SAVA INSURANCE GROUP

AMONG GOOD PEOPLE

STONE BY STONE TO SUCCESS

Sava Insurance Group
SOLVENCY AND FINANCIAL CONDITION REPORT
2021

PETER SKVARČA

Member of the Management Board

MARKO JAZBEC

Chairman of the Management Board

POLONA PIRŠ ZUPANČIČ

Member of the Management Board

CONTENTS

Contents

CONTENTS

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 the tables of this report are stated in thousands of euros. The report has been reviewed and approved by the parent company's management and supervisory boards.

The Group's solvency and financial condition report has been reviewed by the auditing firm KPMG d.d., which has issued an independent auditor's assurance report.

Summary

Introduction

In 2021, Covid-19 and the associated pandemic (hereinafter: Covid-19) continued to cause increased uncertainty in terms of business continuity, and achieving the planned business results and strategic objectives of the Sava Insurance Group. The Group weathered 2021 well in terms of finance, with no major negative effects on the results of its operations due to Covid-19. The Group also demonstrated the resilience of its solvency position to market conditions throughout the period since the onset of the pandemic.

The monitoring of Covid-19-related risks has been integrated into periodic risk monitoring and reporting in risk reports. The monitoring extended to capital adequacy as well as the impact on individual risks, current operating results and liquidity. Analyses conducted and reports prepared were taken into consideration by the management of companies when making decisions.

In view of the war situation that has developed in Ukraine, the Group has examined any impacts on its operations and estimates that, due to its small volume of business with and low investment exposure to Russia and Ukraine, the changed circumstances will not have a material impact on its business results.

Profile of the Sava Insurance Group

The Sava Insurance Group is one of the largest insurance groups in south-east Europe. As at 31 December 2021, the insurance part of the Group was composed of a reinsurer and eight insurers based in Slovenia and in the countries of the Adriatic region. In addition to the (re)insurance companies, the Group is made up of eight non-insurance companies.

The Group employs about 2,700 people (calculated based on a full-time equivalent basis). We provide insurance and reinsurance coverage for all lines of business, offering:

- a respectful, honest and sincere partnership,
- proficiency,
- integrity and transparency,
- accessibility and responsiveness, and
- accountability.

Sava Re has been operating in international reinsurance markets for over 40 years and in the Slovenian primary insurance market, through its former subsidiary Zavarovalnica Tilia, since 1998. The Group expanded to some other markets of the former Yugoslavia through the acquisition of six insurance companies between 2006 and 2009 and through greenfield investments in two life insurance companies in 2008. In 2015 and 2018, the Group entered the Slovenian and Macedonian pensions market, and in 2018 it entered the Slovenian market of assistance services. In 2019, Sava Re acquired an 85% stake in Sava Infond, an investment fund management company. In 2020, the Group entered the Slovenian private healthcare market by acquiring the Bled Diagnostic Centre through its associate ZTSR. The acquisition of Vita in 2020 strengthened the Group's market position in Slovenia, and the Group now ranks second in terms of insurance market share. The acquisitions carried out mean increased scale and more opportunities for synergy.

The Sava Insurance Group's core strength lies in its regional knowledge, reliability, responsiveness, flexibility and financial strength. We exceed client expectations with our ongoing efforts to improve and strengthen relationships with care, integrity and respect, and playing an active role in our environment.

Our guiding principle is to build long-term relationships with our clients and partners that will make it possible for us to achieve our common goals throughout all economic cycles.

Business and performance[1]

In 2021, the Sava Insurance Group generated EUR 732.7 million in operating revenue, up 7.6% compared to 2020. The net profit of EUR 76.2 million is a 35.1% increase over the previous year and significantly better than planned. Return on equity was 15.8%, a full 3.8 p.p. above the target return set in the 2020–2022 strategy of the Group.

1 This section provides information on the performance of the Sava Insurance Group based on IFRS accounts; therefore, figures do not equal those calculated based on Solvency II.

CONTENTS

All the Group's operating segments closed the year with a profit. The growth in the Group's profits were primarily driven by the non-life business, thanks to a relatively benign claims environment in Slovenia, by improved performance in the reinsurance business due to less claims, and by the Group's pensions and asset management segments, due to strong sales, as well as favourable financial market conditions in 2021. The growth in profit is also driven by the full-year inclusion of Vita, which consolidated the position of the Sava Insurance Group as the second-largest provider of life insurance products in the Slovenian market.

In 2021, the Group wrote EUR 729.9 million in gross premiums, an increase of 7.4% over the previous year. The growth in gross premiums was mainly supported by the Slovenian life insurance business (40.0% growth) due to the acquisition of Vita in 2020, but growth in the Group's premium volume was also achieved by the reinsurance business (5.0% growth), and international non-life and life insurance businesses (4.9% and 2.8% growth, respectively). Within the Slovenian non-life segment, the Group grew premiums by 5.1% in the Slovenian market, although total premiums of the segment declined due to phasing out business written under freedom of services rules (hereinafter: FoS business).

Last year, the Group's strong sales efforts and favourable financial market trends resulted in growth in the value of accumulation fund assets under management by a significant 24.2% to over EUR 1.5 billion in assets. As a result, the Group significantly strengthened (29.0%) operating revenue in this operating segment as well, and with EUR 5.6 million almost tripled the segment's pre-tax profit.

Net claims incurred dropped by 4.2% year on year. The reinsurance segment managed to post a lower incurred loss ratio despite major claims, as the largest loss events in 2021 were such that the portfolio significantly benefited from adequate reinsurance protection. The motor business as part of the Slovenian non-life segment enjoyed similarly favourable claims development. Net claims incurred in this segment also declined thanks to discontinued FoS business. This led to a significant improvement in the Group's net incurred loss ratio to 55.6% in 2021.

The growth in operating revenue and streamlined operations resulted in a decline in the 2021 net expense ratio to 29.0%, a further improvement of 0.5 p.p. The largest contribution to more efficient operations came from the Slovenian life insurance segment on account of the full-year inclusion of the Vita business.

The solvency of Sava Re remained at a high level, despite the difficult situation in the first year of the Covid-19 pandemic; therefore, despite the regulatory restrictions last year, the Company managed to demonstrate its capital strength and paid its shareholders dividends totalling EUR 13.2 million, or EUR 0.85 per share. 2021 was also a remarkable year for the Sava Re share price, which rose by 51% and closed the year at EUR 27.90. The share price reflected the Group's excellent financial performance over the last years and good progress on its strategy.

In a low interest rate environment, the return on the investment portfolio was 1.8% in 2021, 0.2 p.p. higher than the previous year and 0.3 p.p. above target. The portfolio of predominantly highly rated government and corporate bonds continues to show resilience in the face of financial market volatility. The key goal of the Group's investment policy is to maintain low volatility and a high level of security of assets, as well as to ensure high liquidity and risk diversification.

In addition to producing record financial results, the Sava Insurance Group has continued to make very solid progress on its strategy of developing into a customer-centric, modern, digital, community-minded and sustainability-oriented insurance Group. During two-thirds of the strategy period, it has developed multi-channel communication, improved its online and other self-service solutions, introduced electronic customer communication, and continues to develop and deploy artificial intelligence in the claims process and online sales. The Group places great emphasis on personalisation of its services and the customer experience, personal consultations as well as the overall customer relationship.

The Group has also made important steps towards further improved sustainability. Notable are the adoption of its sustainability investment policy and becoming a signatory to the Principles for Responsible Investment and the United Nations Global Compact. In the middle of the year, sustainability-related disclosures pertaining to its investment processes were posted on its website.

Last year again, the Group's strong capitalisation and solvency was affirmed by the "A" (excellent/strong) ratings, awarded by S&P Global Ratings and AM Best. The reaffirmed credit ratings attest to the Group's solid capital structure and liquidity, its consistent performance and its prudent risk management.

CONTENTS

Strategic focus of the Sava Insurance Group in 2020–2022

The strategy of the Sava Insurance Group sets out strategic goals in two ways, based on its three key focus areas in the 2020–2022 strategic period and based on the Group's key pillars of business operations.

Key Group pillars

INTEGRAL RISK MANAGEMENT

INSURANCE AND PENSIONS	REINSURANCE	OTHER ACTIVITIES	ASSET MANAGEMENT	CAPITAL GROWTH & USE
Non-life, Slovenia Life, Slovenia Non-life, international Life, international FoS business* Assistance and other supporting activities Pensions	Non-Group Group	Sale of mutual fund units Healthcare Other	Insurance company portfolios Management of mutual fund assets Pension portfolios	Organic growth Acquisitions Dividend policy

SUPPORTING ACTIVITIES

* FoS business. Freedom of Services business. Business written within the European Economic Area based on the freedom of services right to provide services on a cross-border basis.

CONTENTS

Key focus areas 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 overhaul

By upgrading our core systems, which includes replacing, upgrading and introducing new IT solutions, we will develop a modern and flexible IT system that will give us a competitive edge in the future.

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.

System of governance

The Group companies have in place a system of governance that is well defined and includes:

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

The following four key functions operate on the Group level: the actuarial function, compliance function, risk management function and internal audit function. In addition, a risk management committee and actuarial committee have been set up at the Group level.

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

- The first line of defence constitutes all organisational units with operational responsibilities (such as (re)insurance underwriting, claims management, asset management, accounting and controlling).
- The second line of defence consists of the risk management function, actuarial function, compliance function and risk management committee.
- The third line of defence is provided by the internal audit function.

In 2021, the composition of the parent company's management board changed. Details are provided in section B.1.2 "Governing bodies".

CONTENTS

Risk profile

The Group calculates its capital requirement in accordance with the Solvency II standard formula as defined in Delegated Regulation (EU) 2015/35 (hereinafter: the Standard Formula). The Group's risk profile is dominated by non-life underwriting risk and the exposure to market risk is also large. The Group is less exposed to other categories of risk: life underwriting risk, health underwriting risk, counterparty default risk and operational risk. Apart from the above risks, which are captured by the Standard Formula, the Group is also exposed to liquidity risk, and – owing to the challenging internal and external environment – to strategic risk.

The following table shows the Group solvency capital requirement in accordance with the Standard Formula (hereinafter: the Group SCR) by risk module.

Group solvency capital requirement by risk module[2]

EUR thousand	31 December 2021	31 December 2020
Group SCR (= (4) + (5) +(6))	304,405	287,432
(6) Capital requirement for other financial sectors	7,797	7,383
(5) Capital requirement for residual undertakings	6,142	12,588
(4) SCR as calculated based on consolidated figures of Group insurance companies that are consolidated under Solvency II[3] (= (1) + (2) + (3))	290,466	267,460
(3) Adjustment for TP and DT[4]	-17,709	-18,313
(2) Operational risk	21,816	21,585
(1) Basic solvency capital requirement (BSCR)	286,360	264,189
Diversification effect	-132,071	-124,900
Sum of risk components	418,431	389,089
Market risk	147,025	120,583
Counterparty default risk	20,596	25,045
Life underwriting risk	38,255	38,208
Health underwriting risk	32,460	31,604
Non-life underwriting risk	180,095	173,649

2 The capital requirement for other financial sectors include the companies Sava Pokojninska and Sava Infond, the capital requirement for the residual undertakings G2I, DCB and Sava Penzisko.

3 Under Solvency II the consolidation includes insurance companies and ancillary services undertakings.

4 Adjustment for the loss-absorbing capacity of technical provisions and deferred taxes.

Valuation for solvency purposes

We prepare the Group's consolidated financial statements in accordance with the International Financial Reporting Standards (hereinafter: IFRSs), using the full consolidation method for all Group companies, except for the associates DCB and G2I, which have been consolidated using the equity method. For the purpose of valuation of the Solvency II balance sheet, however, all Group (re)insurance undertakings and all ancillary services undertakings are consolidated in accordance with Article 335 1(a) of Commission Delegated Regulation (EU) (2015/35) (hereinafter: Delegated Regulation), the Sava Pokojninska pension company and Sava Infond are included in the consolidation in accordance with Article 335 1(e) of the Delegated Regulation, whereas Sava Penzisko Društvo and the associates DCB and G2I are included in accordance with Article 335 1(f) of the Delegated Regulation.

The following table shows adjustments to the IFRS balance sheet items that have been made for Solvency II purposes. The following table shows equity in accordance with IFRSs and Group Solvency II eligible own funds.

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

EUR thousand	31 December 2021	31 December 2020
IFRS equity[5]	500,997	459,320
Difference in the valuation of assets	-200,955	-179,001
Difference in the valuation of technical provisions	246,624	232,047
Difference in the valuation of other liabilities	-100	-6,890
Foreseeable dividends, distributions and charges	-23,247	-13,173
Adjustment for minority interests	-107	-203
Deduction for participations in other financial undertakings	-12,562	-11,201
Subordinated liabilities in basic own funds	78,065	75,681
Total basic own funds after deductions	588,715	556,579
Total own funds in other financial sectors	12,562	11,201
Eligible own funds to meet the Group SCR	601,277	567,780

5 IFRS equity is adjusted for the elimination of the companies Sava Pokojninska, Save Penzisko Družtvo and Sava Infond.

CONTENTS

Capital management

The Group manages its capital to ensure that it always maintains sufficient own funds to meet its obligations and regulatory capital requirement. The composition of eligible own funds held to ensure capital adequacy must comply with regulatory requirements. The level of own funds must also be sufficient to achieve the Group's strategic and operational goals.

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

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

As at 31 December 2021, most eligible own funds to cover the Group SCR were tier one funds. In addition, eligible own funds also include subordinated liabilities classified as tier 2 eligible own funds. As at 31 December 2021, the Group complied with the regulatory requirements at the level and quality of capital to cover the Group SCR and the Group MCR because its solvency ratio substantially exceeded the regulatory requirement of 100% and stood at 198%, and the MCR ratio was 383%.

