Solvency and financial condition report of Sava Re d.d. 2019

Ljubljana, April 2020

Management Board of Sava Re d.d.

Marko Jazbec, Chairman of the Management Board

Srečko Čebron, Member of the Management Board

Jošt Dolničar, Member of the Management Board

Polona Pirš Zupančič, Member of the Management Board

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General information

All figures included in this report are consistent with those reported as part of the quantitative reporting procedure for the Slovenian Insurance Supervision Agency. The figures in this report are stated in thousands of euros. The report has been reviewed and approved by the Company's management and supervisory boards.

The Company's solvency and financial condition report has been reviewed by the auditing firm KPMG, who have issued an independent auditor's assurance report.

Summary

Company profile

Sava Re is the largest reinsurance company domiciled in Central and Eastern Europe. The Company is also the parent company of the Sava Insurance Group. The insurance part of the Group is composed of seven insurers based in Slovenia and in the countries of the Adria region: the composite insurer Zavarovalnica Sava, the non-life insurers Sava Neživotno Osiguranje (SRB), Sava Osiguruvanje (MKD), Illyria and Sava Osiguranje (MNE), and the two life insurers Sava Životno Osiguranje (SRB) and Illyria Life. In addition to these (re)insurers, the Group consists of:

- Sava Pokojninska: a Slovenian pension company;
- Sava Penzisko Društvo: a pension fund manager based in North Macedonia managing second- and third-pillar pension funds;
- Sava Infond. a subsidiary managing investment funds;
- TBS Team 24: a Slovenia-based company providing assistance services relating to motor, health and homeowners insurance;
- ZTSR: an associate company offering market research services;
- G2I: an associate company marketing on-line motor polices;
- Illyria Hospital: a company based in Kosovo that owns some real property but is currently dormant.

Sava Re is a public limited company, 17.7% owned by Slovenian Sovereign Holding.

We are a medium-sized company but with a global reach. With a team of about 130 people, Sava Re is headquartered in Ljubljana. We aim to lead and support all lines of treaty reinsurance business, both proportional and non-proportional reinsurance contracts with good capacity in order to provide our clients with:

- capacity,
- capital substitute,
- catastrophe covers.

Sava Re is rated “A” by the rating agencies Standard & Poor’s and AM Best. Our core strengths lie in our regional knowledge, reliability, responsiveness, flexibility and our financial strength.

With over forty years of experience in international reinsurance, Sava Re provides a full range of reinsurance coverages. Our guiding principle is to build long-term relationships with our partners that will allow us to achieve our common goals throughout all economic cycles.

Assumed risks are diversified globally because we underwrite business on all continents. We currently have over three hundred clients in more than one hundred countries, and we seek to focus on regions and insurers that share our vision of a long-term partnership in order to achieve growth. Our preferred classes of business are property, engineering, marine hull & cargo, and energy.

Business and performance

In 2019, Sava Re wrote EUR 166.5 million in gross premiums (2018: EUR 151.6 million), a 9.8% increase over 2018. The growth in gross premiums written is mainly due to the growth in premiums ceded by Zavarovalnica Sava (growth in motor business, new clients and growth in business written based on the freedom of services (FoS) principle). The largest proportion of international business was sourced from Asia, and the main classes of business remained proportional and non-proportional property reinsurance. The net profit for 2019 was EUR 38.6 million (2018: EUR 41.9 million). The profit declined because there were more loss events than in the same period last year.

Net investment income relating to the investment portfolio of Sava Re totalled EUR 43.7 million in 2019 (2018: EUR 32.4 million), of which EUR 36.9 million related to the return on investments in subsidiaries (2018: EUR 29.5 million). Upon exclusion of exchange differences (2019: EUR 1.4 million) the return on the investment portfolio totalled EUR 42.3 million, an increase of EUR 9.8 million over 2018. The higher return was mostly due to higher dividend income from subsidiaries, which resulted in higher income from investments in related companies. In 2019, the Company recognised no impairment losses on its financial investments (2018: EUR 1.9 million).

System of governance

The Company has in place a well-defined system of governance that includes:

- an adequate organisation, including management bodies, key functions and committees;
- an integrated risk management system;
- an internal control system.

The Company has four key functions as part of its risk management system: the actuarial function, compliance function, risk management function, and internal audit function. Furthermore, the Company has a risk management committee and actuarial committee.

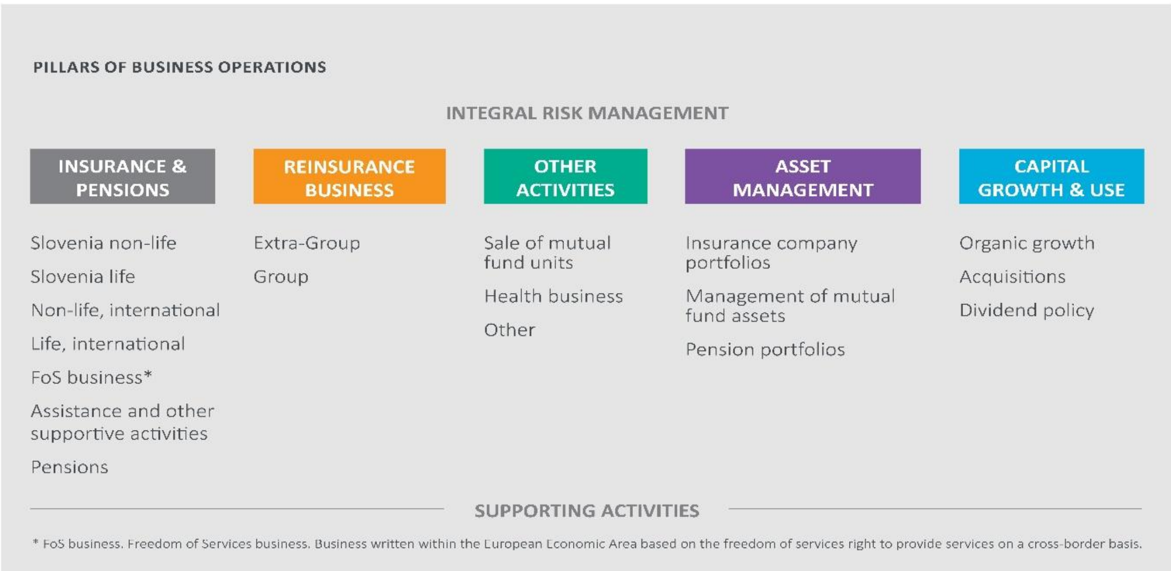
To ensure efficient risk management, the Company has in place a three-lines-of-defence model with clearly defined division of responsibilities and tasks:

- The first line of defence constitutes all organisational units with operational responsibilities (development, sales and reinsurance management, provision of reinsurance services, financial operations, accounting, controlling, human resources and others).
- The second line of defence consists of the risk management function, actuarial function, compliance function and risk management committee.
- The third line of defence consists of the internal audit function.

The composition of the Company's management and supervisory boards changed in 2019. Details are provided in section B.1.1.

Strategic focus of the Sava Insurance Group

The strategy of the Sava Insurance Group is based on the pillars as shown below:



Key guidelines set out in the strategy:

- **Digital transformation & placing the customer at the centre**: We are working to make it easier for policyholders to take out and manage insurance and to file claims, which also includes adapting our services to the needs and wishes of our clients. The new generation of digital customers is accustomed to fast and easy online shopping with as few clicks as possible. The Sava Insurance Group is adapting to this reality; therefore, we have placed our core strategic focus on digital transformation and customer-centred orientation.
- **IT transformation**: Developing a modern and flexible IT system will give us a competitive advantage in the future through the overhaul of our central systems, which includes replacements, upgrades and the introduction of new IT solutions.
- **Growth through acquisitions**: In addition to effective organic growth during the strategic period, the Sava Insurance Group will continue its acquisition activities in the industries and markets where it is already present, and it will also look for growth opportunities in the insurance industry in other EU countries.

Risk profile

The Company calculates its capital requirement in accordance with the Solvency II standard formula. The risk profile is dominated by market and non-life underwriting risk. To a lesser extent, the Company is also exposed to other types of risk: health underwriting risk, counterparty default risk and operational risk. Apart from the above risks, which are captured by the standard formula, the Company is also exposed to liquidity risk, and additionally to various strategic risks as a result of the complex internal and external environment.

The table below shows the Company’s solvency capital requirement in accordance with the Solvency II standard formula (hereinafter: SCR) by risk module.

Solvency capital requirement by risk module

(EUR thousand)	31 Dec 2019	31 Dec 2018
SCR	**187,820**	**162,522**
Adjustments for TP and DT	-2,669	-4,269
Operational risk	4,778	4,568
Basic solvency capital requirement (BSCR)	185,711	162,223
Sum of risk components	241,860	208,911
Diversification effect	-56,149	-46,687
Market risk	125,198	113,799
Counterparty default risk	14,256	6,422
Life underwriting risk	388	444
Health underwriting risk	2,711	2,537
Non-life underwriting risk	99,307	85,708

Valuation for solvency purposes

In accordance with article 174 of the Slovenian Insurance Act (ZZavar-1), assets are valued at amounts for which they could be exchanged between knowledgeable and willing parties in arm's-length transactions. Similarly, the Company values liabilities at amounts for which they could be transferred or settled between knowledgeable and willing parties in arm's-length transactions.

The following table shows the adjustments to the balance sheet items in accordance with the International Financial Reporting Standards (hereinafter: IFRS) made by the Company for Solvency II purposes. The table below shows equity in accordance with IFRSs and eligible own funds under Solvency II.

As can be seen from the table, Solvency II eligible own funds are significantly larger than IFRS equity and eligible own funds as at 31 December 2018. In order to support its development activities and the optimisation of its capital structure, in October 2019, Sava Re issued 20-year subordinated bonds with an issue size of EUR 75 million and a prepayment option after 10 years. The bonds were admitted to trading on the regulated market of the Luxembourg Stock Exchange. Subordinated bonds are part of eligible own funds under Solvency II.

Adjustments to equity (IFRS) for the SII valuation of the balance sheet

(EUR thousand)	31 Dec 2019	31 Dec 2018
IFRS equity	**343,921**	**319,355**
Difference in the valuation of participations	124,504	145,124
Difference in the valuation of other assets	-83,413	-77,683
Difference in the valuation of technical provisions	83,372	92,651
Difference in the valuation of other liabilities	16,934	11,194
Foreseeable dividends[1], distributions and charges	-16,195	-14,723
Subordinated liabilities in basic own funds	73,847	0
Solvency II eligible own funds	**542,969**	**475,918**

[1] Due to the events at the beginning of the year (coronavirus) and calls from the regulator to suspend dividend payments until 1 October 2020, the Company will rerun its financial condition assessment and take a position regarding the proposal for dividend payments after that date.

Capital management

The Company manages its capital to ensure that it has available, on an ongoing basis, sufficient own funds to meet its obligations and regulatory capital requirements. The composition of eligible own funds held to ensure capital adequacy must comply with regulatory requirements and ensure the achievement of the Company's strategic and operational goals.

The allocation of own funds to business activities must ensure the achievement of the Company's target return on equity.

The Company prepares its business and strategic plans based on the risk strategy, which determines the Company's risk appetite. When drafting the business and strategic plans, the Company makes sure that the plans are in line with the risk appetite, making adjustments if necessary. On the whole, the Company seeks to achieve an optimal allocation of capital.

The following table sets out the Company's capital adequacy as at 31 December 2019.

The Company's capital adequacy

(EUR thousand)	31 Dec 2019	31 Dec 2018
Solvency capital requirement (SCR)	187,820	162,522
Eligible own funds to meet the SCR	542,969	475,918
Of which tier 1	*469,123*	*475,918*
Of which tier 2	*73,847*	*0*
Of which tier 3	*0*	*0*
Solvency ratio	**289%**	**293%**
Minimum capital requirement (MCR)	46,955	40,630
Eligible own funds to meet the MCR	478,514	475,918
Of which tier 1	*469,123*	*475,918*
Of which tier 2	*9,391*	*0*
Of which tier 3	*0*	*0*
MCR ratio	**1,019%**	**1,171%**

As at 31 December 2019, most eligible own funds of the Company are classified as tier 1. In the fourth quarter of 2019, the Company issued subordinated bonds, totalling EUR 73.8 million, which under Solvency II are counted towards eligible own funds, specifically as tier 2 eligible own funds. As at 31 December 2019, the Company complied with the regulatory requirements on the level and quality of capital to cover the SCR and MSR because its solvency ratio substantially exceeded the regulatory requirement of 100% and stood at 289%, whereas the MCR ratio was 1,019%.

The Company also tested the adequacy of eligible own funds to cover the SCR and MCR several times during the year and found that it complied with the regulatory requirements throughout the year.

According to the risk strategy, a solvency ratio of 180% for the period 2017–2019 is still considered adequate, albeit suboptimal, and the optimal level of capitalisation starts at 220%. This demonstrates that the Company has an excellent capital position, also by its own criteria.

A. Business and performance

A.1 Business

Name and legal form of the Company

Sava Re d.d.
Dunajska cesta 56
1000 Ljubljana
Slovenia

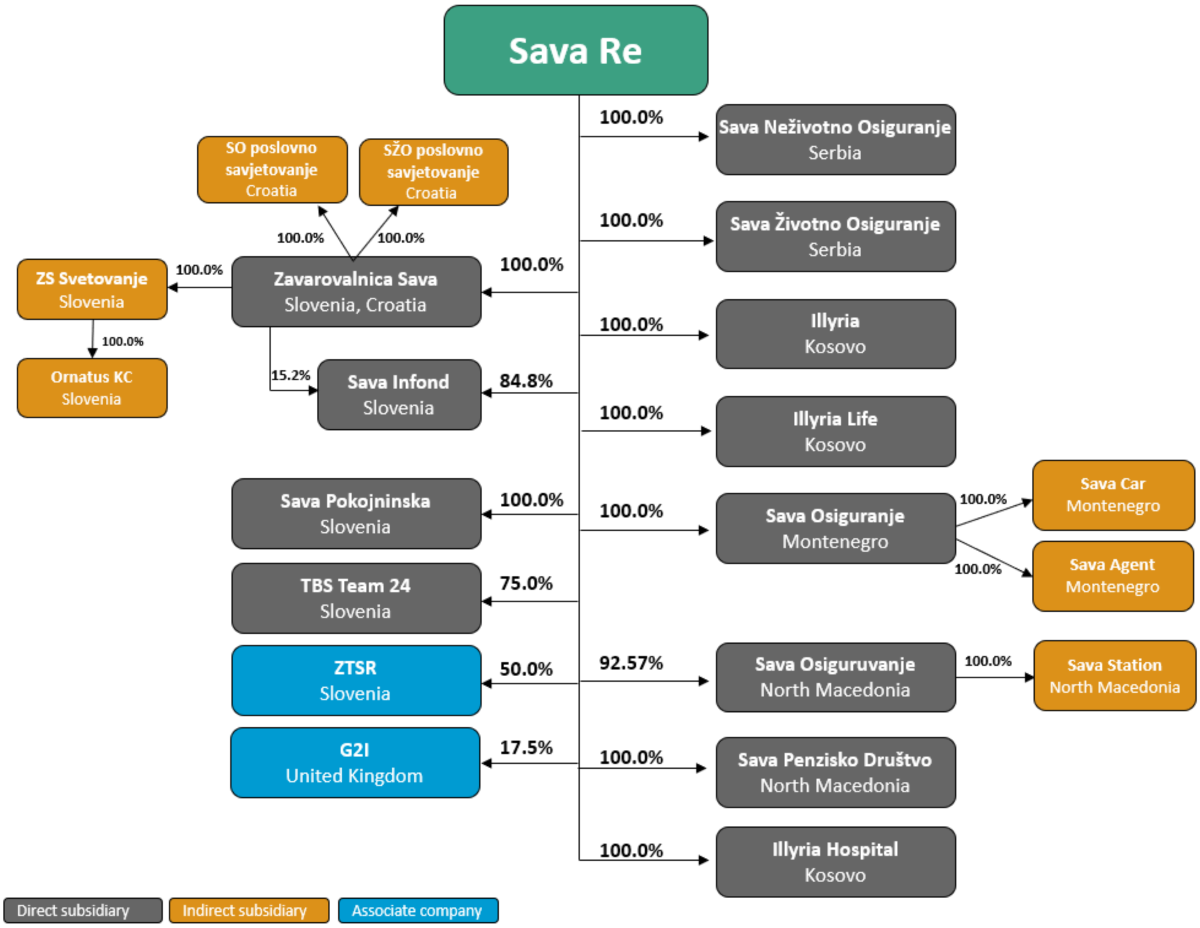
Sava Re transacts reinsurance business. In addition, it is the parent company of the Sava Insurance Group. The Sava Re Group comprises one composite insurance company in Slovenia (Zavarovalnica Sava), two life insurers based outside Slovenia (Sava Životno Osiguranje (SRB) and Illyria Life) and four non-life insurers outside Slovenia (Sava Neživotno Osiguranje (SRB), Sava Osiguruvanje (MKD), Illyria and Sava Osiguranje (MNE)).

In addition to the above (re)insurers, the Sava Re Group consists of:

- Sava Pokojninska: a Slovenian pension company;
- Sava Penzisko Društvo: a pension fund manager based in North Macedonia managing second- and third-pillar pension funds;
- Sava Infond. a subsidiary managing investment funds;
- TBS Team 24: a Slovenia-based company providing assistance services relating to motor, health and homeowners insurance;
- ZTSR: an associate company offering market research services;
- G2I: an associate company marketing on-line motor polices;
- Illyria Hospital: a company based in Kosovo that owns some real property but is currently dormant.

The following chart shows the position of Sava Re within the legal structure of the Group.

Position of Sava Re as at 31 December 2019



The following table provides details on all the subsidiaries of Sava Re.

Subsidiaries as at 31 December 2019

	Zavarovalnica Sava	Sava Pokojninska	Sava Neživotno Osiguranje (SRB)	Sava Životno Osiguranje (SRB)
Registered office	Cankarjeva ulica 3, 2000 Maribor, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia
Business activity	composite insurer	pension company	non-life insurer	life insurer
Share capital (EUR)	68,417,377	6,301,109	6,314,464	4,326,664
Book value of equity interest (EUR)	68,417,377	6,301,109	6,314,464	4,326,664
% equity interest (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2019 (EUR)	38,477,268	735,098	1,079,603	16,199
Position in the Group	subsidiary insurance company	subsidiary pension company	subsidiary insurance company	subsidiary insurance company

	Illyria	Illyria Life	Sava Osiguruvanje (MKD)	Sava Osiguranje (MNE)	Illyria Hospital
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Zagrebska br. 28 A, 1000 Skopje, North Macedonia	Ulica Svetlane Kane Radević br. 1, 81000 Podgorica, Montenegro	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Business activity	non-life insurer	life insurer	non-life insurer	non-life insurer	currently none
Share capital (EUR)	5,428,040	3,285,893	3,820,077	4,033,303	1,800,000
Book value of equity interest (EUR)	5,428,040	3,285,893	3,536,245	4,033,303	1,800,000
% equity interest (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 92.57%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2019 (EUR)	-2,267,470	290,251	201,857	1,233,918	-1,790,246
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary

	Sava Penzisko Društvo	TBS Team 24	ZTSR	G2I	Sava Infond
Registered office	Majka Tereza 1, 1000 Skopje, North Macedonia	Ljubljanska ulica 42, 2000 Maribor, Slovenia	Dunajska cesta 22, 1000 Ljubljana, Slovenia	Bailey House, 4-10 Barttelot Road, Horsham, West Sussex, RH12 1DQ, UK	Ulica Vita Kraigherja 5, 2000 Maribor, Slovenia
Business activity	pension fund management	assistance services and customer care	market research	insurance	investment fund asset management
Share capital (EUR)	2,110,791	8,902	250,000	121,300	1,460,524
Book value of equity interest (EUR)	2,110,791	6,677	125,000	21,228	1,460,524
% equity interest (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 75.0%	Sava Re: 50.0%	Sava Re: 17.5% / 25.0%	Sava Re: 84.00 % / 84.85 % Zavarovalnica Sava: 15.00% / 15.15%
Profit or loss for 2019 (EUR)	1,343,277	858,888	-122,515	37,405	653,378
Position in the Group	subsidiary pension company	subsidiary	associate company	associate company	subsidiary

Name and contact details of the supervisory authority responsible for the prudential control of the company

Insurance Supervision Agency
Trg republike 3
1000 Ljubljana
Email: agencija@a-zn.si

Name and contact details of the Company's external auditor

KPMG SLOVENIJA, Podjetje za Revidiranje, d.o.o.
Železna cesta 8A
1000 Ljubljana
Slovenia
Telephone: +386 1 420 11 70
Telefax: +386 1 420 11 58
Email: kpmg.lj@kpmg.si

The financial statements of the parent company have been audited by KPMG Slovenija, Podjetje za Revidiranje, d.o.o., Železna cesta 8A, Ljubljana, who were tasked with the auditing of the 2019 financial statements of Sava Re and the Sava Insurance Group for the first year. In 2019, most of the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. The 2019 financial statements of three Group member were audited by another audit firm. A contract for the auditing of the financial statements was signed with KPMG in 2019, covering the period 2019-2021. Sava Re complies with the Slovenian Insurance Companies Act provision on auditor rotation.

Holders of qualifying shares in the Company as at 31 December 2019

Shareholder	No. of shares	Holding	% voting rights
SDH d.d.	3,043,883	17.7%	19.6%
Zagrebačka Banka d.d. – fiduciary account	2,439,852	14.2%	15.7%

Source: KDD d.d. central securities register and own sources.
Notes:
Sava Re holds 1,721,966 own shares with no voting rights attached.
On 2 June 2016, Sava Re received a notice from Adris Grupa d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia (hereinafter: Adris Grupa) advising Sava Re of a change in major holdings in Sava Re. Adris Grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04% of issued shares and 21.15% of outstanding shares.

Material lines of business transacted by the Company and its main markets

The Company writes reinsurance contracts in the Slovenian market and globally. The following two tables list Sava Re's most important markets in 2019 (with premiums written exceeding EUR 7 million) and the Company's material lines of business. As evident from the first table, Sava Re (apart from its intra-Group business) sources most of its premiums from Asian markets.

Major markets that the Company operates in

(EUR thousand)	Premiums in 2019	Premiums in 2018	Index
Slovenia	71,210	58,214	122.3
South Korea	12,907	14,219	90.8
China	7,981	8,332	95.8
Other countries	74,431	70,872	105.0
Total	**166,528**	**151,636**	**109.8**

In terms of lines of business, proportional and non-proportional property reinsurance were the dominant lines, accounting for 61.2% of total gross premiums written in 2019. These were followed by proportional motor reinsurance lines, representing 18.8% of the total gross premiums written.

Premiums by line of business

(EUR thousand)	Gross premiums written in 2019	Gross premiums written in 2018
Proportional fire and other damage to property reinsurance	59,017	61,246
Non-proportional property reinsurance	42,975	31,331
Proportional other motor reinsurance	17,042	16,753
Proportional motor vehicle liability reinsurance	14,289	13,418
Proportional marine, aviation and transport reinsurance	8,744	6,476
Proportional income protection reinsurance	997	6,168
Proportional general liability reinsurance	7,266	6,077
Non-proportional casualty reinsurance	5,109	4,973
Non-proportional marine, aviation and transport reinsurance	8,173	3,233
Proportional medical expense reinsurance	430	807
Proportional miscellaneous financial loss reinsurance	385	335
Proportional credit and suretyship reinsurance	1,517	159
Non-proportional health reinsurance	1	107
Proportional legal expenses reinsurance	9	0
Life reinsurance	576	553
Total	**166,529**	**151,636**

Significant events in 2019

- On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions, becoming the sole owner of the Croatia-based companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.
- In April 2019, Sava Re issued the "Solvency and financial condition report of Sava Re d.d. 2018". The Company's solvency ratio for 2018 was 293%.
- In May 2019, the 35th general meeting of shareholders was held.
- In June 2019, Sava Re issued the "Sava Insurance Group solvency and financial condition report 2018". The Solvency II coverage ratio of the Sava Insurance Group for 2018 was 218%.
- On 7 June 2019, having met all the suspensive conditions under the sales agreement of 24 December 2018, Sava Re d.d. acquired a 77% stake in the share capital of Infond d.o.o. and an additional 7% stake under the sales agreement of 15 January 2019, totalling an 84% stake in the share capital, and, taking into account own shares, 85% of the voting rights. With the subsidiary Zavarovalnica Sava already holding a 15% stake in the company, the members of the Sava Insurance Group now hold 100% of the voting rights in Infond d.o.o.
- Following its regular annual rating review in July 2019, the rating agency Standard & Poor's affirmed the "A" insurer financial strength rating on Sava Re and Zavarovalnica Sava. The outlook was stable.
- In August 2019, Sava Re as the buyer and Cinxro Holdings Ltd. as the seller signed a contract for the sale of 80% of the share capital of Diagnostični Center Bled d.o.o. (Diagnostic Centre Bled), representing 100% of the voting rights. In addition, Sava Re signed an agreement with Zavarovalnica Triglav d.d. on the manner of cooperation in the acquisition of interests in the Diagnostic Centre Bled. In the agreement, the parties set out the key steps that will guide their joint control over the Diagnostic Centre Bled through their ZTSR d.o.o. joint venture.
- Following its regular annual rating review in October 2019, the rating agency AM Best affirmed the "A" (excellent) insurer financial strength rating of Sava Re. The outlook was stable.

- In October 2019, Sava Re issued subordinated bonds with a scheduled maturity of 2039 and with an early recall option for 7 November 2029. The capital raised is Tier 2 eligible and Solvency II compliant. Sava Re intends to use the net proceeds for general corporate purposes of the Sava Insurance Group and for the optimisation of its capital structure. The total issue size is EUR 75 million. The bond issue is intended for qualified investors and is listed on the regulated market of the Luxembourg Stock Exchange.
- In October 2019, Japan was hit by Typhoon Hagibis, one of the worst storms in the region in decades. The negative impact of the loss evet on the Group's result in 2019 exceeded EUR 5 million.
- At its meeting in December, the supervisory board of Sava Re took note of the notice of Srečko Čebron on his early termination of his term of office as Sava Re management board member and accepted his proposal for a consensual termination of employment contract as management board member as of 31 May 2020. At the same meeting, the supervisory board unanimously supported the proposal of Chairman of the Management Board Marko Jazbec and appointed Peter Skvarča, who comes from within the ranks of the Sava Insurance Group, as a new member of the management board.
- In December 2019, Sava Re as the buyer, and NLB d.d. and KBC Insurance NV as the sellers signed a sale, purchase and transfer agreement regarding 100% of the share capital in NLB Vita d.d. The acquisition of NLB Vita represents an important step for the Sava Insurance Group in the consolidation of its position in Slovenia's life insurance market. The bancassurance partnership between NLB Vita and NLB will continue to develop, as the bank remains the primary sales channel. The strengthening of partnerships with banks and the development of the bancassurance sales channel is an important strategic objective for the Sava Insurance Group. The transaction's completion depends on the satisfaction of certain suspensive conditions and regulatory approval. The transaction is expected to close by mid-2020.

Significant events after the reporting date

The Company presented an analysis of impacts of the coronavirus epidemic in its 2019 annual report, section 2.3 "Significant events after the reporting date"[2]. This analysis, prepared for both the Sava Insurance Group and Sava Re, is also set out below:

On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic. In Slovenia, the government declared an epidemic on 12 March 2020. Sava Re (the "Company") and other companies of the Sava Insurance Group (the "Group") are working to contain the effects of realised operational risk by following their business continuity protocols because the health of their staff and customers is paramount. The sensitivity of the Company's solvency ratio to market developments is presented in section C.2 of this report. Based on a number of publicly available macroeconomic projections, an economic slowdown is very likely and a transition into recession is possible. In addition, lower general consumption contributes to lower demand for insurance services because GDP growth is closely correlated with premium volume. The operations more exposed to the risk of a global economic downturn and volatility in financial markets are investment fund management, pension companies, and health and life business. The Group does not rule out the possibility that other classes of business will also be impacted.

The coronavirus epidemic as an external factor has had a severe impact on economic activity. The overriding assumption used in our assessments is that the viral infection will last for one quarter (to the end of June 2020). We assume that economic activity will then gradually return to growth over

[2] https://www.sava-re.si/media/objave/dokumenti/2019/Audited-annual-report-2019.pdf

the next three quarters because the cause of the economic slowdown is a virus rather than structural problems or imbalances in the local or global economy.

The local regulator has urged all (re)insurance companies to suspend dividend payments until 1 October 2020 and has extended certain deadlines for reporting requirements. To date no other measures have been taken by the insurance regulator, but the European Insurance and Occupational Pensions Authority has already announced the possibility of additional measures on their part to help insurance companies in the current situation. In our assessment of the expected impacts of the virus, we did not take into account the assumption that we would use or need help from the regulator or the state.

By the date of the approval of the 2019 solvency and financial condition report of Sava Re, the Company's management assessed the impacts of the epidemic on operations and operating results:

- a decline in the value of the financial investment portfolio due to a slowdown in economic growth and falls in stock markets;
- an increase in claim payments in the life segment mainly due to an adverse impact on the underwriting risk of whole life products as the result of increased morbidity and mortality;
- a decline in premium income from new life policies because of social distancing rules for agents and the closure of sales offices;
- a decline in non-life insurance premiums due to social distancing rules for agents and closure of sales offices;
- an increase in claim payments in connection with the tourist industry, under travel policies with assistance and business interruption policies;
- an increase in credit risk, and losses arising from impairment and write-offs of insurance premium receivables.

Among the insurance classes that the Group expects to be relatively most impacted in terms of premiums are travel insurance due to trip cancellations, commercial non-life insurance due to the economic downturn, and motor insurance due to both the expected delay in policy renewal and the decline in premiums from insurance of car rental, goods vehicles and passenger cars, where a decline in new vehicle sales is also expected due to lower general consumption.

In view of the unfavourable claims experience, we expect an impact on the performance of whole life, unit-linked and term life policies. Given the social distancing rules imposed on agents and the limited time that sales offices and agencies remain open, we expect premiums from new life business to decline. We also expect certain losses from insolvency and business interruption insurance in the industry.

We estimate that the epidemic could cause a short-term severe decline in economic activity, followed by a drop in risk-free interest rates, widening of credit spreads on debt instruments, and a drop in stock, infrastructure and real estate investments.

