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Regulation on Establishment of the System of Governance

Issued in accordance with
Section 53, Paragraph six of the
Insurance and Reinsurance Law

1. General Provisions

1. "Regulation on Establishment of the System of Governance" (hereinafter referred to as "the Regulation") lay down detailed criteria and provisions for compliance with the requirements for the system of governance and the elements thereof as provided for in European Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter referred to as "Commission Delegated Regulation 2015/35"), including the assessment of compliance with the fit and proper requirement of persons referred to in Section 58, Paragraph one and Section 61, Paragraph one of the Insurance and Reinsurance Law, risk management, the principle of prudent investing, internal control, the use of outsourced services, and group governance.

2. Sections 1 to 11 of the Regulation are binding on insurance or reinsurance companies as well as on the branches of non-Member State insurers pursuing their activity in accordance with the Insurance and Reinsurance Law (hereinafter referred to as "the company"), in establishing the system of governance at the level of an individual company. The requirements laid down in Sections 1 to 11 of the Regulation shall also apply at group level in accordance with Section 220 of the Insurance and Reinsurance Law. Section 12 of the Regulation on additional requirements for governance at the group level shall also apply to insurance and reinsurance companies, insurance or reinsurance participating companies, insurance holding companies or mixed financial holding companies, which are the parent companies of the group in accordance with Sections 197, 198, and 199 of the Insurance and Reinsurance Law (hereinafter referred to as "the company that is subject to group supervision").

3. Terms Used in the Regulation:

3.1. key functions – the risk management function, the compliance function, the internal audit function, and the actuarial function;

3.2. other terms are used consistently with the use thereof in the Insurance and Reinsurance Law as well as in European Commission Delegated Regulation No. 2015/35.

2. Organisation of the Activities of the Company

4. The company shall ensure the organisation of the activity thereof, including:

4.1. it shall establish a transparent organisation structure that is appropriate for the company's activity;

- 4.2. it shall develop the operational strategy, including for investment management, policies and procedures, as well as the plan for preventing unforeseen circumstances;
- 4.3. it shall carry out an internal review of its system of governance;
- 4.4. it shall ensure the carrying out of transactions and decision-making;
- 4.5. it shall implement an appropriate remuneration policy.

5. The company's supervisory board and management board shall be responsible for establishing an effective system of governance, the activity and improvement thereof in accordance with Chapters VII and VIII of the Insurance and Reinsurance Law as well as Chapter IX of European Commission Delegated Regulation 2015/35.

6. The company's supervisory board and management board shall cooperate with all established committees, heads of the structural units and other persons carrying out key functions in the company, requesting them to provide information and, if necessary, challenging the veracity of the information.

2.1. Organisational Structure

7. For achieving the strategic objectives, the company shall set up a transparent organisational structure that is appropriate for the company's size and activity-related risks, the adequacy of which shall be assessed on a regular basis, however, not less than once a year at the level of an individual company. The organisational structure shall be reviewed as soon as the company's strategic objectives, types of activity or the operational environment changes.

8. The company shall document the organisational structure thereof, laying down the duties, authority, and liability of the company's supervisory board, including the supervisory board's committees, if such have been established, the management board, and the persons who are responsible for carrying out the key functions, the structural units, and the heads of structural units in carrying out and monitoring transactions, by preparing job descriptions (job instructions) for the responsible staff.

9. The company shall prescribe the procedure for internal reporting and exchanging of information within the company, i.e., determine what information should be provided and received by whom and when, as well as what information is confidential and must not be disclosed further.

10. In defining the duties of the staff and assigning authority to them, i.e., imposing limitations on carrying out transactions, the company shall use the duty segregation principle which is demonstrated as the segregation of such duties, which, if combined, would enable an employee to fully carry out any transaction alone.

11. The company shall define and document the company's corporate values, including the establishment of high standards of professional conduct and ethics aimed at ensuring that the members of the company's supervisory board, management board, and the persons responsible for carrying out the principle functions, heads of structural units and other employees of the company carry out their duties with the utmost integrity, fulfil their job duties and that their decision-making is unbiased, they comply with the laws, regulations and standards, respect the confidentiality of transaction and customer information, business secrets, and their actions and conduct are consistent with high ethical standards. In setting high standards of professional action and ethics, the company shall ensure that they should

address corruption, insider trading of information, and any other unlawful, unethical or doubtful act.

12. In carrying out its activities, the company shall be operationally independent, ensuring that the duties of the persons who are responsible for carrying out the key functions are mutually segregated, and these persons can report the results of the review as well as other considerations, including the provision of proposals directly to the company's supervisory board and management board.

13. The mutual segregation of key functions *per se* does not ensure operational independence. Other measures are also necessary for ensuring it. The company shall assess and document the need to take additional measures for ensuring operational independence and the independence of the key functions.

14. The company's supervisory board and management board shall not lower the significance of the reports received from the persons responsible for the key functions.

2.2. Policies

15. The company shall ensure that all the policies developed for the functioning of the system of governance are mutually coordinated as well as consistent with the company's operational strategy. As a minimum, each policy shall clearly set forth the following information:

- 15.1. the set objectives;
- 15.2. the tasks to be carried out and the person or structural unit responsible for the carrying out thereof;
- 15.3. the description of processes and the reporting procedure;
- 15.4. the duty of the relevant organisational structural units to notify the persons responsible for carrying out the company's key functions, as well as all the facts relating to the carrying out the duties thereof.

16. The company shall ensure that the policies related to the key functions provide for the place thereof in the company's structure as well as for the rights and authorisation of the persons responsible for the said key functions.

17. The company may combine policies at its own discretion consistently with the organisational structure and processes thereof.

18. The company shall ensure the development, implementation and permanent maintaining of the remuneration policy in accordance with the principles set forth in Article 275 of European Commission Delegated Regulation 2015/35. Furthermore, the company shall ensure that the remuneration policy is consistent with the following principles:

- 18.1. it does not promote the taking of risks above the specified risk-taking level;
- 18.2. it does not limit the company's ability to strengthen its own funds.

19. If the company sets up a remuneration committee, it shall ensure that the members thereof have relevant experience and knowledge enabling them to carry out an independent assessment and supervision of the remuneration policy. If no remuneration committee has been set up, the duties thereof shall be carried out by the company's supervisory board in full membership.

2.3. Plans for the Prevention of Unforeseen Circumstances

20. Pursuant to Article 258 (3) of European Commission Delegated Regulation 2015/35, the company shall identify and assess, on a regular basis, any such significant risks for the management of which plans for preventing unforeseen circumstances in the areas where it is unprotected need to be developed, as well as review, update and assess the efficiency of these plans on a regular basis.

21. The company shall review the plans for assessing unforeseen circumstances and assess the measures contained therein for appropriateness in cases, should unforeseen circumstances occur.

22. The company shall ensure that the staff is informed and aware of their role in preventing unforeseen circumstances.

2.4. Internal Review of the System of Governance

23. The internal reviewing of the system of governance shall cover the overall assessment of the system of governance, as well as enhanced assessment of major areas of activity, providing recommendations for the improvement of the system of governance and the areas thereof. The company shall set forth the extent and regularity of the review, taking into consideration the types of the company's activity, the extent thereof, and the complexity of the risks inherent to the activity at group and individual levels, as well as the group's structure.

24. The company shall ensure that the areas of activity to be assessed, findings, and conclusions are documented. The results of the assessment shall be presented to the company's supervisory board, which is responsible for final decision-making, documenting the decisions made by it regarding the elimination of the identified deficiencies and implementation of the recommendations. The company's supervisory board shall prescribe the procedure for reviewing the implementation of the recommendations. To ensure that the measures aimed to implement the recommendations are taken and documented, the company, i.e., the responsible staff shall report on the implementation measures as well as provide adequate feedback.