The Group also tested the adequacy of eligible own funds several times during the year, demonstrating compliance throughout the year.

The target solvency ratio in line with the Group's risk strategy for 2020–2022 is in the 180–220% range. This demonstrates that the Group is well capitalised, also by its own criteria.

Capital adequacy of the Group

EUR thousand	31 December 2021	31 December 2020
Group SCR	304,405	287,432
Eligible own funds to meet the Group SCR	601,277	567,780
Of which tier 1	523,212	492,099
Of which tier 2	78,065	75,681
Of which tier 3	0	0
Group solvency ratio	198%	198%
Minimum capital requirement (MCR) of Group	140,651	136,355
Eligible own funds to meet the Group MCR	538,780	508,170
Of which tier 1	510,650	480,899
Of which tier 2	28,130	27,271
Of which tier 3	-	-
Group MCR	383%	373%

CONTENTS

A. Business and performance

CONTENTS

A.1 Business

Name and legal form of the parent company

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

Composition of the Group

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

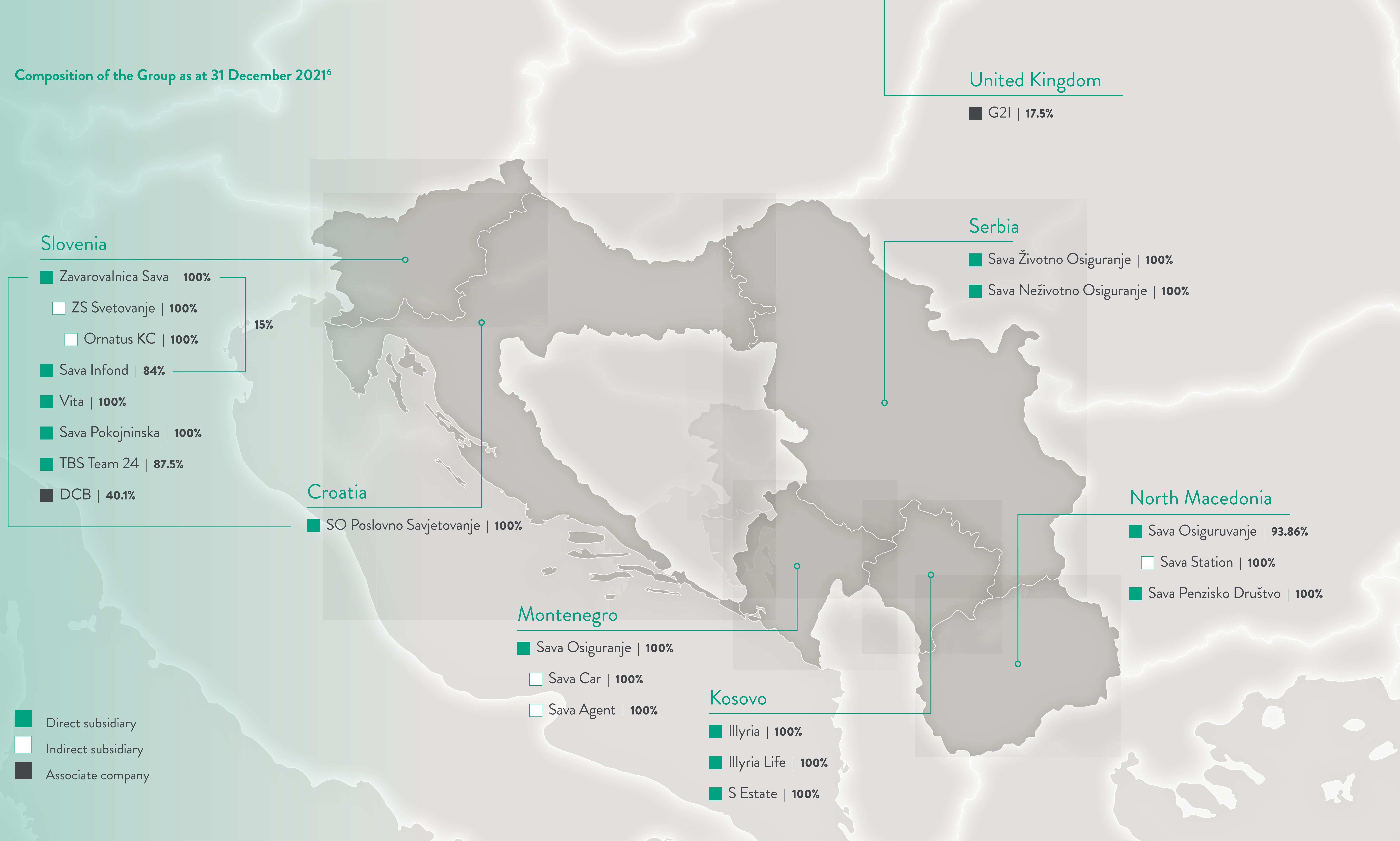
Apart from the listed (re)insurers, the Group also includes:

- Sava Pokojninska (SVN): a Slovenian pension company;
- Sava Penzisko Društvo (MKD): a pension fund manager based in North Macedonia managing second- and third-pillar pension funds;
- Sava Infond (SVN): a subsidiary managing investment funds;
- TBS Team 24 (SVN): a company providing assistance services relating to motor, health and homeowners insurance;
- DCB (SVN): a Sava Re associate company, a holding company and owner of the Bled Diagnostic Centre;
- G2I (GBR): an associate company marketing on-line motor polices;
- S Estate (RKS): a company based in Kosovo that owns some real property but is currently dormant;
- indirect subsidiary companies.

The following chart shows the Group's composition.

CONTENTS

Composition of the Group as at 31 December 2021[6]



6 The percentages in the figure relate to equity stakes. The equity stakes provided for G2i, Sava Infond and DCB differ from the voting rights held by these companies. The annual report includes disclosures for all companies, including equity stakes and voting rights.

The appendix B Quantitative reporting templates, form S.32.01.22 "Undertakings in the scope of the Group" includes details on all companies of the Sava Insurance Group. The following tables provide details of all Group companies in which Sava Re holds direct equity participations.

Subsidiaries and associates as at 31 December 2021

	Zavarovalnica Sava (SVN)	Sava Neživotno Osiguranje (Serbia)	Illyria (RKS)	Sava Osiguruvanje (North Macedonia)	Sava Osiguranje (Montenegro)
Registered office	Cankarjeva ulica 3, 2000 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Zagrebska br. 28A, 1000 Skopje, North Macedonia	Ulica Svetlane Kane Radević br. 1, 81000 Podgorica, Montenegro
Main activity	insurance	non-life insurance	non-life insurance	non-life insurance	non-life insurance
Share capital (EUR)	68,417,377	6,314,464	7,228,040	3,820,077	4,033,303
Book value of equity interest (EUR)	68,417,377	6,314,464	7,228,040	3,585,524	4,033,303
% equity interest / voting rights held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 93.86%	Sava Re: 100.0%
Profit or loss for 2021 (EUR)	58,087,630	558,440	815,729	-266,161	1,741,085
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company

CONTENTS

	Illyria Life (RKS)	Sava Životno Osiguranje (Serbia)	S Estate (RKS)	Sava Pokojninska (SVN)	TBS Team 24 (SVN)
Registered office	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Ljubljanska ulica 42, 2000 Maribor, Slovenia
Main activity	life insurance	life insurance	currently none	pension fund	provision of assistance services
Share capital (EUR)	3,285,893	4,326,664	1,800,000	6,301,109	8,902
Book value of equity interest (EUR)	3,285,893	4,326,664	1,800,000	6,301,109	7,789
% equity interest / voting rights held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 87.5%
Profit or loss for 2021 (EUR)	354,074	27,312	-68	616,287	883,684
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary	subsidiary pension company	subsidiary

	Sava Penzisko Društvo (MKD)	DCB (SVN)	G2I (GBR)	Sava Infond (SVN)	Vita (SVN)
Registered office	Majka Tereza 1, 1000 Skopje, North Macedonia	Pod Skalo 4, 4260 Bled, Slovenia	Bailey House, 4–10 Barttelot Road, Horsham, West Sussex, RH12 1DQ, United Kingdom	Ulica Vita Kraigherja 5, 2000 Maribor, Slovenia	Trg republike 3, 1000 Ljubljana, Slovenia
Main activity	fund management activities	hospital activities	insurance agency	fund management activities	life insurance
Share capital (EUR)	2,110,791	379,123	152,958	1,460,524	7,043,900
Book value of equity interest (EUR)	2,110,791	189,562	26,768	1,460,524	7,043,900
% equity interest / voting rights held by Group members	Sava Re: 100.0%	Sava Re: 40.1% / 50.0%	Sava Re: 17.5% / 25.0%	Sava Re: 84.00% / 84.85% Zavarovalnica Sava: 15.00% / 15.15%	Sava Re: 100.0%
Profit or loss for 2021 (EUR)	1,776,572	1,675,127	-369,588	2,957,166	7,728,173
Position in the Group	subsidiary pension company	associated company	associated company	subsidiary	subsidiary insurance company

CONTENTS

Following are details on the parent company Sava Re as its supervisory board also oversees the operations of the Sava Insurance Group, and its auditor audits the Group's financial statements with notes and issues an independent auditor's assurance report to the Group's solvency and financial condition report.

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

Insurance Supervision Agency
Trg republike 3
SI-1000 Ljubljana
Tel.: + 386 1 2528 600
Telefax: + 386 1 2528 630
Email: agencija@a-zn.si

Name and contact details of the parent company's external auditor

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

The Group's financial statements have been audited by KPMG Slovenija, Podjetje za Revidiranje, d.o.o., who audited the financial statements of Sava Re and the Sava Insurance Group for 2021. In 2021, most of the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. The 2021 financial statements of three Group members were audited by other audit firms. A contract for auditing the financial statements was signed with KPMG in 2019, covering the period 2019–2021. Sava Re complies with the provision on auditor rotation under the Insurance Act.

Holders of qualifying shares in the company as at 31 December 2021

Shareholder	Number of shares	Holding	% voting rights
SDH d.d.	3,043,883	17.7%	19.6%
Intercapital Securities Ltd., fiduciary account	2,565,981	14.9%	16.6%

Source: Central securities register KDD d.d.
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. On 2 June 2016, Adris Grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04% and 21.15% of issued and outstanding shares, respectively. Up to and including 31 December 2021, there have been no notifications of changes in ownership from Adris Grupa d.d.

Major lines of business transacted and Group key markets[7]

In 2021, the Group's main lines of business were:

- life insurance,
- fire and other damage to property insurance and proportional reinsurance, and
- other motor insurance and proportional reinsurance.

These lines of business accounted for 59.2% of the total gross premiums written (2020: 54.2%).

The Group operates in the market of the Slovenia and globally. The following table shows the most important markets of the Group in terms of premiums written in 2021. Listed are countries where the Group wrote over EUR 12 million in gross premiums in line with the Group's materiality threshold.[8] As shown in the table, the Group sourced most of its premiums from Slovenia, other countries of the Adriatic region and South Korea.

Major countries in which the Group operates[9]

	Gross premiums written in 2021	Gross premiums written in 2020	Index
Slovenia	540,348	505,732	106.8
Serbia	29,842	26,530	112.5
Kosovo	17,007	13,901	122.3
North Macedonia	15,281	13,761	111.0
Montenegro	14,410	12,852	112.1
South Korea	14,034	13,967	100.5

Significant events in 2021

- On 5 March 2021, Sava Re received a letter from the Insurance Supervision Agency (the Agency) stating that, due to the uncertain situation regarding the spread of the Covid-19 pandemic and the associated uncertain consequences for the economy and the insurance sector, the Agency expected insurance undertakings, reinsurance undertakings and pension companies to suspend dividend payments until 30 September 2021. Furthermore, the recommendation of the Agency set certain criteria for companies where, contrary to the recommendation, the management and supervisory boards were to propose the appropriation of the distributable profit prior to the above date, and required such companies to demonstrate compliance with the principle of prudence in their decisions. On 2 April 2021, Sava Re received another letter from the Agency amending the recommendation of 5 March 2021 regarding the payment of dividends and detailing the criteria. To prove its ability to pay dividends in 2021, Sava Re compiled documents for the Agency to demonstrate its financial stability, solvency, liquidity and resilience to stress scenarios (including Covid-19 impacts). Based on the Agency's strictest criterion, the dividend was not to exceed the average dividend paid in 2017–2019, which was EUR 0.85 per share. On 9 September 2021, Sava Re received a letter from the Agency announcing that, based on half-yearly data on the performance of (re)insurance companies and pension companies and in view of the economic upturn in Slovenia and the euro area in the first half of 2021, it had decided not to extend the recommendation to suspend dividend payments (which was valid until 30 September 2021). Notwithstanding the above, in this letter the Agency stated that it would continue to monitor the capital and dividend plans of its controlled entities closely and that it expected companies to continue to pursue the principles of prudence when declaring dividends.
- In May 2021, the 37th general meeting of shareholders was held.
- In July 2021, the terms of office of three members of the Sava Re supervisory board, Mateja Lovšin Herič, Keith William Morris and Andrej Kren, expired. Details on changes in the composition of the supervisory board and its committees are set out in the annual report of the Sava Insurance Group and Sava Re d.d. (hereinafter: the Group's annual report) for 2021, section 5.3.2 "Supervisory Board".

7 This subsection presents consolidated data based on Solvency II valuations, excluding Sava Pokojninska and Sava Penzisko Društvo; therefore, figures do not equal IFRS calculations.
8 The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and the Group's SCR. As at 31 December 2021, the Group's materiality threshold was EUR 12 million.
9 Premiums include premium estimates.