A drop in capital markets and developments in the insurance industry will also have an impact on eligible own funds and solvency capital requirement, and consequently on the solvency position of the Group and the Company. Because it is difficult to make educated guesses at this early stage of the epidemic, we base our assessments on scenarios used in our own risk and solvency assessment (ORSA) for 2020, and we present the correlation below. As already mentioned, we expect the coronavirus to have several impacts on our business related to our investments and insurance portfolios, as well as other areas.

In the ORSA, the Sava Insurance Group and Sava Re considered individual scenarios and a combination of scenarios to assess their overall impact on operations and capital adequacy. In determining the scenarios, we proceeded from our own risk profile of the Sava Insurance Group and Sava Re and tried to identify which events could have a material impact on our operations and capital adequacy. The assumptions made in the scenarios developed for ORSA were compared with identified risks associated with the coronavirus. We assessed that ORSA scenarios covered the main risks associated with the coronavirus, and the assessment of the scenario consequences is even more conservative than the expected consequences of the epidemic (in particular with respect to potential effects of the financial scenario as presented further below). We have not yet quantified the coronavirus effects; nevertheless, we assess the combined ORSA scenario as a conservative estimate of risks and their possible magnitude.

In the ORSA, which is used as an approximation for the coronavirus impact assessment, the solvency calculation was conducted in accordance with the Solvency II formula. In the assessment of the solvency position, we did not take into account any regulatory measures taken.

The combined scenario for the Group included the following individual scenarios:

- a non-life scenario assuming a worsening of the loss ratio of 10 percentage points for a certain segment of the non-life portfolio;
- a life scenario assuming an increase of 10 percentage points in the costs per life insurance policy, which would occur due to a decrease in the life portfolio or less new business; this would cause a deterioration in life portfolio performance and a decline in eligible own funds;
- a financial scenario assuming a decline in the value of investments as a consequence of a downturn in economic activity and an increase in unemployment figures and bankruptcy petitions; the scenario simulates the situation during the 2008–2009 financial crisis;
- a natural catastrophe scenario assuming two major catastrophic events in the region where Sava Re has significantly exposure.

For Sava Re alone, the same methodology as for the Group was used, but we tested only combined scenarios of two individual scenarios: the financial scenario and the natural catastrophe scenario. For Sava Re the life and non-life scenarios are not relevant.

The impact on the financial investments portfolio was estimated by simulating the impacts of the 2008–2009 financial crisis on the investment portfolio estimate as at year-end 2019. The following assumptions were used for this simulation:

- the spread applying to investment grade government bonds remains unchanged or tightens only slightly,
- the spread applying to financial bonds widens by 150 bp to 620 bp,
- the spread applying to investment grade corporate bonds widens by 320 bp to 750 bp,
- the spread applying to non-investment grade corporate bonds widens by 190 bp to 1600 bp,
- equity prices fall by 40% to 80%,
- investment property and infrastructure investments fall by 22% (shown as investment fund assets).

We estimate that that the ORSA assumptions should be adjusted to the coronavirus case as follows:

Government bonds: the impact of the coronavirus on government bonds will be very similar to the one in 2008–2009 and, based on available information on movements in government bonds, we expect a materially higher increase in the value of Sava Re’s portfolio of government bonds, given the material increase in returns on the safest investments.

Corporate bonds and loans: we expect the value of corporate bonds to decline by 40% to 60% of the assumed declines used in the 2008–2009 ORSA financial crisis scenario. We believe that the likelihood of a widening of credit spreads due to the coronavirus with the intensity assumed under the ORSA scenario is relatively low due to the following circumstances:

- the regulatory framework in which financial institutions currently operate is significantly more stable,
- there are mechanisms to provide assistance and liquidity,
- the capitalisation of the financial system is significantly higher,
- the experience gained in previous crises will help us respond in a faster and more coordinated manner.

Equity securities and property: we expect the value of corporate bonds to decline by 60% to 90% of the assumed declines used in the 2008–2009 ORSA financial crisis scenario. Our expectation is based on the following circumstances:

- stock markets have seen extremely high growth in the last 10 years,
- until the reporting date, more than 50% of the projected correction had been realised,
- the duration and magnitude of the epidemic and the impact on the economic activity cannot be estimated.

Overall, we believe that the impact of the epidemic on profit will be smaller than the one projected by the 2008–2009 ORSA financial crisis scenario (re-enactment of the financial crisis of 2008 and 2009). This is mostly due to the expectation that recovery after the epidemic is expected to be faster than observed in the 2009–2009 crisis because the trigger of the economic slowdown is not structural (low capitalisation of the financial sector and excessive debt) but rather a severe external factor, which we assume will have a relatively short duration (less than 12 months).

The overall impact of the combined scenario described above is that the eligible own funds of the Sava Insurance Group and Sava Re would decline by a material amount. The decline would be partly offset by a lower solvency capital requirement, primarily as the result of a lower value of the investment portfolio.

While we expect the Group's solvency ratio to decline, we estimate that it would remain well above the regulatory requirement of 100% and above the minimum solvency ratio as set in the Group's risk strategy for 2020–2022, at 150%. For Sava Re, we estimate that the solvency ratio would be marginally lower, but would still exceed 200%. Thus, even if all the assumptions of the combined scenario materialise, we believe that the capital position of the Sava Insurance Group and Sava Re will remain adequate.

Thus, based on the combined scenario, we estimate that the coronavirus outbreak could have a material impact on the performance of the Sava Insurance Group and Sava Re, but management has assessed that it is not expected to threaten their solvency thanks to their high solvency ratios.

Compared to the Company's solvency ratio as at 31 December 2019 published in this report, the solvency ratio will decline as a result of the coronavirus outbreak. However, it will remain well above the regulatory required level, which means that the Company remains well capitalised.

We also believe the liquidity risk will not be significant in the next 12 months, and consequently that the Group and the Company can continue their business operations, and that the going concern assumption is valid. Our assessment is based on a highly liquid investment portfolio and cash flows that can be expected given the estimated performance of core business activities. These cash flows will provide adequate liquidity for a prolonged period of distressed economic conditions.

Operational risk management

In line with measures taken by the Slovenian government, including nation-wide restrictions on non-essential services, and expert recommendations to shut down public life, the Sava Insurance Group also introduced measures to protect the health of people and prevent the spread of the coronavirus.

In its efforts to contain the impacts of this realised operational risk, the Sava Insurance Group is following its business continuity protocols because the health of its staff and customers is paramount. To this end, as of Monday, 16 March 2020, the Slovenian members of the Sava Insurance Group entered a hybrid mode of operation, with employees working partly in the office and partly from home, but predominantly working remotely.

In accordance with the business continuity protocols and recommendations of the crisis management team, the Group companies have mapped all key and urgent processes and have ensured that they are running smoothly with employees working from their homes. The employees have safely relocated the required means of work to their home environments. Regarding claims handling, the Group companies are following measures imposed by local governments and take into account the operation of other entities in the market. In the case of an emergency that needs to be resolved immediately and cannot be remotely resolved, an on-call team is scheduled for dispatch to perform on-site inspections, using the required protective equipment.

Information on the health of employees engaged in all key processes is compiled daily, as well as information on the hybrid mode of operation.

A.2 Underwriting performance

Premiums, claims, expenses, and profit or loss

(EUR thousand)	2019	2018	Index
Gross premiums written	166,529	151,636	109.8
Gross claims paid	86,984	82,688	105.2
Net operating expenses	47,395	45,033	105.2
excluding subsidiary governance expenses	23,946	25,698	93.2
Net profit or loss[3]	38,582	41,867	87.9

Gross premiums written by material line of business

(EUR thousand)	2019	2018	Index
Proportional fire and other damage to property reinsurance	59,017	61,246	96.4
Non-proportional property reinsurance	42,975	31,331	137.2
Proportional other motor reinsurance	17,042	16,753	101.7
Proportional motor vehicle liability reinsurance	14,289	13,418	106.5
Other lines of business	33,207	28,888	115.0
Total	**166,529**	**151,636**	**109.8**

Gross premiums written by geographical area

(EUR thousand)	2019	2018	Index
Slovenia	71,210	58,214	122.3
International	95,319	93,423	102.0
Gross premiums written	**166,529**	**151,636**	**109.8**

In 2019, gross premiums written in Slovenia rose by 22.3%, or EUR 13.0 million (increase in premiums written by Zavarovalnica Sava). This favourable premium growth is the result of growth in motor business (increase in both the average premium and number of policies written), attraction of some new clients and growth in the portfolio of direct international business based on the freedom of services principle. Gross premiums written from abroad increased by 2.0%, or EUR 1.9 million, due to the growth in non-Group non-proportional business.

In 2019, property business still dominated gross premiums written grouped by material line of business. The share of proportional reinsurance premiums fell by 5.0 percentage points compared to 2018, and the share of non-proportional premiums rose by 5.1 percentage points.

Gross claims paid by material line of business

(EUR thousand)	2019	2018	Index
Proportional fire and other damage to property reinsurance	33,135	31,121	106.5
Non-proportional property reinsurance	17,943	14,751	121.6
Proportional other motor reinsurance	11,324	11,946	94.8
Proportional motor vehicle liability reinsurance	9,643	7,552	127.7
Other lines of business	14,938	17,317	86.3
Total	**86,984**	**82,688**	**105.2**

[3] Shown is the net profit or loss of Sava Re, including the net profit or loss of the Company's holding activities.

Gross claims paid by geographical area

(EUR thousand)	2019	2018	Index
Slovenia	29,863	28,900	103.3
International	57,121	53,788	106.2
Total	**86,984**	**82,688**	**105.2**

In 2019, Sava Re's gross claims paid increased by 5.2% year on year, chiefly owing to the occurrence of more catastrophic disasters in 2019 (two typhoons in Japan, a hurricane in the Bahamas, fires in the United Kingdom and in Qatar) than in the previous year (typhoons in Japan, floods in India). The structure of claims paid by large material line of business did not change significantly compared to 2018.

Net claims incurred increased by 22.9% compared to 2018. Apart from the negative impact of catastrophic events, 2019 net claims incurred also rose due to exchange differences. In 2019, these had a negative impact of EUR 1.7 million (in 2018, the impact was positive in the amount of EUR 0.3 million).

As a result, the net incurred loss ratio of Sava Re in 2019 was an 11.6 percentage point deterioration from 2018 and stood at 69.0%. If exchange differences are excluded, the ratio deteriorated by only 10.1 percentage points.

Net operating expenses

(EUR thousand)	2019	2018	Index
Acquisition costs, including change in deferred acquisition costs	35,724	34,848	102.5
Change in deferred acquisition costs (+/-)	1,267	-43	-2,917.9
Other operating expenses	13,467	12,759	105.6
Reinsurance commission income	-3,063	-2,530	121.1
Net operating expenses	**47,395**	**45,033**	**105.2**

Net operating expenses by material line of business[4]

(EUR thousand)	2019	2018	Index
Proportional fire and other damage to property reinsurance	12,550	14,223	88.2
Non-proportional property reinsurance	5,604	4,631	121.0
Proportional marine, aviation and transport reinsurance	1,636	1,817	90.1
Proportional medical expense reinsurance	911	1,451	62.8
Other lines of business	3,245	3,576	90.7
Total	**23,946**	**25,698**	**93.2**
Expenses associated with subsidiary governance	23,449	19,335	121.3
Total	**47,395**	**45,033**	**105.2**

In 2019, acquisition costs (commissions) increased by 2.5%, while gross premiums increased by 9.8%. The share of acquisition costs as a percentage of gross premiums written decreased by 1.5 p.p. year on year to 21.5%. The change in deferred acquisition costs (increase in 2019, decrease in 2018) was higher in 2019 than in 2018 due to more gross premiums written, leading to lower unearned premiums.

Other operating expenses of Sava Re comprise reinsurance costs (50.1%) and Group management costs (49.7%). Expenses of Sava Re rose by 5.6% compared to 2018, primarily due to the rise in personnel costs and costs of intellectual and personal services. The later costs were mainly due to

[4] Excluded are expenses relating to the management of subsidiary companies.

computer services and strategic investments in 2019. Amortisation costs also increased, reflecting higher costs of software. Expenses by nature are shown in note 36 of the annual report notes to the financial statements.

The higher reinsurance commission income is primarily the result of increased commission income generated by Sava Re's retrocession business relating to reinsurance programmes of the Slovenian cedants. This effect relates to more commissions received on surplus reinsurance treaties, which means that due to good results in 2018 Sava Re received more commissions in 2019 from retrocessionaires.

Other technical income and other technical expenses

In 2019, the Company realised EUR 3.1 million (2018: EUR 2.5 million) of reinsurance commission income. The net effect of exchange differences relating to other technical income totalled EUR 0.2 million (2018: EUR 41,886).

A.3 Investment performance

The Company monitors the performance of its portfolio investment activities and investment property by investment register and for the Company as a whole. Net investment income and return on investments are monitored by class of investment as well as by type of income and expense. The following tables show income, expenses and net investment income by class of investment and type of income and expense. The income and expenses relating to strategic investments in subsidiaries are monitored separately.

Investment income and expenses by type

Type of income	1 Jan – 31 Dec	
(EUR thousand)	2019	2018
Interest income	3,463	3,590
Change in fair value and gains on disposal of FVPL assets	628	92
Gains on disposal of other IFRS asset categories	294	478
Income from dividends and shares in Group companies and associates	36,948	33,558
Income from dividends and shares – other investments	830	676
Exchange gains[5]	1,413	0
Diverse other income	1,232	698
Income relating to the investment portfolio	**44,808**	**39,092**
Income relating to the investment portfolio, excluding exchange differences	43,395	39,092
Type of expense	**1 Jan – 31 Dec**	
(EUR thousand)	**2019**	**2018**
Interest expenses	495	0
Change in fair value and losses on disposal of FVPL assets	255	218
Losses on disposal of other IFRS asset categories	140	125
Impairment losses on subsidiaries and associates	0	4,021
Impairment losses on investments	0	1,944
Exchange losses	0	97
Other	202	256
Expenses relating to the investment portfolio	**1,092**	**6,660**
Expenses relating to the investment portfolio, excluding exchange differences	1,092	6,563
Net investment income of the investment portfolio	**43,716**	**32,432**
Net investment income of the investment portfolio, excluding the effect of exchange differences	**42,303**	**32,528**

In 2019, investment income totalled EUR 44.8 million, up EUR 5.7 million year on year; excluding exchange differences, investment income increased by EUR 4.3 million. The largest contribution to total 2019 income related to dividend income from subsidiaries, totalling EUR 36.9 million (accounting for 82% of total income relating to the investment portfolio), up EUR 3.4 million year on year. Compared to the previous period, capital gains dropped by EUR 0.2 million to EUR 0.3 million in 2019. Interest income fell by EUR 0.1 million, accounting for 8% of financial income. In 2019, exchange gains of EUR 1.4 million were realised (2018: EUR -0.1 million).

[5] The data for 2018 differ from those in the 2018 SFCR because exchange gains and losses are shown on a net basis.

Compared to the same period last year, investment portfolio expenses decreased by EUR 5.6 million, and by EUR 5.5 million excluding exchange differences. In 2019, investment expenses were mainly comprised of interest expenses of EUR 0.5 million.

Net investment income by class of asset

(EUR thousand)	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains/losses	Other income/ expenses	Total	Income/ expenses of associates
Held to maturity	**103**							**103**	
Debt instruments	103							103	
Other investments									
At fair value through P/L	**174**	**374**		**23**				**570**	
Held for trading									
Debt instruments									
Equity instruments									
Other investments									
Designated to this category	174	374		23				570	
Debt instruments	174	263						437	
Equity instruments		111		23				133	
Other investments									
Investments in infrastructure funds									
Derivatives									
Available for sale	**3,015**		**154**	**807**		**1,413**	**447**	**5,836**	**36,948**
Debt instruments	3,015		282			1,413	447	5,158	
Equity instruments			-111	626				515	36,948
Other investments									
Investments in infrastructure funds			-18	171				154	
Investments in property funds				9				9	
Loans and receivables	**148**						**-2**	**146**	
Debt instruments	141						-2	139	
Other investments	7							7	
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**23**							**23**	
Subordinated liabilities	**-495**							**-495**	
Total	**2,968**	**374**	**154**	**830**		**1,413**	**445**	**6,184**	**36,948**

The bulk of the Company's net investment income was net investment income generated by Group companies and associates, amounting to EUR 36.9 million. Net interest income totalled EUR 3.0 million.

Fair value reserve – movement

(EUR thousand)	2019	2018
As at 1 Jan	**2,697**	**3,805**
Change in fair value	5,048	-1,165
Transfer of the negative fair value reserve to the IS due to impairment	-1,794	0
Transfer from fair value reserve to the IS due to disposal	-142	-202
Deferred tax	-591	260
As at 31 Dec	**5,218**	**2,697**

The Company holds no securitised assets.

A.4 Performance of other activities

Other income and expenses

In 2019, the Company realised other income of EUR 805 thousand (2018: EUR 701 thousand) and EUR 289 thousand of other expenses (2018: EUR 279 thousand).

Other income mainly includes rental income and other finance income from investment property, collected bad debt relating to other receivables that had been written-off, and income from the use of holiday facilities. The other expenses item mainly comprises expenses relating to amortisation/depreciation of non-operating assets, expenses from investment property, penalties and damages, and tax non-deductible expenses.

A.5 Any other information

The Company has no other material information relating to its business.

B. System of governance

B.1 General information on the system of governance

B.1.1 Governing bodies

General

Sava Re has a two-tier management system with a management board that conducts the business and a supervisory board in charge of oversight. The governing bodies – the general meeting, and the supervisory and management boards – are governed by laws, regulations, the Company's articles of association, and internal rules. The Company's articles of association and the rules of procedure of both the general meeting and the supervisory board are posted on the Company's website, at www.sava-re.si.

The governing bodies carry out their duties in accordance with statutory regulations, the Company's internal rules, general guidelines established by the Company's corporate governance policy, other policies of the Company and other internal acts.

The Company is run by the management board, whose work is supervised by the supervisory board. The management and supervisory boards work for the benefit of the Company. The Company's articles of association, the Companies Act, the Insurance Act, the rules of procedure of the management board and those of the supervisory board establish the segregation of duties and responsibilities between the management and supervisory boards, and the mode of their cooperation.

The management board is autonomous in conducting the Company's business and decision-making. Before making major decisions that could significantly affect the operations, financial position or legal position of the Company, the management board notifies the supervisory board thereof in order to reach a consensus regarding such issues. The management board consults the supervisory board on business operations, strategy, risk management and matters concerning public relations.

The chairman of the management board informs the chairman of the supervisory board or the entire supervisory board about major events essential to assessing the Company's position and to conducting the business. When only the chair of the supervisory board is informed, the chair must communicate the information to other members of the supervisory board and, if necessary, call a supervisory board meeting. The management and supervisory boards collaborate closely in accordance with the law and good practice for the benefit of the Company.

General meeting of shareholders

The general meeting of shareholders is the supreme body of the Company through which shareholders exercise their rights in company matters. The general meeting decides on the following:

- adoption of the annual report, unless approved by the supervisory board, or if the management and supervisory boards leave the decision on its adoption to the general meeting of shareholders;
- appropriation of distributable profit, at the proposal of the management board and based on a report by the supervisory board;
- appointment and removal of supervisory board members;
- granting discharge to the management and supervisory board members;
- adopting amendments to the articles of association;

- measures for increasing and decreasing capital;
- dissolution of the company and its transformation in terms of status;
- appointment of the auditor, at the proposal of the supervisory board;
- other matters in accordance with the law and articles of association.

The terms of reference of the general meeting are governed by its rules of procedure, which are posted on the Company's website, at www.sava-re.si.

Supervisory board

The supervisory board oversees the Company's conduct of business and appoints the members of the management board.

The chief tasks of the supervisory board are to:

- monitor and oversee the business conduct and operations of the Company, and, in the case of weaknesses or irregularities, propose remedial action to the management board;
- give consent to the business policy and financial plan of the Sava Re Group and Sava Re as prepared by the management board;
- give consent to the development strategy of the Sava Re Group and Sava Re as prepared by the management board;
- give consent to the written rules of the system of governance, risk management, compliance, internal audit, actuarial function, internal controls and outsourced business;
- give consent to the granting and withdrawing of authority relating to key function holders;
- give consent to the solvency and financial condition report of the Company and the Group;
- give consent to the risk strategy of the Company and the Group as prepared by the management board;
- give consent to the own risk and solvency report and quarterly risk reports of the Company and the Group;
- consider compliance function reports;
- consider actuarial function reports;
- give consent to the framework annual and the long-term work plan of the internal audit plan as prepared by the management board;
- oversee the adequacy of the procedures used by and the effectiveness of the internal audit function and to consider internal audit function reports;
- issue an opinion for the general meeting to be attached to the annual report on internal auditing;
- give consent to the appointment, removal and remuneration of the head of internal audit;
- review the annual and interim financial reports of the Sava Re Group and Sava Re;
- review the annual report submitted by the management board, adopt an opinion on the auditor's report, and prepare a qualified or confirmatory report for the general meeting;
- review the proposal regarding the appropriation of the distributable profit submitted by the management board, and prepare a written report for the general meeting;
- appoint and remove the chair and the members of the management board,
- decide on the criteria for determining the remuneration and reward system of the chair and the members of the management board;
- adopt the rules of procedure of its operation;
- draft general meeting resolutions within the supervisory board's terms of reference, and to perform tasks directed by the general meeting;
- consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory function over the Company.

Pursuant to the Company's articles of association and the applicable legislation, the supervisory board is composed of six members, of which four (shareholder representatives) are elected by the

Company's general meeting, and two (employee representatives) are elected by the workers' council, which informs the general meeting of its decisions. Supervisory board members are appointed for a term of up to four years and may be re-elected. The supervisory board members elect a chair and deputy chair from among its members.

The supervisory board is composed so as to ensure responsible oversight and decision-making in the best interest of the Company. Its composition takes account of diversity in terms of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent oversight of the Company's affairs. In 2019, the Company sought to align the composition of the supervisory board with the Company's policy on the diversity of the management and supervisory boards.

The Company's policy on the diversity of the management and supervisory boards is posted on the Company's website, at www.sava-re.si.

Terms of reference and operation of the supervisory board

The supervisory board must comply with applicable regulations, particularly the laws on companies, insurance business, the Company's articles of association and the rules of procedure of the supervisory board. In accordance with the law, the supervisory board must be convened at least on a quarterly basis, generally after the end of each quarter. If necessary, the supervisory board may meet more frequently. The terms of reference of the supervisory board are governed by its rules of procedure, which are posted on the Company's website, at www.sava-re.si.

The supervisory board in 2019

Composition of the supervisory board in 2019

Member	Title	Beginning of term of office	Duration/expiry of term
Mateja Lovšin Herič	chair	16 Jul 2017	16 Jul 2021
Keith William Morris	deputy chair	16 Jul 2017	16 Jul 2021
Davor Ivan Gjivoje	member	7 Mar 2017	7 Mar 2021
Andrej Kren	member	16 Jul 2017	16 Jul 2021
Andrej Gorazd Kunstek	member, employee representative	12 Jun 2019	12 Jun 2023
Mateja Živec	member, employee representative	12 Jun 2019	12 Jun 2023

Supervisory board committees

Pursuant to legislation, the Code and best practice, the supervisory board appoints one or more committees, tasking them with specific areas, the preparation of draft resolutions of the supervisory board, the implementation of resolutions of the supervisory board, thereby offering it professional support.

The Company has established the following supervisory board committees:

- the audit committee,
- the risk committee,
- the nominations and remuneration committee,
- the fit and proper committee.

Audit committee

The chief tasks of the audit committee are to:

- oversee the integrity of financial information;
- monitor the efficiency and effectiveness of internal controls, the operation of the internal audit department and risk management systems;
- monitor the statutory audit of independent and consolidated financial statements;
- perform other tasks assigned by a valid resolution of the supervisory board, in line with statutory requirements and best practices of peer companies or insurance groups.

In 2019, the audit committee comprised the following members: Andrej Kren (chair), and the members Mateja Lovšin Herič and Ignac Dolenšek (external member).

Risk committee

The chief tasks of the risk committee are to:

- assess the impact of various types of risk on economic and regulatory capital;
- assess the Group's overall risk governance framework, including the risk management policy, the risk strategy, and monitoring of operational risk;
- assess the appropriateness and adequacy of risk management documents to be approved by the supervisory board;
- perform other tasks assigned by a resolution of the supervisory board, in line with statutory requirements and best practices of peer companies or insurance groups.

In 2019, the risk committee comprised the following members: Keith William Morris (chair), and the members Davor Ivan Gjivoje and Slaven Mićković (external member).

Nominations and remuneration committee

The chief tasks of the nominations and remuneration committee of the supervisory board include:

- drafting proposals for the supervisory board regarding the criteria for membership of the management board, and considering and drafting proposals concerning nominations to be decided by the supervisory board;
- preliminarily considering the proposal of the chair of the management board regarding the composition of the management board and the Company's governance, and drawing up proposals for the supervisory board;
- carrying out the nomination procedure for candidates for membership of the supervisory board who are shareholder representatives;
- providing support in drawing up and implementing a system for remuneration, reimbursements and other benefits for management board members.

In 2019, the nominations and remuneration committee was composed of Mateja Lovšin Herič, (chair), and the members Keith William Morris, Davor Ivan Gjivoje Jr. and Andrej Kren.

Fit and proper committee

The chief tasks of the fit & proper committee include:

- to carry out procedures for assessing the competence of the supervisory board, supervisory board committees and the management board as collective bodies, and to conduct fit and proper assessments of individual members of these bodies;

- at the request of the Company's workers' council, to carry out a fit and proper assessment of any member of the supervisory board (employee representative) elected by the workers' council.

In 2019, the fit and proper committee comprised the following members: Mateja Živec (chair), and the members Keith William Morris, Rok Saje (external member) and Andrej Kren (alternate member).

Management board

The management board conducts the business of the Company and represents it in public and legal matters. It is composed of at least two but no more than five members, of whom one is the chair and the others are members of the management board. The chair and members of the management board are appointed by the supervisory board for a period of five years. Such appointments are renewable without limitations.

The chief duties of the management board are to:

- provide leadership and organise the operations of the Company;
- represent the Company;
- be responsible for the legality of the Company's operations;
- adopt the development strategy of the Company and the Group, which is presented to the supervisory board for consent;
- adopt the business policy and financial plan of the Company and the Group, which is presented to the supervisory board for consent;
- adopt internal acts of the Company;
- approve and periodically review strategies and written rules on risk management, the internal control system, internal audit, the actuarial function and outsourcing, and ensure their implementation;
- adopt the report on the solvency and financial condition and submit it to the supervisory board for consent;
- grant authorisation to key function holders of the Company subject to the consent of the supervisory board;
- report to the supervisory board on operations of the Company and the Group;
- prepare a draft annual report, including a business report, and submit it to the supervisory board together with the auditor's report and a proposal regarding appropriation of distributable profit for approval;
- convene the general meeting of shareholders;
- implement the resolutions adopted by the supervisory board.

The chairperson and all members of the management board are employed on a full-time basis. The exact number of management board members and the areas for which each individual member is responsible is laid down in the "Act on the management board of Sava Re d.d." adopted by the supervisory board. The management is composed so as to ensure responsible oversight and decision-making in the best interest of the Company. The management board's composition takes account of diversification of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent conduct of the Company's business. In 2019 the Company sought to align the composition of the management board with the Company's policy on the diversity of the management and supervisory boards.

The Company's policy on the diversity of the management and supervisory boards is posted on the Company's website, at www.sava-re.si.

Terms of reference and operation of the management board

The management board operates in accordance with the applicable legislation, particularly the Slovenian Companies Act and the Insurance Act, as well as with the articles of association and the act on the management board and its rules of procedure. Terms of reference and operation of the management board are defined in more detail in the “Rules of procedure of the management board”.

Segregation of powers between the management and supervisory bodies is described in greater detail in the “Corporate governance policy of Sava Re d.d.”, which is posted on the Company’s website, at www.sava-re.si.

The management board in 2019

In 2019, the management board comprised the following members: Marko Jazbec, chairman, and members Srečko Čebron, Jošt Dolničar and Polona Pirš Zupančič.

At its meeting of 19 December 2019, the supervisory board of Sava Re d.d. took note of the notice of Srečko Čebron on his early termination of his term of office as Sava Re management board member and accepted his proposal for a consensual termination of employment contract as management board member as of 31 May 2020. At the same meeting, the supervisory board unanimously supported the proposal of Chairman of the Management Board Marko Jazbec and appointed Peter Skvarča, who comes from within the ranks of the Sava Insurance Group, as a new member of the management board. Peter Skvarča, who will be responsible for reinsurance operations after the retirement of Srečko Čebron, has been appointed for a five-year term, beginning on the next business day following the receipt of the Insurance Supervision Agency’s decision to issue a licence to Peter Skvarča to act as a member of the management board.

Composition of the management board in 2019

Full name	**Marko Jazbec**	**Srečko Čebron**	**Jošt Dolničar**	**Polona Pirš Zupančič**
Function	chairman	member	member	member
Area of responsibility at management board level	• coordination of work of the management board • finance • general, HR, organisational and legal affairs • public relations • compliance • internal audit • management of mutual funds • health business • projects and innovations • modelling	• reinsurance operations • facultative reinsurance underwriting • actuarial affairs	• management of strategic investments in direct insurance subsidiaries, including pension insurance • process and information technology • oversight of the development of non-life, life and pension insurance • sales and customer relations	• corporate finance & controlling • accounting • investor relations • risk management
First appointed	12 May 2017	9 Feb 2009	31 Dec 2008	14 Jan 2018
End of term of office	12 May 2022	31 May 2020	1 Jun 2023	14 Jan 2023

Reporting

The management board reports, at least quarterly, to the supervisory board in a comprehensive and accurate manner on:

- the implementation of business policies and other principles relating to business,
- the profitability of the Company, particularly return on equity,
- business performance, especially on business volumes, the financial situation and solvency,
- transactions that may have a significant impact on the profitability and solvency of the Company, and
- all material risks that have, or could have, a significant impact on the Company's capital adequacy.

B.1.2 Risk management

The risk management system is one of the key building blocks of the system of governance. The management board ensures that it has in place an effective risk management system based on an appropriate organisational structure. More about these risks is set out in section B.3.