2.5. Transactions and Decision-Making Processes

25. The company shall develop and document the procedures for carrying out and monitoring of the transactions by major types of activity. In order to ensure that the transaction is consistent with the company's policies and statutory requirements, the procedures shall include, as a minimum, the procedure for authorising the person carrying out the transaction, including specifying the documents that need to be prepared in the decision-making process up to the time that carrying out of the transaction is approved, the staff in charge of approving of the relevant decision, as well as the procedure for processing and monitoring the transaction.

26. The company shall ensure that none of the company's major decisions affecting the company's strategy, operation and management that may have serious legal consequences and affect compliance with the regulatory requirements, which have a major effect on the company's financial position or the interests of the staff or policyholders, or which may affect the company's reputation, shall not be made by one person.

27. The company shall ensure the documenting of the decisions of the supervisory board and management board as well as that the information received from the risk management system is considered when making decisions that are significant for the company's activity.

2.6. Disclosure of Information and Reporting

28. The company shall develop the policy for disclosing information that subject to the requirements laid down in Paragraphs 15, 16, and 143 hereof, additionally provide for:

28.1. the persons and functions responsible for preparing and reviewing of the information to be disclosed publicly;

28.2. the description of the process prescribing the procedure for compliance with the requirements for ensuring the disclosure of information;

28.3. the description of the process prescribing the procedure for the company's supervisory board and management board to review and approve reports concerning the solvency and financial position of the insurance and reinsurance company;

28.4. the publicly available information that given its nature and extent is equivalent to the information related to the reports on the solvency and financial position of the insurance or reinsurance company or the list of criteria thereof;

28.5. such specific information or criteria for the identification thereof which according to the categories referred to in Paragraph 14 of the Financial and Capital Market Commission (hereinafter referred to as "the Commission") Regulation No. 128 "Regulation on the Preparation of the Report on the Solvency and Financial Position of the Insurance and Reinsurance Company" of 12 August 2015, the company does not intend to make public after receipt of the relevant permission of the Commission;

28.6. further information or clarification concerning the solvency and financial position disclosed by the company voluntarily.

29. The company shall not assume any such contractual obligations which require the respecting of secrecy and confidentiality concerning such information, which must be included in reports on the solvency and financial position of insurance and reinsurance companies.

30. The company shall ensure that the policy for preparing the reports to be provided to the Commission, subject to the requirements laid down in Paragraphs 15, 16, and 143 hereof, additionally lays down:

30.1. the persons and functions responsible for the preparation and review of reports;

30.2. the description of the processes and deadlines that are necessary for ensuring the preparation of the reports to be provided to the Commission, carrying out and approving of quality assessments;

30.3. the explanation of the processes and the control mechanism that provides the reliability, completeness, and consistency of the provided data.

3. Risk Management

31. The company shall develop a risk management policy and procedures aimed at identifying, assessing, monitoring and managing the existing or likely risks in the following areas as a minimum:

31.1. risk underwriting and creation of technical provisions;

- 31.2. management of assets and liabilities;
- 31.3. management of investment risk;
- 31.4. management of liquidity risk;
- 31.5. management of operational risk;
- 31.6. risk-mitigating methods.

32. The company's management board shall be responsible for the efficient functioning of the risk management system.

3.1. Risk Management Policy and Procedures

33. In developing, documenting and implementing the risk management policy mentioned in Article 259 (1) (c) of European Commission Delegated Regulation 2015/35 and ensuring adequate control procedures, the company shall:

33.1. determine the categories of the company's major risks and risk measurement methods for the risks that can be measured quantitatively, e.g., the insured risk, credit risk, market risk, operational risk, as well as the risk assessment methods for the risks that may not be measured qualitatively, e.g., reputation risk, the risks resulting from strategic decisions made by the company, as well as the regularity of measuring and assessing certain risks;

33.2. describe how the company manages each individual major risk category and risk area, and the mutual interaction of any potential risks;

33.3. prescribe risk monitoring procedures, including the permitted risk levels in all major risk categories consistently with the risk levels that the company is willing to take, as well as the risk hedging methods aimed at mitigating the risks that cannot be measured quantitatively;

33.4. describe the relation of the risks to the assessment of the general solvency requirement pursuant to the risk and solvency self-assessment, own capital requirements laid down in the legislation of the Republic of Latvia and the European Union, and the permitted risk levels approved by the company;

33.5. describe the regularity and content of carrying out stress tests as well as the cases warranting the carrying out of extraordinary stress tests;

33.6. prescribe the procedure under which the company's supervisory board, management board, the person responsible for the risk management function, and the heads of structural units receive, on a regular basis, the information about the major risks inherent to the company's activity, the extent and trends thereof, as well as the information necessary for other decision-making;

33.7. prescribe the division of duties, authorisation, and liability in managing risks between the structural units.

34. In identifying, measuring, assessing, and monitoring the major risks inherent to the company's activity, the company shall apply appropriate analytical methods that are adequate for the nature of its activity and complexity, including stress testing used by the company to assess major risks as well as the mutual interaction thereof. The company shall document and review, on a regular basis, the choice of the analytical methods to be used, as well as the assumptions and estimates used therein. In assessing risks, the company must not excessively rely on quantitative methods, and the measurement of quantitative risks shall always be supplemented by the qualitative assessment.

35. The company shall review, on a regular basis, however not less than once a year, and improve risk identification and management policies and procedures consistently with the changes to the company's activity and external circumstances affecting the company's

activity. The company shall assess its activity for consistency with the provisions of risk identification and management policies and procedures, the adequacy and efficiency of these policies and procedures, as well as the appropriateness and efficiency of the measures taken by the company aimed at eliminating the deficiencies identified in the said policies and procedures.

3.2. Underwriting of Risks and Creation of Technical Provisions

36. In addition to the provisions laid down in Article 260 (1) (a) of European Commission Delegated Regulation 2015/35, the company shall at least lay down the following in its risk management policy regarding risk underwriting and the creation of technical provisions:

36.1. the types of insurance activity and the description thereof, the insured risks that the company is willing to assume;

36.2. the measures to be taken to ensure the adequacy of the insurance and reinsurance premium income for covering the expected indemnities and expenditure for insurance and reinsurance;

36.3. the procedure for identifying risks arising from the company's insurance and reinsurance obligations, including the options and financial guarantees provided for in insurance contracts;

36.4. the procedure under which in developing new insurance products and calculating insurance and reinsurance premiums the limitations related to investments are taken into consideration;

36.5. the procedure under which ceded reinsurance, retrocession or other risk hedging methods are taken into consideration in developing new insurance products and calculating insurance and reinsurance premiums.

37. In the risk management policy concerning risk underwriting and the creation of technical provisions, the company may also include:

37.1. the upper limit of the permitted amount of exposures in specified risk concentration groups;

37.2. internal risk underwriting limits for various insurance products and classes;

37.3. the selected ceded reinsurance, retrocession and other risk hedging strategy and the basis of the efficiency thereof.

38. The company shall ensure that all the policies and procedures attributable to risk underwriting are used in all insurance contract distribution channels.

3.3. Management of Assets and Liabilities

39. Managing of assets and liabilities means the aligning of the decisions on assets and liabilities aimed at managing the risk related to unfavourable changes in the values of assets and liabilities.

40. In addition to the investment strategy, the asset and liability management strategy shall prescribe how financial and insurance risks will affect the assets and liabilities in the short, medium and long term. If necessary, the combining of both strategies shall be effected.