CONTENTS

- In September 2021, the rating agency S&P Global Ratings affirmed the "A" ratings of Sava Re and Zavarovalnica Sava. The outlook was stable.
- In September 2021, Mateja Živec tendered her resignation as a member of the Sava Re supervisory board. The resignation is effective as from 1 January 2022. In November 2021, following an internal selection procedure, the Sava Re workers' council appointed Edita Rituper as a new employee representative on the supervisory board. Her term of office runs from 1 January 2022 to 12 June 2023.
- In October 2021, the Sava Re supervisory board reappointed Marko Jazbec, whose five-year term of office is due to expire on 12 May 2022, as the chairman of the management board for a further term. The new five-year term starts on 13 May 2022.
- In October 2021, the rating agency AM Best affirmed the "A" level credit rating of Sava Re; the outlook was stable.
- In December 2021, the supervisory board of Zavarovalnica Sava appointed Jošt Dolničar, currently a member of the Sava Re management board, as the new chairman of the management board of Zavarovalnica Sava. Jošt Dolničar will take office on the next business day after obtaining the Insurance Supervision Agency licence to act as a management board member, but not earlier than 5 May 2022. The resolution on the appointment of Jošt Dolničar is subject to a suspensive condition. The suspensive condition is to obtain a licence for performing the function of a board member to be issued by the Insurance Supervision Agency. Due to his appointment to the management board of Zavarovalnica Sava, Jošt Dolničar tendered his resignation as a member of the management board of Sava Re, effective as of the date of obtaining the Insurance Supervision Agency's licence to act as a member of the management board of Zavarovalnica Sava, but not earlier than 5 May 2022.

Impact of Covid-19 pandemic

Covid-19 has been present for a year and a half now, and remains a source of certain direct and indirect uncertainties related to the attainment of the Company's business results and strategic goals. Macroeconomic conditions and the situation on the financial markets resulted in a significant improvement in 2021, and the Group financially weathered this period very well, without any major adverse effects of Covid-19 on business results.

In 2021, we integrated the monitoring of Covid-19-related risks into the regular risk monitoring scheme and reported on them in risk reports. The monitoring was carried out in terms of impact of individual risks, current business performance, liquidity and capital adequacy. Theses analyses and reports were taken into consideration by the management when making decisions.

There remains a legal regulatory risk that policy conditions for business interruption covers written before 2021 could be interpreted unfavourably in some markets, which could result in additional claim payments related to Covid-19. Based on experience, we do not expect Covid-19 to have a significant negative impact on key risks in the future, as the Group took an active approach to managing these risks.

In the own risk and solvency assessment for 2022, we also focused on the implementation of stress scenarios and the analysis of their impacts. We implemented two scenarios with a higher impact, i.e. the inflation scenario and the EIOPA scenario, in which the EIOPA stress test shocks conducted in 2021 were applied. In both scenarios we also considered the potential impact on the insurance portfolio. The scenarios were implemented as at 31 December 2022 (with consideration of financial projections), and they both confirmed the robustness of the Group's capital adequacy, which significantly exceeds the required regulatory level, even if such scenarios realise.

Details are provided in the Group's annual report for 2021, section 17.6.1 "Impact of Covid-19 pandemic" posted on the Group's website.

Significant events after the reporting date

The Sava Insurance Group has examined the impact of the war in Ukraine on its operations and estimates that, due to the small volume of business with and low investment exposure to Russia and Ukraine, the changed circumstances will not have a material impact on its business results. The Sava Insurance Group (through Sava Re) has written reinsurance contracts with Russian and Ukrainian partners the annual premium volume of which accounts for only 0.5% of the Group's total planned operating revenue for 2022. All contracts contain so-called sanctions clauses. In the event of sanctions imposed by the European Union or the United Nations, such clauses limit the obligations of Sava Re under relevant contracts if such obligations are contrary to the applicable sanctions. In addition, the reinsurance contracts written exclude coverage related to

CONTENTS

war. The Group's credit and currency exposure to Russia, Ukraine and Belarus as at 31 December 2021 accounted for just 0.24% of the Group's financial investments. Most of this exposure arises from cash and cash equivalents, and rouble-denominated investments, which are matched to liabilities denominated in the same currency. Only a small part, 0.04%, is invested in securities of Russian issuers; thus, credit risk is also negligible. The Group is aware of the potentially adverse indirect effects on the macroeconomic environment and, consequently, on the Group's operations, which cannot yet be properly assessed at this stage. Some possible financial effects are presented through sensitivity analyses in the notes to the financial statements of the Group's annual report in sections 17.6.4.1.1 "Interest rate risk" and 17.6.4.1.3 "Equity risk".

Difference in the scope of the consolidated IFRS and SII balance sheets

The Group uses the full consolidation method for all its companies in the preparation of the IFRS consolidated financial statements, except for the associates DCB and G2I, which have been consolidated using the equity method. For the purpose of valuation of the Solvency II balance sheet, however, all Group (re)insurance undertakings and all ancillary services undertakings are consolidated in accordance with Article 335 1(a) of the Delegated Regulation, the Sava Pokojninska pension company and Sava Infond are included in the consolidation in accordance with Article 335 1(e) of the Delegated Regulation, whereas Sava Penzisko Društvo and the associates DCB and G2I are included in accordance with Article 335 1(f) of the Delegated Regulation.

CONTENTS

A.2 Underwriting performance[10]

Supplementary accident insurance is shown as part of the life insurance operating segment; in Solvency II reporting, this business is shown under the income protection insurance and proportional reinsurance item.

Premiums

Consolidated gross premiums written and net premiums earned

EUR thousand	2021	2020	Index
Gross premiums written	725,634	676,508	107.3
Net premiums earned	682,310	632,121	107.9

Consolidated gross premiums written by region

EUR thousand	2021	2020	Index
Slovenia	540,348	505,732	106.8
International	185,286	170,776	108.5
Total	725,634	676,508	107.3

Consolidated gross premiums written by material line of business

EUR thousand	2021	2020	Index
Life insurance	159,732	111,567	143.2
Fire and other damage to property insurance and proportional reinsurance	135,592	129,300	104.9
Other motor insurance and proportional reinsurance	134,131	125,837	106.6
Motor vehicle liability insurance and proportional reinsurance	126,774	133,133	95.2
Income protection insurance and proportional reinsurance	54,429	51,527	105.6
Other lines of business	114,976	125,144	91.9
Total	725,634	676,508	107.3

10 This section presents consolidated data based on the Solvency II valuation, which do not include the pension companies Sava Pokojninska and Sava Penzisko Društvo, which is why figures do not equal the data based on IFRS valuation.

In 2021, gross premiums written grew by 7.3%, and the breakdown by class of business did not change significantly compared to 2020. Non-life insurance premiums account for 78.0% (2020: 83.5%) of total premiums, and life insurance premiums for 22.0% (2020: 16.5%). Life insurance premiums grew as the result of the full-year inclusion of Vita in the Group (in 2020, included only from 31 May). Gross non-life premiums written are dominated by fire and other damage to property insurance and proportional reinsurance and other motor insurance and proportional reinsurance, which together account for 37.2 % of total gross premiums (2020: 37.7%).

Below we set out the movements in gross premiums written by operating segment as analysed by the Group.

Gross premiums written in the **reinsurance** segment in 2021 increased by 5.0% from the previous year to EUR 112.1 million. Proportional reinsurance achieved growth of 11.2%, whereas non-proportional reinsurance business grew 1.5%. Premiums for past underwriting years were EUR 7.3 million higher in 2021, mainly for proportional reinsurance, whereas premiums for the current underwriting year were slightly lower (by 2.1% and EUR 2.0 million, respectively) compared to the 2020 underwriting year. After the outbreak of the Covid-19 pandemic in 2020, we estimated that, due to the expected decline in the GDPs of the countries where we have clients, the premium volume for the financial year would be 10% below the target figure set when underwriting the business based on cedant figures. In 2021, we abandoned this assumption based on the economic situation and treated the premiums for the 2020 underwriting year the same way as for other underwriting years. We have seen similar responses from other reinsurers in international markets. Gross **non-life** insurance premiums decreased by 1.1% to EUR 434.8 million in 2021 (due to cancellations of FoS business). In 2021, gross motor insurance premiums written within non-life insurance business remained at the previous year's level. The EUR 8.2 million drop in gross premiums written in FoS business was offset by higher gross motor insurance premiums written in Slovenia, especially in personal lines due to an increase in the number of insurance policies sold. Gross motor insurance premiums outside Slovenia increased in all foreign markets, except in Croatia, where the drop in gross premiums written was due to portfolio cleaning. The EUR 6.7 million drop in gross premiums written in ship insurance and the EUR 6.0 million drop in general liability business mainly relates to FoS business. In 2021, gross premiums written in the property insurance segment increased by only EUR 0.3 million due to lower premiums from FoS business. Excluding FoS business, property insurance premiums written in Slovenia increased by EUR 4.2 million on account of both personal property business, where the number of insurance policies sold increased, as well as of commercial property, mainly due to the increase in premiums paid by major clients.

Gross **life** premiums written in Slovenia grew by 37.2% in 2021, as the result of Vita's full-year inclusion in the Group (in 2020, included only from 31 May). In 2021, gross premiums written by the life insurance part of Zavarovalnica Sava in Slovenia dropped by 3.1% year on year. Despite favourable sales of new policies, the companies did not manage to write sufficient new business to fully offset premiums lost due to policy maturities, surrenders and deaths. Non-Slovenian life insurers managed to increase gross premiums written by 2.8%. The Kosovo and Serbian insurers increased gross premiums written through their own sales network and enhanced cooperation with external sales channels, posting large growth in gross premiums written (Kosovo by 36.5%, Serbia by 19.7%). Lower overall growth was the result of lower gross premiums written at the Croatian branch of Zavarovalnica Sava due to lower sales through bank sales channels and the optimisation of the portfolio with the aim of improving operating profitability.

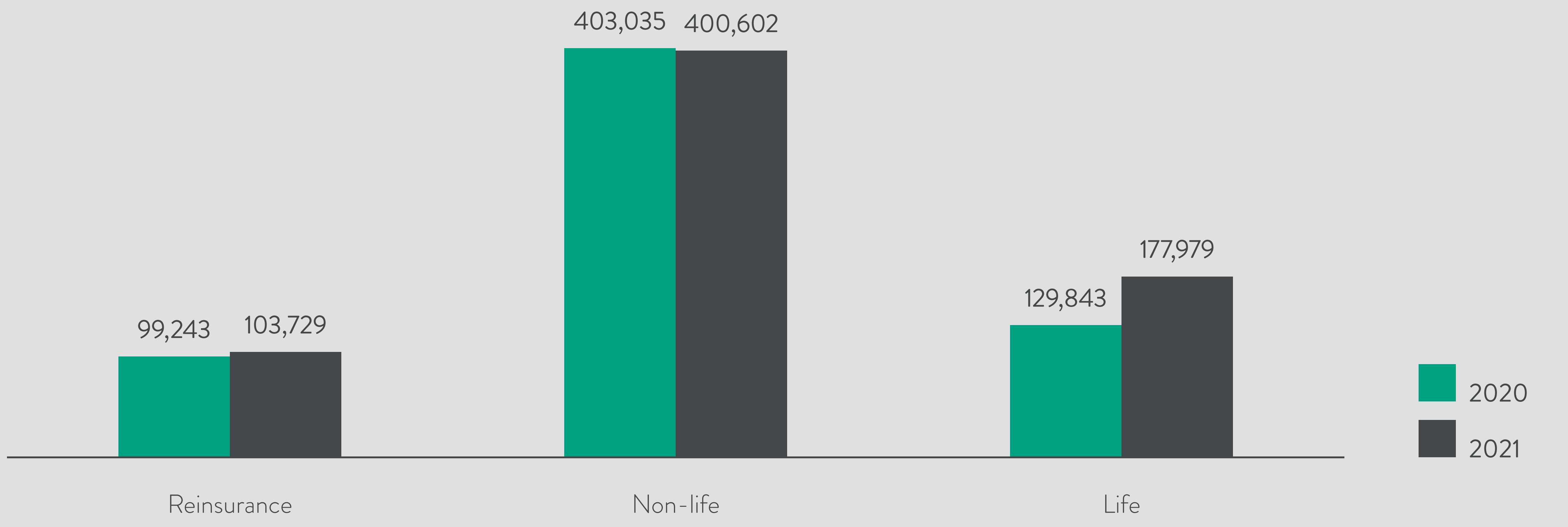
CONTENTS

Consolidated net premiums earned by material line of business

EUR thousand	Net premiums earned, 2021	Net premiums earned, 2020	Index
Life insurance	158,552	110,625	143.3
Other motor insurance and proportional reinsurance	127,232	122,320	104.0
Motor vehicle liability insurance and proportional reinsurance	123,099	134,325	91.6
Fire and other damage to property insurance and proportional reinsurance	117,780	107,458	109.6
Income protection insurance and proportional reinsurance	54,382	51,995	104.6
Other lines of business	101,265	105,396	96.1
Total	**682,310**	**632,121**	**107.9**

Consolidated net premiums earned by operating segment

(€ thousand)



Note: The life operating segment also includes income from supplementary accident policies as part of life insurance policies.

CONTENTS

Claims

Consolidated gross claims paid and net claims incurred

EUR thousand	2021	2020	Index
Gross claims paid	406,909	399,532	101.8
Net claims incurred	390,499	426,558	91.5

Consolidated gross claims paid by region

EUR thousand	2021	2020	Index
Slovenia	254,873	276,468	92.2
International	152,036	123,064	123.5
Total	406,909	399,532	101.8

Consolidated gross claims in 2021 were a little higher, whereas net claims incurred were a little lower than in 2020. Below we set out the movements in gross claims paid and claims incurred by operating segment as analysed by the Sava Insurance Group.