B.1.3 Key functions of the risk management system

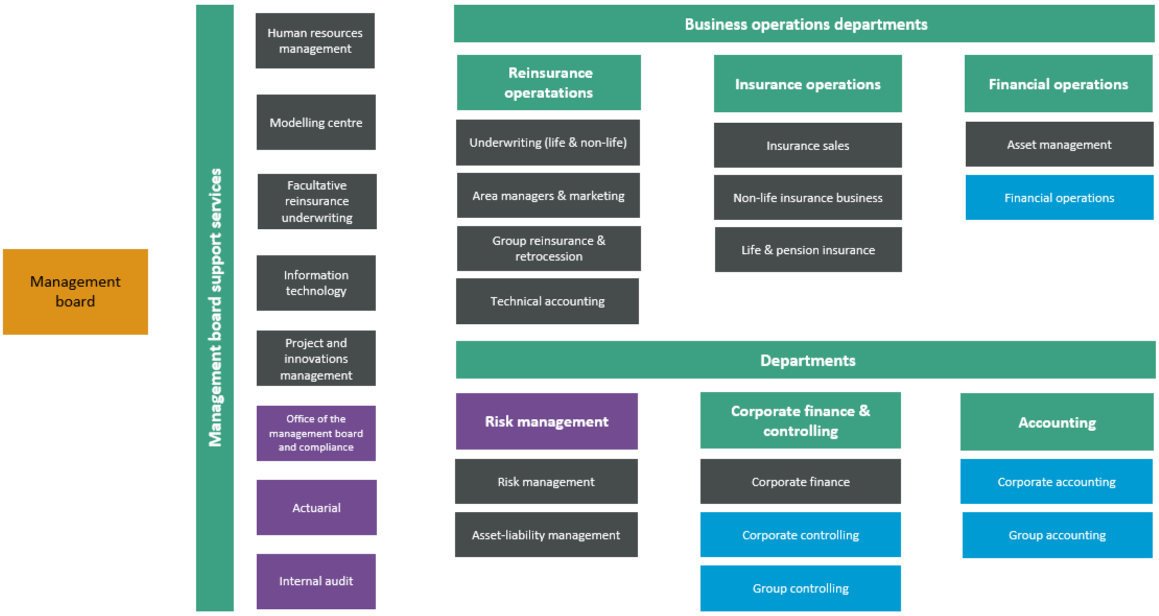
General

The Company has certain functions integrated into its organisational structure and decision-making processes. These are the risk management function, internal audit function, actuarial function and compliance function, defined by applicable law as the key functions of the governance system (hereinafter: key functions).

The key functions are integrated into the organisational structure and decision-making processes to strengthen the three-lines-of-defence framework in the Company's risk management system. All four key functions cooperate closely with each other, regularly exchanging information they need for their functioning.

The key functions perform their duties independently from each other and from other organisational units of the Company. The Company's key functions are organised as services of the risk management system and are directly subordinated to the Company's management board, as illustrated in the chart below.

Internal organisational chart of the Company as at 31 December 2019



Generally, the parent company's key function holders also act as key function holders at the Group level. They have access to all information, data and reports required for their smooth operation.

The chief responsibilities of individual key function holders at the level of the Company are set out in the following section, and the chief responsibilities of any key function holder at the Group level are:

- coordinating the development of a uniform methodology for all key functions in the Sava Insurance Group,
- seeking to develop appropriate framework policies for individual key functions and professional guidelines for the adoption of area-specific operational rules for the controlling company and its subsidiaries,
- striving for strict application of uniform standards by all key functions in the Group,
- coordinating and implementing joint activities in the Group,
- providing guidance and overseeing the operations of key functions in all Group companies,
- professional development and exchange of good practices relating to the key functions of the Group.

Role of individual key functions

The key functions perform duties as stipulated by insurance law, including regulations based thereon.

The **risk management function** is chiefly responsible for:

- operating the risk management system,
- identifying and assessing assumed risks,
- organising risks in a joint risk profile, indicating interdependencies,
- periodically monitoring the risk profile,
- reporting on potential hazards.

Details on duties, terms of reference, responsibilities and powers of the risk management function holder, procedures, obligations, time limits and reporting distribution lists are set out in the risk management policy.

The **actuarial function** is primarily responsible for:

- coordinating and overseeing the establishment of technical provisions, ensuring the appropriateness and quality of methodologies, assumptions and underlying data,
- issuing an opinion on the underwriting risk policy,
- issuing an opinion on the adequacy of reinsurance arrangements,
- contributing to an effective risk management system and participating in risk modelling.

Details on duties, terms of reference, responsibilities and powers of the actuarial function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Company's actuarial function policy.

The **internal audit function** is primarily responsible for:

- providing objective and relevant assurance and advice to the management board in order to add value and improve the efficiency and effectiveness of operations,
- assisting the Company in achieving its goals based on systematic, methodical assessment and improvement of the effectiveness and efficiency of governance, risk management and control procedures,
- reporting to the management and the supervisory boards on the purpose, terms of reference and duties of internal audit and the implementation of its plan and on the findings of the audit reviews carried out, and proposing recommendations for improvements.

Details on duties, terms of reference, responsibilities and powers of the internal audit function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Company's internal audit policy.

The **compliance function** is primarily responsible for:

- seeking to ensure the compliance of the Company's operations with regulations and other commitments,
- advising the management board on compliance with the laws, implementing regulations, and internal regulations,
- assessing the impact of potential changes in the legal environment on the Company's operations,
- identifying and assessing compliance risks, and providing assistance with their management.

Details on the duties, terms of reference, responsibilities and powers of the compliance function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Company's compliance policy.

Reporting by key function holders

Individual key function holders report to the management and supervisory boards or individual supervisory board committees, if so stipulated by the Company's rules and regulations.

Detailed provisions on the scope, manner and frequency of reporting of any key function are set out in internal regulations governing each key function.

B.1.4 Committees of the governance system

The Company's management board sets up committees tasked with advisory roles based on resolutions. Such committees consider issues from specific areas, draft management board resolutions and oversee their implementation, and perform other tasks requiring specific expertise, thus providing professional support to the management board.

Committees are an integral part of the Company's system of governance, dealing with issues from various areas, such as risk management, asset-liability management, actuarial affairs.

Committees set up at the controlling company level perform their roles at both the controlling company and the Group levels.

The terms of reference, powers and composition of committees are set out in internal regulations adopted by the Company's management board.

The Company has set up a risk management committee and an actuarial committee as detailed in section B.6.

Risk management committee

The risk management committee is primarily responsible for drafting recommendations and proposals for the management board and monitoring the Company's risk profile. It also plays a crucial role in the communication process, because it acts as a discussion forum on elements of the risk management system. In addition, it is responsible for reviewing the effectiveness of the risk management processes in place. The main objectives of the committee are to unify risk management practices throughout the Company and provide professional risk management advice to the Company's management board in order to ensure effective operation.

The chief responsibilities of the risk committee are to:

- set up and review the functioning of the risk management system,
- regularly monitor key risks and the risk profile against the Company's risk appetite and review the compliance with the risk strategy,
- prepare recommendations for the management board relating to risk management,
- monitor quantitative risk assessment calculations and respond adequately,
- issue opinions relating to major business decisions with a significant impact on the risk profile,
- identify and monitor any emerging new risks.

B.1.5 Information about the remuneration policy

The Company's remuneration policy establishes the framework for the planning, implementing and monitoring remuneration systems and schemes that support the Company's long-term strategy and risk management policy.

The remuneration policy applies to all organisational levels of the Company and to all employees: the management board, senior and lower management, key function holders and other employees.

Principles of the remuneration policy

The Company's remuneration policy aims to build a remuneration system that is competitive and efficient as well as transparent and internally fair. The key principles of the policy incorporate the main principles of ethical and sustainable practices and operations.

The chief principles of the remuneration policy are:

- clear and transparent management,

- reliable and efficient risk management,
- compliance with regulatory requirements and principles of sound management,
- monitoring and adapting to market trends and practices,
- sustainable pay for sustainable performance,
- employee motivation and retention.

Remuneration structure

The Company's remuneration structure includes:

- a base salary,
- a variable part of the salary,
- other benefits and incentives,
- remuneration upon termination of the employment contract.

The **base salary** is set based on the employee's role and position, taking into account knowledge acquired, professional experience, responsibilities, complexity of the job and the situation on the local labour market.

The **variable part** of the salary depends on the Company's business performance and the employee's individual performance or, in the case of managers, also the performance of the unit they head. The aim of the variable part of the salary is to motivate and reward the most successful employees who significantly contribute to the achievement of sustainable performance, meet or exceed the agreed-upon objectives, strengthen long-term relationships with clients and generate income. The variable part of the salary relating to an employee's individual performance depends on the attainment of predefined individual goals and other duties in a manner consistent with expected behaviours and competencies. The variable part of the salary relating to business performance depends on a performance indicator, or a combination of performance indicators of the Company and/or the Group. The total variable part of the salary generally ranges from 0% to 30% of the total annual remuneration.

The system and scheme for the variable part of the remuneration for the management board are considered and approved by the supervisory board. The variable remuneration for the management board is based on the achievement of the board's goals and performance of the Company or the Group as a whole.

The system and scheme of variable remuneration for the risk management system's key function holders are considered, determined and approved by the management board. If necessary, the supervisory board gives its consent to it. In addition to the Group's performance, the variable part of the salaries of key function holders depends primarily on the attainment of the goals of each key function, which are strictly separate from the goals of the business functions they oversee.

The system and scheme of variable remuneration for senior and junior management is considered, determined and approved by the management board. Variable remuneration of senior and lower management is based on a combination of performance assessment of the individual, the team they head, and the performance of the Group.

The system and scheme of remuneration for other employees is considered and approved by the management board. This is done with due regard to the statutory provisions relating to cooperation with social partners. The variable part of the salary of other employees depends on a combination of the employee's assessed individual performance and overall performance of the Group.

The Company runs no share-option schemes.

Other benefits and incentives: The Company is running a collective voluntary supplementary pension insurance scheme funded by the employer. It has a contract in place on joining the pension company's pension scheme, entered into the pension scheme register with the Financial Administration of the Republic of Slovenia (second pension pillar). Employees had the option to join a third pillar pension scheme at the end of 2019, for which the maximum level of contributions paid by the Company depends on the type of employment contract (management board, employees with special powers, and other employees), level of gross salary, and seniority. Contributions to pension insurance schemes are accounted for as employee benefits.

Remuneration upon termination of the employment contract: Upon termination of a contract of employment, employees are eligible for severance pay in accordance with the law and their employment contract. Severance pay not prescribed by law is capped at six times the average monthly salary in the last year of employment in employment contracts. Exceptionally, where an employment contract is terminated on a consensual basis, additional severance pay may be paid; however, total severance payments must not exceed twelve times the average monthly salary in the last year of employment. Upon the termination of a contract of employment, any additional remuneration cannot include payments in the event of failure.

The Company granted no loans neither to its employees nor members of the management or supervisory boards, and so there were no such transactions in 2019.

The Company has no additional pension schemes.

B.1.6 Material related-party transactions

Below are set out material transactions with related-parties, consisting of:

- owners and related enterprises;
- the management board and the supervisory board, including its committees, and employees not subject to the tariff section of the collective bargaining agreement;
- subsidiary companies.

Material transactions in 2019 include:

- total remuneration of the members of the management board and the supervisory board, including its committees, and employees not subject to the tariff part of the collective agreement of EUR 4.0 million (previous year: EUR 3.7 million),
- loans granted to subsidiaries of EUR 3.6 million as at 31 December 2019 (previous year: EUR 2.5 million), and
- dividend payments of EUR 16.3 million (previous year: EUR 14.7 million).

All third-party transactions are set out in detail in the Company's annual report, in section 17.10 "Related party disclosures", posted on the Sava Re website.

B.2 Fit and proper requirements

B.2.1 General

In accordance with the law, the Company ensures that persons who effectively run and oversee the Company are properly qualified (fit) and suitable (proper) for doing so in a professional manner.

To this end, the Company conducts fit and proper assessments of its employees: management and supervisory board members, members of the supervisory board's committees, key managers, key function holders of the risk management system and personnel overseeing outsourced activities. The assessment is carried out before the appointment to the role and periodically thereafter whenever circumstances arise that require a reassessment of whether such persons are still fit and proper.

In addition to the appropriate qualifications, experience and expertise (fitness) they must have, relevant personnel is required to demonstrate they have good repute and demonstrate high standards of integrity (propriety) as exemplified by their actions.

The assessment of a person's suitability (propriety) comprises an assessment of their integrity and financial soundness on the basis of relevant evidence about character, personal behaviour and business conduct, including any criminal, financial and supervision aspects, irrespective of the jurisdiction.

All relevant personnel are subject to the reporting duty regarding any new facts or circumstances, or changes to information submitted in the initial suitability assessment. An appropriately composed fit and proper committee assesses whether the new facts and changed circumstances or information are of such a nature as to require a fit and proper reassessment.

The HR function requires relevant personnel to sign personal statements at least once a year. Statements submitted by relevant persons confirm compliance with current fit and proper standards and their commitment to notify the human resources function immediately of any circumstances that may affect their fit and proper assessment.

In 2019, full fit and proper assessment procedures were carried out for new relevant personnel as well as an annual review based on annual statements for persons already assessed.

B.2.2 Fitness requirements for relevant personnel

Supervisory board and its committees

In assessing the fitness of members of the Company's supervisory board, including its committees, it is necessary to consider knowledge acquired through education and work experience. Requirements considered in the fitness assessment are:

- qualifications,
- sufficient professional experience,
- general knowledge and experience.

The supervisory board is composed so as to ensure responsible oversight and decision-making in the best interest of the Company. Members are selected so that their professional expertise, experience and skills are complementary. The supervisory board, viewed as a whole, must have sufficient expertise. Individual members of the supervisory body with distinct special expertise may, in particular based on the assignment of responsibilities for a certain area, compensate for any less profound expertise of other members of the supervisory body in those areas.

Management board

In assessing the fitness of the members of the Company's management board, it is necessary to consider knowledge acquired through education and work experience. Based on this, the fitness assessment is made with consideration of the members' assigned responsibilities, taking into account the following requirements:

- qualifications,
- sufficient professional experience,
- expertise and experience in the following areas: knowledge of the market, knowledge of the business strategy and business model, knowledge of the governance system for insurance companies, understanding financial and actuarial analysis, and understanding regulatory frameworks and requirements.

The management board, viewed as a whole, must have sufficient expertise. Its members must have relevant experience and knowledge of the areas mentioned above, depending on their specific area of responsibility. Individual members of the management board with distinct special expertise may, in particular based on the assignment of responsibilities for a certain area, compensate for any less profound expertise of other members in those areas.

Key function holders of the risk management system

In assessing the fitness of the key function holders of the risk management system, it is necessary to consider knowledge acquired through education and work experience. Based on this, the assessment is made considering assigned responsibilities for each key function. Requirements considered in the fitness assessment are:

- qualifications, including additional training, required licenses obtained or specialist examinations;
- sufficient professional experience relevant to a particular key function;
- general knowledge and experience.

Other relevant personnel

In assessing the fitness of other relevant personnel, it is necessary to consider knowledge acquired through education and work experience. Based on this, the assessment is made considering assigned responsibilities for individual areas. Requirements considered in the fitness assessment are:

- qualifications,
- sufficient professional experience relevant to a particular area of responsibility,
- general knowledge and experience.

B.2.3 Suitability requirements for relevant personnel

Personal reliability and reputation

To ensure the sound and prudent management of the Company, relevant personnel must have the appropriate qualifications (fitness), be of good repute and demonstrate high standards of integrity (properness) through their actions. A relevant person is deemed to be proper, as long as there are no reasons to think otherwise. Circumstances that give rise to reasonable doubt regarding suitability are harmful to the reputation of both the relevant person and consequently the Company.

Personal reliability and good repute are assessed based on information compiled by collecting documents for carrying out the fit and proper assessment procedure.

Independence of relevant personnel

Relevant persons may experience conflicts of interest due to the nature of business relations. Any relevant person that experiences a conflict of interest in their work must disclose such conflict of interest and act in the interests of the Company. If this is not possible, such person must inform the Company's management or supervisory board, if a conflict of interest is perceived with any member of either the management or supervisory boards.

Time input

The members of the supervisory board and its committees must – in addition to business knowledge, relevant personal integrity, business ethics and independence – demonstrate that they have available time resources in the period when performing the function.

B.2.4 Assessment procedure

The fit and proper assessment procedure is conducted by a special committee set up according to an internal framework document (policy). During the assessment of relevant personnel, the Company's human resources function assists with the implementation of operational tasks, such as the acquisition, submission, processing and storage of documents and issuance of the assessment results.

The committees conduct fit and proper assessments and issue relevant results based on documents and statements compiled. Based on assessments thus obtained, they may take the necessary actions to ensure adequate qualifications of relevant personnel. The committees also conduct overall fit and proper assessments of the management and supervisory bodies as collective bodies.

B.3 Risk management system including the own risk and solvency assessment

The Company's management is aware that risk management is key to achieving operational and strategic objectives and to ensuring long-term solvency. Therefore, the Company is continuously improving its risk management system.

The Company's strong risk culture is essential to its security and financial stability, and to achieving its goals. In order to establish good risk management practices, the Company promotes a risk management culture with appropriately defined remuneration for employees, employee training and relevant internal information flow.

The Company has in place a risk strategy that defines risk appetite and policies covering the entire framework of risk management, own risk and solvency assessments (hereinafter: "ORSA") and risk management for each individual risk category. Based on the Group's risk strategy and policies, the Company has set up its own risk strategy and policies, taking into account its specificities.

B.3.1 Risk management organisation

Systematic risk management includes an appropriate organisational structure and a clear delineation of responsibilities.

The efficient functioning of the risk management system is primarily the responsibility of the Company's management board. To ensure efficient risk management, the Company uses a three-lines-of-defence model, which clearly segregates responsibilities and tasks among the following lines:

- The first line of defence constitutes all organisational units with operational responsibilities (development, sales and reinsurance management, provision of reinsurance services, financial operations, accounting, controlling, human resources and others).
- The second line of defence consists of three key functions (the risk management function, actuarial function, compliance function) and the risk management committee.
- The third line of defence consists of the internal audit function.

The **management board** plays a key role and bears ultimate responsibility for the effectiveness of established risk management processes and their alignment with the Group's standards and the applicable legislation. In this regard, it has the following chief responsibilities:

- establishment of the risk strategy and approval of risk tolerance limits and operational limits,
- adoption of policies relating to the risk management system,
- risk management processes,
- monitoring of operations in terms of risk and ensuring that risks are considered in decision-making.

The **supervisory board** approves the risk strategy, the risk management policy and the appointment of key function holders of the risk management system. In addition, the supervisory board reviews periodic risk management reports. A risk committee has been set up as part of the supervisory board to provide expertise in particular with regard to the Company's risk management.

The **first line of defence** involves all the Company's employees who are responsible for ensuring that operational tasks are performed in such a way as to reduce or eliminate risk. In addition, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line directors and service directors are tasked with ensuring that the operational performance of the processes for which they are responsible is conducted in such a way as to reduce or eliminate risk. The first line of defence is also responsible for monitoring and measuring risks, preparing data for periodic risk reports for individual areas of risk and identifying new risks.

The Company's **second line of defence** comprises the Company's risk management committee and three key functions: the actuarial function, risk management function and compliance function. The members of the risk management committee and key function holders are appointed by the management board; key function holder appointments also require the consent of the supervisory board. The Company's key functions are organised as management support services and report directly to the Company's management board. Their roles and responsibilities are defined in the policy of each key function or in the risk management policy that defines the risk management function.

The **risk management function** is mainly responsible for setting up effective risk management processes and coordinating risk management processes already in place. It is involved in all stages of identifying, assessing, monitoring, managing and reporting risks. It is also involved in preparing the risk strategy and setting risk tolerance limits. The risk management function regularly reports to the risk management committee, the management board, the supervisory board's risk committee, and the supervisory board. Furthermore, it offers support to the management board in decision-making (including in relation to strategic decisions, such as corporate strategy, mergers and acquisitions, and major projects and investments).

Apart from the key functions, the second line of defence includes the Company's **risk management committee**. The committee includes the key representatives of the first line of defence with regard to the Company's risk profile. The holders of other key functions of the risk management system are also invited to attend meetings of the committee. The committee is primarily responsible for monitoring the Company's risk profile, analysing risk reports and issuing recommendations to the management board.

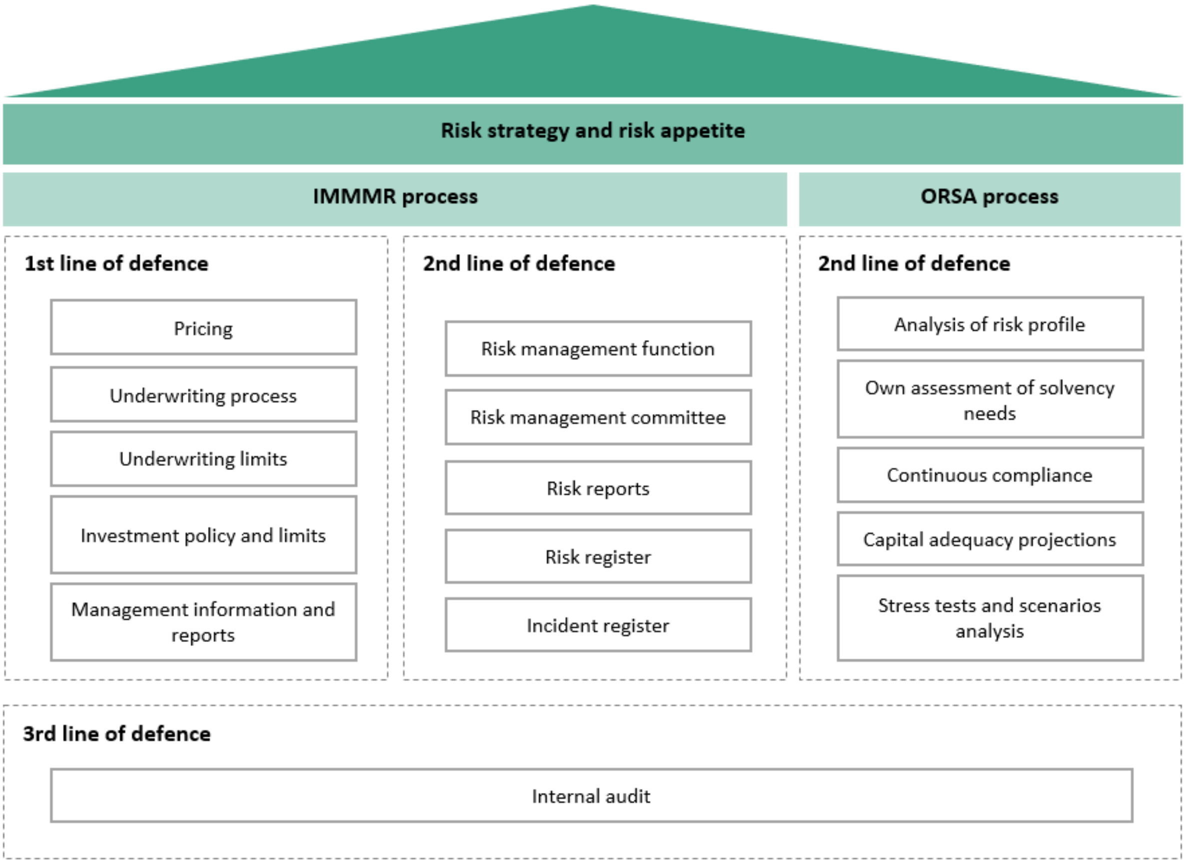
The **third line of defence** consists of the internal audit function. It is completely independent of the business areas and other functions. In the risk management system, the internal audit function is responsible for the independent analysis and verification of the effectiveness of risk management processes and internal controls in place.

B.3.2 Components of the risk management system

Risk management is integrated into all stages of business management and is composed of the following key elements:

- risk strategy,
- risk management processes within the first and second lines of defence, and
- the ORSA process.

The components of the risk management system are shown in the figure below.



Risk strategy

In order to establish a solid risk management framework, in 2016 the management board – with the consent of the Company's supervisory board – approved the risk strategy for the period 2017–2019, which, based on its risk bearing capacity, defines:

- the risk appetite,
- permissible levels of certain performance indicators and risks,
- risk tolerance limits.

In December 2019, the Company's supervisory board approved, along with the strategic plan of the Sava Insurance Group 2020–2022, the risk strategy for the same period, setting new levels of risk appetite, indicators and approved risk tolerance limits.

The basic principle of the Company is to pursue its business strategy and meet the key strategic objectives while maintaining an adequate level of capital.

The Company's risk appetite is based on four major areas:

- capital,
- liquidity,
- product profitability, and
- the Company's reputation.

Based on its risk appetite, the Company sets its risk strategy, risk tolerance limits and operational limits. Risk tolerance limits are limits set for individual risk categories included in the Company's risk profile, determining approved deviations from planned values. These limits are set based on the results of sensitivity analyses, stress tests and scenarios, and professional judgment.

Based on risk appetite and risk tolerance limits, the Company sets operational limits, such as reinsurance underwriting limits and investment limits in order to ensure that the activities of the first line of defence are carried out taking into account the risk appetite aspect. In addition, the Company ensures that it has in place well-defined and established escalation paths and management actions for breaches of operational limits.

For periodic monitoring of compliance with the risk strategy, the Company has defined a minimum set of risk measures for each risk category to allow a simplified monitoring of the Company's current risk profile and capital position without having to carry out a complete calculation of the solvency capital requirement. The Company periodically reviews these risk measures.

Risk management processes

Risk management processes are inseparable from and fully integrated into business processes carried out in the Company. All organisational units are involved in the Company's risk management processes.

The main risk management processes are:

- risk identification,
- risk assessment (measuring),
- risk monitoring,
- determining appropriate risk control measures (risk management), and
- risk reporting.

Risk identification

Risk management processes are incorporated into all three lines of defence. The role of each line of defence is defined in the risk management policy. Risk management processes are also integrated into the decision-making system; all important and strategic business decisions are also evaluated in terms of risk.

In the process of risk identification, the Company identifies the risks it is exposed to. The key risks are compiled in the risk register, constituting the Company's risk profile, and are reviewed and amended on a regular basis to add new risks as required.

Risk identification is both a top-down and a bottom-up process. Using a top-down approach, risk identification is conducted by the risk management function, the risk management committee and the management board. Such identification of new and emerging risks is based on monitoring the legal and business environment, market developments and trends, and expert knowledge. This process is mainly used by the Company with strategic risks, such as reputational risk and legal risk.

Bottom-up risk identification takes place in individual organisational units and with risk owners (the first line of defence). Risks thus identified are categorised and incorporated into the relevant processes of monitoring, measuring and reporting.

Risk identification is performed on an ongoing basis, especially as part of the business planning process and any major projects and business initiatives, such as the launch of a new product, investment in a new class of assets or an acquisition.

Risk assessment

The Company has established a periodic assessment of the risks it is exposed to. Both qualitative and quantitative methods are used to measure risk. In addition, the Company has set up a modelling department for the development of own quantitative models for Group-wide risk assessment.

The Group thus measures risks by:

- using the Solvency II standard formula,
- calculating overall solvency needs as part of its own risk and solvency assessment (ORSA),
- analysing stress tests and scenarios,
- conducting qualitative risk assessment in the risk register,
- using various risk measures that allow simplified measuring and monitoring of the current risk profile.

Risk monitoring

Risk monitoring is conducted on several levels: at the level of individual organisational units and risk owners: the risk management department, the risk management committee, the management board, the supervisory board's risk committee, and the supervisory board. A standard set of risk measures is defined and monitored on a regular basis. Both risks and risk management measures are subject to monitoring and control.

Risk management

The Company's management board is responsible for risk management and the use of various risk management techniques and actions. In its decisions, the management board takes into account the cost benefit aspect of actions as well as recommendations, if any, issued by the risk management committee or key functions.

Whenever the need arises to adopt a new risk control measure, the Company conducts an analysis of the measure in terms of its economic and financial viability. Elimination or mitigation of risks must be more cost effective than mitigation of the potential impact should the risk materialise, taking into full account the probability of such an event and its financial implications.

In practice, it is already in the business planning process that the Company examines the impact of the business strategy on its capital position, with regard to both the regulatory aspect and the ORSA. If decisions are made during the financial year that have a significant impact on the risk profile but have not been assessed in terms of risk during the business planning process, the Company assesses the impact of such decisions on its risk profile and capital adequacy, and verifies compliance with the risk appetite. If any business decision fails to comply with the risk appetite or any risk tolerance limit is exceeded, the Company is required to document such deviation and take relevant action to resolve the situation.

Risk reporting

The Company also has in place periodic risk reporting. Risk owners report on each category of risk to the risk management function, including a predetermined set of significant risk measures and qualitative information. Based on this, the risk management function in cooperation with risk managers prepares a risk report covering the Company's entire risk profile. The report is first discussed by the risk management committee, followed by the management board, risk committee and supervisory board.

Own risk and solvency assessment (ORSA)

In addition to the mentioned risk management processes, the Company also conducts ORSA as defined in its own risk and solvency assessment policy. ORSA is a process that includes identification of the differences between the Company's risk profile and the assumptions of the standard formula, the own assessment of solvency needs, capital adequacy projections, stress tests and scenarios, and the link between the risk profile and capital management. In ORSA, all material risks are assessed, whether quantifiable or not, that may have an impact on the operations of the Company from either an economic or a regulatory perspective.

In 2019, the Sava Insurance Group implemented a comprehensive ORSA process, which takes into account risks at both the Group and individual company levels. Furthermore, the Sava Insurance Group was granted permission from the Insurance Supervision Agency to prepare a joint ORSA report covering Zavarovalnica Sava, Sava Re and the Group. Accordingly, the Sava Re ORSA report has been prepared as part of the Group's ORSA report.

The ORSA report has been prepared based on the business and strategic plans, taking into account the current risk profile as well as any changes planned therein. The ORSA is primarily conducted to understand the own risk profile and the standard formula, and to analyse the impact of the changes in the risk profile on capital adequacy over the next three years.