41. In addition to the provisions laid down in Article 260 (1) (b) of European Commission Delegated Regulation 2015/35, the company shall ensure that in respect of the

management of assets and liabilities the company's risk management policy shall include, as a minimum, the following information:

41.1. the description of the procedure for the determination and assessment of the types of the imbalance between assets and liabilities in terms of, as a minimum, significant maturities and currencies;

41.2. the description of the risk mitigation methods to be used and of the expected impact of the use of the relevant risk mitigation methods on the management of assets and liabilities;

41.3. the extent to which the company permits the imbalance between assets and liabilities in terms of, as a minimum, significant maturities and currencies;

41.4. the general methods for the stress tests to be performed and the regularity of the carrying out thereof.

3.4. Investment Risk Management

42. For managing investment risk, the company shall develop a set of indicators characterising the risk profile and level of the investments made consistently with the company's risk management policy and operational strategy.

43. In addition to the provisions of Article 260 (1)(c) of European Commission Delegated Regulation 2015/35, the company shall at least lay down the following in the risk management policy regarding the investment risk:

43.1. the level of security, quality, liquidity, profitability and permissible liens that the company is willing to achieve in terms of its entire investment portfolio as well as how it intends to achieve the said objective;

43.2. the internal quantitative limits in respect of its assets and risk exposure, including off-balance sheet liabilities to ensure that the company achieved the desired level of security, quality, liquidity, profitability, and permissible liens of the investment portfolio;

43.3. considerations as to how, in making investment decisions, the circumstances of the financial market are taken into account;

43.4. the terms on which the company may pledge or loan assets;

43.5. the procedure for the assessment and verification of investments;

43.6. the procedures aimed at monitoring the return on investments;

43.7. in what assets investments are being made, aimed at ensuring the interests of the policyholders and persons who are entitled to claim an insurance indemnity.

44. In making investment decisions, the company shall not only rely on the information provided by issuers, financial institutions and credit rating agencies. In making investment decisions, the company shall take into consideration investment related risks, without relying solely on the fact that adequate capital requirements have been set for the risk.

45. Within the scope of the risk management function the company shall assess whether the internal investment limits set by the company are adequate for covering the company's liabilities and comply with the statutory requirements. For this matter, the company shall carry out, consistently with the risk management policy referred to in Paragraph 33 hereof, stress tests, the regularity and scope whereof is adequate to the size thereof as well as the manifoldness and complexity thereof.

46. The company shall carry out the identification, measurement, monitoring, management and control of the investment risks inherent to the investments of various types, using generally accepted methods that are appropriate for insurers.

47. The company has adequate internal control procedures in place to ensure that the investment activity has been duly reviewed, and transactions are always carried out taking into consideration the investing principles specified in the company's strategy and policy and complying with the relevant procedures.

48. Before carrying out an investment that is not typical for its investment strategy, the company shall assess, as a minimum, the following elements:

- 48.1. the ability thereof to assume and manage the risks related to such an investment;
- 48.2. the risks related to the investment or investment activity and the impact of the investment or investment activity on the company's risk profile;
- 48.3. the consistency of the investment or investment activity to the interests of the recipients of insurance indemnities and policyholders, the limitations to assume liabilities imposed by the company and effective investment portfolio management;
- 48.4. the consequences of the investment or investment activity on the quality, security, liquidity, profitability of the entire investment portfolio, and the permissible level of liens.

49. The company shall ensure that when an investment or the investment activity is related to a significant risk or changes in the company's risk profile, the person responsible for the risk management functions shall communicate the risk or the changes in the risk profile to the company's supervisory board or management board.

3.5. Liquidity Risk Management

50. Managing of liquidity risk is aimed at ensuring that the company is capable of performing its obligations owed to the policyholders and parties that may claim insurance indemnities under the concluded insurance contracts.

51. In addition to the provisions laid down in Article 260 (1) (d) of European Commission Delegated Regulation 2015/35, the company shall include at least the following information in the risk management policy concerning liquidity risk:

51.1. the definition of liquid assets and the procedure for the measurement thereof, taking into consideration the amount of contingent expenses or financial losses in the event of the unforeseen disposal of assets;

51.2. the procedure for assessing the imbalance between incoming and outgoing cash flows from assets as well as liabilities, including the assessment of the expected cash flows from direct insurance and reinsurance transactions such as the disbursement of insurance indemnities, disbursements due to the termination of insurance contracts or the disbursement of surrender amounts;

51.3. the amount of liquid assets that is required to perform the company's duties in the short and medium term, including an adequate liquidity buffer to preclude insufficiency of liquidity;

51.4. the identification of alternative financing sources and the expenditure of attracting thereof;

51.5. considerations about the expected impact of the implemented new insurance products on liquidity;

51.6. the main methods of the stress tests to be carried out, also including the assessment of the simultaneous occurrence of several unfavourable events, when investments cannot be disposed of at the current market value, as well as a situation with a faster disposal of assets at a price lower than the determined market value or the value determined by experts, as well as

additionally assessing the likely behaviour of policyholders, as well as the frequency of performance of such stress tests.

3.6. Operational Risk Management

52. The company shall ensure that the processes for identifying, assessing and monitoring operational risk are in place as well as the notification system on the occurrence of the operational risk events has been developed. To achieve this objective, the company shall accumulate and register data on the occurrence of operational risk events, specifying the cause of the occurrence of the event, the consequences thereof as well as whether any measures to prevent it have been taken, as well as other related relevant information.

53. For managing operational risk, the company shall develop and analyse the scenarios relevant for the activity thereof, which are based on the deficiencies in key processes, personnel or the system, as well as the effect of external events on the company's activity.

54. In addition to the provisions of Article 260 (1) (f) of European Commission Delegated Regulation 2015/35, the company shall lay down at least the following in the risk management policy regarding operational risk:

- 54.1. the objectives of managing operational risk;
- 54.2. the definition of operational risk specified for internal use and appropriate for the activity and experience thereof;
- 54.3. the methods aimed at mitigating the company's inherent and possible operational risks, as well as the control methods thereof;
- 54.4. operational risk management processes and priorities in managing operational risk, including those related to information technology systems;
- 54.5. the permissible level of operational risk in the types of operational risks that are significant to the company;
- 54.6. the breakdown of duties, authority, and responsibilities in managing operational risk;
- 54.7. the procedure under which information on the operational risk level inherent to the company and trends, as well as the effect of the risk on the company's own assets and compliance with the solvency requirement, as well as other information relevant for decision making is being received.

55. The company shall manage, control and ensure the exchange of internal information regarding the actual and possible exposure to reputation risk as well as such risks which arise from the strategic decisions adopted by the company, and about the interaction between these and other significant risks, as well as the key causes of threats to reputation, taking into consideration the opinion of the stakeholders and the sensitivity of the market.

3.7. Methods for Mitigating Insurance Risks and Documentation

56. The company shall analyse, assess, and document the efficiency of all risk-mitigation methods used.

57. To prevent exceeding of the set risk limits, the company shall use ceded reinsurance, retrocession, and other risk-mitigation methods. Concurrently, the company shall take any possible new risks which it may be exposed to into consideration.

58. In addition to the provisions of Article 260 (1) (g) of European Commission Delegated Regulation 2015/35, the company shall at least lay down the following in the risk management policy concerning risk hedging methods:

58.1. the procedure for the setting of the extent of the risk to be transferred to ceded reinsurance or retrocession that is adequate to the risk limits defined by the company, as well as the types of ceded reinsurance or retrocession contract types that are the most adequate to the company considering the company's risk profile;

58.2. the principles for the selection of counterparties for risk mitigation and the procedures for assessing and monitoring the credit capacity and diversification thereof;

58.3. effective procedures for the assessment of transferring of risk to ceded reinsurance and retrocession, and the review procedures of the key risks inherent to the company;

58.4. the procedures laying down the manner of how the company manages the risk arising from the disequilibrium between payments for the claims submitted and the maturity dates of the compensation provided for in ceded reinsurance or retrocession agreements.