In 2021, exchange differences had a negative impact on net claims incurred of the **reinsurance** segment in the amount of EUR 4.4 million (positive impact of EUR 6.9 million in 2020). 2021 net claims incurred, excluding the effect of exchange differences, dropped by 12.6% compared to 2020. In 2021, higher gross claims paid were the result of storms and floods in western Europe (notably in Germany, Belgium and Austria) and China, as well as a fire loss in Suriname. Despite the high gross claims paid related to the floods in western Europe, their impact on net claims incurred was relatively low owing to reinsurance protection. Developments in past underwriting years had a positive effect on the movement of net claims incurred in 2021. The drop in relation to 2020 was also the result of the detrimental effect of Covid-19 in 2020. The net incurred loss ratio relating to the reinsurance segment thus improved by 14.6 p.p. year on year to 69.0% (2020: 83.6%).

Consolidated gross **non-life** claims paid increased by 3.4% to EUR 224.4 million in 2021. Net claims incurred declined mainly due to a smaller increase in claims provisions compared to last year, due mainly to the run-off and smaller inwards portfolio with most partners transacting FoS business with Zavarovalnica Sava.

In the international non-life segment, net claims incurred decreased mainly because the Croatian branch of Zavarovalnica Sava had to set up additional claims provisions for the payment of non-pecuniary damages in 2020 due to regulatory requirements, and in 2021 claims provisions decreased due to the smaller volume of the portfolio. In addition, the Kosovo insurer reduced its claims provisions in 2021 due to the successful settlement of older insurance claims. In 2021, gross non-life claims grew as a result of the growth in gross non-life claims, i.e. by 1.9% in Slovenian non-life insurers and by 10.7% in non-Slovenian non-life insurers. Gross claims paid from FoS business increased by EUR 6.2 million, whereas gross claims of Slovenian insurers decreased by EUR 4.2 million, mainly in motor insurance, due to a lower number of claims. Gross claims paid by non-domestic insurers rose by EUR 4.0 million. The largest rise in claims was posted in property business, as some non-domestic insurers suffered major claims in this area.

Gross **life** claims paid in Slovenia declined year on year, even though Vita was part of the Group portfolio for a longer time, because maturity payments decreased by EUR 21.1 million in the Slovenian part of Zavarovalnica Sava. Maturity payments declined in traditional life insurance (EUR 32.4 million in 2021), down EUR 22.3 million year on year. Unit-linked life business, where policyholders bear the investment risk, paid out EUR 15.8 million in maturity benefits, up EUR 1.2 million from the previous year. The reasons for the difference between net claims incurred, including the change in net other provisions, and unit-linked provisions of Slovenian companies are the full-year inclusion of Vita and the movement in unit prices of unit-linked life funds. Fund unit prices move in line with developments in the financial markets, which were more favourable in 2021 than in the previous year (downturn in equity markets in April 2020). While this does not affect the result of unit-linked life insurance, it is reflected in the movement of provisions. Gross claims paid by non-Slovenian insurers were lower than in the previous year, as the Croatian branch office made fewer maturity payments on life insurance policies. Net claims incurred, including the change in other provisions and the change in the provision for unit-linked business in 2021, rose mainly reflecting the events of the previous year – the Croatian part of Zavarovalnica Sava saw more of credit life policy expire in 2020, and the volume of surrenders increased as well, which reduced mathematical provisions and consequently reduced net claims incurred, including the change in other provisions and the change in the provision for unit-linked business.

Consolidated net claims incurred by material line of business

EUR thousand	Net claims incurred, 2021	Net claims incurred, 2020	Index
Life insurance	94,250	119,316	79.0
Other motor insurance and proportional reinsurance	78,510	73,764	106.4
Fire and other damage to property insurance and proportional reinsurance	64,875	71,789	90.4
Motor vehicle liability insurance and proportional reinsurance	63,152	82,332	76.7
Non-proportional property reinsurance	29,056	24,932	116.5
Other lines of business	60,656	54,425	111.4
Total	390,499	426,558	91.5

CONTENTS

Expenses

Consolidated net operating expenses by material line of business

EUR thousand	Net expenses, 2021	Net expenses, 2020	Index
Fire and other damage to property insurance and proportional reinsurance	47,002	43,001	109.3
Motor vehicle liability insurance and proportional reinsurance	35,027	40,978	85.5
Other motor insurance and proportional reinsurance	32,894	32,330	101.7
Life	28,723	22,534	127.5
Income protection insurance and proportional reinsurance	20,014	17,252	116.0
Other lines of business	36,873	34,935	105.5
Total	200,534	191,029	105.0

Net operating expenses rose by 5.0% in 2021. In absolute terms, the largest increase was in expenses for life business, and in fire and other damage to property insurance and proportional reinsurance. The 2021 split of net operating expenses by line of business did not change materially compared to 2020. Below we set out the movements in operating expenses by operating segment as analysed by the Group. Comments covers all elements used in the calculation of net operating expenses (acquisition costs, change in deferred acquisition costs and other operating expenses).

In 2021, acquisition expenses (commissions) of the **reinsurance** segment rose by 11.9% to EUR 24.8 million (compared to an 5.0% increase in gross premiums written). The share of acquisition costs as a percentage of gross premiums written was 22.1% in 2021 (2020: 20.7%). The average value of the ratio was around 21% in the recent quarters. Other operating expenses increased due to costs of services related to Group corporate governance, the introduction of international financial reporting standards IFRS 17 and IFRS 9, and the upgrade and introduction of new IT solutions and services associated with the Sustainable Finance Disclosure Regulation (SFDR). Consequently, the net expense ratio was 2.1 p.p. higher than in the previous year.

Consolidated gross **non-life** insurance premiums decreased by 7.8% to EUR 40.1 million in 2021. Policy acquisition costs declined due to lower gross premiums written in FoS business. Other operating expenses increased by 3.3%, which was affected by the higher labour costs incurred by the Slovenian part of Zavarovalnica Sava and the full-year consolidation of Vita. The gross expense ratio of the non-life segment rose by 0.3 p.p., as the relative decrease in gross premiums written exceeded the relative decrease in the gross operating expenses. The gross expense ratio of the Slovenian non-life insurers increased slightly. This increase stems from FoS business, whereas the gross expense ratio of the non-life segment in Slovenia, excluding FoS business, decreased. The gross expense ratio of the non-Slovenian non-life insurers remained at the level of the previous year.

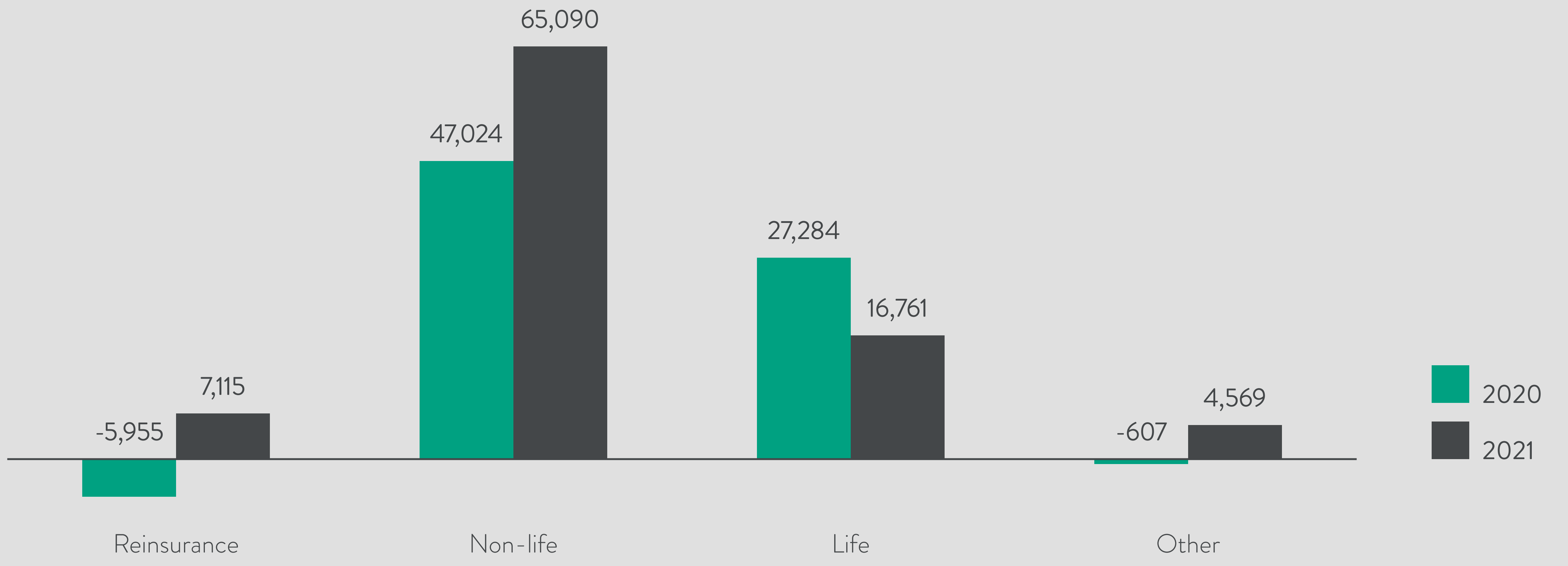
In 2021, acquisition costs of the **life** segment rose by 45.9% compared with 2020 to EUR 12.8 million. Acquisition costs and other operating expenses were higher than in the previous year, mainly due to Vita's consolidation period. The gross expense ratio dropped by 2.1 p.p. year on year as the result of the inclusion of Vita, which, thanks to its specific sales model, operates on a lower gross expense ratio. Life insurance companies outside Slovenia saw a decline in the gross expense ratio of 1.1 p.p. as premiums in Serbia and Kosovo grew faster than expenses.

CONTENTS

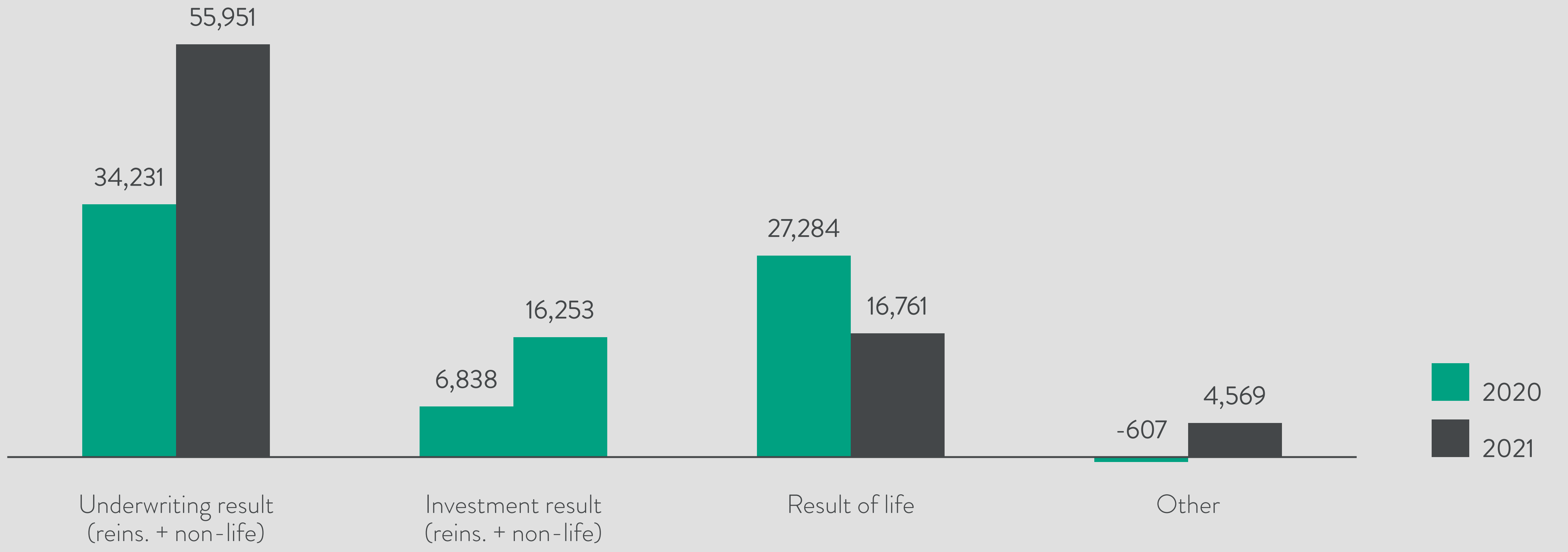
Consolidated gross profit or loss

In the following graphs, the “other” segment includes the profit or loss of the companies Sava Pokojninska, Sava Penzisko Društvo, TBS Team24, Save Infond and S Estate. The result of the life segment also includes the net investment income of the life insurance portfolio.