The ORSA results are taken into account by other processes, especially capital management and risk management processes. ORSA is an integral part of the decision-making process conducted to ensure that the key decisions and the business strategy are adopted with consideration of risks and associated capital requirements. Based on ORSA results, we also check the compliance of the business strategy with the risk strategy. This establishes links between the business strategy, the risks taken in the short, medium and longer term, the capital requirements arising from those risks, and capital management.

The Company generally conducts the ORSA on an annual basis. Then the ORSA report is reviewed and confirmed by the management board, it is reviewed by the supervisory board's risk committee and submitted to the supervisory board. However, in case of a major change in the risk profile or eligible own funds that has not been anticipated in the business or strategic plans, the Company conducts an ad hoc ORSA. The Company reports (at least) annually to the regulator on the ORSA.

The ORSA process is extensive and spans a large part of the year. Based on input from the business and strategic plans and the risk strategy, the SCR is calculated and Solvency II valuations are made for items of the balance sheet and Solvency II eligible own funds for the entire term of the strategic plan. Based on projections, continuous compliance with the regulatory requirements regarding capital and technical provisions is reviewed. Furthermore, compliance with the risk strategy is reviewed.

Based on the results of the suitability analysis of the standard formula for the Company's risk profile, the own solvency model is then used to conduct an own risk and solvency assessment for a further three-year period. In addition, stress tests and scenario analyses relevant to the (planned) risk profile of the Company are conducted.

Throughout the ORSA, the Company's management board is actively involved in the process: it confirms the technical bases for the ORSA, reviews the ORSA, and challenges it before giving its formal approval.

Based on the ORSA conducted, a report for the Sava Insurance Group is prepared and considered on several levels: it is first discussed by the risk management committee, followed by the management board, the supervisory board's risk committee and the supervisory board. After the results are approved, they are also circulated to all the heads of business units. The report is then submitted to the Insurance Supervision Agency. The management uses the ORSA results in decision-making, capital management and product development.

The ORSA is subject to continuous improvement, both with regard to risk assessment as well as in terms of its integration into the Company's ongoing processes and business decision-making.

B.4 Internal control system

B.4.1 Internal control system

The purpose of the Company's internal control system is to identify, measure, monitor, and manage risks at all levels of operations, including reporting on risks that the Company is or may be exposed to in its operations. In addition, the system ensures compliance with the Company's internal rules and meets the requirements of other risk management laws and regulations.

The Company seeks to make employees aware of the importance of internal controls and involves employees in the implementation of internal control procedures. Procedures for reporting to the appropriate level of management with regard to potential problems, deviations, non-compliance with the code of conduct or other policy violations or illegal actions must therefore be presented to all employees in plain language and are clearly stated in documents available to all employees.

The Company has in place a policy of internal controls aimed at setting up an effective and reliable system of internal controls. The policy sets out the basic principles, framework of and roles for the system of internal controls as part of the Company's system of governance.

B.4.2 Compliance function

The compliance function is organised as one of the four key functions constituting the risk management system. Being an internal control function, it is part of the second line of defence in the internal risk management system, consisting of three lines of defence. Its main duty is to manage the risks arising from non-compliance with the law.

The compliance function is organised within the department "Office of the management board and compliance". Although the compliance function is not organised as an independent organisational unit, it is ensured that the compliance function holder has direct access to the management board at all times. The compliance function holder also has other responsibilities; therefore, relevant internal measures have been taken by the Company to avoid potential conflicts of interest for the function holder when in the compliance function holder role.

The compliance function holder is authorised by the management board subject to the consent of the supervisory board.

The chief responsibilities of the compliance function are to:

- monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in compliance with regulations and other commitments;
- advise and assist in the coordination of the Company's operations with the obligations imposed by regulations and other commitments;
- assess potential impacts of changes in the legal environment on the operations of the Company in terms of compliance with its regulations and other commitments, and report on them to the Company's management board, individual organisational units, and business and key functions;
- identify and assesses risks to the Company's compliance with regulations and other commitments, and, if necessary, propose recommendations and guidelines for the management of compliance risk;
- inform the management and supervisory boards of the Company's compliance with regulations and other commitments and the risk assessment regarding compliance with regulations and other commitments;

- coordinate with top management regarding compliance matters and offer consulting services to them;
- cooperate in exchanging compliance-related questions, best practices and experiences on the controlling company level with other control and supervision functions;
- coordinate the preparation and adoption of policies and rules on the controlling company level and between the controlling company and Group subsidiaries;
- coordinate the preparation of comments on draft insurance-related legislation;
- participate in setting up and updating compliance programmes in certain separate areas, including internal controls for compliance of operations, taking into account the requirements and capacities of processes and resources available, according to the requirements of specific legislation or regulations, and factors of the broader business and professional environment (e.g. commitments assumed through contracts, declarations and other collective activities aimed at raising the standards of fair business in the broader environment);
- prepare a draft annual compliance monitoring plan covering the identification and assessment of the main compliance risks that the Company faces for submission to the management and supervisory boards;
- compile period reports, submitting them to the management and supervisory boards;
- draw up reports on the findings related to individual compliance audits, submitting them to the Company's management board.

B.5 Internal audit function

Internal auditing in the Company is carried out by an independent organisational unit, the internal audit department, which reports to the management board and is functionally and organisationally separate from other organisational units. Its organisational position ensures autonomy and independence of operation. The internal audit is part of the internal control system of the Company that ensures independent, regular and comprehensive review and assessment of the adequacy of the Company's governance, risk management and control procedures. Internal audit reports directly (orally and in writing) to the management board, the audit committee and the supervisory board.

The internal audit function, being an internal control function, is part of the third line of defence of the Company's internal control system.

The chief responsibilities of the internal audit are to:

- set up a risk-based, permanent and comprehensive supervision of the Company's operations aimed at verifying and assessing whether the processes of risk management, control procedures and corporate governance are appropriate and function in a manner that ensures the achievement of the following major goals of the Company:
    - effective and efficient operation of the Company;
    - business and financial efficiency, including safeguarding assets against loss;
    - reliable, timely and transparent internal and external accounting and non-financial reporting;
    - compliance with laws, other regulations and internal rules;
- assess whether the Company's information technology supports and furthers the Company's strategies and goals;
- assess fraud risk and the procedures for its management in the Company (although the expertise of a person whose primary task is to identify and investigate cases of fraud is neither expected nor required);
- offer advice,
- carry out other tasks subject to the law.

Internal audit conducts internal audit reviews in accordance with the hierarchy of rules of internal auditing adopted by the Slovenian Institute of Auditors on the basis of the law governing auditing, and written rules of the internal audit function. The internal audit function operates in accordance with the adopted internal audit policy, which defines the purpose, powers, responsibilities, and tasks of the internal audit function. Furthermore, it establishes the position of the internal audit within the organisation, including the nature of the functional responsibilities of the head of internal audit with regard to the supervisory body, authorises access to records, personnel, premises and equipment relevant to the performance of engagements, and defines the scope and activities of the internal audit.

The internal audit function annually submits the annual work plan and the annual report of the internal audit service to the management and supervisory boards, including its audit committee.

The internal audit function holder has been appointed by the management board with the consent of the supervisory board upon the prior opinion of the audit committee and also serves as the director of the internal audit department.

The internal audit must be independent, and internal auditors must be impartial and unbiased, and avoid any conflicts of interest. The director of the internal audit must confirm to the supervisory body, at least annually, the organisational independence of the internal audit as part of the annual reporting on the activities of the internal audit service.

Pursuant to the Insurance Act and based on outsourcing agreements Sava Re d.d. has been performing, since 1 February 2018 and for an indefinite duration, the key functions of the internal audit of Zavarovalnica Sava d.d. and Sava Pokojninska Družba d.d. In 2019, Sava Re signed a contract – pursuant to the Investment Funds and Management Companies Act (ZISDU-3) – with Sava Infond, Družba za Upravljanje d.o.o., under which the latter transferred the performance of the internal audit key function to Sava Re d.d. as of 1 January 2020, for an indefinite period.

B.6 Actuarial function

The actuarial function is an administrative concept comprising all the persons performing actuarial tasks of the second line of defence as detailed below. Actuarial function performers are employed in the areas of the actuarial function. They also perform first-line-of-defence actuarial tasks. Although the actuarial function is part of the second line of defence, it is organised in a way that prevents any one person from both implementing (first line) and controlling (second line) the same tasks.

The Company's actuarial function holder is responsible for carrying out the actuarial function.

The chief responsibilities of the Company's actuarial function are to:

- coordinate the calculation of technical provisions and ensure their consistency with applicable regulations;
- ensure the appropriateness of the methodologies, underlying models and assumptions made in calculating technical provisions so that they reflect key risks and are sufficiently stable;
- assess the sufficiency and quality of the data used in calculating technical provisions and to provide recommendations on how to adapt processes in order to improve data quality;
- compare best estimates of SII provisions against experience and, in the event of any deviation, suggest changes to the assumptions and valuation models used (in this text and hereinafter SII provisions are technical provisions established in accordance with Solvency II principles);
- oversee the use of approximations in calculating SII provisions;
- examine the appropriateness of the underwriting policy and express an opinion on the adequacy of insurance premiums, taking into account all underlying risks and effects of changes in the portfolio, options and guarantees, anti-selection, inflation and legal risks;
- verify the adequacy of reinsurance arrangements;
- participate in introducing and implementing the risk-management system, in particular with respect to the development, use and monitoring of adequacy of the models underlying the calculation of capital requirements and the performance of own risk and solvency assessment;
- prepare, at least annually, a written report to be submitted to the management and supervisory bodies, and the local supervisory authority; the report documents the implementation of the above tasks and their results, clearly identifying any weaknesses by issuing recommendations for how to eliminate those weaknesses.

In accordance with the risk management policy, the actuarial function actively cooperates in setting up and implementing the Company's risk management system as part of the second line of defence.

The actuarial function holders of Sava Insurance Group companies serve on the Group's actuarial committee. The Group's actuarial committee adopts decisions in the form of proposed resolutions and recommendations to the Sava Re management board, other key functions of the Group and the Group's risk management committee, which are implemented in line with the rules of procedures appended to the Sava Insurance Group's actuarial function policy. The members of the actuarial committee have a responsibility toward the Company to communicate information about relevant arrangements to relevant parts of the Company.

B.7 Outsourcing

In accordance with the provisions of the applicable Insurance Act, the Company has adopted a policy and rules that govern the outsourcing of critical or important operational functions or activities. The policy defines the framework for outsourcing critical or important operational functions: contracts on outsourcing in general, when they might be entered into, how they should be maintained and documented, and how to ensure compliance with the applicable outsourcing guidelines. The policy outlines the steps and responsibilities in the process of outsourcing functions or activities, defining the standards of management and control of such a process. The policy further defines the registration of outsourced operations comprising all contracts considered as outsourced and defines how to document the entire decision-making process, collect the necessary documents and sign such contracts. The policy states that each outsourced operation must have an administrator, whose main responsibility is to oversee the outsourced function or activity. By signing the contract, all providers of outsourced services undertake to act in accordance with the applicable law and cooperate with the local supervisor. The Company must notify the local regulator of its intention to outsource an operation before entering into the relevant contract.

In 2019, the Company had no outsourced operations.

B.8 Any other information

The Company has in place a transparent and appropriate risk-based governance system.

The Sava Re corporate governance policy sets out the main governance principles, taking into account the Company's goals, mission, vision and values. The purpose of the policy is to define the foundation of the Company's system of governance, the basic management rules, rules of corporate governance and a transparent organisational structure with clear and transparent allocation and segregation of roles and responsibilities. Corporate governance is a combination of processes and frameworks used by the management and supervisory boards, and supervisory board committees for communicating, directing, controlling and monitoring a company's operations in order to achieve the company's goals. The policy was last amended in December 2017, with the most recent review in December 2019.

The report of the internal audit department on the audit review of corporate governance carried out in December 2017 and January 2018 also supports the position that the Company has in place an adequate system of governance. Based on its review of implemented recommendations issued following the auditing of corporate governance in 2016, the internal audit department assessed the adjustment of the corporate governance system as good as in its follow-up audit; it found that the corporate governance system, to the extent carried out, was largely compliant with the Companies Act ZGD-1, the Insurance Act ZZavar-1, including implementing acts, and other Solvency II requirements. The system clearly provides for segregation of duties in all areas of governance of the Group and its individual companies.

C. Risk profile

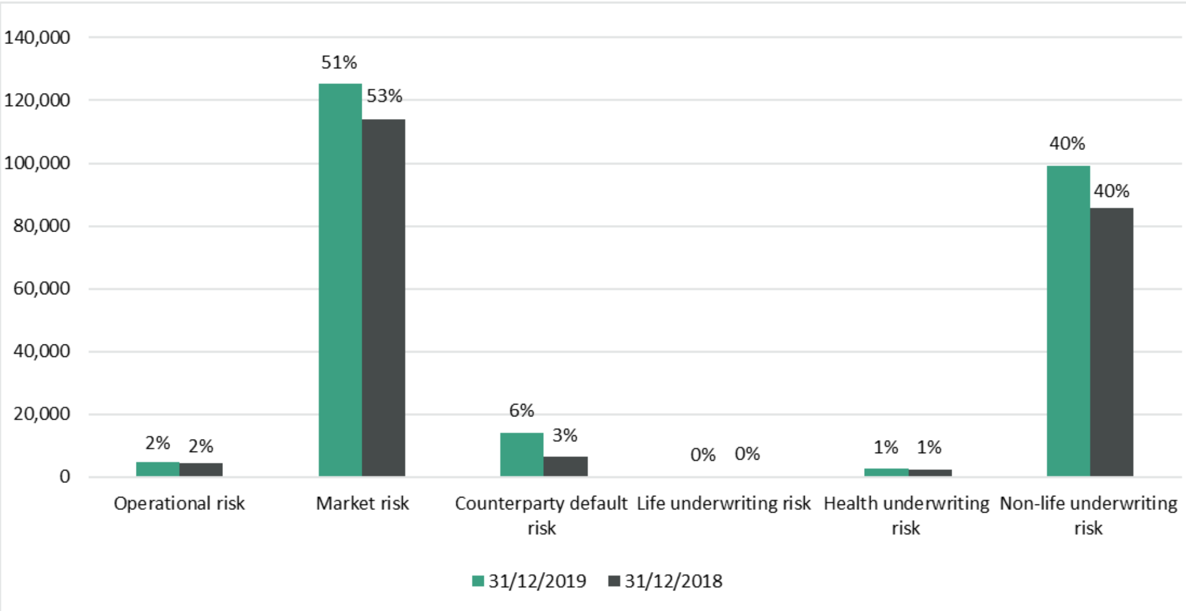
The Company is exposed to various types of risk in its operations, which it identifies, measures, manages, monitors and reports on in accordance with the processes described in section B.3. The main risk categories that the Company is exposed to are:

- underwriting risk,
- market risk,
- credit risk,
- liquidity risk,
- operational risk, and
- strategic risk.

The following subsections discuss individual risk categories, except strategic risk, which is discussed in subsection C.6 “Other material risks”.

The Company regularly measures some of the above risk categories using the Solvency II standard formula, whereas other risks (in particular those not readily quantifiable) are measured using the methods described in section B.3. The chart below shows the Company’s risk profile in accordance with the standard formula.

Undiversified SCR by risk module (EUR thousand)



At year-end 2019, the risk profile continues to be dominated by non-life underwriting and market risk; other risk categories are small. In 2019, there was a rise in market risk, mostly as a result of new strategic and alternative investments. The proportion of non-life underwriting risk remained on a similar level as at the end of 2018. The rise in this risk is partly a result of increased premium and reserve risk due to portfolio growth and higher best estimate claims provisions as the result of major claims in 2019. There was also an increase in non-life catastrophe risk, as the result of legislative changes (amendments to the Delegated Regulation).

C.1 Underwriting risk

The Company's exposure to underwriting risk arises out of its accepted reinsurance contracts. It is associated with the risks covered under reinsurance contracts and with the relevant processes, and arises from the uncertainty related to the occurrence, scope and timing of obligations.

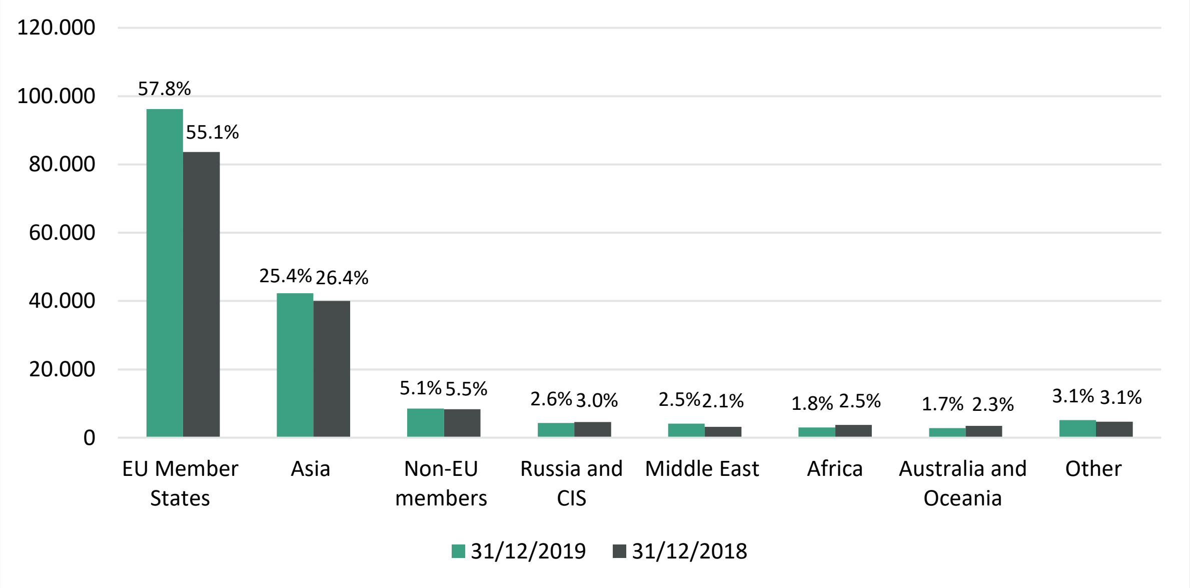
Underwriting risk is generally divided into:

- non-life underwriting risk,
- life underwriting risk (including annuities stemming from non-life insurance business),
- health underwriting risk (including accident reinsurance).

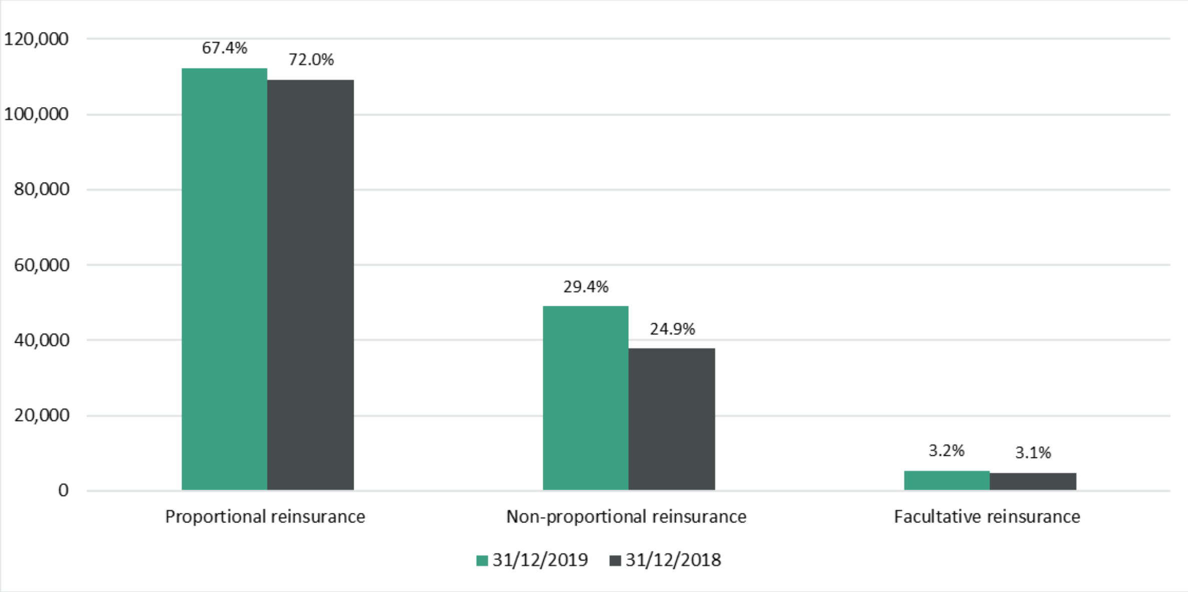
The Company sells all three types of reinsurance. Life underwriting risk includes the majority of risk relating to accepted life reinsurance business ceded from within the Sava Insurance Group, while accepted life reinsurance business from non-Group cedants along with accident reinsurance business is discussed under health insurance risk. This is because, due to its annual coverage period and technical basis, such life reinsurance business is similar to accepted accident reinsurance business.

The chart below shows gross premiums written by three different criteria: geographical area, form of reinsurance and insurance group.

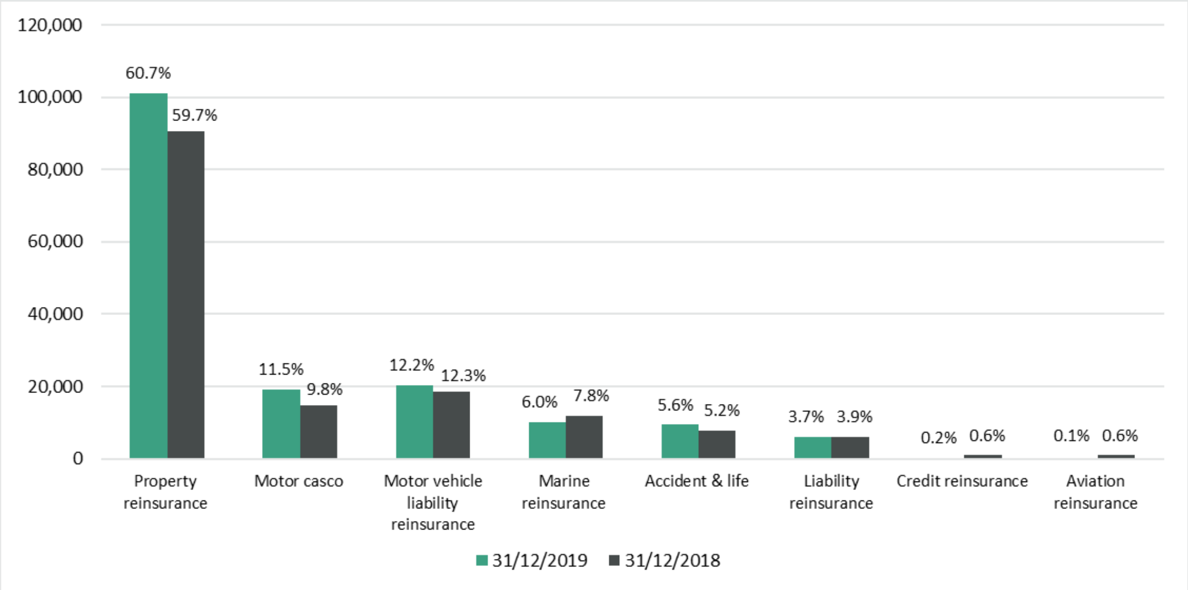
Gross premiums written by geographical area (EUR thousand)



Gross premiums written by form of reinsurance (EUR thousand)



Gross premiums written by insurance group (EUR thousand)



C.1.1 Risk exposure

The Company is mainly exposed to the following **risks associated with non-life insurance and not-similar-to-life-technique health insurance** (hereinafter: "NSLT health business").

- **Premium risk** – the risk that premiums written are insufficient to meet the obligations arising from reinsurance contracts. This risk depends on many factors, such as inadequate assessment of market developments, poor assessment of claims development, use of inadequate statistics, intentionally inadequate pricing in certain lines of business expected to be offset by other lines of business, or inadequate assessment of external macroeconomic factors that may change significantly during the term of a contract. These include:
    - underwriting process risk,
    - product design risk,
    - risk of unexpected increase in claims.

Given the portfolio composition, property reinsurance business contributes the most to premium risk, both proportional reinsurance business, as the largest form of reinsurance, and non-proportional reinsurance business, because it is relatively riskier due to claims volatility.

- **Reserve risk** – the risk that technical provisions are insufficient to meet the obligations arising from (re)insurance contracts due to inadequate methods, inappropriate, incomplete and inaccurate data, inefficient procedures and controls or inadequate expert judgement, or misreporting, resulting in unreliable information about the Company's financial position. These include the following risks:
    - risk related to data availability and accuracy,
    - risk related to adequacy of methods and assumptions used,
    - risk of calculation error,
    - risk stemming from complex tools used in processes yielding misleading results.

  As with premium risk, property insurance contributes most to the reserve risk, but due to the Company's long experience with this business, the amount of best estimate technical provisions is also the largest.

- **Catastrophe risk** includes the risk of occurrence of a catastrophic event; such events are rare but their financial impact is too high to simply be covered by otherwise appropriate premiums and provisions. Catastrophe risk may materialise as an extreme event or as a large number of catastrophic events in a short period. The risk also includes an excessive geographical accumulation of risks. The Company's portfolio is geographically well diversified and also further balanced through the retrocession programme, and so the relatively high capital requirement results from the aggregation of a large number of such requirements for various smaller natural perils and regions and various man-made catastrophic events, and is due to the fact that coverage against catastrophic events is the Company's primary and most important role.

- **Lapse risk** – the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates.

The Company is exposed to the following **life underwriting risks**:

- biometric risk, comprising mortality, longevity and disability-morbidity risk,
- life-expense risk,
- revision risk,
- lapse risk, the risk of early termination of life insurance contracts, comprises termination due to surrender, conversion to paid-up status, and premium default,
- life catastrophe risk.

Other underwriting risks, such as economic environment risk and policyholder behaviour risk, may be relevant, but their effect is already indirectly accounted for in the above non-life and life underwriting risk.

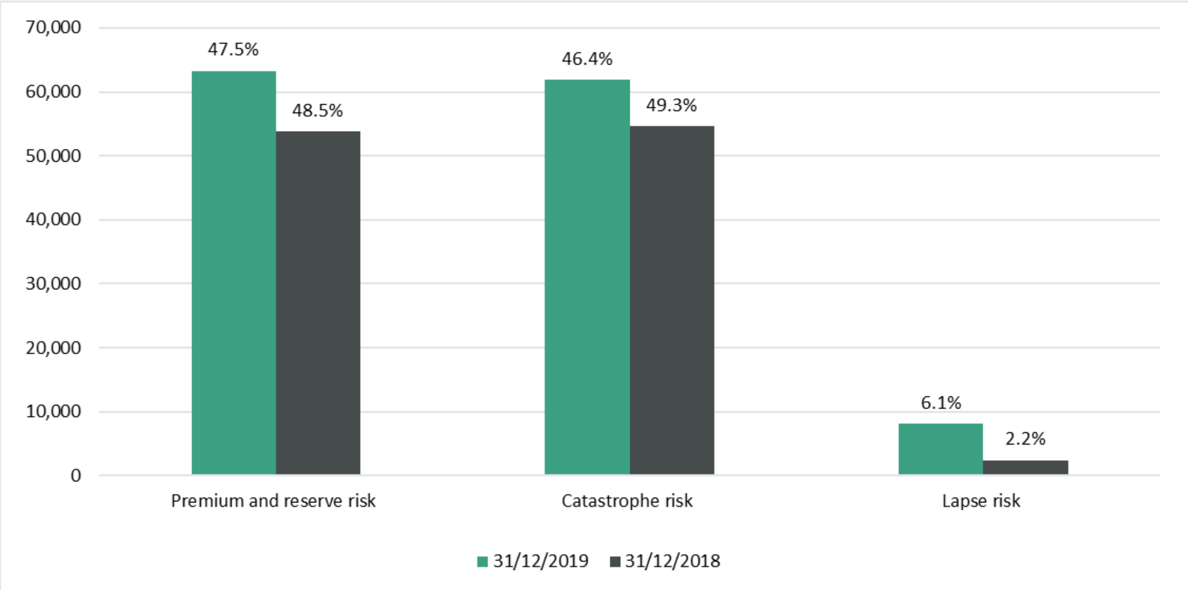
C.1.2 Risk measurement

For the quantitative assessment of underwriting risk, the Company uses the Solvency II standard formula. To this end, it does not apply undertaking-specific parameters for individual companies, in accordance with article 104(7) of Directive 2009/138/EC. The Company also uses its own assessment (as part of ORSA) for the quantitative assessment of underwriting risk.

As at 31 December 2019, the Company was exposed to non-life underwriting risk in the amount of EUR 99.3 million (31 December 2018: EUR 85.7 million), health NSLT underwriting risk in the amount of EUR 2.7 million (31 December 2018: EUR 2.5 million) and life underwriting risk in the amount of EUR 0.4 million (31 December 2018: EUR 0.4 million). Capital requirements for non-life underwriting risk, health NSLT underwriting risk and life underwriting risk accounted for 40.4%, 1.0% and 0.2%, respectively, of the undiversified basic solvency capital requirement. Catastrophe risk, and premium and reserve risk represent the largest, nearly identical, portion of the undiversified non-life underwriting risk.

The chart below shows the composition of non-life underwriting risks, the largest category of underwriting risks.

Undiversified non-life underwriting risk by risk sub-module (EUR thousand)



Non-life underwriting risk is measured quantitatively, also as part of the ORSA. Premium and reserve risks are estimated using undertaking-specific parameters (hereinafter: USP). The own assessment is substantially lower for premium and reserve risk. Consequently, the own assessment of capital requirements for non-life underwriting risk is lower compared to the standard formula.

In addition to this quantitative risk measurement, the Company also monitors its exposure to non-life underwriting risk quarterly, analysing the combined ratios of individual contracts and homogeneous risk groups, verifying the adequacy of technical provisions, monitoring aggregate exposures to natural perils by geographical location, and monitoring major new contracts. Based on all interim information, the Company monitors the underwriting risk profile to detect any changes, which allows the management to respond in a timely manner.

C.1.3 Risk concentration

The Company considers the risk related to natural perils to be the largest non-life underwriting risk. The largest exposure to natural perils is in Slovenia; other exposures are relatively well diversified globally.

The table below shows the ten largest gross exposures to natural perils by country as at 31 December 2019.