4. Governance Requirements for Compliance with the Prudent Person Principle

59. Under the provisions laid down in Section 132, Paragraph one of the Insurance and Reinsurance Law, the company shall ensure compliance with the prudent person principle to the requirements specified in this chapter.

60. In managing investment risk, the company shall comply with the prudent person principle, ensuring that:

60.1. the prudent person principle is taken into consideration in developing, implementing and carrying out the investment strategy;

60.2. the company has an appropriate understanding of the risks related to investments;

60.3. the company carries out continuous monitoring and control, even if it has outsourced the services;

60.4. the company protects the interests of policyholders and those insured, taking into consideration that risks, such as the legal risk, reputation risks and operational risk, unless duly monitored, may unfavourably affect the performance of the company's solvency requirement;

60.5. the company's investment portfolio is duly diversified;

60.6. the company can identify, measure, monitor, manage and control investment-related risks.

4.1. The Security, Quality, Liquidity and Profitability of the Investment Portfolio

61. The company reviews the quality, liquidity and profitability of the investment portfolio on a regular basis, assessing, as a minimum, the following elements:

61.1. the limitations to the performance of the liabilities, including guarantees to the policy holder, insurer or the person who has the right to claim insurance indemnity as well as the future discretionary benefits;

61.2. the type and extent of the risks that the company is prepared to undertake;

61.3. the degree of diversification of the investment portfolio;

61.4. the liquidity of assets, physical existence, sustainability, the credit quality of the counterparty, the existence and quality of the pledge, liens, the breakdown of the issue into several tranches;

61.5. the circumstances that may affect the value of the assets or change the nature of the investments, such as guarantees;

61.6. the matters related to the location or availability of the assets, such as the bank to transfer the assets, legal obstacles in other countries, currency restrictions, the risk of the holder of the collateral, the value of the collateral, and the lending of the assets.

62. The company shall specify the purpose of the return on investments in order to achieve sustainable profitability from asset portfolios.

63. In the investment policy, the company shall specify how it determines and manages the conflicts of interest related to investments.

4.2. Unit-Linked and Index-Linked Life Insurance Contracts

64. The assets used to cover the technical provisions of unit-linked and index-linked life insurance contracts shall be invested, taking the objectives specified in the company's policies and the customers' interests into consideration.

65. In making investments pursuant to the terms of unit-linked life insurance contracts, the company shall take into consideration, and manage, the restrictions related to such contracts.

4.3. Assets Not Admitted for Trading on a Regulated Financial Market

66. The company shall develop procedures to manage, monitor and control the risk in respect of investments in the assets that are not admitted for trading on a regulated financial market, or investments in structured financial investments, the value of which is difficult to determine if the company makes or intends to make such investments.

67. The company shall assess the assets that are admitted for trading on a regulated market, however, they are not actually traded altogether or are traded irregularly, using the same methods that are used for measuring the assets that are not admitted for trading on a regulated market.

4.4. Financial Derivatives and Securitisation Instruments

68. The company that uses financial derivatives shall develop, in addition to the provisions laid down in Article 260 (1) (c) (iv) of European Commission Regulation 2015/35, procedures that are consistent with the risk management policy aimed at monitoring to what extent the strategy of the application of financial derivatives is consistent with the purpose of the investment.

69. Where the company uses financial derivatives to facilitate effective management of the investment portfolio, it shall clearly demonstrate that the use of the financial derivatives improves the quality, security, liquidity or profitability of the investment portfolio.

70. Where the company uses financial derivatives to hedge risks or as a risk-mitigating method, it shall document the logical basis and demonstrate the efficiency of risk mitigation, using the financial derivatives.

71. Where the company invests in securitisation instruments according to the provisions of Chapter VIII of European Commission Delegated Regulation 2015/35, it shall carry out enhanced due diligence of the product and the underlying asset.

4.5. Measuring of Assets and Liabilities Other Than Technical Provisions

72. In the asset and liability assessment policy and procedures referred to in Article 267 (2) of European Commission Delegated Regulation 2015/35, the company shall include at least the following elements:

72.1. the methodology, criteria and the sources of data, to assess whether the market of the relevant asset is active or inactive;

72.2. the requirements that ensure that the documentation pertaining to the measurement process and the related control procedures, including the data quality control documentation is sufficient;

72.3. the compliance requirements for the documentation about the approach, as well as data parameters and assumptions used in the assessment;

72.4. the procedure for regular reporting to the company's management board and the supervisory board to enable them to make decisions that are related to the measurement of assets and liabilities.

73. The company shall put the data quality control procedure to identify deficiencies in place, as well as measure, monitor, manage and document data quality. Such a procedure shall comprise the determining of the completeness of data, the appropriateness of the data received from internal and external resources for the intended purpose, the independent review and confirmation of the quality of the data, as well as shall lay down the requirement to periodically compare the market data with alternative sources and the previous experience.

74. Where the company uses the alternative assessment methods referred to in Article 263 of European Commission Delegated Regulation 2015/35, it shall include the following information in the documentation:

74.1. the description, the justification of suitability, key assumptions, limitations, and outcome of the method;

74.2. the circumstances under which the selected method is not effective;

74.3. the description and analysis of the measurement process, as well as the description of the control procedure related to the method;

74.4. the uncertainty of assessment related to the method;

74.5. the description of the back-tracing verification procedure and, when possible, the comparison with similar models or other benchmarks to be carried out, when implementing the measurement method for the first time, and thereafter repeating it on a regular basis;

74.6. the description of the tools and computer programmes used in the assessment.

75. The company shall carry out independent verification of the valuation method pursuant to Article 267 (4) (b) of European Commission Delegated Regulation 2015/35 before the implementation of a new method or significant changes and thereafter on a regular basis. An independent review shall be carried out, applying the internal model developed by the company as well as outsourcing it to an external supplier. The regularity of the review shall depend on the significance of the method for decision-making and risk management purposes. The company shall ensure the communication of the results of the review and recommendations to the company's management board.

76. The company shall ensure that the company's supervisory board, management board, and other persons, who, by virtue of making a significant decision on behalf of the insurance or reinsurance company, create third party liability for the relevant company, have

an understanding of the valuation approach and uncertainty in the valuation process, such as the used input data or model risk.

77. Where the review of the valuation method is carried out by an external expert, the company shall ensure that it engages an expert with the relevant knowledge and experience, paying the required attention to this task.

78. The company shall submit the opinion of an independent expert regarding the measurement of the relevant asset or liabilities to the Commission within one month of receipt of the said opinion.