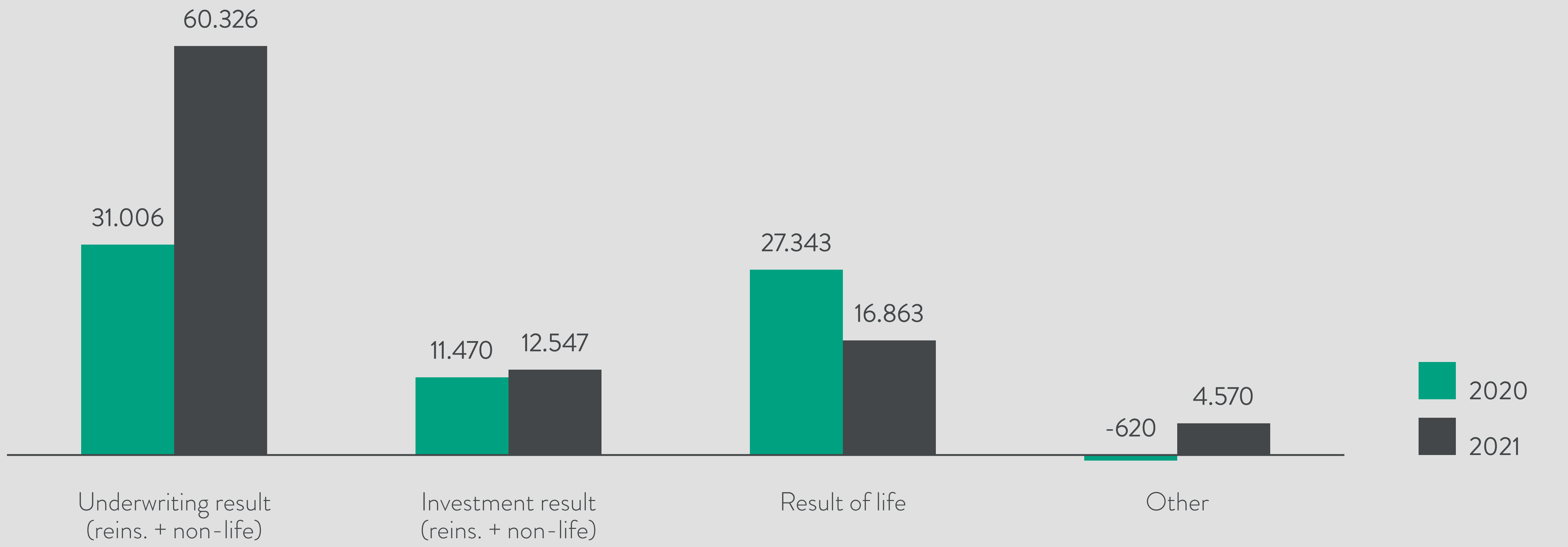
Composition of the consolidated gross profit or loss by operating segment (€ thousand)



Composition of the consolidated gross profit or loss (€ thousand)



Composition of the consolidated gross result, excluding exchange differences **(€ thousand)**



In 2021, the gross result of the Group (excluding Sava Pokojninska, Sava Penzisko Društvo, TBS Team 24, Sava Infond and S Estate) increased by 30.2% compared to 2020 to EUR 89.0 million. The reinsurance, non-life and "other" segments improved their gross business result in 2021 compared to 2020, whereas the reinsurance and life segment recorded a weaker result. The underwriting result in 2021 was better than in 2020 for both the non-life and the reinsurance segments. The investment result for the non-life and the reinsurance segments was also stronger. The result of the life segment was lower in 2021, mainly because of the one-off income in 2020 recognised due to the positive difference between the fair value of net assets acquired and the purchase price of the investment in Vita of EUR 9.0 million. The "other" segment includes the profit or loss of the companies Sava Pokojninska, Sava Penzisko Društvo, Sava Infond, TBS Team 24 and S Estate. This segment also includes interest expense on subordinate debt (2021: EUR 2.9 million, 2020: EUR 2.9 million) and the amortisation of contractual customer relationships with Sava Pokojninska and Sava Infond (2021: EUR 1.0 million, 2020: EUR 1.0 million).

In 2021, the **reinsurance** segment performed better in terms of underwriting result than in 2020, chiefly because of lower incurred claims. The investment result in 2021 improved, mainly due to higher gains on the sale of and dividend income from financial investments.

The **non-life** segment improved, largely as the result of improved technical performance. The net investment income of the investment portfolio remained at a comparable level to 2020. The investment return was 1.1% in 2021.

The **life** segment performed weaker in 2021, mainly because of the one-off income in 2020 recognised due to the positive difference between the fair value of net assets acquired and the purchase price of the investment in Vita of EUR 9.0 million. The net investment income of the investment portfolio of life insurance business increased by EUR 6.0 million compared to 2020. Return on the investment portfolio of life insurance register assets was 2.4%.

CONTENTS

A.3 Investment performance

The Group analyses its investment performance by operating segment. Net investment income and investment return are monitored by asset class 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.

In 2021, investment income totalled EUR 36.4 million, up EUR 8.5 million year on year; excluding exchange differences, investment income increased by EUR 4.1 million. In 2021, the largest part of investment portfolio income was interest income of EUR 16.8 million (accounting for 46.3% of total finance income), up EUR 0.7 million year on year.

In 2021, expenses relating to the investment portfolio dropped by EUR 8.0 million compared to 2020 and were down EUR 3.2 million if the effect of exchange differences is excluded. The largest part of investment expenses, excluding the effect of exchange differences, arose from interest expenses relating to the issued subordinated bond of Sava Re.

However, the effect of exchange differences does not fully impact profit or loss since liabilities denominated in a foreign currency move in line with investments in that currency. Exchange differences mainly relate to the assets and liabilities of Sava Re.

In 2021, net investment income relating to the Group's portfolio amounted to EUR 30.4 million, or EUR 26.0 million excluding the effect of exchange differences.

Investment income and expenses by type

EUR thousand	1 January – 31 December	
Type of income	2021	2020
Interest income	16,843	16,151
Gains on change in fair value FVTPL	1,302	2,539
Gains on disposal of FVTPL assets	2	0
Gains on disposal of other IFRS asset categories	7,784	4,907
Income from associate company	773	142
Income from dividends and shares – other investments	1,848	1,174
Exchange gains	4,416	0
Diverse other income	1,648	1,970
Other income from alternative funds	1,757	1,014
Income relating to the investment portfolio	36,372	27,897
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	68,719	23,044
Type of expense	2021	2020
Interest expenses	2,989	2,978
Losses on change in fair value of FVTPL assets	914	2,300
Losses on disposals of FVTPL assets	4	0
Losses on disposal of other IFRS asset categories	326	1,440
Impairment losses on subsidiaries and associates	0	567
Impairment losses on other investments	162	1,100
Exchange losses	0	4,794
Other	1,575	828
Other expenses for alternative funds	0	0
Expenses relating to the investment portfolio	5,971	14,007
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	0	0

Consolidated net inv. income of the investment portfolio

EUR thousand	2021	2020	Absolute change
Net investment income of the investment portfolio	30,401	13,890	16,511
Net investment income of the investment portfolio, excluding the effect of exchange differences	25,985	18,684	7,301

Net investment income by class of asset[11]

EUR thousand 2021	Interest income/ expenses	Change in fair value and gains or losses on disposal of FVTPL 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	Net unrealised gains/ losses on investments of life insurance that bears the investment risk	Income/expenses relating to associates and impairment losses on goodwill
Held to maturity	1,474	0	0	0	0	-3	-874	597	123	0
Debt instruments	1,474	0	0	0	0	-3	-874	597	123	0
At fair value through P/L	821	387	0	41	0	-2	-122	1,125	68,038	0
Designated to this category	821	387	0	41	0	-2	-122	1,125	68,038	0
Debt instruments	821	58	0	0	0	-2	0.313	878	65	0
Equity instruments	0	329	0	41	0	0	-1	368	67,973	0
Other investments	0	0	0	0	0	0	-121	-121	0	0
Available for sale	14,083	0	7,458	1,807	-162	3,927	1,688	28,801	563	773
Debt instruments	14,083	0	1,075	0	0	3,928	52	19,137	569	0
Equity instruments	0	0	6,383	1,784	-162	0	-120	7,884	-6	773
Investments in infrastructure funds	0	0	0	0	0	0	1,430	1,430	0	0
Investments in property funds	0	0	0	23	0	0	327	350	0	0
Loans and receivables	183	0	0	0	0	493	-5	671	-5	0
Debt instruments	345	0	0	0	0	1	-5	341	-5	0
Other investments	-162	0	0	0	0	492	0	330	0	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	24	0	0	0	0	0	0	24	0	0
Subordinated liabilities	-2,871	0	0	0	0	0	0	-2,871	0	0
Total	13,714	387	7,458	1,848	-162	4,416	688	28,347	68,719	773

11 Interest income and expenses in this table differ from those presented in the table "Investment income and expenses by type", because this table includes expenses for right-of-use assets (31 December 2021: EUR 139.5 thousand).

CONTENTS

Group net investment income totalled EUR 28.3 million in 2021. The largest items of Group net investment income are interest income of EUR 13.7 million and gains on disposal of investments of EUR 7.5 million. The large share of interest income is consistent with the composition of the Group's investment portfolio, which is dominated by debt instruments.

The Group discloses unrealised gains and losses on investments designated as available for sale in the fair value reserve line of the balance sheet. The following table shows the movement in the fair value reserve.

Fair value reserve

EUR	2021	2020
Balance as at 1 January	40,173	20,719
Change in fair value	-18,093	26,263
Transfer from fair value reserve to the IS due to disposal	-5,105	-2,247
Deferred tax	4,213	-4,562
Other reclassifications	60	0
Balance as at 31 December	21,247	40,173

In 2021, the fair value reserve decreased significantly compared to 2020. The main reason is the fall in the prices of debt securities and the sale of equity investments.

The Group held no securitised assets.

CONTENTS

A.4 Performance of other activities

Lease contracts

The Group earns a small part of its income from leases. It has operating lease arrangements for its real property. Leases are included in the investment property asset item, and rental income is recognised evenly over the lease term.

In 2021, the Group generated income of EUR 1.3 million by leasing out its investment property (2020: EUR 1.2 million). Maintenance costs associated with investment property are either included in the rent or charged to the lessee. Costs covered by the Group in 2021 totalled EUR 85 thousand (2020: EUR 123 thousand).

Material intra-Group business

The following tables show material intra-Group transactions. These include reinsurance business between the parent and its subsidiaries and dividend payments to the parent. Payables to Group companies are mainly short-term and not overdue at the balance sheet date.

Dividends received from subsidiaries in 2021 were significantly higher than in 2020, reflecting the lifting of regulators' recommendations to insurers, reinsurers and pension companies to postpone dividend payouts because of Covid-19-related impacts on business.

Income and expenses relating to Group companies

EUR thousand	2021	2020
Gross premiums written	77,960	84,890
Gross claims payments	-41,840	-34,802
Acquisition costs	-20,466	-18,349
Dividend income	50,418	2,590
Total	66,072	34,329

Investments in and amounts due from Group companies

EUR thousand	31 December 2021	31 December 2020
Debt securities and loans granted to Group companies	1,360	3,412
Receivables for premiums arising from accepted reinsurance	13,595	18,988
Total	14,955	22,400

Payables to Group companies

EUR thousand	31 December 2021	31 December 2020
Payables for shares in reinsurance claims due to Group companies	12,577	9,030
Other payables from co-insurance and reinsurance	3,129	4,880
Total (excl. provisions)	15,707	13,911

CONTENTS

A.5 Any other information

The Group has no other material information relating to its performance.

B. System of governance

CONTENTS

B.1 General information on the system of governance

B.1.1 Governance of the Sava Insurance Group

The management and supervisory bodies of the parent company are the Group bodies responsible for the proper management and supervision of the entire Group, and for setting up a governance framework appropriate to the structure, business and risks of the Group as a whole and of its members.

The management system selected by each Sava Insurance Group member is proportionate to the nature, scale and complexity of its business operations. Each Group company selects for itself a management system that is optimal for both the company and the Group. As a rule, Group members adopt a one-tier management system, provided this complies with local legislation and is appropriate to the nature, scale and complexity of each company's operations. The Group parent, Zavarovalnica Sava, Vita, Sava Pokojninska, Sava Infond and DCB operate on a two-tier management system.

The parent fully exercises its governance function by setting business strategy from the top down, taking into account both the Group as a whole as well as its individual members. In order to ensure optimal capital allocation and resilience of the Group against unforeseen events, capital allocation and capital adequacy are managed on the Group level following the top down principle.

The Group has set up a systematic risk management framework, including risk management at the level of individual companies, appropriate monitoring of the risks of individual companies by the parent as well as risk management at the Group level. The latter takes into account any interaction between the risks of individual companies, in particular risk concentration and other material risks associated with the operation of the Group. The risk strategy sets the risk appetite at both the Group and the individual company levels.

Management and supervisory bodies of Sava Insurance Group subsidiaries individually pursue the same values and corporate governance policies as the parent company, unless otherwise prescribed by law, the local regulator or the proportionality principle. Therefore, the management or supervisory bodies of each Group company, as part of their responsibility for the governance of their company with regard to the implementation of Group policies, ensure that all required adjustments to local legislation are made, as well as any other necessary adjustments. The companies determine which adjustments need to be made to Group policies in accordance with the procedures set out therein, ensuring compliance with applicable laws and regulations as well as with the rules of sound and prudent operation.

Supervision of individual Sava Insurance Group members

In order to ensure transparent and effective governance of Group subsidiaries, the parent company's subsidiary supervision is divided into the following three parts:

- governance supervision (through governing bodies),
- business function supervision (through heads of business functions),
- additional supervision (through key function holders).

Communication between Sava Insurance Group members

Twice yearly, Sava Re organises a Group strategic conference to discuss the strategic directions to be applied in the planning of operations of Group companies, enhancements of individual business functions and the current performance of each company. Thus, strategic conferences are aimed at improving communication on strategies and policies of the Group at the top management level.

The Group organises professional training relating to various business areas several times a year to unify the Group's business processes, transfer knowledge, and promote corporate culture and best practices.

B.1.2 Governing bodies

Apart from the general meeting, the governing bodies of individual Group members include a management body (management board, managing director or CEO) and a supervisory body (supervisory board, supervisory committee or board of directors), depending on the legislation and the selection of a one- or two-tier management system.

The governing bodies carry out their duties in accordance with the legislation of each country, company internal rules and in accordance with the general guidelines established by the governance policy and other Group framework policies, the Group's governance rules and its financial control rules.

General meeting of shareholders

The general meeting of shareholders is the supreme body of a company through which its shareholders exercise their rights in company matters.