Ten largest gross exposures to natural perils (EUR thousand)[6]

(EUR thousand)	31 Dec 2019	31 Dec 2018
Slovenia	276,769	276,886
Croatia	53,282	52,290
India	46,045	32,258
China	44,318	34,082
United Kingdom	37,011	14,546
Serbia	34,179	34,638
Japan	30,573	26,203
North Macedonia	26,956	25,430
Greece	24,276	27,744
Vietnam	23,550	23,526
Total	**596,957**	**547,604**

C.1.4 Risk management

The Company manages underwriting risk mainly through an established underwriting process, as set out in internal reinsurance underwriting guidelines. These define the requirements for partners, the minimum required level of information about the business, and the expected profitability range. In addition, they also define the underwriting process and levels of authority so that appropriate controls are included in the process. The Company also manages underwriting risk by means of geographical diversification, aggregate exposure limits and an appropriate reinsurance (retrocession) programme.

The Company annually reviews and sets underwriting limits. These limits relate to the sums insured or probable maximum loss figures of individual contracts and to reinsurance premiums, all for assumed shares in the Company's retention, as well as to the expected aggregate exposure to catastrophic risk by geographical area. Underwriting limits must also be confirmed by the holder of the actuarial function to ensure their consistency with the Company's risk appetite. Underwriting limits are an integral part of the reinsurance underwriting guidelines. For more complex transactions, these guidelines also define the process of approving risk acceptance, including roles and responsibilities and escalation procedures.

In addition to the above, the Company analyses the impact of various stress tests on risk levels. In the calculation as at 31 December 2019, we tested the impact of a **10% increase in the volume measure for the premium risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 5.3% increase in the premium and reserving risk of non-life insurance (31 December 2018: 5.5%) and a 6.4% increase in the premium and reserving risk of NSLT health insurance (31 December 2018: 6.4%). The increase in the Company's overall SCR is smaller than the materiality threshold[7] and does not materially affect the Company's solvency. The impact of the stress test is on the same level as at 31 December 2018.

[6] The balances as at 31 December 2018 are presented for comparison; they are not necessarily the highest exposure in the year.

[7] The materiality threshold is a measure of the Company associated with the level of the Company's eligible own funds and solvency capital requirement. As at 31 December 2019, the Company's materiality threshold was EUR 7 million.

We also analysed the impact of a **10% increase in the volume measure for the reserving risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the provision volume measure would result in a 4.7% increase in the premium and reserving risk of non-life insurance (31 December 2018: 4.5%) and a 3.6% increase in the premium and reserving risk of NSLT health insurance (31 December 2018: 3.6%). The increase in the overall SCR is below the materiality threshold; and the stress test does not affect the Company's solvency. The impact of the stress test is on the same level as at 31 December 2018.

Below we set out the risk management of individual non-life and health NSLT underwriting risks in greater detail, along with an overview of risk management of life underwriting risk.

Premium risk

Premium risk is mainly managed through proper reinsurance underwriting and quarterly performance monitoring by insurance class, if necessary also by contract or partner, and through measures taken on this basis.

Underwriting process risk is managed by means of additional training of underwriters; by producing understandable, clear and detailed instructions; and by defining appropriate underwriting limits that are consistent with the Company's risk appetite as defined in its risk strategy, business strategies and retrocession programme. In addition, we pay special attention that contracts are entered into with verified and trusted cedants, and that there are appropriate limits on exposure concentration by geographical area and homogeneous risk groups in order to meet the required risk diversification. Significant reinsurance underwriting process risks include the risk of error in the assessment of the probable maximum loss (hereinafter: PML), especially by the cedants of the Sava Insurance Group. To reduce this risk, the Company provides guidance on PML assessment, cooperates with its cedants' underwriters when underwriting large risks, offers training in this area and ensures that the retrocession programme covers PML errors.

As regards **product design risk**, the Company is only able to manage such risk indirectly, because it must follow the fortunes of its cedants in proportional reinsurance business. This is why the verification of cedants constitutes the main part of the underwriting process. The Company can manage product design risk directly only as regards the contractual terms and conditions, which, if inappropriate, may include associated risks that the Company, unaware of such when entering into the contract, fails to take account of when setting the premium. This can arise owing to poor and inadequate information provided by the cedant, or due to inadequate interpretation of the terms and conditions. To properly assess all risks, the Company must fully understand all positive and negative aspects of the contract and the associated risks. Before entering into a contract, the Company therefore analyses in detail both the partner and the market, collects the information available (from the media, competitors, clients), monitors the applicable regulations and the related requirements, and observes trends in historical claims data (for the entire market) and forecasts. In addition, the Company may use special clauses in reinsurance contracts to limit performance volatility; for example, sliding scale or profit commissions, or loss ratio ceilings.

As regards **claims risk**, this can be related to an incorrect risk assessment in the underwriting process, new types of claims, changes in case law, increased awareness of policyholders of their rights, changes in macroeconomic circumstances, activities adversely affecting the environment or an inappropriate retrocession programme. This risk is mitigated through in-depth assessments of risks during reinsurance underwriting and prudent granting of underwriting authority. As with product design risk, the Company can manage this risk through the use of special clauses in proportional reinsurance contracts that limit the reinsurer's share of unexpected claims and by not accepting unlimited layers under non-proportional contracts. Also central to reducing this risk is the annual testing of the appropriateness of retrocession protection using a variety of stress tests and scenarios, and setting appropriate retentions.

Reserve risk

The Company manages reserve risk by means of robust processes and effective controls as regards the calculation of IFRS and Solvency II technical provisions. In addition, it conducts annual backtesting of the appropriateness of technical provisions, analysing the major reasons for their insufficiency. All experience so gained is then used in calculating future technical provisions. An effective calculation process for technical provisions comprises several key steps. By documenting and understanding such a process, the Group can identify and describe potential risks, such as:

- risk related to data availability and accuracy,
- risk related to the adequacy of methods and assumptions used,
- risk of calculation error,
- risk associated with supporting IT systems and tools.

Controls are put in place for the mitigation of each identified risk. These controls ensure data quality and mitigate the risks associated with calculating technical provisions. The design and operational effectiveness of controls are reviewed at least annually or whenever a significant change occurs in the process or methods and models used to calculate the technical provisions.

Examples of controls include:

- reconciliation of technical provision items with accounting records,
- peer review of actuarial methods and assumptions,
- changes to management controls relating to the IT tools used in the process,
- actuarial review and approval of the amounts of technical provisions.

The process by which technical provisions are calculated is subject to periodic approval. If there are substantial changes to the process, the methodology or models used in calculating technical provisions, validation is carried out in accordance with the reporting calendar.

Lapse risk

It is estimated that lapse risk, being the risk of early termination of reinsurance contracts, is less important for the Company, because the vast majority of reinsurance contracts are entered into for one year, and the risk is also managed by developing and maintaining good business relations with cedants and closely monitoring the market situation.

Catastrophe risk

The Company manages catastrophe risk through prudent reinsurance underwriting, geographical diversification and relevant retrocession protection against natural and man-made catastrophes.

To protect against potential natural disasters, the Company has in place catastrophe covers (CAT XL) to protect its retention, for both Group and non-Group business. However, before the operation of the non-proportional cover, the Slovenian portfolio is protected by a surplus retrocession cover, providing protection on the individual risk level (including PML error), and an earthquake quota share cover. Thus, in case of a major event, the Company would suffer a loss in the amount of the priority of the CAT XL cover plus a reinstatement premium. If the Company continued to make use of the cover, reinstatement provisions would start operating, i.e. the Company would protect itself by a new cover for the remaining period of cover, which is an ordinary instrument available in international reinsurance markets, the price of which is lower than the initial cover because of the shorter period of exposure. To protect against a larger frequency of natural disasters, the Slovenian portfolio is additionally protected by an aggregate cover, thanks to which, in case of a number of events in excess of the priority, the Company would suffer a loss below the sum of the priorities. The non-Group portfolio is additionally protected against a higher frequency of catastrophic events through a sublimit. This ensures that the Company remains solvent even if several catastrophic events occur in any one year.

The Company also considered scenarios and their impact on operations and the solvency position. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, and taking into account their probability of occurrence.

Catastrophe risk is a very important risk for the Company. Therefore, as part of the annual ORSA process, the Company tests natural catastrophe scenarios in terms of their impact on solvency. To date, the following has been tested: an earthquake in Ljubljana with a return period of one thousand years (including default of lead retrocessionaire), a Kyrill-type hurricane (2007), an Andrew-type hurricane (1990), an earthquake in China, an earthquake in Turkey, the scenario of three catastrophic events in Slovenia in one year (two hail storms and one flood), the impact of two hurricane events in the Caribbean as in 2017 and a scenario of two major Japanese typhoons occurring in one year. In each of these cases, eligible own funds would be impacted by the amount of the claim payment, which would also have an effect on the profit or loss for the year (in which the event happened); nevertheless, Sava Re would maintain a large surplus of eligible own funds over the SCR. The solvency ratio would drop by a few percentage points but still remain within the optimal capitalisation range.

Life underwriting risk

We assess that life underwriting risk is less significant for the Company. The risk is mitigated through a unified underwriting process in the Sava Insurance Group, nurturing good business relations with non-Group cedants of long standing and closely analysing the market situation. Procedures put in place to mitigate lapse risk include monitoring lapses in absolute and relative terms and overseeing cedant measures taken to minimise policy lapses. Procedures put in place to manage mortality risk include consistent application of underwriting protocols, which specify in detail the deviation from normal mortality risk, use of appropriate mortality tables and adequate retrocession protection. Procedures put in place to manage life expense risk include monitoring the macroeconomic situation (e.g. inflation) and planning service expenses for the coming years.

C.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and volatility of market prices of assets, liabilities and financial instruments. Market risks include the following types of risk:

- **Interest rate risk** is the risk of a change in market interest rates adversely affecting the value of interest-rate-sensitive assets and liabilities. Interest-rate-sensitive investments include bonds, deposits and loans. When calculating capital requirements for interest rate risk, the amount of interest-rate-sensitive assets is considered on the assets side, and best estimate technical provisions, subordinated debt and employee provisions are considered on the liabilities side.
- **Equity risk** is the risk of a fall in the level of equity prices resulting in a fall in the value of equities. Participations in subsidiaries are exposed to this risk, as well as investments in equities, and equity and mixed mutual funds.
- **Property risk** is the risk of a fall in the value of property due to changes in the level and volatility of property prices.
- **Currency risk** is the risk of a drop in the value of assets or increase in the level of liabilities due to changes in the level of currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
- **Market concentration risk** is the risk of a suboptimal diversification of the asset portfolio or an increased exposure to the default of a single counterparty or group of counterparties.

C.2.1 Risk exposure

As at the date of this report, the Company had the following composition of assets, which influences its exposure to market risk.

Investments included in the calculation of market risk (Solvency II valuation)

(EUR thousand)	31 Dec 2019	As % of total 31 Dec 2019	31 Dec 2018	As % of total 31 Dec 2018
Asset class				
Bonds	**246,097**	**36.9%**	**221,895**	**36.0%**
Government bonds	137,915	20.7%	121,483	19.7%
Corporate bonds	108,182	16.2%	100,412	16.3%
Mutual funds	**9,655**	**1.4%**	**4,964**	**0.8%**
Deposits	**22,001**	**3.3%**	**0**	**0.0%**
Equity investments	**372,373**	**55.9%**	**374,064**	**60.7%**
Participations in subsidiaries	362,682	54.4%	365,343	59.3%
Listed equities	8,056	1.2%	7,086	1.1%
Unlisted equities	1,635	0.2%	1,635	0.3%
Property	**12,349**	**1.9%**	**12,189**	**2.0%**
Own-use property	3,310	0.5%	3,585	0.6%
Other property	9,040	1.4%	8,604	1.4%
Loans and mortgages	**4,216**	**0.6%**	**3,090**	**0.5%**
Total	666,691	100.0%	616,201	100.0%

The value of assets that the Company includes in the calculation of market risk was EUR 666.7 million as at 31 December 2019 (31 December 2018: EUR 616.2 million). The increase in investments in 2019 is mainly due to the issuance of subordinated debt (increase in investments of EUR 73.8 million).

Their composition shows that the majority of the Company's financial investments consists of strategic participations and fixed-income financial instruments. The predominance of fixed-income financial instruments in portfolio investments reflects the Company's policy to manage financial investments so that assets and liabilities are matched.

Variable-income investments account for a relatively small proportion of portfolio investments[8] because the majority of equity investments consists of participations. Portfolio investments show a relatively high exposure to interest rate and credit risk.

C.2.2 Measurement and concentration of market risk

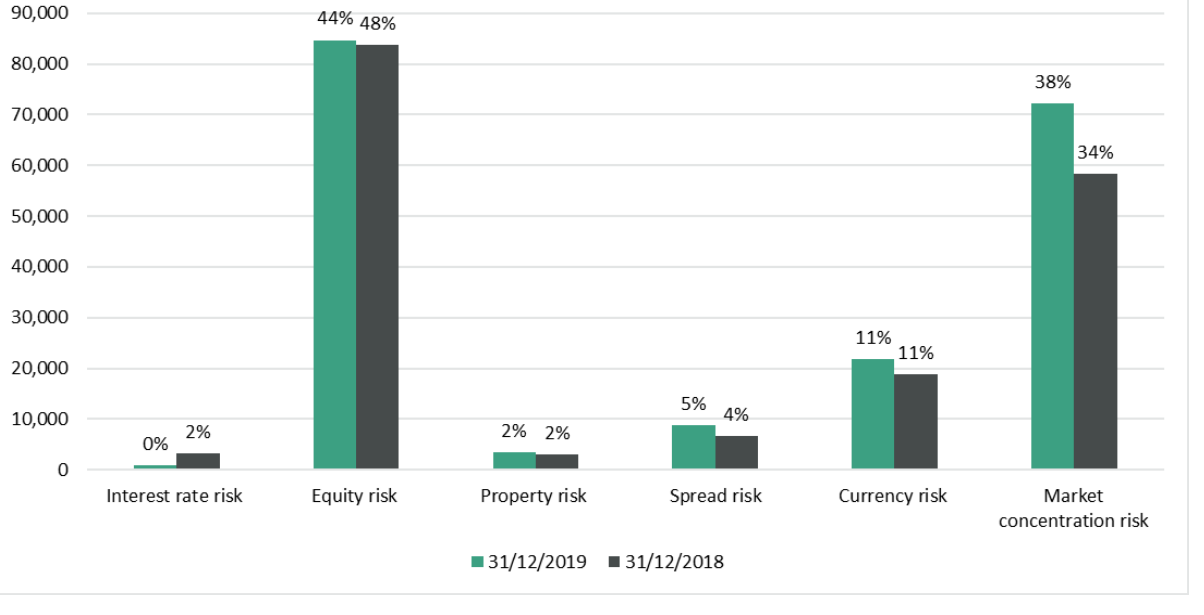
For the quantitative assessment of market risk, the Company uses the Solvency II standard formula in addition to its own risk assessment.

The solvency capital requirement in accordance with the Solvency II standard formula for market risk stood at EUR 125.2 million as at 31 December 2019 (31 December 2018: EUR 113.8 million) or 51% of the total undiversified basic solvency capital requirement.

The higher capital requirement is largely due to the higher exposure to Group companies that experienced a rise in concentration risk.

The Company has participations in insurance companies, both EU- and non-EU-based, in the amount of EUR 260.8 million and EUR 42.4 million, respectively. The Company's exposure due to participations in subsidiaries therefore accounts for a significant proportion of the capital requirement for equity and concentration risks.

Undiversified market risk by risk sub-module (EUR thousand)



[8] Assets included in the calculation of market risk less participations.

- **Interest rate risk** accounts for a relatively small proportion of capital requirements for market risk. Interest-rate-sensitive investments include bonds, deposits and loans. Interest-rate-sensitive liabilities mainly include technical provisions and subordinated debt. The Company regularly monitors, analyses and addresses the scope of the assumed interest rate risk. We believe that, with its specific measures and internal controls, it manages interest rate risk well.
- **Equity risk** is the largest type of market risk, with 44% of total market risk. The major part of the capital requirement stems from participations in subsidiaries. Equity risk arising from portfolio investments is relatively low due to the smaller exposure.
- **Property risk.** The proportion of property within the investment portfolio is capped through the Company's limits system and therefore relatively small. Consequently, property risk that the Company is exposed to is low.
- **Currency risk** represents 11% of market risk. Both assets and liabilities are exposed to this risk. The monitoring and management of currency risk is presented in greater detail in the Company's annual report, section 17.6.3.2.4 "Currency risk". As at 31 December 2019, the Company reported highly matched assets and liabilities in accordance with IFRSs. Nevertheless, the Company still had some currency mismatches under the Solvency II methodology as the result of the lower level of best estimate technical provisions. Compared to the previous year, currency risk primarily rose due to the change in the currency composition of the Company's assets and liabilities.
- **Spread risk** represents a relatively small proportion of market risk and contributed 5% to the capital requirement. The Company has a limits system in place to manage credit risk, which defines maximum exposures to a single issuer, region, sector and credit rating, and thus prevents the assumption of risks inconsistent with the Company's risk appetite.
- **Market concentration risk** is the second-largest subcategory of market risk, accounting for 38%. The level of this risk is due to the Company's participations in non-EU-based subsidiaries, which are considered a single exposure under the standard formula. Portfolio investments are exposed to only minor market concentration risk because the Company monitors and regulates its exposure, i.e. concentration, of portfolio investments by region, sector and asset class. thus preventing any large concentrations in the investment portfolio and limiting the risk. The Company's portfolio broken down by theses parameters and by rating is shown in its annual report, section 17.6.3.2.6 "Credit risk".

When assessing the risks associated with the investment portfolio, the Company also regularly monitors other risk measures, i.e. performance of the investment portfolio:

- income volatility,
- market and book return.

As part of its asset and liability matching procedures, on a quarterly basis the Company calculates and monitors the following for each asset and liability portfolio:

- risk measures: modified duration, convexity and key rate duration,
- estimated future cash flows,
- the currency structure of assets and liabilities.

In addition to the standard formula, the Company also uses its own solvency risk assessment model (within ORSA) to monitor and assess market risk. In our own calculation of risk, we assess the following financial risks: equity risk, interest rate risk and credit risk of financial investments. The valuation of equities is conducted using the capital asset pricing model (CAPM), where, for each equity instrument, a stock index is determined representing market return in the model (relevant economic scenario generators are used as a basis). In its own model, the Company includes all marketable equity securities sufficiently liquid to allow it to estimate, with sufficient accuracy, the parameters of the model using historic data. For other investments, the Company uses stresses prescribed by the standard formula. In ORSA, interest rate risk is assessed for all assets and liabilities. To this end, each currency representing a relatively small proportion of the portfolio is translated into a modelled currency with which it had the most stable exchange rate over the past five-year period[9]. In its own model, the Company also assesses the credit risk of financial investments, which also captures market concentration and spread risks.

The own model only takes account of financial investments, excluding participations in subsidiaries, which are included in the ORSA equity risk assessment similar as in the standard formula, whereas in concentration risk, the exposure stemming from participations in non-EU-based subsidiaries is treated as a separate exposure.

In its financial investments in subsidiaries and associates, Sava Re has one major exposure – that is to Zavarovalnica Sava – accounting for 71.9% (2018: 77.3%) of the total value of its financial investments in subsidiaries and associates. The United States represents the largest concentration in a single issuer. The Company's largest regional concentration is in Slovenia. The Company is aware of the risks related to these concentrations and is actively managing them by gradually reducing exposures and setting adequate maximum exposure limits in the Company's limits system.

C.2.3 Risk management

The framework for the market risk management is set out in the Company's asset and liability management policy and investment risk management policy. Specifically, the two policies define the following:

- basic investment guidelines,
- measures to be used in monitoring investment performance,
- measures to be used in monitoring investment risks,
- monitoring the compliance of the portfolio with the limits system,
- persons responsible in the investment process.

In the management and monitoring of market risk, the Company takes account of the following:

- its risk appetite as set out in the risk strategy,
- operational limits for financial investments,
- performance and risk measures relating to investments and liabilities.

The Company's main method of matching assets and liabilities is through matching and hedging. If possible and cost effective, the Company does so by matching assets to liability cash flows. The Company does not use derivative financial instruments for asset and liability matching.

The Company manages the risks arising from the financial investments portfolio by regularly monitoring and analysing issuers' financial data, monitoring the market prices of financial instruments, regularly analysing asset and liability management figures submitted to the risk management committee and analysing sensitivity tests for material parameters of market risk.

The Company mostly manages the risk arising from its participations in subsidiaries through clearly set business and risk management strategies, which the Group companies must consider, and through active Group governance.

[9] The currencies modelled are the euro, US dollar, Chinese yuan, Indian rupee, Korean won and Russian ruble.

We carried out four stress tests applying various parameters that affect the level of the solvency capital requirement for market risk and the level of the Company's eligible own funds, and consequently the solvency position. The table below shows the results of individual stress tests.

Impact of stress tests on eligible own funds, SCR and Company solvency ratio

EUR thousand	Eligible own funds	Difference from base value	SCR	Difference from base value	Solvency ratio	Difference from base value
Base values as at 31 Dec 2019	**542,969**		**187,820**		**289%**	
Increase in interest rates of 100 basis points	541,339	-1,631	187,366	-455	289%	0 p.p.
Decrease in interest rates of 100 basis points	544,001	1,031	188,936	1,115	288%	-1 p.p.
Fall in value of equity securities of 20%	540,856	-2,113	187,663	-157	288%	-1 p.p.
Decrease in value of property of 25%	540,191	-2,779	188,054	234	287%	-2 p.p.
Decrease in value of participation in Zavarovalnica Sava of 20%	490,806	-52,163	180,469	-7,352	272%	-17 p.p.
	Eligible own funds	**Difference from base value**	**SCR**	**Difference from base value**	**Solvency ratio**	**Difference from base value**
Base values as at 31 Dec 2018	**475,918**		**162,522**		**293%**	
Increase in interest rates of 100 basis points	474,282	-1,636	162,398	-124	292%	-1 p.p.
Decrease in interest rates of 100 basis points	477,459	1,541	162,712	190	293%	1 p.p.
Fall in value of equity securities of 20%	474,142	-1,776	162,462	-60	292%	-1 p.p.
Decrease in value of property of 25%	473,462	-2,456	162,694	172	291%	-2 p.p.
Decrease in value of participation in Zavarovalnica Sava of 20%	419,417	-56,501	153,947	-8,575	272%	-20 p.p.

The first sensitivity test was an **increase and decrease in interest rates**. We carried out a stress test of interest rate sensitivity by increasing and lowering the base curve of the risk-free interest rate for all maturities by 100 basis points. Then, a new calculation was made of eligible own funds and the solvency capital requirement for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points resulted in a decrease in the Company's eligible own funds slightly below the Company's materiality threshold[10] as well as a decline in its SCR. Thus the impact of the stress test on the solvency ratio is relatively small and comparable with the calculation of the stress test impact as at 31 December 2018. A drop in interest rates of 100 basis points has an inverse impact on eligible own funds and the SCR, and the impact on the solvency ratio is larger than in the case of rising interest rates but also relatively small and comparable to the calculation of the impact as at 31 December 2018.

The second was a stress test of a **fall in the prices of the Company's equities**, which was carried out by decreasing equity prices by 20% as at the reporting date. However, we did not decrease the value of participations in subsidiaries. The impact on equities was proportionate to the shock. This mainly resulted in a decrease of eligible own funds, as well as in a decline in the capital requirement within

[10] The materiality threshold is an internal measure associated with the level of eligible own funds and solvency capital requirement. As at 31 December 2019, the Company's materiality threshold was EUR 7 million.

the equity risk sub-module. The decline in eligible own funds and the SCR is below the Company's materiality threshold, and the impact on the solvency ratio is very small and comparable to the calculation of the stress test impact as at 31 December 2018.

The impact of a change in property prices on the Company's solvency position was analysed through a stress test assuming a **25% fall in property prices**. The calculation was made using the amount of property as at the reporting date. This mainly resulted in a decline in eligible own funds, but the capital requirement of the property risk sub-module also decreased. The impact of a fall in property prices on eligible own funds and the SCR is below the materiality threshold. The impact of the stress test on the solvency ratio is therefore small and comparable to the impact calculation as at 31 December 2018.

As mentioned, the value of participations in subsidiaries has a material effect on the balance sheet and the level of the Company's market risk; we, therefore, tested the impact on the solvency position of a **20% fall in the value of the largest subsidiary**, Zavarovalnica Sava. Investments in the Company's insurance subsidiaries are valued in the Solvency II balance sheet using the adjusted capital method – as the excess of the companies' Solvency II assets over liabilities. The value of the equity investment in Zavarovalnica Sava totalled EUR 260.8 million under Solvency II as at 31 December 2019 (31 December 2018: EUR 282.6 million), accounting for 71.9% (31 December 2018: 77.3%) of the total value of its financial investments in subsidiaries and associates. The stress test assuming a 20% fall in the value of the participation in Zavarovalnica Sava materially reduces the eligible own funds and the Sava Re SCR. Because eligible own funds suffer a greater loss than the SCR, there is also a significant fall in the Company's solvency ratio, whereas its solvency is not compromised thanks to a remaining high solvency ratio. The impact of the stress test on the Company's solvency position is similar to the impact of the stress test as at 31 December 2018.

In addition to sensitivity and stress tests in the ORSA, the Company considered a number of scenarios and their impact on its operations and solvency position. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, and taking into account their probability of occurrence. Regarding market risk, we tested the financial scenario designed based on the circumstances in financial markets during the financial crisis between 31 August 2008 and 31 July 2009. Based on the scenario, we calculated impacts on the investment portfolio, specifically as at 31 December 2019 and 31 December 2022. Such a scenario would have a very large impact on the Company's eligible own funds (the impact considerably exceeding the Company's materiality threshold). Such a decline in the value of investments would also result in lower capital requirements for market risk and, consequently, a lower SCR for the Company. While such a scenario would reduce solvency, the solvency ratio would remain above the target capitalisation range[11] as defined in the risk strategy 2020–2022.

We also tested the scenario of a fall in the prices of equity securities and alternative investments. The scenario envisages a fall in the value of listed shares of 20%, fall in unlisted shares of 25% and a 10% drop in the value of property and infrastructure fund investments. The scenario has no significant impact on the solvency position, resulting in a solvency ratio lower by a few percentage points. More important is the information we obtained on the impact of the scenario on the income statement under IAS 39 and the new standard IFRS 9.

[11] Target capital adequacy has been set at 200% for the period 2020–2022.

Prudent person principle

The Company makes investment decisions that take into account all investment-related risks, not only risks considered in capital requirements. In the optimisation process, strategic asset allocation is defined based on risk appetite.

Persons responsible for undertaking investment decisions assume and manage investment risk in line with the guidelines set out in the investment risk management policy, which is designed in accordance with the prudent person principle.

All assets are invested in such a way as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition, these assets are localised to ensure their availability.

Assets held to cover technical provisions are invested in a manner appropriate to the nature and duration of the reinsurance liabilities. These assets are invested in the best interest of all policyholders and beneficiaries.

The Company has in place a limit system based on the calculated maximum expected losses of individual issuers, restrictions regarding concentration risk prescribed by the Solvency II standard formula and restrictions arising out of risk appetite, and acceptable volatility of return on financial investments. In addition to limits by type of investment, industry, region and issuer, the Company set a minimum proportion of investments rated “A-” or better of at least 40% of the investment portfolio value and a restriction on the maturity of debt instruments, the credit rating of which must not exceed the investment grade level.

In the case of a conflict of interest, the Company ensures that the investment is made in the best interest of policyholders and beneficiaries.

C.3 Credit risk

Credit risk is the risk of loss or adverse change in the Company’s financial position, resulting from fluctuations in the credit standing of issuers, counterparties and any debtors that the Company is exposed to.

C.3.1 Risk exposure

The Company is exposed to the following risks:

- counterparty default risk,
- spread risk, and
- market concentration risk.

Spread and market concentration risks are discussed and presented within the market risk section, in accordance with the risk classification and measurement in the standard formula. Below, we provide details regarding counterparty default risk.

Counterparty default risk includes losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the coming 12 months. Counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements and receivables from intermediaries, as well as any other credit exposures not covered in the spread risk sub-module of the standard formula (cash and cash equivalents). Credit risk from receivables arises out of delays in the payment of liabilities under inwards reinsurance business and recovery arrangements under subrogation rights. In order to avoid such delays, the Company closely monitors the payment behaviour of cedants, running procedures to collect overdue receivables. This explains the Company’s low exposure to counterparty default risk.

Exposure to this risk is discussed in greater depth in the 2019 annual report, section 17.6.3.2.6 “Credit risk”.

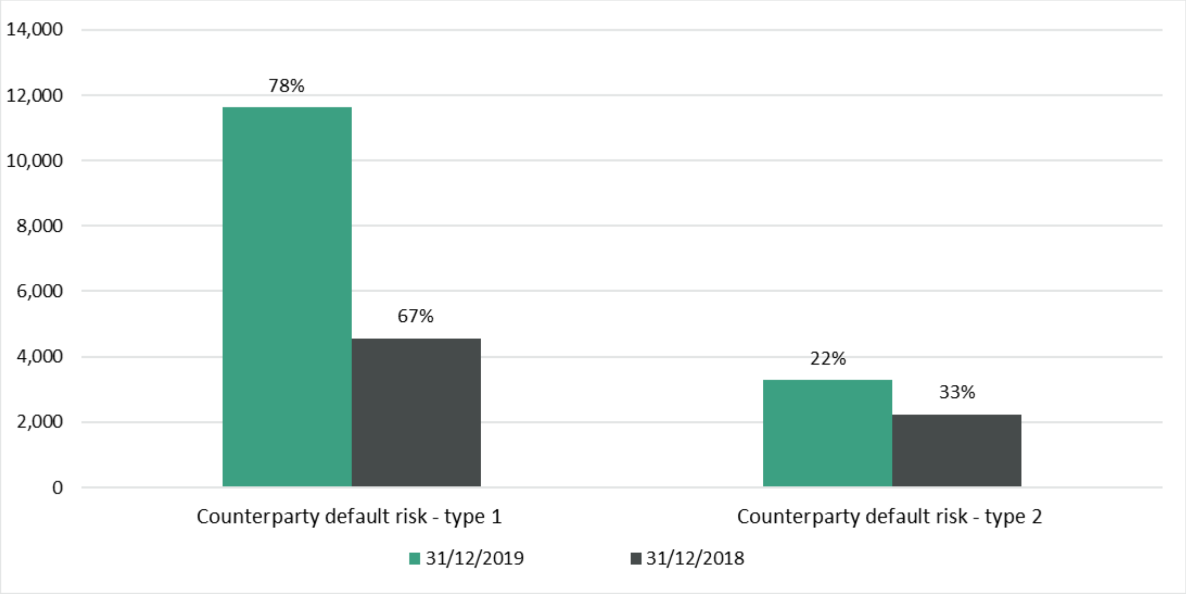
C.3.2 Risk measurement

For the quantitative assessment of credit risk, the Company uses the Solvency II standard formula. As mentioned, spread and market concentration risks are assessed within the market risk module, whereas counterparty default risk is assessed in a separate counterparty default risk module. This section shows the results for counterparty default risk, and market risk is discussed in section C.2.