5. Management of Own Funds

79. In order to ensure compliance with the own fund requirements laid down in the Insurance and Reinsurance Law, the company shall develop and approve the own fund management policy that comprises:

79.1. the description of the procedure aimed at ensuring that individual own capital items (instruments) at the time of the issuance thereof as well as subsequently shall be classified pursuant to the features laid down in Articles 71, 73, 75 and 77 of European Commission Delegated Regulation 2015/35;

79.2. the description of the procedure aimed at ensuring that all contractual provisions governing own-fund items are clear and unambiguous in terms of the existing own-fund classification requirements;

79.3. the description of the procedure aimed at monitoring the issue of own-fund instruments by tiers in accordance with the medium-term own-fund management plan and to ensure that before and after the issuing of own-fund instruments they comply with the own-fund tier requirements set for the own-fund instruments of the relevant tier;

79.4. the description of the procedure aimed at monitoring to ensure that no encumbrances have been created for own-capital instruments under the contracts, related transactions or group structure that might adversely affect the conformance of the same own-fund instruments to the classification features of the relevant tier;

79.5. the description of the procedure aimed at ensuring that the activities that are compulsory or permitted in the contracts regulating own-fund instruments, articles of association or in other legal documents are started and completed in a timely manner;

79.6. the description of the procedure aimed at ensuring that, if necessary, it shall be promptly evaluated when the payment for additional own-fund instruments needs to be requested and the request sent;

79.7. the description of the procedure aimed at ensuring that the policy or decision in respect to the payment of dividends on ordinary shares are taken into account, having regard to the capital adequacy and future anticipated dividends;

79.8. the description of the procedure on how such cases when the company may cancel the distribution of the profit of Tier one Capital instruments (*on a discretionary basis* are identified and documented) for the capital instrument to comply with the classification criteria laid down in Article 71 (4) (e) and (f) of European Commission Delegated Regulation 2015/35;

79.9. the description of the procedure that prescribes the cases when the payment of dividends is postponed to a later time or when the decision not to pay them is made under the requirements laid down in Article 71 (1) (L) and Article 73 (1) (g) of European Commission Delegated Regulation 2015/35, as well as provide for the principles of the application and documenting of such cases;

79.10. the description of the procedure that prescribes to what extent the company includes own-fund items in the calculation, to which the provisional period under Paragraphs 49 and 50 of the Commission's Regulation No. 130 "Solvency Own Fund Requirements of Insurers and Reinsurers and the Calculation of Own Funds" of 12 August 2015;

79.11. the description of the procedure aimed at ensuring that the manner in which, under stress circumstances, the transitional period referred to in Paragraph 79.10 hereof applies to own-fund items changes, paying particular attention to the loss-absorption capacity, shall be evaluated and, if necessary, it shall be taken into consideration in carrying out a risk and solvency self-assessment.

80. The company shall develop the medium-term own-funds management plan referred to in Article 71 (1) (g) of European Commission Delegated Regulation 2015/35, the carrying out of which shall be monitored by the company's supervisory board and which shall comprise, as a minimum, the following information:

80.1. the amount and maturity of the anticipated own-fund instrument issue;

80.2. the maturity of own-fund instruments, including the repayment term provided for in the contract as well as the possibility to carry out the cancelling or redemption of the company's own-fund instruments before their maturity;

80.3. information about how each issue, redemption, payment or other changes to the valuation of an individual own-fund item affect compliance with the limitations imposed on own-fund tiers;

80.4. information about how the application of the profit-distribution policy will affect own funds;

80.5. the impact of the provisional period under Paragraphs 49 and 50 of Commission Regulation No. 130 "Solvency Own Fund Requirements of Insurers and Reinsurers and the Calculation of Own Funds" of 12 August 2015 on the breakdown of own-fund items into tiers and the extent thereof.

81. In the medium-term own-fund management plan, the company shall take the results of the risk management system as well as of the risk and solvency self-assessment into consideration.

6. The Functions of the Company's Supervisory Board in the System of Governance Area

82. The company's supervisory board shall monitor how the company ensures the establishing and functioning of an effective system of governance. In monitoring the system of governance, the company's supervisory board shall:

82.1. set the company's development and operational strategies as well as develop and approve the related policies for the implementation thereof;

82.2. identify the risks that the company is willing to take as well as the permissible level of risks;

82.3. monitor how the company's management board establishes an effective risk management system (including its approval of risk identification and management policies), which is based on the strategy set by the company's supervisory board, as well as policies and procedures that are necessary to continuously identify, measure, monitor and manage the existing and possible risks or risk groups and the mutual interrelation thereof;

82.4. prescribe the procedure for assessing the system of governance as referred to in Article 258 (6) of European Commission Delegated Regulation 2015/35;

82.5. prescribe the procedure for reviewing the implementation of the recommendations for the improvement of the system of governance and the constituent areas thereof.

7. The Functions of the Company's Management Board in the System of Governance Area

83. The company's management shall be responsible for establishing the system of governance, and for the implementation, administration and improvement thereof. In the sphere of the system of governance, the company's management board shall:

83.1. develop, document, and implement appropriate policies and procedures for identifying and managing all of the significant risks inherent to the activity of the company, including the measuring, assessment and control thereof and reporting on the risks, as well as approve the relevant procedures;

83.2. implement the general principles of operational risk management approved by the company's supervisory board consistently across all of the company's structural units, as well as shall ensure that employees at all levels have an understanding of their duties in relation to operational risk management;

83.3. establish and monitor internal quantitative limits for each type of investment, off-balance sheet liabilities, counterparties, geographical location or industry, with a view to ensuring the efficiency of risk management and protecting the interests of the policyholders.

8. Fit and Proper

84. In addition to the requirements laid down in Article 273 of European Commission Delegated Regulation 2015/35, the company shall ensure that the members of the company's supervisory board and management board, the person responsible for the risk management function, the person responsible for the compliance function, the person responsible for the internal audit function, the person responsible for the actuarial function, the manager of the branch of a non-Member State insurer as well as those persons who, when making significant decisions on behalf of the insurance or reinsurance companies or a branch of a non-Member State insurer, create third-party liability for the relevant company or non-Member State insurer, have the necessary professional qualifications, knowledge and skills necessary to professionally run and monitor the company.

85. The Company shall specify and document the positions the holders of which, due to making significant decisions on behalf of the insurance or reinsurance company or the branch of a Non-Member State insurer create third-party liability to the relevant company or the branch of the Non-Member State insurer.

8.1. The Fit and Proper Requirements

86. The company shall ensure that the company's supervisory board as well as management board collectively have sufficient experience and knowledge about all significant types of the company's activity and risks. The company shall ensure that the company's supervisory board as well as management board have sufficient experience and knowledge, or, where necessary, the possibility to get counselling, as a minimum, in the following areas:

86.1. insurance and financial markets;

86.2. operational strategy and the operational model;

86.3. the system of governance;

86.4. the financial and actuarial analysis;

86.5. the legal framework and requirements.

87. In carrying out changes in the composition of the company's supervisory board or management board, the company shall ensure that the collective knowledge of the company's supervisory board and management board are retained at an appropriate level.

88. The company shall develop, document and implement a policy for ensuring diversity in the composition of the company's supervisory board and management board with a view to ensuring that the appointment of the members of the company's supervisory board and management board results in the provision of diverse opinions, experiences and competences in the day-to-day activities of the company's supervisory board and management board.

89. In assessing the experience of the company's supervisory board and management board, the type of the company's business, size and complexity as well as the relevant job duties shall be taken into consideration. The extent of the required experience and requirements for a member of the management board may be different from the extent of experience and requirements for a member of the supervisory board.

90. In order to ensure that each member of the company's supervisory board and management board has sufficient competence and skills to carry out the job duties of the company's supervisory board or management board or in the committees thereof (if such have been established), the company shall ensure that, if necessary, each member of the company's supervisory board or management board has the opportunity to get appropriate internal or external training or counselling.

91. In assessing compliance with the fit and proper requirement, information about the previous commercial activity and the impact thereof on the reputation of the member of the supervisory board or management board of the member of the company's supervisory board and management board, as well as knowledge acquired during the training process as well as practical experience acquired when carrying out job duties. For assessment purposes, skills and knowledge which have been acquired and applied in practice by the members of the company's supervisory board or management board in their professional field shall be taken into consideration.

92. For the purpose of the fit and proper assessment, the following criteria that are significant for effective functioning of the company's supervisory board and management board shall be taken into consideration:

- 92.1. possible conflicts of interest;
- 92.2. the ability to devote sufficient time to the carrying out of job duties;
- 92.3. the overall composition of the company's supervisory board and management board, comprising the relevance of the collective experience and knowledge of the company's supervisory board and management board;
- 92.4. the ability to carry out the duties independently, without the undue influence of third parties.