The terms of reference of the general meeting of each company are determined in line with the legislation of each country and the company's articles of association. The terms of reference of the general meeting relate to three areas:

- personnel decisions (appointment and removal of members of the supervisory board, board of directors, supervisory board, granting of discharge to members of the management and supervisory bodies, vote of no confidence, appointment of the external auditor);
- business decisions (adoption of the annual report unless approved by the management or supervisory bodies, appropriation of distributable profit, consenting business decisions if specifically required by the management);
- fundamental decisions concerning the company (adopting and amending articles of association, increasing and decreasing share capital, winding up and transforming in terms of status).

General meetings of shareholders of Group members are generally convened at least once a year, at the latest within the time limit provided by local law. The general meeting may also be convened in other cases, as provided by local law, the Group member's articles of association, and whenever this is in the Group member's interest. As a rule, the general meeting is convened by the company's chief executive body. Local law stipulates the circumstances in which the general meeting may also be convened by other bodies of the company or the shareholders themselves.

Details on the convening of the general meeting of a Group member, shareholder rights regarding the general meeting, conditions for participating in the general meeting and the exercise of voting rights are set out in each country's local law and the Group member's articles of association and rules of procedure of the general meeting. Guidelines for preparing the general meeting of a Group subsidiary are provided in the Sava Insurance Group's control and supervision rules.

Supervisory body (supervisory board, board of directors, supervisory committee and similar)

In this section, the term supervisory board is used as a generic term for any supervisory body.

The rules applicable to a supervisory board in a two-tier system also apply to a board of directors or supervisory committee in a one-tier system, unless otherwise specified.

The supervisory board oversees the company's conduct of business during the financial year, in line with the company's business strategy and financial plan. In addition, it must comply with local law and the company's articles of association and other acts.

It meets at least five times a year, generally after the end of each quarter to review the annual and interim financial reports, while one session is devoted to the approval of planning documents. The board of directors and supervisory committee in companies with a one-tier system generally meet more frequently. The supervisory board annually prepares a meeting schedule for its own use and for its committees, including in particular those meetings that are obligatory due to the required publication of business results or are standard procedure with regard to past practices.

CONTENTS

The number of supervisory board members must meet the minimum requirements stipulated by local law. This number must be proportionate to the nature, scale and complexity of the business of each company. The supervisory board is composed so as to ensure responsible oversight and decision-making in the best interest of the company.

When composing the supervisory board, each Group company seeks to take 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.

The rules of procedure of the supervisory board are set out in internal acts of individual companies.

The supervisory board of Sava Re in 2021
In 2021, there were changes in the composition of the Sava Re supervisory board.

All changes in the composition of the supervisory board in 2021 are disclosed in detail in the Group's annual report for 2021, section 4 "Report of the supervisory board".

The following tables show the composition of the supervisory board of the Group's parent company in 2021.

Composition of the supervisory board in 2021 (until 16 July 2021)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	16 July 2017	16 July 2021
Keith William Morris	deputy chair	16 July 2017	16 July 2021
Davor Ivan Gjivoje Jr*	member	8 March 2021	08 March 2025
Andrej Kren	member	16 July 2017	16 July 2021
Andrej Gorazd Kunstek	member, employee representative	12 June 2019	12 June 2023
Mateja Živec	member, employee representative	12 June 2019	31 December 2021

* Davor Ivan Gjivoje started his four-year term of office on 8 March 2021.

Composition of the supervisory board in 2021 (from 17 July 2021)

Member	Title	Beginning of term of office	Duration of term of office
Davor Ivan Gjivoje Jr	chairman	8 March 2021	8 March 2025
Keith William Morris	deputy chair	17 July 2021	17 July 2025
Klemen Babnik	member	17 July 2021	17 July 2025
Matej Gomboši	member	17 July 2021	17 July 2025
Andrej Gorazd Kunstek	member, employee representative	12 June 2019	12 June 2023
Mateja Živec	member, employee representative	12 June 2019	31 December 2021

Events after the reporting date
Mateja Živec concluded her term of office on 31 December 2021 after resigning as a supervisory board member. In her place, the Sava Re workers' council appointed Edita Rituper for a term of office spanning from 1 January 2022 to 12 June 2023.

CONTENTS

Supervisory board committees

In accordance with the law, the code and best practices, the supervisory board of any Group company may appoint one or more committees or commissions, tasking them with specific areas, the analysis of specific questions, the preparation of draft resolutions of the supervisory board and the implementation of resolutions of the supervisory board, whereby such committees provide professional support. Notwithstanding the appointment of any committee, decision-making remains the responsibility of the supervisory board.

Sava Re has established the following supervisory board committees:

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

The chief tasks and the composition of the individual committees of the supervisory board are set out in detail in the "Solvency and financial condition report of Sava Re d.d. for 2021" (hereinafter: the Sava Re 2021 SFCR) in section B.1.1 "Governing bodies".

The areas of responsibility and the composition of supervisory board committees are determined by a special resolution in compliance with applicable regulations, the recommendations of the Corporate Governance Code for Listed Companies and the company's internal acts.

Each committee may adopt its own rules of procedure. Unless it has adopted its own rules of procedure, the rules of procedure of the supervisory board apply together with any necessary conforming changes, for any questions regarding the quorum, decision-making and other points of procedure.

Management body (management board, managing director, executive director)

In this section, the term management board is used as a generic term for any management body.

The rules established for the management board in a two-tier system also apply to the managing directors and executive director in a one-tier system, unless otherwise specified.

The management board provides leadership to and represents the company in its legal transactions. Through its efforts and using its knowledge and experience, the management board pursues the long-term success of the company, ensuring optimal leadership and risk management. The management board defines the company's goals, values, mission, vision and business strategy. Business operations are optimised through an adequate composition of human resources and prudent use of financial resources. This is done in compliance with local law and the company's articles of association and other acts.

As a rule, the management boards of individual Group companies consist of several members in order to ensure that decisions taken are for the benefit of the company and that board members work towards the company's goals in a prudent and responsible manner. The number of members is proportionate to the nature, scale and complexity of each company's business, while there must be clearly determined terms of reference of board members as well as an adequate delimitation of responsibilities. Where local legislation allows for a single-member management board, the company must observe the four-eye principle in decision-making. When designing the management board, each company seeks to take 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 conduct of the company's business. The terms of reference of individual management board members and the operation of multi-member bodies are governed by internal acts of individual companies (act on the management board / rules of procedure of the management board).

The management board is committed to high ethical standards and considers the interests of all stakeholder groups.

The terms of reference of individual management board members and the operation of multi-member bodies are governed by internal acts of individual companies (act on the management board / rules of procedure of the management board).

The management board of each Group company reports periodically (at least quarterly) to the company's 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.

CONTENTS

Sava Re management board in 2021

In 2021, there were no changes in the composition of the management board.

In 2021, the management board of the Group's parent comprised the following members: Marko Jazbec (chair), Jošt Dolničar, Polona Pirš Zupančič and Peter Skvarča.

The average age of the members of the management board is 48. All management board members are citizens of the Republic of Slovenia.

Due to his appointment to the management board of the subsidiary Zavarovalnica Sava on 30 December 2021, Jošt Dolničar has tendered his resignation as a member of the management board of Sava Re, effective as of the date of obtaining the licence to act as a member of the management board of Zavarovalnica Sava, but not earlier than 5 May 2022.

Composition of the management board in 2021

Full name	Marko Jazbec	Jošt Dolničar	Polona Pirš Zupančič	Peter Skvarča
Function	chair	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 • modelling	• management of strategic investments in direct insurance subsidiaries carrying on non-life, life and pension business • information technology • innovation	• corporate finance • controlling • accounting • investor relations • risk management and asset-liability management • actuarial affairs	• development of reinsurance and reinsurance underwriting, Group & non-Group • reinsurance protection • retrocession, Group & non-Group • development of reinsurance processes and technology • reinsurance technical accounting
First appointed	12 May 2017, new term of office 13 May 2022	31 December 2008	14 January 2018	19 June 2020
End of term of office	13 May 2027	5 May 2022	14 January 2023	19 June 2025

At the session of 7 October 2021, the Sava Re supervisory board reappointed Marko Jazbec as the chairman of the management board for a further term. The new five-year term starts on 13 May 2022.

CONTENTS

B.1.3 Risk management

The risk management system is one of the key building blocks of the system of governance. The management of the Group's parent company as well as of each Group member must ensure that both the Group as a whole and each individual company have in place an effective risk management system based on an appropriate organisational structure. This takes into account the scope, nature and complexity of the risks to which the Group or individual companies are exposed.

For more details on Group risk management, see section B3 "Risk management system including the own risk and solvency assessment" of this report.

B.1.4 Key functions of the risk management system

At the Group level, the parent has established four functions defined by applicable law as key functions of the risk management system (hereinafter: key functions): the actuarial function, risk management function, compliance function and internal audit function. Key functions are integrated in the Group's system of governance and generally also perform the role of the parent's key function, in addition to their key function role on the Group level. Accordingly, they have access to all information, data and reports required for the smooth performance of their duties.

The parent company has organised these key functions as services of the risk management system that report directly to the management board and are involved in decision-making processes.

The chief tasks of a key function holder at the Group level are:

- coordinating the development of a Group-wide uniform methodology for key functions of Group companies;
- ensuring the development of appropriate framework policies for individual key functions and professional guidelines for the adoption of area-specific operational rules in Group companies;
- ensuring strict Group-wide application of uniform standards by the relevant key function;
- coordinating and implementing joint tasks and projects;
- providing guidance and overseeing the operations of the relevant key function at all Group companies (coordinating planning activities and reviewing reports of Group companies);
- arranging professional development and the exchange of good practices among the relevant key functions in the Group;
- coordinating the preparation and adoption of policies and rules on the parent company level and between the parent company and Group subsidiaries in case of the compliance key function holder at the Group level.

With due regard for the proportionality principle, the risk management system of individual Group companies has key functions integrated into the organisational structure and decision-making processes. The key functions discharge their duties independently from each other and from other organisational units of the company. The key functions directly report to the management board. Where any key function is carried out by an independent organisational unit, the key function holder must be ensured direct access to the management board.

The key functions are integrated into the organisational structure and decision-making processes to strengthen the three-lines-of-defence framework of the Group's risk management system, as described in section B.3.1 "Risk management organisation". All four key functions cooperate closely with each other, regularly exchanging information they need for their functioning.

As a rule, key function holders must not both perform and oversee the same tasks. Processes must be organised so as to allow separate operation of individual lines of defence. Key function holders must not be members of the supervisory board or of any of its committees of any Group company in order to minimise potential conflicts of interest. Key function holders must immediately report any potential conflict of interest to the management board.

If, in accordance with the proportionality principle, key functions are assigned additional activities and tasks, there must be in place appropriate internal measures and mechanisms for managing any potential conflicts of interest arising from such activities of a key function. Measures and mechanisms for avoiding situations potentially leading to conflicts of interest are detailed in the internal regulations governing the operation of individual key functions.

Notwithstanding the organisational position of any key function within a company, these must be directly integrated in the Group's framework of key functions. This establishes a direct link between the key function of a subsidiary and the Group, providing for direct flow of information between the second and third lines of defence, ensuring comprehensive and consistent compliance risk management across the Group.

Role of individual key functions

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

The operation of the risk management function is discussed in detail in section B.3.1 "Risk management organisation", the operation of the actuarial function in section B.6 "Actuarial function", the operation of the compliance monitoring function in section B.4.2 "Compliance function", and the operation of the internal audit function in section B.5 "Internal audit function".

Reporting by key function holders

Key function holders of each Group subsidiary report in two directions, namely to:

- management or supervisory bodies of the company and, if so provided, to the audit or risk committees;
- sectoral committees if so required by national law or company-internal regulations;
- the relevant key function holder at the Group level.

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

Cooperation among key function holders

Key function holders at the Group and parent company levels meet regularly, as a general rule once a month, to exchange opinions, discuss topical issues and specifics of the business in the current period. They also harmonise the various annual work plans of the key function holders they are required to draw up under the applicable legislation or internal acts. In addition, they exchange findings from individual audit reviews, findings and recommendations from the areas of work covered by each key function holder, and discuss the annual or other reports on the work of each key function holder. In accordance with the applicable legislation and internal acts, they report on findings and follow up on recommendations to management and supervisory bodies.

Annually, the Group key function holders at the Group and parent company levels issue a joint statement that they have undertaken, with due care and in accordance with the rules of the profession, activities to ensure that all key risks that the Group is or could be exposed to in the course of its business operations, are monitored and that the risk management system is effective.

B.1.5 Committees in the governance system

The management board of the parent company may, by its decision, set up committees that cover both the Group level and the parent company. In addition, the management board of any Group subsidiary may, if necessary, establish a committee by passing a resolution. Committees have an advisory role. They 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 system of governance of the Group and individual Group companies. They deal with issues from areas, such as: risk management, asset and liability management, actuarial affairs, data quality management, information security, internal audit and remuneration.

The terms of reference, powers and composition of committees are set out in internal regulations adopted by the management board of the company that established the committee.

Sava Re has set up these committees at the Group level:

- the risk management committee and
- the actuarial committee.

The chief tasks of the individual committees of the supervisory board are set out in detail in the Sava Re 2021 SFCR, section B.1.5 "Committees of the governance system".

B.1.6 Information about the remuneration policy

The Sava Insurance Group remuneration policy lays down the framework for the planning, implementation and monitoring of remuneration systems and schemes that support the Group's long-term strategy and risk management policy.

The remuneration policy applies to Sava Re and is recommended guidance to other Group companies for all employees at all organisational levels: management bodies, senior and lower management, key function holders and other employees.

The 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 of and adapting to market trends and practices,
- sustainable pay for sustainable performance,
- employee motivation and retention.

Group companies follow the following guidelines in the designing of remuneration systems and schemes:
- designing of a balanced remuneration structure,
- establishing a direct link between pay and performance,
- adopting a multi-annual approach to performance evaluation and establishing a link between performance-based pay and sustainable business performance,
- ensuring that the incentive system remains compliant with its mechanisms, organisational processes and with the rewarded activities and behaviour.

