)	0	-2,855	2,855
SCR	**36,197**	**36,448**	**-252**

[24] Reserves from profit, Revaluation surplus and Net profit for the year
[25] Transitional measures pursuant to Article 308b of Directive 2009/138/EC (Items 12. and 13. on calculation of capital requirement for Market concentrations risk, Spread risk and Equity risk sub-modules)

In the period observed, most material changes in the Solvency Capital Requirement occurred for:

- Market risk – a description of changes over the reporting period is included in chapter C.2 (Market risk).
- Life underwriting risk – a description of changes over the reporting period is included in chapter C.1 (Underwriting risk).

As at 31 December 2018, the Ratio of Eligible own funds to SCR equals 190%. The Ratio increased by 8 percentage points over the reporting period.

Table 22: Ratio of Eligible own funds to SCR (EUR thousand and %)

	31/12/2018	31/12/2017	Change
Total eligible own funds to meet SCR	68,636	66,390	2,246
SCR	36,197	36,448	-252
Ratio of eligible own funds to SCR	**190%**	**182%**	**8%.**

E.2.2 Detailed depiction of the Minimum Capital Requirement

The Minimum Capital Requirement (MCR) is calculated according to Article 248 of the Delegated Regulation (EU) 2015/35. Besides life insurance (LoBs 30, 31 and 32) the Company also underwrites Medical expense insurance (LoB 01) and Income protection insurance (LoB 02). Since the gross written premium of the insurance business in LoBs 01 and 02 represents less than 10 % of the total gross written premium, the Company considers as the absolute floor of the MCR (AMCR) only the absolute floor for a life insurance undertaking[26], i.e. EUR 3,700 thousand.

The Linear MCR is calculated according to the Article 249 of the Delegated Regulation (EU) 2015/35 as the sum of the linear formula component for non-life insurance obligations MCR(linear,nl) and the linear formula component for life insurance obligations MCR(linear,l).

The linear formula component for non-life insurance obligations is calculated according to Article 250 of the Delegated Regulation (EU) 2015/35. Its components are presented in the following table.

Table 23: Linear formula component for non-life insurance obligations (EUR thousand)

	31/12/2018	31/12/2017	Change
Medical expense insurance			
$TP_{(nl,s)}$	402	280	122
$P_{(s)}$	802	734	69
Income protection insurance			
$TP_{(nl,s)}$	1,303	732	570
$P_{(s)}$	2,708	2,231	477
MCR(linear,nl)	**457**	**333**	**124**

The linear formula component for non-life insurance obligations increased due to higher new business production in both LoBs.

[26] Article 253(2) of the Delegated Regulation (EU) 2015/35

The linear formula component for life insurance obligations according to Article 251 of the Delegated Regulation (EU) 2015/35. Its components are presented in the following table.

Table 24: Linear formula component for life insurance obligations (EUR thousands)

	31/12/2018	31/12/2017	Change
TP(life,1)	135,583	130,464	5,119
TP(life,2)	8,446	9,989	-1,542
TP(life,3)	240,503	245,149	-4,647
TP(life,4)	0	1,050	-1,050
CAR	1,104,908	1,011,036	93,871
MCR(linear,l)	**7,034**	**6,754**	**281**

The Technical provisions without a risk margin in relation to guaranteed benefits for life insurance obligations with profit participation, after deduction of amounts recoverable from reinsurance contracts (TP(life,1)) increased partly due to portfolio evolution. The value of technical provisions without a risk margin in relation to future discretionary benefits for life insurance obligations with profit participation, after deduction of amounts recoverable from reinsurance contracts (TP(life,2)), decreased, mostly due to portfolio evolution. The Technical provisions without a risk margin for index-linked and unit-linked life insurance obligations, after deduction of amounts recoverable from reinsurance contracts (TP(life,3)) decreased due to new business production with lower overall liability. The Technical provisions without a risk margin for non unit/index-linked life insurance after deduction of amounts recoverable from reinsurance contracts (TP(life,4)) decreased due to a correction in the linear formula component for life activities. The total capital at risk (CAR) increased mostly due to a higher new business production.