The Company’s solvency capital requirement in accordance with the Solvency II standard formula for counterparty default risk amounted to EUR 14.3 million as at 31 December 2019 (31 December 2018: EUR 6.4 million) or 5.8% of the total undiversified basic solvency capital requirement.

The chart below shows the structure of the counterparty default risk module in accordance with the standard formula.

Undiversified counterparty default risk by risk sub-module (EUR thousand)



Type 1 exposure includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. Type 2 exposure includes all receivables not included under type 1 exposure other than pending premium receivables, pending commission receivables, tax assets and deferred tax assets. Comparing year-end figures as at 31 December 2019 and 2018, there was a marked increase in SCR from cash and cash equivalents, while the underwriting part of counterparty default risk remained on a similar level as at 31 December 2018.

In addition to the calculation of the solvency capital requirement in accordance with the standard formula, the Company develops its own model (in ORSA) to assess credit risk relating to financial investments. This model takes account of spread, migration and default risks for all investments in debt instruments. Closely interrelated, these risks are addressed within a single model in the ORSA. For more information on the own model for assessing market and credit risk, see section C.2.2.

As regards counterparty default risk related to reinsurers and co-insurers, we believe that the standard formula appropriately evaluates the risk, and we therefore made no own calculations for this part. In our own credit risk calculation, we also consider the diversification effect.

The Company has no significant concentration with counterparty default risk.

C.3.3 Risk management

The Company's investment portfolio is reasonably diversified in accordance with the Company's limits system in order to avoid large concentration of a certain type of investment, large concentration with any counterparty or economic sector, or other potential forms of concentration.

The Company manages its credit risk associated with assets under re(co)insurance contracts by limiting the exposure to a single re(co)insurer and by entering into contracts with highly-rated partners.

In order to avoid such delays, the Company closely monitors the payment behaviour of cedants, running procedures to collect overdue receivables.

The Company monitors and reports on credit risk exposure on a quarterly basis and is thus able to take timely action if necessary. Partners' credit ratings are also monitored, with a focus on any indications of their possible downgrading. To this end, a process has been put in place for reviewing external credit ratings by the credit rating committee.

As part of its review of reinsurer credit ratings in the capital adequacy calculation, the Company tested the impact of a deterioration in reinsurer credit standing on counterparty default risk. We assumed a rating downgrade for all partners by one class, based on which we calculated the impact on the SCR and the solvency ratio. The impact is small and similar to the one as at 31 December 2018.

C.4 Liquidity risk

Liquidity risk is the risk that an entity will not have sufficient liquid assets to meet its obligations as they fall due, and will have to sell its less liquid assets at a discount or raise new loans. Liquidity risk should be understood as risk arising from short-term cash flows rather than risk arising from a long-term mismatch of assets and liabilities.

C.4.1 Risk exposure

The Company has substantial monetary obligations (mainly to policyholders), and it must therefore adequately manage its cash flows, ensuring an appropriate level of liquidity. The Company carefully plans and monitors cash flows (both inflows and outflows). Furthermore, it regularly monitors the receivables aging analysis, considering the impact of the settlement of receivables on its current liquidity.

C.4.2 Risk measurement

Liquidity risk is a risk difficult to quantify and hence is not covered within the Solvency II standard formula. It is regularly monitored and managed by the Company.

To determine its exposure to liquidity risk, the Company monitors and analyses the following risk measures:

- cash in bank accounts,
- the percentage of highly liquid assets and the haircut category with regard to the total amount of financial investments, in the valuation in accordance with the ECB methodology,
- liquidity buffer,
- the difference between the projected cash outflows and inflows for the next quarter, and the percentage of the liquidity buffer represented by this difference,
- any other legally required measures.

C.4.3 Risk concentration

The Company is not exposed to a concentration of liquidity risks, but it may in certain cases still face certain emergency liquidity needs.

C.4.4 Risk management

The Company defined liquidity risk as one of its key risk exposures in its risk strategy. In order to effectively manage liquidity risk, the Company has adopted a liquidity risk management policy, which sets out the risk management processes and risk measures, as well as the processes involved in the case of emergency liquidity needs. Due to the nature of liquidity risk, the Company does not manage such risk by holding additional capital, but through an appropriate strategy for ensuring sufficient liquidity.

The estimated liquidity requirement of the Company is composed of the estimated normal current liquidity requirement (arising from operations and investment maturities) and a liquidity buffer (estimated based on historic data on maximum weekly outflows).

The Company conducts an assessment of the normal current liquidity requirement within a period of up to one year based on projected three-month and weekly cash flows, which take account of the planned investment maturity dynamics and of other inflows and outflows from operations by using historical financial data from previous monthly and weekly liquidity plans and expectations regarding future performance.

Liquidity requirements are met by allocating funds to money market instruments in a percentage consistent with the estimated normal current liquidity requirement. In this regard, the Company maintains a liquidity buffer of highly liquid assets accounting for at least 15% of its investment portfolio. As at 31 December 2019, Sava Re had 20% of its investment portfolio invested in highly liquid assets (31 December 2018: 25%), which is well above the level defined in the risk strategy.

Due to the significant proportion of highly liquid assets and the way this risk is managed, the Company believes that its liquidity risk is well managed.

Expected profits included in future premiums

Expected profits included in future premiums (hereinafter: "EPIFP") are those that the Company, in accordance with article 260(2) of Commission Delegated Regulation (EU) (2015/35) (hereinafter: "Delegated Regulation"), calculated as the difference between technical provisions without a risk margin calculated in accordance with Solvency II and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. In the latter calculation, a 100% policy lapse rate is assumed, whereas for life, all policies are treated as paid-up.

EPIFP is calculated separately for each homogeneous risk group of non-life and NSLT health insurance business and for each underwriting year, in the amount of expected future premiums less the related expected claims, commissions and other expenses, as used for calculating best estimate provisions. EPIFP for life insurance is also calculated separately.

Expected profits included in future premiums as at 31 December 2019 totalled EUR 5,184 thousand (31 December 2018: EUR 5,792 thousand).

C.5 Operational risk

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

C.5.1 Risk exposure

Operational risks are not among the Company's major risks. Nevertheless, some are relatively important, in particular:

- risk associated with the computer and communication system,
- risk associated with supervision and reporting,
- risk of incorrect data input, incomplete data and inadequate documentation,
- compliance risk relating to laws and regulations,
- risk of unauthorised access to data, theft and fraud,
- risks associated with outsourcing.

C.5.2 Risk measurement

At least annually, the Company calculates its capital requirements for operational risk using the Solvency II standard formula. Such a calculation, however, is only of limited practical value because the formula is not based on the Company's actual exposure to operational risk, but on an approximation calculated mainly based on the Company's premiums, provisions and expenses.

As at 31 December 2019, operational risk calculated using the standard formula amounted to EUR 4.8 million (31 December 2018: EUR 4.6 million).

Due to the reasons mentioned above, the Company assesses operational risk mainly by qualitatively assessing the related probability and financial severity within the risk register, and by analysing various scenarios (also within ORSA). The Company makes quarterly risk assessments to obtain insight into the level of its current exposure to such risks.

C.5.3 Risk concentration

The Company is not exposed to significant concentrations of operational risk; there is, however, an increase in risks related to ongoing development projects (e.g. IT risk).

C.5.4 Risk management

The Company has in place various processes that ensure it can properly identify, measure, monitor, manage, control and report on operational risk, thus ensuring its effective management. Accountability and operational risk management processes are set out in greater detail in the operational risk policy and the risk management rules.

The chief operational risk management measures that the Company implements are:

- streamlining the business processes management system and the internal control system;
- awareness-raising and training of all employees on their role in implementing the internal control system and managing operational risks;
- assessing the adequacy and effectiveness of internal controls;
- maintaining a register of incidents to identify deficiencies in processes;
- a positive climate, good business culture and continuous employee training;
- implementing appropriate policies as regards information security and developing IT to reduce cyber risk;
- having in place a business continuity plan for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting interruption of business);
- developing IT-supported processes and controls in key business areas.

In addition, the Company manages such risks through oversight by the internal audit department.

All major internal controls related to operational risk are included in the risk register. The Company monitors weaknesses and newly introduced improvements in internal controls.

The Company regularly reports on assessed operational risks in the risk report, which is submitted to the risk management committee, the Company's management board, the supervisory board's risk committee and the supervisory board. If necessary, the risk management function and the risk management committee issue recommendations to the management board for further steps and improvements to operational risk management processes.

C.6 Other material risks

Other material risks faced by the Company primarily consist of strategic risks. These include the risk of an unexpected decrease in the Company's value due to adverse effects of management decisions, change in the business and legal environments, or market developments. Such adverse events could impact the Company's income and capital adequacy.

C.6.1 Risk exposure

The Company is exposed to a variety of internal and external strategic risks. In 2019, the Company's key strategic risks included:

- regulatory risk,
- risk of impact of global political uncertainty on transactions,
- risk of impact of market and macroeconomic conditions on transactions,
- risk of wrong development strategy,
- risks associated with strategic investments,
- project risk and
- reputation risk.

C.6.2 Risk measurement

Strategic risks are by their nature very diverse, difficult to quantify and heavily dependent on various (including external) factors. They are also not included in the calculation of capital requirement in accordance with the Solvency II standard formula.

Therefore, strategic risks relating to the risk register are assessed qualitatively by assessing the frequency and potential financial impact of each event. In addition, the Group seeks to evaluate key strategic risks using a qualitative analysis of various scenarios (also as part of the ORSA). Based on both analyses combined, the Company obtains an overview of the extent and change in the exposure to this type of risk.

C.6.3 Risk concentration

The Company manages strategic risks well and has no material exposure to concentration risk.

C.6.4 Risk management

The Company mitigates individual strategic risks mainly through preventive measures.

In addition to individual organisational units, the management board, the risk management committee and risk management functions are actively involved in identifying and managing strategic risks.

Strategic risks are also managed through on-going monitoring of the realisation of the Company's short- and long-term goals, and by monitoring regulatory changes in the pipeline and market developments.

Strategic risks arising from participations in subsidiaries and associates are among the largest risks of this type. The Company actively manages risks through:

- a governance system and clear segregation of responsibilities at all levels;
- risk management policies;
- systematic risk management with a three-lines-of-defence framework (discussed in detail in section B.3);
- top-down setting of business and risk management strategies, taking into account both the Group as a whole as well as its individual members;
- a comprehensive system of monitoring operations, reporting on business results and risks at all levels.

The Company is aware that its reputation is important for realising its business goals and achieving strategic plans in the long term. The risk strategy therefore identifies **reputation risk** as a key risk. The Company seeks to minimise the likelihood of actions that could have a material impact on the reputation of any Group company or the Group as a whole. In addition, the Company has taken steps aimed at mitigating reputation risk, such as setting up fit and proper procedures applicable to key employees, ensuring systematic operations of their respective compliance functions, having in place business continuity plans, developing stress tests and scenarios, and planning actions and responses in case risks materialise. Risks related to reputation are also managed through seeking to improve services, timely and accurate reporting to supervisory bodies, and well-planned public communication. A crucial factor in ensuring the Company's good reputation and successful performance is the quality of services; therefore, each and every employee is responsible for improving the quality of services and customer satisfaction.

The Company manages and mitigates **regulatory risk** through ongoing monitoring of legal changes and assessing such potential effects on operations in the short and longer term. In accordance with statutory regulations, the Company has established a compliance function to monitor and assess the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Company's compliance with regulations and other commitments.

Risks associated with sustainable development are also important to the Company. Sustainable development was one of Sava Insurance Group's fundamental strategic orientations in 2017–2019 and has remained important in the succeeding strategic period 2020–2022. Therefore, we have prepared and adopted a "Sustainable development strategy" in cooperation with all Group subsidiaries. More on sustainable development is available in the 2019 annual report, section 13 "Sustainable development in the Sava Insurance Group" posted on the Sava Re website.

The Company is currently running a project for implementing the new international accounting standards IFRS 9 and 17. Due to the fact that implementation risks are high, requiring a high level of management of existing resources, a project team for the implementation at the Group-level was set up as early as 2017. In addition, a number of important IT projects are underway: among other things, an enterprise resource planning system will be selected in 2020 to support business operations. Key project risks are monitored and assessed by project team members as well as other stakeholders, also in the risk register.

C.7 Any other information

The Company has no other material information relating to its risk profile.

D. Valuation for solvency purposes

In accordance with article 174 of the Slovenian Insurance Act ("ZZavar-1"), assets are valued at amounts for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction. Liabilities are valued at amounts for which they could be transferred or settled between knowledgeable and willing parties in an arm's length transaction. The value of liabilities is not adjusted with respect to the Company's creditworthiness.

The valuation of assets is conducted in accordance with IFRSs as adopted by the European Commission. If the IFRSs allow for several valuation methods, a method has to be chosen that is consistent with Solvency II principles as set out in the Delegated Regulation and other Solvency II implementing regulations. For most other cases of assets and liabilities (apart from technical provisions; "TP"), the IFRSs provide for a valuation method consistent with Solvency II principles.

The Company measures all financial instruments at fair value, except for deposits, equities not listed in any regulated market and loans (for which it is assumed that the carrying amount is a reasonable approximation of fair value). The fair value of investment property and land, and buildings used in business operations, is reported based on appraisals conducted by independent external property appraisers (market approach and income approach, (weighted 50 : 50)), whereas new purchases are reported at cost.

The Company determines the fair value of a financial asset on the valuation date by determining the price in the principal market based on:

- for stock exchanges: the quoted closing price on the stock exchange on the measurement date or on the last day of operation of the exchange on which the investment is quoted;
- for the OTC market: quoted closing bid CBBT price or, if unavailable, the Bloomberg bid BVAL on the valuation date or on the last day of operation of the OTC market;
- the price is calculated on the basis of an internal valuation model.

Investments measured at fair value are presented in accordance with the levels of fair value under IFRS 13, which categorises the inputs used to measure fair value into the following three levels of the fair value hierarchy:

- Level 1 financial investments are those for which the fair value is determined based on quoted prices (unadjusted) in active markets for identical financial assets that the Company can access at the measurement date.
- Level 2 financial investments are those whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3 comprises financial investments for which observed market data are unavailable. Thus the fair value is determined based on valuation techniques using inputs that are not directly or indirectly observable in the market.

Methodology for measuring financial investments

Asset class / principal market	Level 1	Level 2	Level 3
Debt securities			
OTC market	Debt securities measured based on the CBBT price in an active market.	Debt securities measured based on the CBBT price in an inactive market. Debt securities measured at the BVAL price if the CBBT price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider level 2 inputs.
Stock exchange	Debt securities measured based on stock exchange prices in an active market.	Debt securities measured based on stock exchange prices in an inactive market. Debt securities measured at the BVAL price when the stock exchange price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider level 2 inputs.
Shares			
Stock exchange	Shares measured based on stock exchange prices in an active market.	Shares measured based on stock exchange prices in an inactive market. Shares without available stock exchange prices and that are measured using an internal model based on level 2 inputs.	Shares measured using an internal model that does not consider level 2 inputs.
Unlisted shares and participating interests			
			Unlisted shares measured at cost. Fair value for the purpose of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs.
Mutual funds			
	Mutual funds measured at the quoted unit value on the measurement date.		
Alternative funds			
			Fair value is determined based on the valuation of individual projects, using the discounted cash flow method.
Deposits and loans			
– with maturity		Measured at amortised cost; fair value for the purpose of disclosure calculated using an internal model with level 2 inputs.	Measured at amortised cost; fair value for the purposes of disclosure calculated using an internal model not using level 2 inputs.

The basis for the balance sheet in accordance with Solvency II ("SII balance sheet"), with assets and liabilities valued in accordance with the valuation principles set out in articles 174–190 of ZZavar-1, is the balance sheet drawn up by the Company for reporting purposes in accordance with IFRSs, referred to in this document as the IFRS balance sheet.

The reclassification and revaluation of SII balance sheet items is based on the IFRS balance sheet. This section describes the implementation of such reclassifications and revaluations for only those items where the Solvency II value ("SII value") differs from the IFRS value. For all other items, IFRSs are deemed to ensure a valuation consistent with Solvency II principles.

The tables below show the balance sheet as at 31 December 2018 and 31 December 2019 with IFRS values of assets and liabilities ("IFRS balance sheet") along with assets and liabilities in accordance with the valuation principles set out in articles 174–190 of ZZavar-1 ("SII balance sheet"), taking into account the revaluations and reclassifications of asset and liability items.

IFRS and SII balance sheets as at 31 December 2019

(EUR thousand)		IFRS	Revaluation	Reclassification	Solvency II
Assets					
1.	Deferred acquisition costs (D.1.1)	6,555	-6,555	0	0
2.	Intangible assets (D.1.2)	1,294	-1,294	0	0
3.	Deferred tax assets (D.1.3)	1,065	2,634	0	3,699
4.	Property, plant and equipment held for own use (D.1.4)	2,586	724	0	3,310
5.	Property, plant and equipment other than for own use (D.1.5)	8,180	860	0	9,040
6.	Investments in subsidiaries and associates (D.1.5)	238,178	124,504	0	362,682
7.	Shares (D.1.5)	9,691	0	0	9,691
8.	Bonds (D.1.5)	243,106	653	2,338	246,097
9.	Investment funds (D.1.5)	9,655	0	0	9,655
10.	Deposits other than cash equivalents (D.1.5)	22,339	0	-338	22,001
11.	Loans and mortgages (D.1.6)	4,216	0	0	4,216
12.	Reinsurance recoverables (D.1.7)	31,159	-5,575	-5,612	19,972
13.	Deposits to cedants (D.1.8)	7,089	0	0	7,089
14.	Insurance and intermediaries receivables (D.1.9)	89,538	0	-68,134	21,404
15.	Reinsurance and co-insurance receivables (D.1.10)	4,215	0	-673	3,542
16.	Other receivables (D.1.11)	3,271	0	0	3,271
17.	Own shares (D.1.12)	24,939	6,057	0	30,995
18.	Cash and cash equivalents (D.1.13)	52,931	0	-2,000	50,931
19.	Other assets (D.1.14)	441	-441	0	0
TOTAL ASSETS		**760,448**	**121,566**	**-74,418**	**807,596**
Liabilities					
20.	Gross technical provisions – non-life and NSLT health (D.2)	252,951	-33,189	-52,882	166,880
21	Gross technical provisions – life (excl. index-linked and unit-linked) (D.2)	8,388	2,709	-11	11,087
22.	Provisions other than technical provisions (D.3.1)	467	0	0	467
23.	Deferred tax liabilities (D.1.3)	0	6,368	0	6,368
24.	Financial liabilities other than debts owed to credit institutions	88	0	0	88
25.	Insurance and intermediaries payables (D.3.2)	44,374	0	-15,241	29,133
26.	Liabilities from reinsurance and co-insurance business (D.3.3)	6,713	0	-6,285	428
27.	Other trade payables (D.3.4)	1,680	0	0	1,680
28.	Subordinated liabilities (D.3.5)	74,823	-976	0	73,847
29.	Other liabilities (D.3.6)	2,107	-800	0	1,307
TOTAL LIABILITIES		**391,589**	**-25,888**	**-74,418**	**291,283**
Excess of assets over liabilities		**368,859**	**147,454**	**0**	**516,313**

IFRS and SII balance sheets as at 31 December 2018

(EUR thousand)		IFRS	Revaluation	Reclassification	Solvency II
Assets					
1.	Deferred acquisition costs	7,822	-7,822	0	0
2.	Intangible assets	893	-893	0	0
3.	Deferred tax assets	1,867	2,095	0	3,962
4.	Property, plant and equipment held for own use	2,618	966	0	3,585
5.	Property, plant and equipment other than for own use	8,322	282	0	8,604
6.	Investments in subsidiaries and associates	220,219	145,124	0	365,343
7.	Shares	8,721	0	0	8,721
8.	Bonds	218,910	654	2,332	221,895
9.	Investment funds	4,964	0	0	4,964
10.	Deposits other than cash equivalents	2,332	0	-2,332	0
11.	Loans and mortgages	3,090	0	0	3,090
12.	Reinsurance recoverables	21,437	-1,931	-2,288	17,218
13.	Deposits to cedants	6,275	0	0	6,275
14.	Insurance and intermediaries receivables	82,519	0	-68,037	14,482
15.	Reinsurance and co-insurance receivables	4,842	0	-330	4,512
16.	Other receivables	469	0	0	469
17.	Own shares	24,939	1,407	0	26,346
18.	Cash and cash equivalents	10,651	0	0	10,651
19.	Other assets	379	-379	0	0
TOTAL ASSETS		**631,270**	**139,503**	**-70,655**	**700,118**
Liabilities					
20.	Gross technical provisions – non-life and NSLT health	224,727	-39,740	-51,744	133,243
21.	Provisions other than technical provisions	9,447	-1,167	0	8,280
22.	Deferred tax liabilities	377	0	0	377
23.	Financial liabilities other than debts owed to credit institutions	0	**8,231**	0	**8,231**
24.	Insurance and intermediaries payables	88	0	0	88
25.	Reinsurance and co-insurance payables	44,039	0	-16,293	27,746
26.	Other trade payables	3,149	0	-2,618	531
27.	Subordinated liabilities	1,365	0	0	1,365
28.	Other liabilities	0	0	0	0
TOTAL LIABILITIES		**286,976**	**-33,190**	**-70,655**	**183,131**
Excess of assets over liabilities		**344,294**	**172,693**	**0**	**516,987**

The Company's off-balance sheet items include contingent assets in the amount of the cancelled subordinated instruments (EUR 10.0 million), regarding which the Company continues with measures designed to protect its interests. In addition, off-balance sheet items as at 31 December 2019 also include contingent liabilities associated with commitments to make payments into alternative funds, in the amount of EUR 13.7 million.

D.1 Assets

Following are individual categories of assets, along with the valuation methods for material categories.

D.1.1 Deferred acquisition costs

Deferred acquisition costs are stated at zero in the Company's SII balance sheet.

D.1.2 Intangible assets

The Company has not identified any intangible assets that may be sold separately and it cannot prove that there is a market value for identical or similar assets. The SII value of intangible assets is stated at zero.

D.1.3 Deferred tax assets and liabilities

Deferred tax assets and liabilities are defined based on identified temporary differences. These are differences between the tax value and the book value of assets or liabilities. Temporary differences may be taxable temporary differences, either amounts to be added to the taxable profit in future periods, or amounts to be deducted from the taxable profit in future periods. Deferred taxes are thus recognised as either deferred tax assets or liabilities as a result of accounting for current and future tax implications.

Deferred tax liabilities are the amounts of income taxes recoverable in future periods depending on:

- deductible temporary differences,
- the carryforward of unused tax losses to future periods, and
- the transfer of credits utilised to future periods.

If a company has a loss in its income statement for tax purposes, until the covering of such a loss (there is no time limit under the Slovenian Corporate Income Tax Act ZDDPO-2), the company is not subject to payment of corporate income tax, but it can recognise deferred tax assets, thus reducing its deferred tax expenses. In the statements for tax purposes, a company does not show unused tax losses.

As a general rule, the recognition of deferred tax liabilities is mandatory, while deferred tax assets only need to be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In the SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:

- the revaluation of the participations in subsidiaries and associates item if such participations are considered strategic investments; in such cases, revaluation differences are treated as permanent differences and do not meet the requirements of temporary differences and, therefore, there is no basis for accounting for deferred taxes with regard to this item;
- the revaluation of the "own shares listed on a stock exchange" item because it does not constitute a taxable temporary difference.

In 2019 deferred tax assets and liabilities were accounted for using a tax rate of 19%. In accordance with Solvency II principles, the Company is reporting a net deferred tax liability resulting from revaluations in the amount of EUR 2.7 million (2018: EUR 4.3 million).

The largest effect on deferred tax assets is associated with the revaluation of deferred acquisition costs to zero. Based on this, a total of EUR 1.2 million (2018: EUR 1.5 million) of deferred tax assets were recognised.

The largest effect on deferred tax assets is associated with the revaluation of gross technical provisions. Based on this, a total of EUR 5.8 million of deferred tax liabilities were recognised (2018: EUR 7.8 million).

D.1.4 Property, plant and equipment held for own use

Every three years, the Company has the fair values of its properties held for own use appraised by independent external property appraisers. Equipment for own use represents an immaterial amount and is stated in the same amounts in both the SII and IFRS balance sheets. The presentation of MVBS right-of-use assets is the same as in the statutory balance sheet.

In assessing fair value and fair value less costs to sell, certified property appraisers take into account the International Valuation Standards and the International Accounting Standards. The appraisal includes verifying the adequacy of all the methods used for appraising property rights. Depending on the purpose of the valuation and the quantity of available data, a market value appraisal will make use of the market approach and the income approach.

D.1.5 Investments

Property, plant and equipment other than for own use

The methodology is consistent with the methodology used for property, plant and equipment held for own use, which is described in detail in section D.1.4 “Property, plant and equipment held for own use”.

Participations

Participations in insurance and pension companies

Two methodologies are applied, one for the revaluation of participations in insurance companies and one for participations in non-insurance companies.

Participations in insurance companies

In the balance sheet, participations in insurance companies are valued on a market-consistent basis. This can be obtained in the following ways:

- market prices that are directly observable, or
- on the basis of an adjusted equity method of valuation (net asset value of the share of participations with adjustment to SII value).

For equity investments in the insurance subsidiaries of Sava Re not listed in a regulated market, market value for the purpose of capital requirement calculation is calculated in accordance with the standard formula, on the basis of an adjusted equity method of valuation – the excess of an insurer’s SII assets over liabilities – because none of the Company’s subsidiaries are a member of any stock exchange.

Where Sava Re holds less than a 100% interest in a subsidiary, proportionate adjustments are made.

Participations in non-insurance companies

The Company values participations in strategic non-insurance companies using the IFRS equity method, in accordance with article 13(5) of the Delegated Regulation. The value of goodwill and other intangible assets that would be valued at zero in accordance with the asset valuation methodology is deducted from the obtained value of the company.

Shares

The Solvency II revaluation methodology for listed shares is consistent with the methodology used for the IFRS balance sheet.

Unlisted equities are initially recognised at cost. As at the balance sheet date, their value is determined using a model. This is designed to determine whether the cost still represents their fair value. If the model shows that the cost is too high, an impairment loss is recognised in the amount of the difference between the model value and its cost.

Because unlisted equities represent an immaterial proportion of the Sava Re investment portfolio, they are not stated at fair value in the SII balance sheet but rather at IFRS balance sheet amounts.

Bonds

In the IFRS balance sheet, bonds are measured in accordance with International Accounting Standard IAS 39. They are measured based on the IAS fair value category and level into which they are classified.

Market value is also calculated for held-to-maturity bonds.

The Company obtains market prices from the Bloomberg system, from the local stock exchange or from any other market on which the bond is listed.

Corporate bonds are valued in the same way as government bonds. In the SII balance sheet, subordinated deposits are reclassified under this item from deposits other than cash equivalents.

Investment funds

The IFRS value is calculated based on the most recent published net asset value per share (“NAVPS”). The value in IFRS reporting is the fair value (market value) of investment funds. Notwithstanding their classification, the book value of these funds equals their market value and is calculated using the formula: NAVPS as at the valuation day x number of lots. NAVPS amounts are obtained from asset managers.

Deposits other than cash equivalents

These deposits are measured at amortised cost or acquisition cost plus accrued interest. In accordance with IAS 39, they are classified in the Company’s IFRS balance sheet as loans and receivables. In the SII balance sheet subordinated deposits are reclassified from deposits to corporate bonds.

D.1.6 Loans and mortgages

Loans and mortgages are initially recognised at their contract value.

As at the reporting date, they are stated at amortised cost in accordance with the amortisation plan, taking into account the actual interest and principal payments. If payments are not made in accordance with the amortisation plan, amounts must be impaired.

The Company's assets do not include loans and mortgages to individuals, but only other loans, which are loans granted to subsidiaries.

D.1.7 Reinsurance recoverables

The Company reclassifies items from retroceded premium provisions for booked, not-past-due commission receivables from retroceded business and booked not-past-due payables for retrocession premiums.

The amount of reinsurance recoverables is measured by the Company's actuarial function. This document only summarises the methodology set out in detail in the Company's rules on making best estimate provisions. These rules take into account the guidelines set out in the Company's underwriting and reserving risk policy.

The Company's core business is accepted reinsurance, which is why, for the sake of clarity, we use the term *retrocession* for the insurance of such business with subsequent reinsurers: reinsurance ceded.

In view of the relatively small volume of retrocession, we cannot use the same actuarial methods for calculating retroceded provisions as we do for gross provisions. Instead, based on retrocession data, a simplification is used to calculate the share of retrocession for each homogeneous group and every underwriting year by taking into account the type of retrocession. The calculated share of retrocession is used in non-life business to calculate the retroceded technical best estimate premium and claims provisions from the gross technical best estimate premium and claims provisions (before including expenses, future premium and commission cash flows, and without taking into account the time value of money). In life business, the share of retrocession is used to calculate the retroceded undiscounted best estimate provisions. Retrocessionaires' shares of provisions for expenses are not accounted for. The currency structure and the time value of money are taken into account in the same way as for gross best estimate provisions. In terms of cash flows, a potential expected time lag in payments from retrocessionaires is checked against gross payments, based on historical data on claims paid. Adjustments for a counterparty's anticipated default are made on the basis of the amount of reinsurance recoverables (for IFRS balance sheet valuation) being divided according to the credit ratings of counterparties (retrocessionaires) and the probability of default associated with these ratings.