It is recommended that Group companies design a remuneration structure encompassing:
- a base salary,
- performance-based pay,
- other benefits and incentives,
- remuneration upon termination of the employment contract.

The **base salary** is laid down based on the employee's role and position, taking into account professional experience, responsibilities, complexity of the job and the situation on the local labour market. The range of base salaries for individual positions is laid down in the internal regulations of individual companies.

Performance-based pay 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. Performance-based pay is intended to motivate and reward the most successful employees who significantly contribute to the achievement of sustainable performance, meet or exceed the agreed objectives, strengthen long-term relationships with clients and generate income. Individual performance-based pay depends on the attainment of predefined individual goals and other tasks in a manner consistent with expected behaviours and competencies. Business performance-based pay depends on a performance indicator or a combination of performance indicators of the company and/or the Group. As a rule, performance-based pay may range from 0% to 30% of total annual remuneration, except for direct sales jobs, where the major part of remuneration is linked to sales performance. However, in order for performance-based pay to be paid out, a company's financial position must not fall below a certain threshold. The system is flexible and includes the option of not paying out any performance-based pay.

The performance-based pay system and scheme for the management board is considered and approved by the supervisory board. Performance-based pay for the management board is based on the achievement of the goals and performance of the company as a whole or the Group of which it is a part.

The composition and level of performance-based pay for all position levels is laid down in each Group company's internal regulations.

The types and level of potential **additional benefits and incentives** are laid down in each company's internal regulations. Employees may join collective supplementary pension saving schemes.

Additional **remuneration upon termination** of an employment contract (other than prescribed by law and the employment contract – termination benefits) is based on the achievement of long-term goals. Provision has been made that no additional remuneration is paid out if goals have not been achieved.

As a rule, Group companies grant loans to neither their employees nor members of the management or supervisory boards; accordingly, there were no such transactions in 2021.

The Group companies run no share option schemes.

The Group companies run no additional pension schemes.

CONTENTS

B.1.7 Related-party transactions

All transactions among Group companies are carried out at arm's length, to a limited extent by refunding expenses incurred in rendering services. Group companies take turns in taking the role of service provider and service user within the Group in order to enhance the effectiveness of the Group as a whole.

As part of the annual functional analysis, risks identified and resources expended are used to determine risks assumed by individual functions implemented for the sake of subsidiary governance. Functions implemented by the parent company mainly include strategy setting, coordination, monitoring or controlling, and analysis, which are services normally not charged.

Governance and business functions relating to the governance and supervision of the Group and its related companies are generally not invoiced.

Operational transactions that are considered in terms of related-party transactions are charged using the comparable uncontrolled price method based on internal or external comparisons, however, to a very small extent by refunding expenses incurred in rendering services.

The system of related-party transactions is set out in detail in the internal transfer pricing rules. In accordance with OECD guidelines on setting transfer prices, Slovenian tax procedure law, corporate income tax law and internal transfer pricing rules, each Group company subject to reporting must annually prepare a transfer pricing report (general documentation) and a transfer pricing report (special documentation), presenting in detail all transaction with related parties, the methodology of setting transfer prices, comparability analyses of transactions and other content as required by the above regulations.

Material related-party transactions

The following list of material related-party transactions concerns related parties, which comprise:

- owners and related undertakings;
- key management personnel: the members of the management board and supervisory boards, including the members of its committees, and employees not subject to the tariff section of the collective agreement,
- subsidiaries and associates.

In 2021, significant transactions included:

- 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 4.4 million (2020: EUR 3.2 million)[12] and
- loans granted to subsidiaries of EUR 1.4 million as at 31 December 2021 (2020: EUR 3.4 million).

In 2021, the parent company paid out EUR 13.2 million in dividends (in 2020, it did not pay any dividends in line with the recommendation of the Slovenian Insurance Supervision Agency regarding potential negative impacts of the Covid-19 pandemic on operations). All related-party transactions are set out in detail in the Group's annual report for 2021, in section 17.10 "Related party disclosures".

12 This disclosure relates to the parent, Sava Re.

CONTENTS

B.2 Fit and proper requirements

In accordance with the law, Group companies ensure that persons who effectively run and oversee the business are properly qualified (fit) and suitable (proper) for doing so in a professional manner. To this end, the companies conducts fit and proper assessments of their personnel: management and supervisory board members, members of the supervisory board's committees, key managers, key function holders and personnel overseeing individual 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, the relevant personnel is also required to demonstrate they enjoy 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 their character, personal behaviour and business conduct, including any criminal, financial and supervision aspects, irrespective of the jurisdiction.

Relevant personnel is subject to the reporting duty regarding any new facts or circumstances, or changes to information submitted in the initial suitability assessment. The body responsible for fit and proper assessment (fit and proper committee of relevant composition) assesses whether the new facts and changed circumstances or information are of such a nature as to require a fit and proper reassessment.

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

In 2021, the EU-based Group companies carried out full fit and proper assessment procedures for their new relevant personnel as well as an annual review based on annual statements for persons already assessed.

B.2.1 Fitness requirements for relevant personnel

Supervisory body and its committees

The knowledge acquired through education and experience is to be considered in assessing the fitness of members of a Group company's supervisory body and its committees. These requirements are considered in fitness assessments:

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

The supervisory body is composed so as to ensure responsible oversight and decision-making in the best interest of the company or the Group. Members are selected so that their professional expertise, experience and skills are complementary to other members of the supervisory body. The supervisory body, 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.

The management body

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

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

CONTENTS

The management body, viewed as a whole, must have sufficient expertise. Its members must have relevant experience and knowledge of the above-mentioned areas, depending on their specific area of responsibility. Individual members of the management 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 in that area.

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 the knowledge acquired through education and work experience. The assessment is then made based on assigned responsibilities for each key function. These requirements are considered in fitness assessments:

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

Other relevant personnel (other key management and persons overseeing outsourced activities)

The knowledge acquired through education and work experience is to be considered in assessing the fitness of the members of the Company's other relevant personnel. Based on this, the fitness assessment is made considering assigned responsibilities for certain areas. The following requirements are considered in the fitness assessment:

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

B.2.2 Suitability requirements for relevant personnel

Personal reliability and reputation

To ensure the sound and prudent management of a Group company and the Group, relevant personnel must have the appropriate qualifications (fit), be of good repute and demonstrate through their actions high standards of integrity (proper). 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 as to suitability are harmful to the reputation of both the relevant person and consequently the company and the Group.

Personal reliability and good repute is 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 the business relations. Any relevant person who experiences a conflict of interest in their work must disclose such conflict of interest and continue acting in the interests of the company or the Group. Unless possible, such a person must inform the company's management or the supervisory body, if a conflict of interest is experienced by a member of either the management or supervisory body.

Time input

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

B.2.3 Procedure for fit and proper assessment

The fit & proper assessment procedure is conducted by a special committee set up according to an internal framework document. During the assessment of relevant personnel, the company's human resources function assists with the performance of operational tasks, such as the obtaining, sending, processing and storing of documents, and issuing of the assessment results.

The committees conduct fit and proper assessments and issue relevant results based on compiled documents and statements. Based on assessments so 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.

CONTENTS

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

The parent company's management is aware that risk management is key to achieving operational and strategic objectives and to ensuring its long-term solvency. Therefore, the Group is continuously upgrading its risk management system at both the Group company and Group levels.

The Group companies' strong risk culture and awareness of the risks to which they are exposed is essential to the security and financial soundness of the companies and the Group as a whole. In order to establish good risk management practices, the Group promotes a risk management culture with appropriately defined remuneration for employees, employee training, and relevant internal information flow at the individual company and Group levels.

The Sava Insurance Group has in place a risk strategy that defines the Group's 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, individual Group companies set up their own risk strategies and policies, taking into account their specificities and the local legislation. The adequacy of the risk strategy and policies is examined on a regular basis.

The risk management system both in individual Group companies and at the Group level is subject to continuous improvements. Particular attention is paid to:

- clearly-expressed risk appetite in the framework of the risk strategy and on this basis also operational limits;
- the development of own risk assessment models and upgrading of the ORSA;
- integration of the ORSA and risk strategy in the framework of business planning and shaping of the business strategy;
- integration of risk management processes into business processes;
- setting up appropriate risk management standards in all Group companies, taking into consideration the scale, nature and complexity of operations and related risks.

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 Sava Re management board and the management board of each individual subsidiary. To ensure efficient risk management, the Group 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, marketing and insurance management, provision of insurance 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, if set up in the company.
- The third line of defence consists of the internal audit function.

The Group's risk management system has been set up based on the top down principle, taking into account the specificities of each individual company.

The **supervisory board** of each individual company approves the risk strategy, risk management policy and grants consent to 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 within the supervisory board of the parent company to provide relevant expertise and support in the risk management process in the Company and in the Group.

The **management board** of each company 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:

- designing a risk strategy and approving risk tolerance limits and operational limits,
- adopting policies governing the risk management system,
- implementing effective risk management processes,
- monitoring of operations in terms of risk and ensuring that risks are considered in decision-making,
- appointing of key function holders.

The **first line of defence** of each individual Group company involves all company employees responsible for ensuring that operational tasks are performed in a manner that reduces or eliminates risks. Additionally, risk owners are responsible for monitoring and assessing individual risks listed in the risk register. Line managers are responsible for ensuring that processes for which they are responsible are performed while minimising risks appropriately, and that the framework laid down in the risk strategy is observed. 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 Group's and each individual company's **second line of defence** comprises three key functions: the actuarial function, risk management function and compliance function. In addition, the Group's large members have in place a risk management committee. The members of the risk management committee and key function holders are appointed by the management board; the appointment of key function holder requires the consent of the supervisory board. Each individual company ensures the independence of the key functions, which are organised as services of the risk management system and report directly to the 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 responsibilities of the risk management function are summarised later in this section; those of the other key functions constituting the risk management system are set out in sections B.4.2 "Compliance function", B.5 "Internal audit function" and B.6 "Actuarial function" of this report.

The **risk management function** of each individual company is mainly responsible for setting up an effective risk management framework and for coordinating risk management processes already in place. It is involved in all stages of identification, assessment, monitoring, management and reporting of risks. It is also involved in the preparation of the risk strategy and the setting of risk tolerance limits. The risk management function of each company periodically reports to the risk management committee (if set up in the company), the management and supervisory boards, the risk committee (at Sava Re) and to the Group's risk management function. It works in cooperation with the latter on an ongoing basis. 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). Details on the company or Group-level risk management function holder's duties, terms of reference, responsibilities and powers, foreseen operational procedures, obligations, time limits and reporting distribution lists are set out in the risk management policy of the company or the Group.

Apart from the key functions, some companies' second line of defence includes a **risk management committee**. The Sava Re risk management committee is also responsible for the Group level. 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 the committee meetings. The committee is primarily responsible for monitoring the risk profiles of the Group and individual companies, analysing risk reports and issuing recommendations to the management board.

The **third line of defence** consists of the internal audit function. The internal audit function of Zavarovalnica Sava, Sava Pokojninska, Sava Infond and, since 22 January 2021, Vita has been outsourced to Sava Re, whereas the other companies have their own internal audit functions. The internal audit function operates at the individual company and Group levels completely independently of business operations 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.

Good practices from Sava Re's risk management model and the organisation of risk management are also transferred to other Group companies.

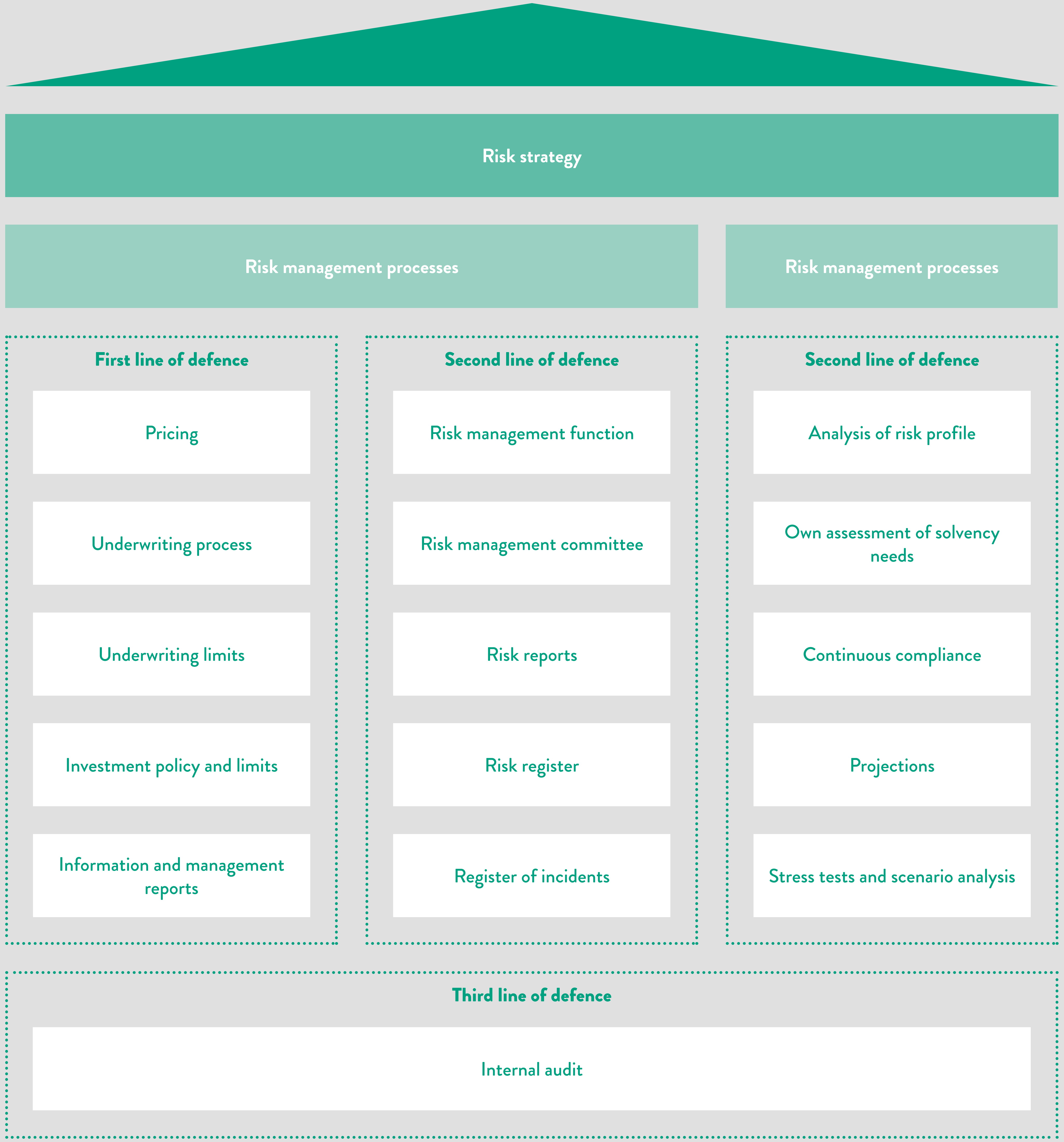
B.3.2 Components of the risk management system

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 Group's risk management system is presented in the following diagram.