93. In assessing the independence of the company's supervisory board and management board, as a minimum, the following information shall be evaluated:

- 93.1. The present and previous positions in the company or other commercial companies;
- 93.2. personal, professional and economic relations with the members of the management board and supervisory board who carry out the management functions in the same company, its parent company or subsidiary;

93.3. personal, professional and economic relations with the majority shareholders of the same company, its parent company or subsidiary.

94. If the company becomes aware of any information that raises doubts as to the knowledge, experience or reputation of the member of the company's supervisory board or management board or the person responsible for basic functions, knowledge, experience or reputation, the company assesses how it affects or is likely to affect the suitability of the said person, taking into consideration all known information relevant for assessment regarding the relevant events or circumstances, regardless of the time and place of the occurrence thereof.

95. In assessing whether the person is fit under the requirements of Article 273 (4) of European Commission Delegated Regulation 2015/35, the company shall take the fact that the term of limitation mentioned therein shall be determined based on the provisions of the laws and regulations of the Republic of Latvia into consideration.

96. In assessing the reputation of the member of the company's supervisory board or management board, the information available in the registers of criminal conviction or administrative conviction shall be taken into consideration, having assessed the type of conviction, the level of appeal, the punishment received, the stage of the judicial process, and the impact of any rehabilitating measures. The assessment shall also take into consideration any ancillary circumstances of the relevant offence or the punishment (sanctions) applied by administrative or supervisory authorities, including mitigating circumstances, the period from the time of committing the offence and the conduct of the relevant member of the company's supervisory board or management board, including the gravity of the offence or the sanction applied by administrative or supervisory authorities, taking into consideration the duties and role of the relevant member of the company's supervisory board or management board.

97. In assessing the reputation of a member of the company's supervisory board or management board, the person's previous activity shall be taken into consideration, assessing, as a minimum, the following information:

97.1. evidence supporting the fact that the member of the company's supervisory board or management board has refused to cooperate or provided false information, including deliberate misleading of the supervisory authorities;

97.2. the received refusal to carry out registration, issue a permit, accept as a member or issue a licence for carrying out business or professional activity or revoke, annul or terminate such registration, permit, membership or licence or exclusion carried out by the relevant supervisory institution;

97.3. the grounds on which dismissal from employment or a responsible position has occurred, i.e., the loss of trust on the part of the employer or a similar case, or the request to step down from the position;

97.4. withdrawn right to carry out business of any or specific type, including the right to be a member of the company's supervisory board or management board.

8.2. Policies and Procedures to Assess Compliance with the Fit and Proper Requirements

98. The company shall develop and approve the policy and procedure for assessing compliance with the fit and proper requirement, which, as a minimum, provides for the following:

98.1. the name of the person who is responsible for carrying out the assessment of compliance with the fit and proper requirement;

98.2. the procedure for assessing compliance with the fit and proper requirement of the persons referred to in paragraph 84 hereof;

98.3. the extent of knowledge, skills and experience required for the persons referred to in Paragraph 84 hereof to qualify as sufficiently competent;

98.4. information and representations submitted by the persons referred to in Paragraph 84 hereof to be assessed by the company;

98.5. the cases warranting the carrying out of a repeated assessment of compliance with the fit and proper requirement, as well as the measures to be taken to gain awareness of such cases;

98.6. the requirement that the persons referred to in Paragraph 84 hereof report to the company on any major changes or events affecting qualification to the specified requirements;

98.7. the descriptions of the procedures for assessing the fit and proper requirement of other employees, when considering the appointment thereof to a particular position as well as assessing their compliance with the fit and proper requirement on a regular basis.

99. The company shall carry out the assessment of the persons referred to in Paragraph 84 hereof before they start performing their job duties. The person's compliance with the fit and proper requirement shall be re-assessed, as a minimum, in the following cases:

99.1. the member of the company's supervisory board or management board is reappointed to the position;

99.2. there have been changes to the duties to be carried out by the member of the company's supervisory board or management board or the competences necessary to carry out the said duties change;

99.3. there are grounds to believe that the person has influenced the company for it to be acting in breach of the statutory requirements or has itself acted in breach of the statutory requirements;

99.4. there are grounds to believe that the conduct of the person may increase the financial offence risk as well as money laundering or terrorism financing risk;

99.5. there are grounds to believe that due to the conduct of the person proper and prudent management of the company's activities is exposed to risk;

99.6. it becomes necessary due to the occurrence of specific circumstances or events.

100. Where the company carries out the assessment of meeting of the fitness requirement in the cases referred to in Paragraphs 99.2 and 99.6 hereof, a limited assessment may be carried out, by basing it on the assessment on whether the event that triggered the carrying out of a repeated assessment has not affected the fitness of the member of the company's supervisory board or management board.

101. The company shall document the process of the assessment of compliance with the fit and proper requirement of the persons referred to in Paragraph 84 hereof as well as the results thereof;

102. In developing the policy for the assessment of compliance with the fit and proper requirement referred to herein, the company shall take into consideration the company's business, size and complexity as well as the extent and manifoldness of its transactions.

9. Internal Control System

103. The company shall ensure that its internal control system is consistent with the requirements laid down in Article 266 of European Commission Delegated Regulation 2015/35.

104. In developing, implementing and maintaining the internal control system, the company shall ensure that the staff has an understanding of the role thereof in the internal control system. Control activities shall be commensurate to the risks arising from the activities and processes that are subject to control.

105. The company shall ensure that the procedure for monitoring and reporting embedded in the internal control system provides the company's supervisory board and management board with information that is relevant for decision-making.

10. Key Functions

106. Pursuant to the nature of its activity, the company shall ensure the carrying out, as a minimum, of the following four key functions, i.e., the risk management function, the compliance function, the internal audit function, and the actuarial function.

10.1. Risk Management Function and Compliance Function

107. The company shall ensure that the person responsible for the risk management function and acting in compliance with the requirements laid down in Article 269 of European Commission Delegated Regulation 2015/35 shall report the risks identified as major for the company's activity to the company's supervisory board and management board. The person responsible for the risk management function shall report on other specific risk areas upon its own initiative as well as at the request of the company's supervisory board and management board.

108. In addition to the requirements laid down in Article 270 of European Commission Delegated Regulation 2015/35 the company shall ensure that the person responsible for the compliance function takes the measures required under Section 66 of the Insurance and Reinsurance Law.

10.2. Internal Audit Function

109. In addition to the requirements laid down in Article 271 of European Commission Delegated Regulation 2015/35 the company shall ensure that in carrying out an internal audit, making audit conclusions and reporting thereon, the person responsible for the internal audit function is not dependent on the company's management board because it can hinder the independence and objectivity of the audit function.

110. For the internal audit function to operate effectively, the company shall ensure the carrying out, as a minimum, of the following measures:

110.1. it shall clearly define and document the authority of the structural units carrying out the internal audit function;

110.2. it shall segregate the internal audit function from carrying out routine transactions as well as other key functions, including ensuring that the employee of the internal audit who had been employed in another structural unit does not audit that structural unit for the period during which the employee had been employed therein;

110.3. it shall ensure that conflicts of interest within the structural unit carrying out the internal audit function are properly managed;

110.4. it shall ensure free access to the structural unit carrying out the internal audit function to all documents, information and employees;

110.5. it shall assign powers to the structural unit carrying out the internal audit function to control the company's activities, the carrying out of which are outsourced;

110.6. it shall ensure sufficient resources for the carrying out of efficient functions to the structural unit carrying out the internal audit function, including a sufficient number of employees with sufficient qualifications and professional experience, so that there were grounds to consider that they are able to carry out their duties professionally as well as provide continuous training thereto;

110.7. it shall ensure direct contact with the company's supervisory board and management board for the structural unit carrying out the internal audit function.