D.1.8 Deposits to cedants

Under certain reinsurance contracts, cedants retain part of the reinsurance premiums as a guarantee for the payment of future claims, which is generally released after one year. These deposits bear contractually agreed-upon interest. Deposits to cedants are stated at cost, less any impairment losses.

Because deposits to cedants constitute short-term investments, their IFRS balance sheet value is considered a sufficiently good approximation of their market value. The market value of such deposits is therefore not calculated in the model, while in the SCR calculation the market value is taken to be the value stated in the financial statements.

D.1.9 Insurance and intermediaries receivables

The SII valuation of receivables does not differ from the IFRS balance sheet valuation.

In the SII balance sheet, the Company eliminates from the insurance and intermediaries receivables item not-past-due receivables as at the SII balance sheet date, specifically not-past-due receivables for premiums arising out of accepted reinsurance.

The Company takes the item into account as future cash flows when calculating gross best estimate premium provisions, where they are also reported as a reclassification.

D.1.10 Reinsurance and co-insurance receivables

The SII valuation of receivables does not differ from the IFRS balance sheet valuation.

In the SII balance sheet, the Company eliminates not-past-due receivables from the reinsurance and co-insurance receivables item as at the SII balance sheet date, specifically not-past-due commission receivables arising from retroceded business.

The Company takes the item into account as future cash flows when calculating the reinsurers' share of best estimate premium provisions, where it is also disclosed as a reclassification.

D.1.11 Other receivables

Other receivables include short-term receivables from the government and other institutions, short-term receivables from leasing out premises and equipment, and similar.

Measurement is the same as for the IFRS balance sheet because the book value constitutes a sufficient approximation of fair value.

D.1.12 Own shares

Own shares are listed on a regulated market; therefore, they are restated at the closing stock market price for the purposes of the SII balance sheet as at the SII balance sheet valuation date.

D.1.13 Cash and cash equivalents

Measurement is the same as for the IFRS balance sheet. Deposits with an original maturity of up to three months are treated in the SII balance sheet in the same way as deposits with longer maturities, and they are therefore reclassified under deposits other than cash equivalents.

D.1.14 Any other assets, not elsewhere shown

Other assets include short-term deferred costs and short-term accrued income. Short-term deferred costs comprise prepaid costs of insurance, licenses, rent and similar. In the SII balance sheet, other assets are recognised at the same amounts as in the IFRS balance sheet, except for prepaid costs, which are stated at zero.

D.2 Technical provisions

The Company reclassifies the items of the gross premium provision for booked not-past-due premium receivables relating to accepted reinsurance and for booked not-past-due commission payables relating to accepted reinsurance.

The valuation of gross technical provisions is carried out by the Company's actuarial function. This document only summarises the calculation methodology for best estimate provisions in the valuation of balance sheet items for the purpose of the Solvency II capital requirement calculation, as detailed in the Company's rules on making best estimate provisions. These rules take into account the guidelines set out in the Company's underwriting and reserving risk policy. The valuation of the reinsurers' share of technical provisions is described under asset valuation in section D.1.7.

The calculations are made at the line-of-business level, with a distinction made between Group and non-Group business. The accepted life insurance business of the Group (which accounts for the bulk of liabilities associated with the Company's accepted life business) is generally valued using life techniques based on expected cash flows. For the extra-Group portfolio, in accordance with the nature of liabilities, data availability and the proportionality principle, life business is valued using non-life and not-similar-to-life techniques (NSLT); therefore, the Company classifies these liabilities under NSLT health.

Technical provisions are made up of a best estimate and a risk margin.

Companies set separate best estimate provisions for life business (including best estimate claims provisions) and best estimate provisions for reported annuities stemming from non-life business, based on expected cash flows from accepted reinsurance business from cedants.

Best estimate provisions for non-life business types (including NSLT health) consist of best estimate premium provisions and best estimate claims provisions. The calculation is based on the classification of business by underwriting year.

Calculating best estimate provisions for the non-life business comprises the following steps:

- calculating the "technical" gross provision, which consists of best estimate claims (either incurred or future) relating to business written prior to taking into account the time value of money;
- breakdown of the "technical" gross provision into the "technical" premium provision (for future claims) and the "technical" claims provision (for claims incurred, but not yet settled);
- taking into account future expenses relating to in-force contracts;
- taking into account future cash flows from premiums and commissions, including booked, but not past-due, premiums and commissions;
- preparation of expected future cash flows, taking into account the currency structure of cash flows and discounting.

Gross technical provisions are calculated using the chain-ladder method applied to cumulative paid claims triangles, using the Bornhuetter–Ferguson ("BF") modification. If claims triangles are too dispersed, ultimate losses are assessed based on loss ratios. The expected incurred loss ratio for an underwriting year is set as the selected average of a pre-assessed naive loss ratio set by expert judgement, multi-year averages, information from the reinsurance underwriting department, and the IFRS incurred loss ratio (excluding provisions at the portfolio level). For less recent years for which the development is known, greater weight is assigned to the realised ratio, whereas for more recent years the naive loss ratio is assigned greater weight. For payment development or cash flow, the pattern is applied that is obtained from the triangle development. The joint view summarises the results of all methods, based on which the best estimate of ultimate losses is selected, which is used to calculate technical gross provisions. Future loss adjustment and administrative expenses relating to contracts written are taken into account through expense ratios. The basis for the split of cash inflows by currency is the currency structure for the IFRS valuation of the balance sheet, specifically the structure of the sum of the claims provision and unearned premiums, net of deferred commissions. Future cash flows split on this basis are discounted using the appropriate risk-free interest rate curves, in which case the Company does not apply the matching adjustment, volatility adjustment, transitional adjustment of the risk-free interest rate term structure or the transitional deduction referred to in Directive 2009/138/EC.

The Company calculates the risk margin in compliance with the Delegated Regulation. A simplified calculation method is used for projecting the solvency capital requirement, taking into account the level 2 hierarchy referred to in article 61 of the "Decision on detailed instructions for the evaluation of technical provisions". The total solvency capital requirement for each future year is calculated based on the ratio of the best estimate in that future year to best estimate technical provisions as at the valuation date. The risk margin so obtained is allocated to individual lines of insurance, using the ratio of calculated capital requirements.

D.2.1 Values of SII technical provisions

The following tables set out the values of gross best estimate provisions, the reinsurers' share of best estimate provisions and the risk margin by line of business.

Best estimate provisions by line of business as at 31 December 2019

(EUR thousand)	Gross amount	Reinsurers' share	Risk margin
Proportional medical expense reinsurance	30	0	4
Proportional income protection reinsurance	2,779	43	374
Proportional workers' compensation reinsurance	0	0	0
Proportional motor vehicle liability reinsurance	11,333	11	1,078
Other proportional motor reinsurance	7,157	53	916
Proportional marine, aviation and transport reinsurance	5,360	-721	1,469
Proportional fire and other damage to property reinsurance	47,892	3,647	7,183
Proportional general liability reinsurance	6,837	228	1,461
Proportional credit and suretyship reinsurance	817	0	243
Proportional legal expenses reinsurance	-1	0	0
Proportional assistance reinsurance	0	0	0
Miscellaneous financial loss	-278	52	95
Non-proportional health reinsurance	542	2	85
Non-proportional casualty reinsurance	16,594	8,731	1,248
Non-proportional marine, aviation and transport reinsurance	5,053	148	1,227
Non-proportional property reinsurance	38,126	2,052	9,255
Accepted life reinsurance	10,982	5,727	104
Total portfolio	**153,223**	**19,972**	**24,743**

Best estimate provisions by line of business as at 31 December 2018

(EUR thousand)	Gross amount	Reinsurers' share	Risk margin
Proportional medical expense reinsurance	22	0	6
Proportional income protection reinsurance	2,765	48	331
Proportional workers' compensation reinsurance	0	0	0
Proportional motor vehicle liability reinsurance	10,070	47	809
Other proportional motor reinsurance	6,380	80	763
Proportional marine, aviation and transport reinsurance	5,646	86	743
Proportional fire and other damage to property reinsurance	36,913	3,641	4,293
Proportional general liability reinsurance	5,305	242	1,218
Proportional credit and suretyship reinsurance	881	0	550
Proportional legal expenses reinsurance	1	0	0
Proportional assistance reinsurance	0	0	0
Miscellaneous financial loss	-4	4	60
Non-proportional health reinsurance	324	1	59
Non-proportional casualty reinsurance	14,778	7,171	950
Non-proportional marine, aviation and transport reinsurance	5,789	238	1,610
Non-proportional property reinsurance	24,953	1,827	8,026
Accepted life reinsurance	8,181	3,834	99
Total portfolio	**122,004**	**17,218**	**19,519**

Gross best estimate provisions increased by EUR 31.2 million in 2019, of which EUR 7.8 million relates to Group business and EUR 23.4 million to non-Group business. In Group business, the increase is the result of larger portfolio growth in recent years, newly reported non-life annuities (as part of the provisions for accepted life reinsurance) and establishment of provisions for non-reported non-life annuities. In non-Group business, the increase stems from portfolio growth and the adverse claims development, specifically typhoons in Japan (impacting proportional fire and non-proportional property reinsurance), with new catastrophic events in 2019 as well as an adverse development of events that occurred in 2018 for which the actual amount of the claim exceeded initial estimates.

The main differences in the valuation of (gross) SII and IFRS technical provisions are (in the calculations of differences for IFRS provisions, gross provisions less deferred commissions are considered):

- SII provisions are based on the cash flow principle, whereas IFRS provisions are based on the principle of earned income less expenses. Thus, the SII provisions are reduced by not-past-due premium receivable (and increased by the associated not-past-due commission payables), which are recorded in the IFRS balance sheet under insurance receivables (or payables). As at 31 December 2019, a proportion of 68.9% (2018: 61.0%) of the difference between the gross SII and IFRS provisions related to the reclassification of not-past-due receivables and payables (without an effect on the amount of eligible own funds).
- SII best estimate provisions are expected to suffice for the repayment of obligations merely in the case of the weighted average of all potential scenarios (random fluctuations should be partly covered by the risk margin), whereas the IFRS provisions should suffice in almost all cases. As at 31 December 2019, a proportion of 14.6% (2018: 21.5%) of the difference between gross IFRS and SII provisions related to the different levels of prudence used in making assumptions and to more detailed segmentation of the IFRS provision calculations.

- The assumptions for shares of claims considered in exposure, measured as premiums less commission, in the IFRS and the SII valuation of technical provisions, in the two most important lines of business, for the most recent underwriting year, which is subject to the greatest uncertainty due to unexpired coverage: for proportional reinsurance of fire and other damage to property, these shares total 94.1% in IFRS calculations and 91.8% in SII calculations (2018: IFRS 82.6%; SII 75.4%). For non-proportional property reinsurance, the IFRS share is 86.7%, and the SII share is 77.8% (2018: IFRS 87.7%; SII 82.4%).
- The SII provisions also include all future expected profits (EPIFP) arising from the inward reinsurance portfolio. Future profits from the portfolio of accepted reinsurance business, which are already recognised in accordance with SII principles and reduce SII provisions, account for 9.7% of the difference between the gross IFRS and SII provisions as at 31 December 2019 (2018: 11.0%) (referring to gross future profits before retrocession and before income tax).
- SII provisions take into account the time value of money in non-life business, whereas IFRS provisions are generally not discounted. As at 31 December 2019, 6.9% of the difference between gross IFRS and SII provisions arose from discounted non-life business (2018: 6.6%).

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

Regarding the impacts on best estimate premium and claims provisions, the Company chose sensitivity to assumptions about the loss ratio for the sensitivity analysis. A 5% increase in BF ratios and naive loss ratios in all homogeneous groups and underwriting years in which the methods use these ratios, would raise gross best estimate provisions for 2019 by 5.8% (2018: 7.3%). The Company also carried out a sensitivity test assuming a 10% reduction in written but not-past-due premiums and commissions as part of premiums and commissions; gross best estimate provisions would increase by 3.6% (2018: 4.4%), which, however, does not affect the change in eligible own funds (reclassification). In addition, the Company also tested sensitivity to a 50% increase in other expenses considered (excluding commissions, which are included directly); gross best estimate provisions would increase by 0.5% (2018: 0.5%).

To test the sensitivity of best estimate provisions for the life business, the Company chose the two most material shocks for the portfolio of these liabilities in accordance with the standard formula. In the longevity shock, best estimate provisions for 2019 increased by 3.8% (2018: 4.2%), and by 3.2% in the annuity revision shock (2018: 3.1%).

In addition, we report the effect of changes in interest rates for discounting. A downward shock in the standard formula would result in a 1.9% rise in gross best estimate provisions (2018: 2.5%); an upward shock in the standard formula would lead to a 4.1% decrease in gross best estimate provisions (2018: 4.2%).

The Company identified no other areas of uncertainty. The sensitivity calculations presented show that best estimate provisions are moderately sensitive to insensitive to changes in the above assumptions. The sensitivity analysis thus revealed no area or assumptions that would cause a major uncertainty of established best estimate provisions.

D.3 Other liabilities

D.3.1 Provisions other than technical provisions

Other provisions comprise the net present value of employee benefits, including severance pay upon retirement and jubilee benefits. They are calculated in accordance with IAS 19 based on the ratio of the period of service in the Company.

The value of other provisions under the Solvency II methodology is the same as in the IFRS balance sheet. The Company makes no reclassifications in the scope of these liabilities.

D.3.2 Insurance and intermediaries payables

Insurance and intermediaries payables comprise payables for claims and commission relating to inward reinsurance contracts. In the IFRS balance sheet, these are recognised on the accrual basis by reference to reinsurance accounts. In the IFRS balance sheet, liabilities denominated in foreign currencies are revalued at the ECB exchange rate applicable as at the balance sheet date.

The Solvency II valuation of insurance and intermediaries payables does not differ from the IFRS valuation.

From this item of liabilities, the Company eliminates not-past-due commission payables relating to accepted reinsurance business as at the SII balance sheet date, reporting them as a reclassification.

The Company takes the item into account as future cash flows when calculating gross best estimate premium provisions, where they are also reported as a reclassification.

D.3.3 Reinsurance and co-insurance payables

Reinsurance and co-insurance payables comprise premium payables for outward retrocession business. In the IFRS balance sheet, these are recognised on the accrual basis by reference to reinsurance accounts. In the IFRS balance sheet, liabilities denominated in foreign currencies are revalued at the ECB exchange rate applicable as at the balance sheet date.

The Solvency II valuation of reinsurance and co-insurance payables does not differ from the IFRS valuation.

The Company eliminates non-past-due retrocession premium payables from reinsurance payables as at the IFRS balance sheet date, reporting it as a reclassification.

The Company takes the item into account as future cash flows when calculating the reinsurers' share of best estimate premium provisions, where it is also disclosed as a reclassification.

D.3.4 Other payables

Other payables comprise short-term payables to employees for accrued salaries and reimbursement of expenses, tax liabilities, trade payables for operating expenses, and other payables. In the IFRS balance sheet, these are recognised on the accrual basis based on authentic documents.

These items are not revalued in the SII balance sheet, nor are these items subject to reclassification based on SII requirements.

D.3.5 Subordinated liabilities

Liabilities arising from the issuance of a subordinated bond are stated at amortised cost in the IFRS balance sheet. The value of the subordinated bond recognised upon issuance is the face value, less expenses directly attributable to the bond issue. Amortised cost is calculated using the first call date, when the debt is first redeemable.

The bond was admitted to trading on the regulated market of the Luxembourg Stock Exchange. Liabilities arising from the subordinated bond issued are valued at fair value based on prices quoted by Bloomberg.

D.3.6 Any other liabilities, not elsewhere shown

Under other liabilities the Company chiefly recognises accrued costs (expenses) and long-term liabilities from leases that qualify for valuation under IFRS 16.

Within the any other liabilities item, we value at zero any deferred commissions relating to accepted co-insurance and reinsurance, and other deferred income. The Solvency II valuation of other liabilities does not differ from the IFRS valuation.

D.4 Alternative methods for valuation

Periodically (every three years) the Company obtains market value appraisals of its property for own use and investment property assets from an independent external appraiser. In the Company's estimate, these appraisals are most representative of the amount for which the appraised properties could be exchanged between knowledgeable parties in arm's-length transactions.

For equity investments in Sava Re insurance subsidiaries not listed in a regulated market, the SII value of capital requirements is calculated in accordance with the standard formula, using an adjusted equity method of valuation as the excess of the insurance company's assets over its liabilities (in accordance with article 13(4) of the Delegated Regulation). Where Sava Re holds less than a 100% interest in a subsidiary, proportionate adjustments are made.

In the SII balance sheet, the Company measures holdings in strategic non-insurance companies using the IFRS equity method in accordance with article 13(5) of the Delegated Regulation. The value of goodwill and other intangible assets that would be valued at zero in accordance with the asset valuation methodology is deducted from the obtained value of the company.

Unlisted equities are measured at cost. The market value calculated using the internal model, which largely takes into account unobserved input, is only used for impairment testing.

D.5 Any other information

The Company has no other material information relating to valuations.

E. Capital management

The Company’s capital management is defined in the capital management policy of the Sava Insurance Group and Sava Re d.d., laying down the goals and key activities related to capital management. Capital management is inseparable from the risk strategy, which defines the risk appetite.

The Company’s capital management objectives are:

- optimal capitalisation in the long term as defined under the risk strategy,
- adequate degree of financing flexibility,
- ability to achieve adequate profitability for operating segments that tie up capital,
- ability to report an adequate return on equity and adequate dividend yields for shareholders.

The Group manages its capital to ensure that it has available, on an ongoing basis, sufficient funds to meet its obligations and regulatory capital requirements. The composition of own funds held to ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. The amount of own funds must be sufficient, at all times, at least to meet the statutory solvency capital requirement, as well as to satisfy the requirements of its target credit rating and other objectives.

An important input element of capital management and business planning is the risk strategy, including the risk appetite set out therein. The risk strategy, in relation to capital and capital adequacy, sets the target level of the solvency ratio. The capital adequacy part of the risk strategy is designed in compliance with the Group’s risk management strategy and statutory requirements, and taking into account the requirements of rating agencies.

Every year the Company prepares a financial plan for the next three-year period. The first phase of the annual verification of the potential for capital optimisation and additional allocation of capital (dividends, own shares, acquisitions and similar) includes a review of the results of the last calculation of the amount and structure of eligible own funds and the SCR. A business plan for the following three-year period and a capital management plan are prepared based on this, including measures required to achieve the target capital allocation.

Eligible own funds, the SCR and consequently the Company’s solvency ratio are calculated based on three-year projections of financial parameters. Calculations verify the alignment with the risk appetite, whereupon adjustments to the business plan are made, if necessary. The planned use of capital duly includes capital consumption items, such as regular dividends, own shares and projects that require additional capital.

In allocating capital to business segments, adequate return on equity is a prerequisite. Taking into account the business aspect, we strive to maximise the ratio of return generated by a particular operating segment tying up capital, to allocated capital in terms of the capital allocated to cover risks (optimum ratio of return to risk).

E.1 Own funds

As at 31 December 2019, the Company reported an excess of assets over liabilities of EUR 516.3 million (31 December 2018: EUR 517 million).

The following is then deducted from basic own funds, i.e. the excess of the Company's assets over its liabilities:

- own shares of EUR 31.0 million,
- foreseeable dividends[12] of EUR 16.2 million; that is, the amount stated in the management and supervisory boards' proposed resolution for the general meeting,
- other items in accordance with the provisions of ZZavar-1.

Added to the excess of the Company's assets over its liabilities are subordinated liabilities, as these are part of basic own funds.

For the purposes of determining basic own funds, the Company's basic own funds are reduced by the total value of participations in other financial and credit institutions (excluding insurers) exceeding 10% of the Company's own-fund items (paid-up share capital plus capital reserves). Similarly, for the purposes of determining basic own funds, basic own funds are reduced by part of the value of all participations in financial and credit institutions that exceeds 10% of the Company's own-fund items (other than those alone exceeding 10% and thus being excluded). As at 31 December 2019, the Company is not reporting such exclusions from own funds.

As at 31 December 2019, the Company did not report adjustments for other items in accordance with ZZavar-1.

Ancillary own funds are items that do not constitute basic own funds and that the Company may call up to absorb its losses. They include unpaid share capital or uncalled initial funds, letters of credit and guarantees, and any other legal commitments received by the Company. As at 31 December 2019, the Company reported no ancillary own funds.

The table below shows the structure of the Company's own funds.

[12] Due to the events at the beginning of the year (coronavirus) and calls from the regulator to suspend dividend payments until 1 October 2020, the Company will rerun its financial condition assessment and take a position regarding the proposal for dividend payments after that date.

Structure of own funds

(EUR thousand)	31 Dec 2019	31 Dec 2018
Ordinary share capital (gross of own shares)	71,856	71,856
Share premium account related to ordinary share capital	54,240	54,240
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0
Subordinated mutual member accounts	0	0
Surplus funds	0	0
Preference shares	0	0
Share premium account related to preference shares	0	0
Reconciliation reserve (= (1) - (2) - (3) - (4) - (5))	343,027	349,822
(1) Excess of assets over liabilities	516,313	516,987
(2) Own shares (held directly and indirectly)	30,995	26,346
(3) Adjustment for own-fund restricted items with respect to matching adjustment portfolios and ring-fenced funds	0	0
(4) Foreseeable dividends, distributions and charges	16,195	14,723
(5) Other basic own fund items	126,096	126,096
Subordinated liabilities	73,847	0
Amount equal to the value of net deferred tax assets	0	0
Total basic own funds after deductions	**542,969**	**475,918**

Total basic own funds, after deductions, increased by EUR 67.1 million compared to the balance as at 31 December 2018, which is chiefly due to subordinated bonds issued in the fourth quarter of 2019. Because these are subordinated liabilities, they are counted towards eligible own funds, tier 2, to cover solvency capital requirements.

The table below shows adjustments to IFRS equity in the valuation of the Solvency II balance sheet.

Adjustments to equity (IFRS) for the SII valuation of the balance sheet

(EUR thousand)	31 Dec 2019	31 Dec 2018
IFRS equity	**343,921**	**319,355**
Difference in the valuation of participations	124,504	145,124
Difference in the valuation of other assets	-83,413	-77,683
Difference in the valuation of technical provisions	83,372	92,651
Difference in the valuation of other liabilities	16,934	11,194
Foreseeable dividends, distributions and charges	-16,195	-14,723
Subordinated liabilities in basic own funds	73,847	0
Solvency II eligible own funds	**542,969**	**475,918**
Of which tier 1	*469,123*	*475,918*
Of which tier 2	*73,847*	*0*
Of which tier 3	*0*	*0*

As can be seen from the table, the majority of the difference in assets stems from the revaluation of participations in subsidiaries, the majority relating to the revaluation of insurance companies. With liabilities, the largest difference is in the revaluation of technical provisions in line with Solvency II requirements. A detailed description of the valuation methodology used is provided in section D.

The Company covers the minimum capital requirement ("MCR") and SCR with eligible own funds. In accordance with the law, the Company is not permitted to use just any kind of own funds to meet its capital requirements. To this end, the Solvency II legislation classifies own funds into three tiers. based on both permanence and loss absorbency. Thus, tier 1 funds include own funds that mostly meet the conditions laid down in items one and two of article 196(1) of ZZavar-1; such items are available to absorb losses at all times (permanent availability) and in the event of the Company's winding-up, they become available to the holder only after all of the Company's other obligations are met. It is important whether an item of own funds has a maturity, whether the absence of incentives to repay has been confirmed and whether the item is free of encumbrances.

The Company includes the following into its tier 1 own funds:

- paid-up ordinary shares;
- paid-up capital reserves;
- reconciliation reserves set as the excess of assets over liabilities, less paid-up ordinary shares and capital reserves, and less the value of own shares and foreseeable dividends.

Tier 2 funds include own fund items that mostly exhibit the features from item two of article 196(1) of ZZavar-1; in the event of the Company's winding-up, such items become available to the holder only after all of the Company's other obligations are met and paid. It is important whether an item of own funds has a maturity, whether the absence of incentives to repay has been confirmed and whether the item is free of encumbrances.

Tier 2 of the Company's own funds includes subordinated liabilities.

Tier 3 is for own fund items classified as neither tier 1 nor tier 2. They include letters of credit and guarantees that are held in trust for the benefit of insurance creditors by an independent trustee and are provided by credit institutions. Classified as tier 3 are also own funds from net deferred tax assets.

The Company holds no tier 3 own funds.

The following table includes statutory restrictions as to how the SCR and MCR are to be met.

Restrictions for own funds designated to meet the SCR and MCR

	Tier 1	Tier 2	Tier 3
SCR	min. 50%	no restrictions	max. 15%
MCR	min. 80%	max. 20%	not eligible

The two tables below show the amounts of eligible own funds to meet the SCR and MCR. They are classified into the statutory tiers described above.

Eligible own funds to meet the SCR

(EUR thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31 Dec 2019	542,969	469,123	73,847	0
As at 31 Dec 2018	475,918	475,918	0	0

Eligible own funds to meet the MCR

(EUR thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31 Dec 2019	478,514	469,123	9,391	0
As at 31 Dec 2018	475,918	475,918	0	0

As at 31 December 2019, the Company's eligible own funds mainly included tier 1 funds and were free of any ancillary own funds. The Company classifies its subordinated liabilities as tier 2 funds, i.e. its subordinated debt issued in 2019. Due to regulatory restrictions, as far as eligible own funds to meet the Company's MCR are concerned, the Company is only permitted to count subordinated liabilities, which include subordinate debt, up to 20% of the MCR. There were no items subject to regulatory transitional arrangements among the disclosed eligible own funds.

The Company's tier 1 eligible own funds do not include eligible own fund items that are dated or with the subordination feature or subject to early redemption. The Company classifies as tier 2 eligible own funds its subordinated liabilities, i.e. subordinated debt, with a duration of 20 years and a contractual opportunity to redeem after 10 years. Subordinated liabilities have the feature of subordination.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency capital requirement (SCR)

The Company calculates its SCR and MCR in accordance with the Solvency II standard formula.

For the SCR calculation as at 31 December 2019, we made some adjustments to the methodology applied in the calculation as at 31 December 2018. The calculations consider the amendments of Delegated Regulation 2015/35, setting out the method for calculating capital adequacy using the standard formula, while amendments are defined in Delegated Regulation 2019/981. The main change for the Company is the consideration of the largest net single exposures with man-made catastrophe risk and an additional calculation of storm and hail risk for Slovenia, where there are no significant effects due to portfolio diversification or reinsurance programme. For the calculation of the natural catastrophe risk, there has been an improvement in the process for preparing data for non-EU regions, while there has been a change in the consideration of reinsurance.

The table below shows the total amount of SCR, SCR by risk module, the amount of eligible own funds and the Company's solvency ratio.

Solvency capital requirement by risk module

(EUR thousand)	31 Dec 2019 (reported)	31 Dec 2018 (reported)
SCR	**187,820**	**162,522**
Adjustments for TP and DT	-2,669	-4,269
Operational risk	4,778	4,568
Basic solvency capital requirement (BSCR)	185,711	162,223
Sum of risk components	241,860	208,911
Diversification effect	-56,149	-46,687
Market risk	125,198	113,799
Counterparty default risk	14,256	6,422
Life underwriting risk	388	444
Health underwriting risk	2,711	2,537
Non-life underwriting risk	99,307	85,708
Eligible own funds	**542,969**	**475,918**
Solvency ratio	**289%**	**293%**

The largest component of SCR as at 31 December 2019 is market risk, mainly as the result of the growth in portfolio investments and the new strategic investment in Sava Infond. Likewise, there has been a rise in non-life underwriting risk compared to 31 December 2018 due to portfolio growth, increase in best estimate provisions and the new Delegated Regulation 2019/981.

Due to the nature of the reinsurance business, the Company is mainly limited with regards to input data for certain calculations and therefore has to make certain simplifications. Thus, the Company does not have available data on each individual insurance contract required to calculate the prescribed shock for lapse risk. Therefore, it used a simplification where the shock is delivered at the level of lines of business and underwriting years, separately for Group and non-Group portfolios. Owing to the increased segmentation (added underwriting years), the resulting risk increased in the past year.

The catastrophe risk module calculation requires assumptions about the scenarios on the basis of which calculations are made of the impact of the reinsurance programme.

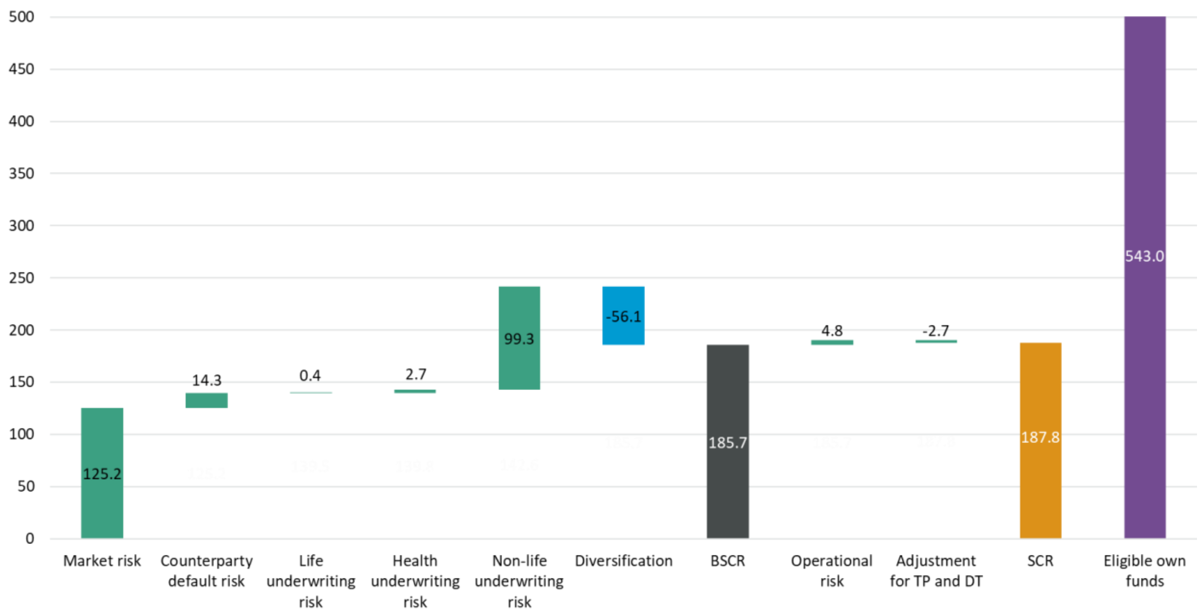
The Company also has a relatively small portfolio of accepted life reinsurance business (from annuities related to non-life insurance and term life insurance). The Company makes separate calculations for accepted life reinsurance business for most cedants in the Group. For this reinsurance business, it calculates the SCR in the life insurance risk module based on the calculations of Group companies. Capital requirements for accepted extra-Group life reinsurance are calculated according to the nature of the business in the NSLT health insurance module.