The overall MCR equals the MCR floor on both reporting dates. Therefore, the change in its value is attributed to the change in SCR.

Table 25: Minimum Capital Requirement (EUR thousand)

	31/12/2018	31/12/2017	Change
Combined MCR	9,049	9,112	-63
Linear MCR	7,492	7,087	405
MCR(linear,nl)	457	333	124
MCR(linear,l)	7,034	6,754	281
MCR cap	16,288	16,402	-113
MCR floor	9,049	9,112	-63
Absolute floor of the MCR	3,700	3,700	0
MCR	**9,049**	**9,112**	**-63**

As at 31 December 2018, the Ratio of Eligible own funds to MCR is 758%. The Ratio increased by 29 percentage points over the reporting period.

Table 26: Ratio of Eligible own funds to MCR (EUR thousand and %)

	31/12/2018	31/12/2017	Change
Total eligible own funds to meet MCR	68,636	66,390	2,246
MCR	9,049	9,112	-63
Ratio of eligible own funds to MCR	**758%**	**729%**	**29%.**

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The Company does not use the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

E.4 Differences between the standard formula and any internal model used

The Company does not use an internal model in the calculation of the Solvency Capital Requirement.

E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company continuously complied with the Minimum Capital Requirement and the Solvency Capital Requirement over the reporting period.

E.6 Any other information

No other material information applicable.

Appendices: Selected Quantitative Reporting Templates as at 31/12/2018

Appendix 1: Balance sheet (S.02.01.02)

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	0
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	340,068
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	18,165
Equities - listed	**R0110**	18,165
Equities - unlisted	**R0120**	
Bonds	**R0130**	314,225
Government Bonds	**R0140**	124,457
Corporate Bonds	**R0150**	189,768
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	1,720
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	5,958
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	119,416
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	-475
Non-life and health similar to non-life	**R0280**	481
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	481
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	-941
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	-941
Life index-linked and unit-linked	**R0340**	-15
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	323
Reinsurance receivables	**R0370**	57
Receivables (trade, not insurance)	**R0380**	203
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	35
Any other assets, not elsewhere shown	**R0420**	312
Total assets	**R0500**	**459,939**

Liabilities		**Solvency II value**
		C0010
Technical provisions – non-life	**R0510**	3,384
Technical provisions – non-life (excluding health)	**R0520**	0
Technical provisions calculated as a whole	**R0530**	
Best Estimate	**R0540**	
Risk margin	**R0550**	
Technical provisions - health (similar to non-life)	**R0560**	3,384
Technical provisions calculated as a whole	**R0570**	
Best Estimate	**R0580**	2,186
Risk margin	**R0590**	1,198
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	133,295
Technical provisions - health (similar to life)	**R0610**	0
Technical provisions calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	133,295
Technical provisions calculated as a whole	**R0660**	
Best Estimate	**R0670**	127,947
Risk margin	**R0680**	5,348
Technical provisions – index-linked and unit-linked	**R0690**	243,902
Technical provisions calculated as a whole	**R0700**	
Best Estimate	**R0710**	240,487
Risk margin	**R0720**	3,415
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	234
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	4,684
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	1,651
Reinsurance payables	**R0830**	151
Payables (trade, not insurance)	**R0840**	1,503
Subordinated liabilities	**R0850**	
Subordinated liabilities not in Basic Own Funds	**R0860**	
Subordinated liabilities in Basic Own Funds	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	
Total liabilities	**R0900**	**388,804**
Excess of assets over liabilities	**R1000**	**71,135**

Appendix 2: Premiums, claims and expenses by line of business (S.05.01.02)

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Line of Business for: **accepted non-proportional reinsurance**				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**	802	3,004															3,806
Gross - Proportional reinsurance accepted	**R0120**																	
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**		309															309
Net	**R0200**	802	2,695															3,498
Premiums earned																		
Gross - Direct Business	**R0210**	803	2,872															3,675
Gross - Proportional reinsurance accepted	**R0220**																	
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**		309															309
Net	**R0300**	803	2,563															3,367
Claims incurred																		
Gross - Direct Business	**R0310**	201	1,336															1,538
Gross - Proportional reinsurance accepted	**R0320**																	
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**		337															337
Net	**R0400**	201	999															1,201
Changes in other technical provisions																		
Gross - Direct Business	**R0410**	0	0															0
Gross - Proportional reinsurance accepted	**R0420**																	
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers' share	**R0440**																	
Net	**R0500**	0	0															0
Expenses incurred	**R0550**	458	1,333															1,791
Other expenses	**R1200**																	0
Total expenses	**R1300**																	1,791