111. The company may establish individual functions for controlling and supervising specific activities or units. Such functions form a part of the internal control system and do not relieve the internal audit from the auditing of these specific activities or units. To achieve greater efficiency, in carrying out its duties, the internal audit function may use the information provided by other functions. The independence of the internal audit function means that it has a definite status within the organisation and it carries out its tasks without unjustified interference and objectively.

112. The company shall ensure that, in preparing a written report to the company's supervisory board and management board according to the requirements laid down in Article 271 (3) (d) of European Commission Delegated Regulation 2015/35, the company shall ensure that it includes the time period necessary for eliminating the deficiencies referred to in the report, as well as specifies the responsible person as well as the information concerning the fulfilment of the previously provided recommendations.

113. The company's supervisory board shall approve the internal audit policy comprising at least the following elements:

113.1. the terms and conditions under which the structural unit carrying out the internal audit function may be charged with the task to provide an opinion or support or carry out other special tasks;

113.2. the procedures to which the person responsible for the internal audit function is subject before giving notification of the supervision authority;

113.3. the criteria for rotating of the internal audit staff.

114. The internal audit function shall carry out its activity in accordance with the activity plan specified by the company's supervisory board where the following information shall be provided for:

114.1. the areas to be audited during the reporting period, the regularity of the reviews and the resources for carrying out the reviews, ensuring that all significant areas are reviewed on a regular basis;

114.2. risk identification and assessment methods for the activity areas to be reviewed, as well as the criteria for assessing risk control procedures, taking into account the anticipated development of new products;

114.3. the requirements for documenting the results of reviews, ensuring that the information retained enables tracing of the audit process and the conclusions made;

114.4. the procedure under which the results of the reviews are communicated to the company's supervisory board and management board, as well as the procedure for reviewing the implementation of recommendations.

10.3. Actuarial Function

115. The company shall take appropriate measures in order to avoid possible conflicts of interest, if in addition to the duties provided for Section 68 of the Insurance and Reinsurance Law, it shall set out other duties and tasks to be carried out within the scope of the actuarial function.

116. Within the scope of the actuarial function, in carrying out risk and solvency self-assessment, the company shall issue an opinion on the continuous compliance of the company with the requirements for the calculation of technical provisions as well as define the likely risks arising from the uncertainty related to this calculation.

117. Within the scope of carrying out the actuarial function, in addition to the requirements laid down in Section 68 of the Insurance and Reinsurance Law, the company shall coordinate the calculation of technical provisions, specifying who will calculate technical provisions, and clearly segregating the duties and liability, ensuring an independent review of the calculations and the validation of the technical provisions. In cases when within the scope of the actuarial function technical provisions are calculated, the system of approval of the technical provisions, the processes and procedures established by the company ensure the prevention of conflicts of interest as well as proper independence. The degree of segregation of the duties shall be determined commensurate to the nature, size and complexity of the risk inherent to the calculation of technical provisions.

118. Within the scope of the actuarial function, the company shall identify any disequilibrium in the calculation of technical provisions under the requirements laid down in the Insurance and Reinsurance law and put forward relevant adjustments.

119. Within the scope of the actuarial function, the company shall explain any significant influence on the amount of technical provisions, which is caused by the changes in the data between the valuation dates, the methods or assumptions used to calculate technical provisions.

120. Within the scope of coordinating the calculation of technical provisions, the company shall ensure the appropriateness of the methods and models used to calculate technical provisions, including the assumptions used, as well as assess the sufficiency and quality of the data used to calculate technical provisions.

121. Within the scope of the actuarial function, the company shall assess compliance of the internal and external data used to calculate technical provisions with the statutory data quality standards. Within the scope of the actuarial function, the company shall provide recommendations in respect to the internal procedures aimed at improving the quality of data, ensuring the consistency of the company's activity to the relevant requirements laid down in the laws and regulations.

122. Within the scope of the actuarial function, in providing an opinion on risk underwriting policy and ceded reinsurance and retrocession agreements, the company shall take the mutual relationship between it and technical provisions into consideration.

123. The following information shall be included in the opinion on the risk underwriting policy under the requirements laid down in European Commission Delegated Regulation 2015/35:

123.1. whether product prices are consistent with the risk underwriting policy in respect to risk underwriting;

123.2. an opinion on the key risk factors that will affect the profitability of the insurance activity during the forthcoming year, assessing the factors, such as inflation, legal risks, changes in the amount of insurance activity or the likely impact of the market environment on future profits;

123.3. an opinion on the likely financial impact of the anticipated changes in contractual terms and conditions;

123.4. the degree of variability characterising the expected profitability, as well as the adequacy of the degree of variability to the risks the company is willing to take.

124. In addition to the requirements laid down in European Commission Delegated Regulation 2015/35, the following information shall be included in the opinion on the policy for ceded reinsurance:

124.1. the consistency of the placement of ceded reinsurance to the permitted level of risk determined for the company;

124.2. how ceded reinsurance impacts the amount of net technical provisions;

124.3. the efficiency of the application of ceded reinsurance in minimising the volatility of own funds.

125. The company that uses the internal model, within the scope of the actuarial function participates in determining the risks to which the internal model relates as well as assessing the interaction between these risks and other risks. The involvement of the actuarial function is based on the technical analysis and reflects the experience and knowledge of the actuarial function.

126. Within the scope of the actuarial function the company shall report any major deviation to the company's management board, which has been identified during the reconciliation of the best estimate of technical provisions with the actual circumstances. The causes of the deviation shall be specified in the report as well as proposals shall be put forward regarding the changes in the assumptions used or calculation methods aimed at improving the calculation of the best estimate of technical provisions.

127. In the report to the company's supervisory board and management board to be prepared under the requirements laid down in Article 272 (8) of European Commission Delegated Regulation 2015/35, as a minimum, the following information shall be provided:

127.1. the description of the methods used to calculate technical provisions and the basis for the selection thereof;

127.2. an outline of the key assumptions underlying the methods used to calculate technical provisions, and the basis for the selection thereof, as well as specifications on the sensitivity of the assumptions underlying the calculation of technical provisions in terms of each of the major risks;

127.3. the description of the review of the data used to calculate technical provisions, comprising information about the data adjustments carried out;

127.4. the assessment of the adequacy and the results of the confirmation of the technical provisions;

127.5. an opinion on the risk underwriting policy;

127.6. an opinion of the policy for ceded reinsurance;

127.7. the description about participation in risk modelling underlying the calculation of own funds.

11. Outsourcing

128. The following functions shall be considered key (significant) for the company:

- 128.1. key functions;
- 128.2. keeping of accounting records;
- 128.3. maintaining of information technology;
- 128.4. arranging of the risk and solvency self-assessment;
- 128.5. investing and the management thereof;
- 128.6. underwriting of insurance or reinsurance risk;
- 128.7. settlement of insurance claims.

129. Additionally, the company may provide for other functions or activities that it considers significant based on the criteria of whether the company might provide services to policyholders without the particular function that has been outsourced.

130. The company shall ensure that the activity of the insurance mediator who is not an employee of the company but who is authorised to undersign insurance risk or settle claims on behalf of the company, is subject to the requirements for providing outsourced services.

131. Where significant functions are outsourced within the group, the company that is subject to group supervision, in addition to the provisions of Articles 274 (2) of European Commission Delegated Regulation 2015/35 shall determine and document which functions relate to each particular structural unit of the group and ensure that outsourcing of significant functions shall not adversely affect the carrying out thereof in each particular structural unit of the group.