The Company calculates its SCR without using the simplifications referred to in articles 88–112 of the Delegated Regulation. Nor does it use undertaking-specific parameters in calculating the SCR for non-life and NSLT health business.

As at 31 December 2019, the Company adjusted the SCR for deferred taxes in the amount of EUR 2.7 million. Adjustments have been made in the amount of the maximum adjustment for loss absorbency of deferred taxes that may be taken into account without providing evidence (up to the amount of net liabilities for deferred taxes in the SII balance sheet) Deferred taxes as at 31 December 2019 increased the solvency ratio by 4.1 percentage points.

The chart below shows the individual risk modules of the standard formula, the Company's SCR and its eligible own funds as at 31 December 2019.

Solvency capital requirement (SCR) by risk module as at 31 December 2019 (EUR million)



As evident from the figure above, eligible own funds significantly exceed the SCR, as reflected in the Company's high solvency ratio of 289% as at 31 December 2019 (31 December 2018: 293%).

A major criterion for determining the risk appetite in the Sava Insurance Group's risk strategy is the solvency ratio. In accordance with its capital management policy, the Company is striving – in the long term – to attain its target capital adequacy as set out in its risk strategy. In addition, to maintain its desired credit rating in line with its risk strategy, it maintains a level of capital not lower than the one required for an "A"-range credit rating. Because Sava Re is also the Group's controlling company, its strategy provides that it must have a sufficient level of eligible own funds to meet potential capital requirements of subsidiaries if a major stress scenario were to materialise in any of them. To this end, the Company keeps a certain amount of excess eligible own funds over the statutory minimum. Under the risk strategy applicable as at 31 December 2019, the acceptable/suboptimal solvency ratio limit was 180%, and the Company's optimum/target capitalisation was in the 220–260% range. Based on this, as at 31 December 2019, the Company is also well capitalised by internal criteria. In December 2019, the Company's supervisory board approved the strategic plan of the Company and the Sava Insurance Group for the period 2020–2022, including financial projections and a calculation of eligible own funds, SCR and the solvency ratio for the 2020–2022 period. In addition, the risk strategy for the period 2020–2022, which sets the target level of the Company's solvency ratio at 200%, was approved. For the period 2020–2022, the Company is planning a solvency ratio higher than the target ratio of 200%.

E.2.2 Minimum capital requirement

Sava Re calculates the MCR in accordance with articles 248–251 of the Delegated Regulation. Non-life MRC is calculated as the linear combination of written premiums after deduction of premiums for reinsurance contracts and technical provisions, net of the risk margin after deduction of amounts recoverable under reinsurance contracts. The linear combination captures all segments of non-life insurance. Input data are shown in the table below.

Input data for the Company's MCR calculation

31 Dec 2019 (EUR thousand)	Net best estimate technical provisions	Net premiums written
Medical expense insurance and proportional reinsurance	30	1
Income protection insurance and proportional reinsurance	2,736	4,988
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	11,322	14,289
Other motor insurance and proportional reinsurance	7,104	17,041
Marine, aviation and transport insurance and proportional reinsurance	6,081	6,703
Fire and other damage to property insurance and proportional reinsurance	44,245	47,925
General liability insurance and proportional reinsurance	6,609	7,132
Credit and suretyship insurance and proportional reinsurance	817	430
Legal expenses insurance and proportional reinsurance	0	9
Assistance insurance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	0	1,099
Non-proportional health reinsurance	540	385
Non-proportional casualty reinsurance	7,863	3,365
Non-proportional marine, aviation and transport reinsurance	4,906	435
Non-proportional property reinsurance	36,074	36,059

Input data for the Company's MCR calculation

31 Dec 2018 (EUR thousand)	Net best estimate technical provisions	Net premiums written
Medical expense insurance and proportional reinsurance	22	107
Income protection insurance and proportional reinsurance	2,717	4,843
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	10,022	13,418
Other motor insurance and proportional reinsurance	6,300	16,750
Marine, aviation and transport insurance and proportional reinsurance	5,560	6,385
Fire and other damage to property insurance and proportional reinsurance	33,272	51,417
General liability insurance and proportional reinsurance	5,063	5,951
Credit and suretyship insurance and proportional reinsurance	882	807
Legal expenses insurance and proportional reinsurance	1	0
Assistance insurance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	0	0
Non-proportional health reinsurance	323	335
Non-proportional casualty reinsurance	7,607	2,287
Non-proportional marine, aviation and transport reinsurance	5,550	5,570
Non-proportional property reinsurance	23,126	25,293

Life MCR is calculated as a linear combination of technical provisions, net of the risk margin and capital at risk.

Inputs for calculating the Company's life MCR as at 31 December 2019.

(EUR thousand)	31 Dec 2019
Other life and health reinsurance obligations	5,256
Capital at risk for all life reinsurance obligations	121,040

The table below shows the amount of the Company's minimum capital requirement.

Minimum capital requirement

(EUR thousand)	31 Dec 2019	31 Dec 2018
Linear required MCR	31,940	26,923
Absolute MCR floor	3,600	3,600
Combined MCR	46,955	40,630
MCR	**46,955**	**40,630**
Eligible own funds to meet the MCR	478,514	475,918
MCR ratio	**1,019%**	**1,171%**

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

In calculating the SCR, the Company does not use the duration-based equity risk sub-module.

E.4 Difference between the standard formula and internal model used

There are no differences between the standard formula and internal model, because the Company does not use an internal model for the calculation of the SCR.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

As at 31 December 2019, the Company is compliant with legislation, its high solvency ratio being substantially higher than the statutory 100%. Moreover, as at 31 December 2019, the Company had a major surplus of eligible own funds above the minimum capital requirement.

Based on the projections of the solvency capital requirement and eligible own funds, we estimate that the Sava Re solvency ratio will remain above the statutory 100% during the entire strategic plan period, as required by law. Therefore, the Company does not expect any further steps or measures in terms of ensuring compliance with capital requirements.

E.6 Any other information

The Company has no other material information relating to capital management.

Appendix – Glossary of selected terms

English term	Slovenian term	Meaning
Basic solvency capital requirement – BSCR	**Osnovni zahtevani solventnostni kapital – BSCR**	The basic solvency capital requirement within the framework of the standard formula is an amount based on the statutory calculation of the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk and counterparty default risk.
Bloomberg valuation	**Cena BVAL**	Price obtained from the Bloomberg information system.
Business continuity procedures	**Načrt neprekinjenega delovanja**	Document that includes procedures for ensuring the continuous operation of key business processes and systems. The contingency plan is an integral part of the business continuity plan and sets out technical and organisational measures to restore operations and mitigate the consequences of severe business disruptions.
Capital asset pricing model	**CAPM**	Model describing the relationship between risk and expected return on assets.
Composite Bloomberg bond trader	**Cena CBBT**	Closing price published by the Bloomberg system based on binding bids.
Eligible own funds	**Primerni lastni viri sredstev**	Own funds eligible to cover the solvency capital requirement.
European insurance and occupational pensions authority	**EIOPA**	European Insurance and Occupational Pensions Authority
Freedom of service	**FOS**	Business written under the freedom of services principle.
IFRS	**MSRP**	International Financial Reporting Standards. EU-wide uniform set of rules governing the accounting of business transactions.
Market value	**Tržna vrednost**	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The amounts are based on prices in active and liquid markets that a company has access to and are commonly used.
Minimum capital requirement – MCR	**Zahtevani minimalni kapital – MCR**	The minimum capital requirement is equal to the amount of own funds below which policyholders, insured persons and other beneficiaries of insurance contracts would be exposed to an unacceptable level of risk if the insurer were allowed to continue operating.
Modified duration	**Modificirano trajanje**	Modified duration measures the portfolio's sensitivity to parallel shifts in the interest rate curve. A change in interest rates of +/-1% has an impact of approximately -/+MD% on the portfolio.
Operational limits	**Operativni limiti**	Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by first-line-of-defence staff in the day-to-day risk management process to keep the Company within its set risk appetite range.
Over the counter	**Trg OTC**	A transaction in the OTC market is one between two parties in securities or other financial instruments outside a regulated market.
Own risk and solvency assessment – ORSA	**Lastna ocena tveganj in solventnosti – ORSA**	Own assessment of the risks associated with the Company's business and strategic plans and assessment of the adequacy of own funds to cover risks.
Present value	**Sedanja vrednost**	The value of future cash flows recalculated to present-day values. This is done by discounting.

Probable maximum loss – PML	**Največja verjetna škoda – PML**	This is the maximum loss for a risk an insurer assesses could occur in one loss event. Normally, it is expressed as a percentage of the sum insured; in extreme cases, it equals the sum insured (PML is 100% of the sum insured).
Risk appetite	**Pripravljenost za prevzem tveganj**	Risk level that a company is willing to take in order to meet its strategic goals. At Sava Re defined based on the acceptable solvency ratio, the liquidity ratio of the assets, profitability of insurance products and reputation risk.
Risk management system	**Sistem upravljanja tveganj**	The risk management system is a set of measures taken by an insurer to manage (i.e. to identify, monitor, measure, manage, report) material risks arising from both the operations of a company and the external environment in order to enhance the implementation of strategic objectives and minimise any loss of own funds.
Risk profile	**Profil tveganj**	All of the risks that the Company is exposed to and the quantification of these exposures for all risk categories.
Risk Register	**Register tveganj**	List of all identified risks maintained and periodically updated by the Company.
Risk tolerance limits	**Meje dovoljenega tveganja**	Limits for risk categories included in the Company's risk profile and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite as stated in the Company's risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenario test	**Scenarijski test**	Scenario-based tests seek to determine the impact of multiple changes in parameters, such as concurrent changes in different risks types affecting the insurance business, the value of financial assets and a change in interest rates.
Solvency and financial condition report – SFCR	**Poročilo o solventnosti in finančnem položaju – PSFP**	Insurance and reinsurance companies publish solvency and financial condition reports at least annually. The report includes a description of its business and operations, its governance system, risk profile, valuation for Solvency II purposes, structure and quality of own funds, and the level of the minimum and solvency capital requirement.
Solvency capital requirement – SCR	**Zahtevani solventnostni kapital – SCR**	The SCR is an amount based on the regulatory calculation of all quantifiable risk, including non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.
Solvency ratio	**Solventnostni količnik**	Ratio of eligible own funds to the solvency capital requirement. It represents a company's capital adequacy in accordance with the Solvency II principles. A solvency ratio in excess of 100% indicates that the company has more than sufficient resources to meet the solvency capital requirement.
Standard formula	**Standardna formula**	Set of calculations prescribed by Solvency II regulations used for generating the solvency capital requirement.
Stress test	**Stresni test**	In a stress test, a single parameter is changed to observe the effect on the value of assets, liabilities and/or own funds as well as any effects on the value of the parameter itself.
Tier of capital	**Kakovostni razred kapitala**	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether basic or ancillary).
Undertaking-specific parameters – USP	**Parametri, specifični za posamezno podjetje – USP**	Insurance and reinsurance undertakings may, within the design of the standard formula, replace standard deviations for premium and reserve risk of NSLT health underwriting for business for which a system for equalising health risk is used by parameters specific to the undertaking concerned, in accordance with article 104(7) of Directive 2009/138/EC.
Unit value	**Vrednost enote premoženja – VEP**	The value of a unit or share is the worth of individual units of a sub-fund and is regularly published.

Quantitative Reporting Templates

All amounts in the quantitative reporting templates are in thousands of euros.

S.02.01.02 Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	3,699
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	3,310
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	659,166
Property (other than for own use)	**R0080**	9,040
Holdings in related undertakings, including participations	**R0090**	362,682
Equities	**R0100**	9,691
Equities – listed	**R0110**	8,056
Equities – unlisted	**R0120**	1,635
Bonds	**R0130**	246,097
Government Bonds	**R0140**	137,915
Corporate Bonds	**R0150**	108,182
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	9,655
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	22,001
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	0
Loans and mortgages	**R0230**	4,216
Loans on policies	**R0240**	0
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	4,216
Reinsurance recoverables from:	**R0270**	19,972
Non-life and health similar to non-life	**R0280**	14,246
Non-life excluding health	**R0290**	14,201
Health similar to non-life	**R0300**	44
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	5,727
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	5,727
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	7,089
Insurance and intermediaries receivables	**R0360**	21,404
Reinsurance receivables	**R0370**	3,542
Receivables (trade, not insurance)	**R0380**	3,271
Own shares (held directly)	**R0390**	30,995
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	50,931
Any other assets, not elsewhere shown	**R0420**	0
Total assets	**R0500**	807,596

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	166,880
Technical provisions – non-life (excluding health)	**R0520**	163,066
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	138,891
Risk margin	**R0550**	24,175
Technical provisions – health (similar to non-life)	**R0560**	3,814
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	3,351
Risk margin	**R0590**	463
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	11,087
Technical provisions – health (similar to life)	**R0610**	0
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	0
Risk margin	**R0640**	0
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	11,087
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	10,982
Risk margin	**R0680**	104
Technical provisions – index-linked and unit-linked	**R0690**	0
Technical provisions calculated as a whole	**R0700**	0
Best Estimate	**R0710**	0
Risk margin	**R0720**	0
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	467
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	0
Deferred tax liabilities	**R0780**	6,368
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	88
Insurance & intermediaries payables	**R0820**	29,133
Reinsurance payables	**R0830**	428
Payables (trade, not insurance)	**R0840**	1,680
Subordinated liabilities	**R0850**	73,847
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	73,847
Any other liabilities, not elsewhere shown	**R0880**	1,307
Total liabilities	**R0900**	291,283
Excess of assets over liabilities	**R1000**	516,313

S.05.01.02 Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted 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
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
Premiums written										
Gross – Direct Business	**R0110**									
Gross – Proportional reinsurance accepted	**R0120**	1	5,109	0	14,289	17,042	8,744	59,017	7,266	430
Gross – Non-proportional reinsurance accepted	**R0130**									
Reinsurers' share	**R0140**	0	121	0	0	1	2,041	11,091	134	0
Net	**R0200**	1	4,988	0	14,289	17,041	6,703	47,925	7,132	430
Premiums earned										
Gross – Direct Business	**R0210**									
Gross – Proportional reinsurance accepted	**R0220**	1	5,173	0	13,759	16,756	6,894	58,430	6,771	844
Gross – Non-proportional reinsurance accepted	**R0230**									
Reinsurers' share	**R0240**	0	119	0	0	1	288	10,827	115	0
Net	**R0300**	1	5,054	0	13,759	16,755	6,606	47,603	6,656	844
Claims incurred										
Gross – Direct Business	**R0310**									
Gross – Proportional reinsurance accepted	**R0320**	62	2,081	0	9,161	10,881	7,007	36,505	4,573	-42
Gross – Non-proportional reinsurance accepted	**R0330**									
Reinsurers' share	**R0340**	6	0	12	0	123	4,925	-3	0	0
Net	**R0400**	56	2,081	-12	9,161	10,757	2,082	36,507	4,573	-42
Changes in other technical provisions										
Gross – Direct Business	**R0410**									
Gross – Proportional reinsurance accepted	**R0420**	0	-1	0	0	-6	783	-115	-2	0
Gross – Non-proportional reinsurance accepted	**R0430**									
Reinsurers' share	**R0440**	0	0	0	0	0	0	0	0	0
Net	**R0500**	0	-1	0	0	-6	783	-115	-2	0
Expenses incurred	**R0550**	4	615	0	501	911	1,636	12,550	1,074	169
Other expenses	**R1200**									
Total expenses	**R1300**									

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
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written									
Gross – Direct Business	**R0110**								
Gross – Proportional reinsurance accepted	**R0120**	9	0	1,517					113,423
Gross – Non-proportional reinsurance accepted	**R0130**				385	8,173	997	42,975	52,530
Reinsurers' share	**R0140**	0	0	419	0	4,808	561	6,917	26,094
Net	**R0200**	9	0	1,099	385	3,365	435	36,059	139,859
Premiums earned									
Gross – Direct Business	**R0210**								
Gross – Proportional reinsurance accepted	**R0220**	8	0	1,461					110,097
Gross – Non-proportional reinsurance accepted	**R0230**				391	4,796	1,342	41,912	48,441
Reinsurers' share	**R0240**	0	0	419	0	2,106	539	6,970	21,384
Net	**R0300**	8	0	1,043	391	2,689	803	34,942	137,154
Claims incurred									
Gross – Direct Business	**R0310**								
Gross – Proportional reinsurance accepted	**R0320**	1	0	163					70,390
Gross – Non-proportional reinsurance accepted	**R0330**				326	7,520	112	28,517	36,475
Reinsurers' share	**R0340**	0	9	0	5,757	133	1,478	0	12,440
Net	**R0400**	1	-9	163	-5,431	7,387	-1,366	28,517	94,425
Changes in other technical provisions									-
Gross – Direct Business	**R0410**								0
Gross – Proportional reinsurance accepted	**R0420**	0	0	-10					649
Gross – Non-proportional reinsurance accepted	**R0430**				0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	-10	0	0	0	0	649
Expenses incurred	**R0550**	3	0	14	75	498	298	5,604	23,952
Other expenses	**R1200**								0
Total expenses	**R1300**								23,952

		Line of Business for: **life insurance obligations**						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Insurance with profit participation	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**	0	0	0	0	0	0	0	576	576
Reinsurers' share	**R1420**	0	0	0	0	0	0	0	267	267
Net	**R1500**	0	0	0	0	0	0	0	308	308
Premiums earned										
Gross	**R1510**	0	0	0	0	0	0	0	550	550
Reinsurers' share	**R1520**	0	0	0	0	0	0	0	258	258
Net	**R1600**	0	0	0	0	0	0	0	293	293
Claims incurred										
Gross	**R1610**	0	0	0	0	0	0	0	-806	-806
Reinsurers' share	**R1620**	0	0	0	0	0	0	0	-499	-499
Net	**R1700**	0	0	0	0	0	0	0	-306	-306
Changes in other technical provisions										
Gross	**R1710**	0	0	0	0	0	0	0	0	0
Reinsurers' share	**R1720**	0	0	0	0	0	0	0	0	0
Net	**R1800**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R1900**	0	0	0	0	0	0	0	-6	-6
Other expenses	**R2500**									0
Total expenses	**R2600**									-6

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
		C0010						C0070
	R0010		CN	IN	JP	KR	RU	
		C0080	China	India	Japan	Korea (Republic of)	Russian Federation	C0140
Premiums written								
Gross – Direct Business	R0110							
Gross – Proportional reinsurance accepted	R0120	60,970	3,551	510	2,825	10,463	131	78,449
Gross – Non-proportional reinsurance accepted	R0130	10,240	4,430	3,905	2,001	2,444	4,172	27,192
Reinsurers' share	R0140	20,665	0	0	0	0	0	20,665
Net	R0200	50,544	7,981	4,415	4,826	12,907	4,303	84,976
Premiums earned								
Gross – Direct Business	R0210							
Gross – Proportional reinsurance accepted	R0220	57,449	3,743	426	2,806	10,931	158	75,514
Gross – Non-proportional reinsurance accepted	R0230	6,794	4,179	3,810	1,850	2,372	4,315	23,320
Reinsurers' share	R0240	16,377		0	0	0	0	16,377
Net	R0300	47,865	7,922	4,236	4,656	13,304	4,473	82,456
Claims incurred								
Gross – Direct Business	R0310							
Gross – Proportional reinsurance accepted	R0320	30,104	2,755	500	3,986	6,767	-211	43,902
Gross – Non-proportional reinsurance accepted	R0330	4,411	2,896	586	9,722	2,392	2,551	22,559
Reinsurers' share	R0340	9,159		0	0	0	0	9,159
Net	R0400	25,356	5,652	1,086	13,708	9,159	2,340	57,302
Changes in other technical provisions								
Gross – Direct Business	R0410							
Gross – Proportional reinsurance accepted	R0420	-130	24	3	19	71	1	-11
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
Net	R0500	-130	24	3	19	71	1	-11
Expenses incurred	R0550	16,451	1,983	456	1,436	4,699	640	25,665
Other expenses	R1200							0
Total expenses	R1300							25,665

S.12.01.02 Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance
				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
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	R0020									
Technical provisions calculated as a sum of BE and RM										
Best Estimate										
Gross Best Estimate	R0030									10,982
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080									5,727
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090									5,256
Risk margin	R0100									104
Amount of the transitional on Technical Provisions										
Technical provisions calculated as a whole	R0110									0
Best Estimate	R0120									0
Risk margin	R0130									0
Technical provisions – total	R0200									11,087

		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			
		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 calculated as a whole	**R0020**							
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	**R0030**	10,982						
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	5,727						
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	**R0090**	5,256						
Risk margin	**R0100**	104						
Amount of the transitional on Technical Provisions								
Technical provisions calculated as a whole	**R0110**	0						
Best Estimate	**R0120**	0						
Risk margin	**R0130**	0						
Technical provisions – total	**R0200**	11,087						

S.17.01.02 Non-life Technical Provisions

		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0020	C0030	C0040	C0050	C0060	C0070
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**	8	-107	0	1,418	1,728	-1,988
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	-7	0	0	17	-933
Net Best Estimate of Premium Provisions	**R0150**	8	-100	0	1,418	1,712	-1,055
Claims provisions							
Gross	**R0160**	22	2,886	0	9,915	5,429	7,348
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	49	0	11	37	212
Net Best Estimate of Claims Provisions	**R0250**	22	2,836	0	9,904	5,392	7,136
Total Best estimate – gross	**R0260**	30	2,779	0	11,333	7,157	5,360
Total Best estimate – net	**R0270**	30	2,736	0	11,322	7,104	6,081
Risk margin	**R0280**	4	374	0	1,078	916	1,469
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0
Technical provisions – total							
Technical provisions – total	**R0320**	35	3,153	0	12,411	8,073	6,828
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	0	43	0	11	53	-721
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	35	3,110	0	12,400	8,020	7,549

		Direct business and accepted proportional reinsurance					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0080	C0090	C0100	C0110	C0120	C0130
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**	-6,845	78	252	-3	0	-546
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	281	24	0	0	0	2
Net Best Estimate of Premium Provisions	**R0150**	-7,126	55	252	-3	0	-548
Claims provisions							
Gross	**R0160**	54,736	6,758	566	2	0	269
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	3,366	204	0	0	0	50
Net Best Estimate of Claims Provisions	**R0250**	51,370	6,555	566	2	0	218
Total Best estimate – gross	**R0260**	47,892	6,837	817	-1	0	-278
Total Best estimate – net	**R0270**	44,245	6,609	817	-1	0	-330
Risk margin	**R0280**	7,183	1,461	243	0	0	95
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0
Technical provisions – total							
Technical provisions – total	**R0320**	55,075	8,298	1,060	-1	0	-182
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	3,647	228	0	0	0	52
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	51,428	8,070	1,060	-1	0	-234

		Accepted non-proportional reinsurance				Total Non-Life obligation
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		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**	-29	-1,027	-593	-9,352	-17,006
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	369	-206	-504	-957
Net Best Estimate of Premium Provisions	**R0150**	-29	-1,396	-387	-8,847	-16,048
Claims provisions						
Gross	**R0160**	571	17,621	5,646	47,478	159,247
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	2	8,362	353	2,556	15,203
Net Best Estimate of Claims Provisions	**R0250**	569	9,259	5,293	44,921	144,044
Total Best estimate – gross	**R0260**	542	16,594	5,053	38,126	142,241
Total Best estimate – net	**R0270**	540	7,863	4,906	36,074	127,995
Risk margin	**R0280**	85	1,248	1,227	9,255	24,639
Amount of the transitional on Technical Provisions						
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0
Technical provisions – total						
Technical provisions – total	**R0320**	626	17,842	6,280	47,381	166,880
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	2	8,731	148	2,052	14,246
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	625	9,111	6,133	45,330	152,634

S.19.01.21 Non-life Insurance Claims Information

Accident year / underwriting year	Z0020	2

		Development year													In Current year	Sum of years (cumulative)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +				
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											604		R0100	604	604
N-9	R0160	19,217	37,076	14,202	5,757	2,609	-25	1,274	1,027	298	422			R0160	422	81,858
N-8	R0170	16,672	36,952	15,465	5,416	2,160	1,594	815	565	441				R0170	441	80,080
N-7	R0180	17,908	39,032	11,512	5,835	2,460	1,420	1,826	700					R0180	700	80,693
N-6	R0190	14,830	29,319	13,345	6,486	2,325	1,280	2,018						R0190	2,018	69,604
N-5	R0200	19,140	46,004	10,458	4,638	2,335	1,010							R0200	1,010	83,585
N-4	R0210	20,423	42,986	12,717	5,221	2,618								R0210	2,618	83,965
N-3	R0220	17,600	40,036	13,651	6,093									R0220	6,093	77,380
N-2	R0230	18,641	42,340	10,682										R0230	10,682	71,663
N-1	R0240	15,563	45,027											R0240	45,027	60,590
N	R0250	17,262												R0250	17,262	17,262
													Total	R0260	86,878	707,284

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		Development year										
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	**R0100**											8,071
N-9	**R0160**	0	0	0	0	0	4,551	3,771	2,965	3,361	3,054	
N-8	**R0170**	0	0	0	0	4,346	3,844	3,104	3,544	3,874		
N-7	**R0180**	0	0	0	6,023	4,948	5,121	3,047	2,879			
N-6	**R0190**	0	0	14,093	8,040	5,378	5,247	4,371				
N-5	**R0200**	0	21,694	10,912	6,595	5,586	3,975					
N-4	**R0210**	60,808	28,857	14,399	9,219	6,507						
N-3	**R0220**	60,818	29,078	16,829	10,551							
N-2	**R0230**	66,657	33,019	20,905								
N-1	**R0240**	50,227	41,985									
N	**R0250**	58,280										

		Year end (discounted data)
		C0360
	R0100	7,857
	R0160	2,911
	R0170	3,633
	R0180	2,690
	R0190	4,091
	R0200	3,747
	R0210	6,154
	R0220	10,106
	R0230	20,227
	R0240	40,841
	R0250	56,990
Total	**R0260**	159,247

S.23.01.01 Own funds

		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 (EU) 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	71,856	71,856		0	
Share premium account related to ordinary share capital	**R0030**	54,240	54,240		0	
Initial funds, members’ contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**R0040**	0	0		0	
Subordinated mutual member accounts	**R0050**	0		0	0	0
Surplus funds	**R0070**	0	0			
Preference shares	**R0090**	0		0	0	0
Share premium account related to preference shares	**R0110**	0		0	0	0
Reconciliation reserve	**R0130**	343,027	343,027			
Subordinated liabilities	**R0140**	73,847		0	73,847	0
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	0	0	0	0	0
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**	0				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0				
Total basic own funds after deductions	**R0290**	542,969	469,123		73,847	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	0			0	
Unpaid and uncalled initial funds, members’ contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	**R0310**	0			0	
Unpaid and uncalled preference shares callable on demand	**R0320**	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0			0	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	0			0	0
Other ancillary own funds	**R0390**	0			0	0

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**	0				
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	542,969	469,123	0	73,847	0
Total available own funds to meet the MCR	**R0510**	542,969	469,123	0	73,847	
Total eligible own funds to meet the SCR	**R0540**	542,969	469,123	0	73,847	0
Total eligible own funds to meet the MCR	**R0550**	478,514	469,123	0	9,391	
SCR	**R0580**	187,820				
MCR	**R0600**	46,955				
Ratio of Eligible own funds to SCR	**R0620**	289.09%				
Ratio of Eligible own funds to MCR	**R0640**	1,019.09%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	516,313	-
Own shares (held directly and indirectly)	**R0710**	30,995	-
Foreseeable dividends, distributions and charges	**R0720**	16,195	-
Other basic own fund items	**R0730**	126,096	-
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	**R0740**	0	-
Reconciliation reserve	**R0760**	343,027	-
Expected profits			-
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	1,136	-
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	4,047	-
Total Expected profits included in future premiums (EPIFP)	**R0790**	5,184	-

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	125,198	-	-
Counterparty default risk	R0020	14,256	-	-
Life underwriting risk	R0030	388	None	
Health underwriting risk	R0040	2,711	None	-
Non-life underwriting risk	R0050	99,307	None	-
Diversification	R0060	-56,149	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	185,711	-	-

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	4,778
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-2,669
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	187,820
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	187,820
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for Article 304	R0440	0

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	2

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL result	R0010	31,745

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	30	1
Income protection insurance and proportional reinsurance	R0030	2,736	4,988
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	11,322	14,289
Other motor insurance and proportional reinsurance	R0060	7,104	17,041
Marine, aviation and transport insurance and proportional reinsurance	R0070	6,081	6,703
Fire and other damage to property insurance and proportional reinsurance	R0080	44,245	47,925
General liability insurance and proportional reinsurance	R0090	6,609	7,132
Credit and suretyship insurance and proportional reinsurance	R0100	817	430
Legal expenses insurance and proportional reinsurance	R0110	0	9
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	1,099
Non-proportional health reinsurance	R0140	540	385
Non-proportional casualty reinsurance	R0150	7,863	3,365
Non-proportional marine, aviation and transport reinsurance	R0160	4,906	435
Non-proportional property reinsurance	R0170	36,074	36,059

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL result	R0200	195

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	0	
Obligations with profit participation – future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	5,256	
Total capital at risk for all life (re)insurance obligations	R0250		121,040

Overall MCR calculation

		C0070
Linear MCR	R0300	31,940
SCR	R0310	187,820
MCR cap	R0320	84,519
MCR floor	R0330	46,955
Combined MCR	R0340	46,955
Absolute floor of the MCR	R0350	3,600
		C0070
Minimum Capital Requirement	R0400	46,955