Confidential

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**		15,167	50,428	7,523					73,119
Reinsurers' share	**R1420**		101	5	231					338
Net	**R1500**		15,066	50,423	7,292					72,781
Premiums earned										
Gross	**R1510**		15,174	50,424	7,506					73,104
Reinsurers' share	**R1520**		101	5	231					338
Net	**R1600**		15,073	50,419	7,275					72,766
Claims incurred										
Gross	**R1610**		8,723	37,497	701					46,921
Reinsurers' share	**R1620**		22	3	90					114
Net	**R1700**		8,701	37,494	611					46,807
Changes in other technical provisions										
Gross	**R1710**		6,222	2,489	1,145					9,856
Reinsurers' share	**R1720**									
Net	**R1800**		6,222	2,489	1,145					9,856
Expenses incurred	**R1900**		1,597	3,651	2,638					7,886
Other expenses	**R2500**									0
Total expenses	**R2600**									7,886

Appendix 3: Life and Health SLT Technical provisions (S.12.01.02)

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0020**																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**	135,251		58,873	181,615		2	-7,305			368,435						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	-332		-15	-0			-609			-956						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	135,583		58,888	181,615		2	-6,696	0	0	369,391		0	0	0	0	0
Risk Margin	**R0100**	2,520	3,415			2,828					8,762						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	**R0110**																
Best estimate	**R0120**																
Risk margin	**R0130**																
Technical provisions - total	**R0200**	137,771	243,902			-4,476			0	0	377,197	0			0	0	0

Appendix 4: Non-life Technical Provisions (S.17.01.02)

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**	**Legal expenses insurance**	**Assistance**	**Miscellaneous financial loss**	**Non-proportional health reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
Technical provisions calculated as a whole	**R0010**																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	**R0060**	200	-647															-447
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**		30															30
Net Best Estimate of Premium Provisions	**R0150**	200	-677	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-478
Claims provisions																		
Gross	**R0160**	203	2,431															2,634
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**		451															451
Net Best Estimate of Claims Provisions	**R0250**	203	1,980	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,183
Total Best estimate - gross	**R0260**	402	1,784															2,186
Total Best estimate - net	**R0270**	402	1,303	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,705
Risk margin	**R0280**	54	1,144															1,198
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	**R0290**																	
Best estimate	**R0300**																	
Risk margin	**R0310**																	
Technical provisions - total																		
Technical provisions - total	**R0320**	456	2,929	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,384
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	0	481	0	0	0	0	0	0	0	0	0	0	0	0	0	0	481
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	456	2,447	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,903

Appendix 5: Non-life insurance claims (S.19.01.21)

Total Non-Life Business

Accident year / Underwriting year	Z0020	1

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +			In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											0		R0100	0	1,099
N-9	R0160	44	76	17	2	0	0	0	0	0	0			R0160	0	139
N-8	R0170	97	106	19	15	8	0	0	0	0				R0170	0	245
N-7	R0180	119	59	90	0	0	9	0	0					R0180	0	278
N-6	R0190	68	36	12	1	0	0	0						R0190	0	117
N-5	R0200	113	57	13	0	0	30							R0200	30	213
N-4	R0210	86	98	55	0	0								R0210	0	239
N-3	R0220	113	80	8	0									R0220	0	201
N-2	R0230	319	203	10										R0230	10	531
N-1	R0240	594	233											R0240	233	827
N	R0250	679												R0250	679	679
													Total	R0260	**952**	**4,568**