132. The company that outsources services or contemplates using them shall detail in its policy for receiving outsourced services the company's approach and processes for the provision of outsourced services from the date of entering into the contract to the termination thereof. The policy of outsourcing services shall comprise, as a minimum:

- 132.1. the criteria for determining the functions or activity that is critical to the company;
- 132.2. information on how the provider of services of an adequate quality is selected as well as how and how often the activity thereof and the results achieved by it are assessed;
- 132.3. information that should be included in the written contract with the provider of the outsourced service;
- 132.4. the company's action plan for preventing emergencies, including in the case when the provision of outsourced services providing significant functions or activity is terminated.

133. The company shall forward a notification on outsourcing important (significant) functions to the Commission. The notification shall cover the nature of the provided service, the name of the provider of the outsourced service, and the basis for using the provider of the outsourced service. If the outsourced service affects any of the key functions, the given name and surname or position of the provider of the outsourced service responsible for this key function shall also be included in the notification.

134. The company shall ensure that before outsourcing the key function to the provider of the outsourced service the persons that will provide this key function are being assessed, applying the fit and proper requirement procedures referred to in Sub-paragraph 8.2 hereof.

135. The company shall appoint a person to the position who qualifies under the fit and proper requirement and who is responsible for the key function outsourced to the provider of the outsourced service, and in addition to the requirements laid down in Paragraph 133 hereof shall provide the information supporting the person's compliance with the fit and proper requirement. The responsible person shall have sufficient knowledge and experience in relation to the outsourced key function, enabling it to monitor and assess the activity and performance of the provider of the outsourced service.

12. Special Requirements for the Group's System of Governance

136. The company that under the requirements laid down in the Insurance and Reinsurance Law is subject to group supervision shall lay down appropriate requirements for the internal system of governance in all of the group, clearly breaking down the duties between all the companies making up the group as well as take into consideration the relevant risk management structure and organisation at the group level.

137. In establishing its system of governance, the company that is subject to group supervision shall ensure that the duties of other management structures of the companies making up the group are not adversely affected.

138. The company that is subject to group supervision shall ensure, as a minimum, the taking of the following measures for the system of governance at a group level:

138.1. it shall establish an appropriate and effective procedure as well as determine the breakdown of responsibility within the group and review it on a regular basis, ensuring the possibility to supervise and manage risks and the functioning of the internal control system at an individual level;

138.2. it shall establish a reporting structure as well as the systems that ensure an effective upstream and downstream flow of information within the group;

138.3. it shall document and notify all companies of the group of the procedure and methods used to determine, measure, monitor and manage all the risks which the group is exposed to and report thereon;

138.4. it shall take into consideration the interest of all the groups making up the group as well as how these interests facilitate the achieving of the common objective of the group.

12.1. The Group's Organisational Structure

139. The supervisory board and management board of the company that is subject to group supervision shall cooperate with the supervisory boards and management boards of the companies making up the group, request information and critically assess the decisions on the matters that may affect the insurance and reinsurance group.

140. The company that is subject to group supervision shall assess how changes to the structure of the insurance and reinsurance group affect the stability of each of the company making up the group as well as carry out the required adjustments in a timely manner.

141. The member of the supervisory board and management board of the company that is subject to group insurance have appropriate knowledge of the group's corporate organisation, the activity of each of the companies making up the group, ties and relations to other companies making up the group as well as about the risks created by the group's structure.

142. The company that is subject to group supervision shall carry out the assessment of the appropriateness of the organisation structure at the group level.

12.2. The Group's Policies

143. The company that is subject to group supervision shall ensure the implementation of the policies across the group as well as the aligning of the policies of the group's companies with the group's policies.

144. The company that is subject to group supervision shall ensure that at the group level, the role and responsibility of each company in terms of the group's overall strategic objectives and procedures are clearly defined in the group's policy.

145. In the group's structure the company that is subject to group supervision shall comply with its own governance requirements as well as lay down its policies and procedures that are consistent with the group's strategies and policies. In applying group-level decisions and procedures it shall be ensured that an individual company complies with the regulations issued by the Commission as well as the statutory requirements.

146. The company that is subject to group supervision approves and establishes the remuneration policy for the entire group consistently with the group's risk management strategy pursuant to the group's organisational structure, complexity and nature as well as ensure that the companies making up the group comply with the group's remuneration policy.

12.3. Management of the Group's Risks

147. The company that is subject to group supervision shall take risks into consideration at an individual as well as at a group level and the interaction between them within the risk management system, in particular:

147.1. reputation risk as well as the risk arising on the group's internal transactions as well as the concentration of risks including the *contagion risk* at the group level;

147.2. interaction between the risks arising due to carrying out activities in various companies and various jurisdictions;

147.3. the risks resulting from non-Member State companies;

147.4. the risks resulting from the companies referred to in Article 1 (51) of European Commission Delegated Regulation 2015/35;

147.5. the risks resulting from the companies referred to in Article 1 (50) of European Commission Delegated Regulation 2015/35.

148. The company that is subject to group supervision shall develop and implement appropriate processes and procedures for risk management at the group level in order to determine, measure, manage and monitor the concentration of risks as well as any such risks to which the group and each individual company might be exposed, as well as report thereon.

149. The company that is subject to group supervision shall include appropriate risk management processes and procedures at the group level with a view to determining, measuring, managing, and monitoring the group's internal transactions, including significant and very significant internal transactions as well as to reporting thereon.

150. The company that is subject to group supervision shall ensure that the group's risk management structure and organisation shall not adversely affect the company's legal capacity to perform its legal, statutory and contractual obligations.

151. The supervisory board and management board of the company that is subject to group supervision shall be responsible for the effective functioning of the risk management system across the insurance and reinsurance group. Risk management system at the group level shall comprise the following processes as a minimum:

151.1. strategic decision making and the process for approving risk management policies;

151.2. determining of the risk-taking level and compliance with the permissible level of risk;

151.3. identifying, measuring, managing and controlling of risks.

152. The company that is subject to group supervision shall ensure that the strategic decisions and policies referred to in Paragraph 151.1 hereof are consistent with the group's structure, size and the activity of the companies making up the group and the risks inherent thereto, thereby ensuring integrated, consistent and effective risk management within the group.

12.4. The Group's Internal Control System

153. The company that is subject to group supervision shall ensure the consistent implementation of internal control systems within the entire group.

154. The company that is subject to group supervision shall ensure that the internal audit policy at the group level:

154.1. aligns the internal audit activity across the group;

154.2. ensures compliance with the internal audit requirements at the group level.

155. The company that is subject to group supervision within the scope of the actuarial function shall provide recommendations and the actuarial opinion on the undersigning of risks within the group, assets and liabilities, the group's solvency position, the group's anticipated solvency position, stress tests and scenario test in the field of technical provisions, the management of assets and liabilities, the distribution of dividends in relation to discretionary benefits, the risk undersigning policy, the contracts for ceded reinsurance and retrocession, and other ways of transferring or minimising risks, as well as on the conformance and sufficiency of insurance and reinsurance premiums and discretionary benefits and the procedure for calculating (determining) them.

156. The company that is subject to group supervision shall ensure that within the scope of the actuarial function an opinion shall be issued on the policy for ceded reinsurance and the ceded reinsurance programme across the group.

13. Final Provision

157. The company shall ensure that the requirements laid down in this Regulation are implemented not later than six months after the entry into force of this Regulation.

Informative Reference to the European Union Directives

This Regulation includes the provisions arising from European Parliament and Council Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Deputy Chairperson of the
Financial and Capital Market Commission

G. Razāne