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +			Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100													R0100	0
N-9	R0160													R0160	0
N-8	R0170													R0170	0
N-7	R0180													R0180	0
N-6	R0190													R0190	0
N-5	R0200													R0200	0
N-4	R0210					30								R0210	30
N-3	R0220				110									R0220	111
N-2	R0230			369										R0230	370
N-1	R0240		755											R0240	758
N	R0250	1,349												R0250	1,353
													Total	R0260	**2,621**

Appendix 6: Own funds (S.23.01.01)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	7,044	7,044			
Share premium account related to ordinary share capital	**R0030**	59	59			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**					
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	61,533	61,533			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**					
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	68,636	68,636	0	0	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**	0				

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	68,636	68,636	0	0	0
Total available own funds to meet the MCR	**R0510**	68,636	68,636	0	0	
Total eligible own funds to meet the SCR	**R0540**	68,636	68,636	0	0	0
Total eligible own funds to meet the MCR	**R0550**	68,636	68,636	0	0	
SCR	**R0580**	36,197				
MCR	**R0600**	9,049				
Ratio of Eligible own funds to SCR	**R0620**	1,90				
Ratio of Eligible own funds to MCR	**R0640**	7,58				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	71,135	
Own shares (held directly and indirectly)	**R0710**	0	
Foreseeable dividends, distributions and charges	**R0720**	2,499	
Other basic own fund items	**R0730**	7,103	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	61,533	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	53,730	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	3,322	
Total Expected profits included in future premiums (EPIFP)	**R0790**	57,053	

Appendix 7: Solvency Capital Requirement (S.25.01.21)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	27,896		
Counterparty default risk	R0020	89		
Life underwriting risk	R0030	13,307		
Health underwriting risk	R0040	2,736		
Non-life underwriting risk	R0050	0		
Diversification	R0060	-9,291		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	34,737		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	1,459
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	36,197
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	36,197
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	36,197
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix 8: Minimum Capital Requirement (S.28.02.01)

		Non-life activities	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	457	

		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	402	802		
Income protection insurance and proportional reinsurance	R0030	1,303	2,708		
Workers' compensation insurance and proportional reinsurance	R0040				
Motor vehicle liability insurance and proportional reinsurance	R0050				
Other motor insurance and proportional reinsurance	R0060				
Marine, aviation and transport insurance and proportional reinsurance	R0070				
Fire and other damage to property insurance and proportional reinsurance	R0080				
General liability insurance and proportional reinsurance	R0090				
Credit and suretyship insurance and proportional reinsurance	R0100				
Legal expenses insurance and proportional reinsurance	R0110				
Assistance and proportional reinsurance	R0120				
Miscellaneous financial loss insurance and proportional reinsurance	R0130				
Non-proportional health reinsurance	R0140				
Non-proportional casualty reinsurance	R0150				
Non-proportional marine, aviation and transport reinsurance	R0160				
Non-proportional property reinsurance	R0170				

		Non-life activities	Life activities
		$MCR_{(L,NL)}$ Result	$MCR_{(L,L)}$ Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200		7,034

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210			135,583	
Obligations with profit participation - future discretionary benefits	R0220			8,446	
Index-linked and unit-linked insurance obligations	R0230			240,503	
Other life (re)insurance and health (re)insurance obligations	R0240			0	
Total capital at risk for all life (re)insurance obligations	R0250				1,104,908

Overall MCR calculation

		C0130
Linear MCR	R0300	7,492
SCR	R0310	36,197
MCR cap	R0320	16,288
MCR floor	R0330	9,049
Combined MCR	R0340	9,049
Absolute floor of the MCR	R0350	3,700
		C0130
Minimum Capital Requirement	R0400	9,049

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	457	7,034
Notional SCR excluding add-on (annual or latest calculation)	R0510	2,210	33,986
Notional MCR cap	R0520	995	15,294
Notional MCR floor	R0530	553	8,497
Notional Combined MCR	R0540	553	8,497
Absolute floor of the notional MCR	R0550	0	3,700
Notional MCR	R0560	553	8,497

The Audit Committee of NLB Vita d.d. Ljubljana hereby proposes to the Supervisory Board to adopt the following

Resolution 3.4.2

The Supervisory Board acknowledges the Solvency and Financial Condition Report for the financial year 2018 and adopts it.