CONTENTS



Risk strategy

The Group seeks to operate in compliance with its business strategy and meet the key strategic objectives while maintaining an adequate capital level. For this purpose, in 2019, the Sava Re management board approved the risk strategy for 2020–2022 with the consent of the Company's supervisory board. Due to the Covid-19-related developments and Vita's inclusion in the Group, a revised strategic plan for the period 2020–2022 was approved in August 2020. In accordance with the revised strategic plan, a revised risk strategy for the Sava Insurance Group for 2020–2022 was prepared. The Group's risk strategy defines:

- the risk appetite,
- key risk indicators,
- risk tolerance limits.

The key areas that risk appetite is based on are:

- the solvency ratio,
- the profitability of operating segments,
- the volatility of operating results by operating segment, and
- liquidity indicators.

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

CONTENTS

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

Individual Group companies set operational limits, such as (re)insurance underwriting limits and investment limits, in order to ensure that the activities of the first line of defence are carried out in accordance with the set risk appetite. In addition, each Group company ensures that it has in place well-defined and established escalation paths and management actions in the case of any breach of operational limits.

For periodic monitoring of compliance with the risk strategy, individual Group companies and the Group define a minimum set of risk measures for each risk category to allow for monitoring of the Group's and each Group company's current risk profile and capital position. These risk measures are regularly monitored at the Group and individual company levels.

Risk management processes

Risk management processes are inherently connected with and incorporated into the basic processes conducted at the individual company and Group levels. All organisational units are involved in 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 management processes are incorporated into all three lines of defence. The roles of individual lines of defence are 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.

Risk identification

In the process of risk identification, each individual Group company identifies the risks to which it is exposed. The key risks are listed in each individual company's risk register and make up its risk profile. The set of key risks is regularly reviewed and new risks are added if necessary. Risk identification at the Group level is conducted in the same way.

Risk identification in individual companies is both a top-down and a bottom-up process. The top-down risk identification process is conducted by the risk management function, the risk management committee (if set up) and the management board of each Group company. Such identification of new and emerging risks is based on monitoring of the legal and business environment, market developments and trends, and expert knowledge; this process is mainly used with strategic risks, such as reputational risk and regulatory risk.

Bottom-up risk identification takes place in individual organisational units and with risk owners (first line of defence). The Group's or Group company's risk thus identified is categorised and incorporated into the relevant monitoring, measuring, managing and reporting processes. Group companies maintain registers of incidents to identify emerging risks, especially operational.

Risk identification is performed on an ongoing basis, for major projects and business initiatives, such as the launch of a new product, investment in a new asset class or an acquisition. In addition, Group companies and the Group annually conduct a review of their entire risk register.

Risk assessment

The Group has in place regular risk assessment (measurement) processes for all the risks to which individual companies or the Group are exposed. Both qualitative and quantitative methods are used to measure risk. A modelling centre operates at the Group level to develop quantitative risk assessment models for the entire Group.

The Group thus measures risk by:

- using the Solvency II Standard Formula,
- calculating the assessment of overall solvency needs as part of its own risk and solvency assessment (ORSA),
- conducting sensitivity analyses 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.

CONTENTS

Risk management

The management board of each Group company 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 relevant company conducts an analysis of the measure in terms of economic and financial viability. Elimination or mitigation of individual 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 all of its implications.

For the purpose of capital adequacy, Group companies and the Group examine, as early as in the business planning process, the impact of the business strategy on its capital position, both with regard to the regulator as well as with regard to the ORSA. If, during a financial year, decisions are taken 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 a business decision could have a significant impact also on the Group's risk profile, such impact on the Group's risk profile and capital adequacy is also assessed. 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 monitoring

Risk monitoring is conducted at several levels: at the level of individual organisational units and risk owners, the risk management department, the risk management committee (if set up), and the management and supervisory boards. In addition, each Group company's risk profile is monitored at the Group level in terms of impact on the Group's risk profile. A standard set of risk measures is defined for risk monitoring and is regularly monitored by Group companies. Both risks and risk management measures are subject to monitoring and control. Adverse events and the implementation of relevant corrective measures to prevent the recurrence of an individual event are also monitored.

Risk reporting

Regular risk reporting has been set up by most Group companies and at the Group level. 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 risk profile of the Group or an individual company. The report is first discussed by the company's risk management committee (if the company has one), followed by the management and supervisory boards. The report is sent by the company's risk management function to the Group's risk management function.

Own Risk and Solvency Assessment (ORSA)

In addition to the mentioned risk management processes, the Group 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 Group's risk profile and the assumptions of the Standard Formula, the own assessment of solvency needs, capital adequacy projections, sensitivity analyses and scenarios, and the establishment of the link between the risk profile and capital management. We conduct the ORSA to assess all material risks, whether quantifiable or not, that may have an impact on the operations of the Group or a Group company from either an economic or a regulatory perspective. ORSA is conducted by all Group companies subject to Solvency II and, to a limited extent, by some other insurance companies. The ORSA process is coordinated at the Group level for all the EU-based Group insurers and for the Group.

The Group ORSA is prepared based on the Group's business and strategic plans, taking also 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. Throughout the ORSA, the parent company's management board is actively involved in the process: it confirms the technical bases, reviews and challenges the Group ORSA before giving its formal approval.

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 ORSE results, we also check the compliance of the business strategy with the risk strategy. This establishes the 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 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 Group calculates the SCR and makes Solvency II valuations for items of the balance sheet and eligible own funds for the term of the business and strategic plans. Based on projections, continuous compliance with the regulatory requirements regarding capital and technical provisions is reviewed. In addition, compliance with the risk strategy is reviewed.

Based on the results of the suitability analysis of the Standard Formula for the Group's risk profile, the Group then uses its own solvency model to conduct an own risk and solvency assessment for a further three-year period and makes a qualitative or quantitative assessment of the risks that are not captures by the Standard Formula. The ORSA process also involves sensitivity and scenario analyses relevant to the Group given its current and planned risk profile.

The Group generally conducts the full ORSA annually. The joint ORSA report is prepared based on calculations and covers the Group ORSA as well as the ORSA of other companies subject to Solvency II. The report is considered by the Group's risk management committee and confirmed by the Sava Re management board; it is also considered by the supervisory board's risk committee, and the Sava Re supervisory board takes note of it. However, in the case of a major change in the risk profile or eligible own funds that has not been anticipated in the business plan, an ad hoc ORSO is conducted. The Group reports (at least) annually to the regulator on the ORSA. After the results are approved, they are also circulated to all the Sava Re heads of organisational units.

The ORSA is subject to continuous improvement with regard to both risk assessment and ORSA integration into the Group's ongoing processes, especially into business decision-making.

CONTENTS

B.4 Internal control system

B.4.1 Internal control system

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

It is vital that employees understand the importance of internal controls and are actively involved 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 are presented to all employees in plain language and are clearly stated in documents available to all employees.

The Group's internal control system is defined in the internal control policy 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 Group's system of internal controls as part of the Group's system of corporate governance.

In 2021, the parent company carried out the regular annual review of its register of internal controls, whereas internal controls for risk mitigation as part of the risk register are assessed quarterly or annually (depending on individual risks) at the individual company and Group levels. In addition, a register of incidents is used for improving the internal control system. In 2021, the register of incidents has also been introduced in subsidiaries as part of upgrading the internal control system. In 2021, the parent continued monitoring improvements made to key processes. We reviewed the improvements made to key processes and the internal controls put in place, designing further improvements to these internal controls.

B.4.2 Compliance function

The compliance function at the Group and individual company levels is one of the four key functions constituting the risk management system. The compliance function, being an internal control function, is part of the second line of defence in the risk management system consisting of three lines of defence. Its main duty is to manage the risks arising from non-compliance with the law. As a rule, it is an independent organisational unit, functionally and organisationally separate from other business functions of the company and reports directly to the management board. The Group's compliance function is organised as part of the parent's "Office of the management board and compliance" department. 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 acting as compliance function holder.

The compliance function holders of Group companies are authorised by the company's management board with the consent of the supervisory board.

The chief duties of the compliance function holder 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, 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 the 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;
- 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);
- draft an annual compliance monitoring plan covering the identification and assessment of the main compliance risks that the company faces, coordinate it with the compliance function holder at the Group level, and submit it to the management and supervisory bodies;
- prepare periodic reports for submission to the company's management and supervisory bodies, as well as to the compliance function holder at the Group level;
- draw up reports on findings related to individual compliance audits, submitting them to the company's management body;
- monitors the implementation of the compliance policy, reviewing it periodically and proposing amendments if necessary.

CONTENTS

B.5 Internal audit function

Internal auditing in the Group companies is carried out by independent internal audit units, which report to the management board and are functionally and organisationally separate from other organisational units. Their organisational position ensures autonomy and independence of operation.

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 and Sava Pokojninska. In 2019, Sava Re signed a contract – in compliance with the Investment Funds and Management Companies Act (ZISDU-3[13]) – with Sava Infond, under which the latter transferred the performance of the internal audit key function to Sava Re as of 1 January 2020, for an indefinite period. Pursuant to the Insurance Act, in January 2021, Sava Re concluded an outsourcing agreement with Vita, under which, on 22 January 2021, the latter transferred the performance of the key function of its internal audit to Sava Re for an indefinite period.

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

The chief responsibilities of the internal audit are to:

- set up a risk-based, permanent and comprehensive supervision of the Company's or Group'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 or the Group;
  - business and financial efficiency, including the safeguarding of 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 information technology of the Company or the Group supports and furthers their strategies and goals;
- assess fraud risk and the procedures for its management in the Company or Group (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 of Sava Re and the Group has been appointed by the Sava Re 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.

13 Slovenian Investment Funds and Management Companies Act (Zakon o investicijskih skladih in družbah za upravljanje).

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.

The internal audit department of the parent company provides guidance for a unified methodology for all the Group's internal audit functions, coordinates their work and drives the development of a unified methodology of work, supervising the quality of work of internal audit functions across the Group. Internal audit in the Group follows uniform procedures as laid down by the standards set out in the internal methodologic instructions on the operation of internal audit departments. In 2021, the Group Internal Audit was introduced in the Sava Insurance Group for all Group members. This improved periodic monitoring of the development and quality of internal audit functions at subsidiaries, providing also the basis for issuing overall opinions of the effectiveness and efficiency of internal controls and risk management at the company and Group levels.

In accordance with the Group's corporate governance policy, the internal audit function of the parent company also ensures the inclusion of subsidiary companies in the scope of operations in order to ensure the coverage of key risks at the Group level (also if internal auditing is set up in the subsidiary).

The parent company's internal audit department performs its function at the Group level in several ways:

- keeping up with novelties and changes in the legislation and standards, and ensuring that changes are incorporated into internal acts governing internal audit;
- providing expert assistance for amending the methodology and other policies in the field of internal auditing;
- coordinating the preparation of internal audit function annual work plans and strategies of operation in the form of joint workshops;
- performing internal audits in subsidiaries based on assessed key risks of the Group;
- collaborating in complex audit engagements in subsidiaries if so agreed with the subsidiary;
- providing professional assistance in the preparation of operational plans for the implementation of individual internal audit engagements for specific functions;
- providing joint training to the Group's internal auditors;
- organising periodic meetings of the Group's internal auditors;
- implementing quality assessments of subsidiary internal audit functions.

Internal auditors of the parent company may perform independent audits in Group subsidiaries or non-standard audits on the basis of risks as assessed by the parent company of the Group, or participate in certain more complex audit engagements in subsidiaries. The annual plan of the parent company includes proposals of audit engagements based on key Group risks to be performed by the parent's internal audit in any subsidiary. Furthermore, in terms of the Group Internal Audit, the annual plan of the parent includes a detailed review of audit engagements planned by subsidiaries.

The internal audit annual report of the parent company provides an overview of the findings of the internal audit functions of each individual Group company.

CONTENTS

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 later in this section. Actuarial function performers are employed in actuarial function areas as part of the actuarial departments of Group companies. They also perform first-line-of-defence actuarial tasks. As the actuarial function is part of the second line of defence of the risk management system, it is organised in a way that prevents any one person from both performing (first line) and controlling (second line) the same tasks.

The company's actuarial function holder is responsible for carrying out the actuarial function. Composite insurers and the Group may appoint separate actuarial function holders for non-life, life and health insurance business. The Group's actuarial function coordinates the activities of the Sava Insurance Group's actuarial function and is responsible for the development of a uniform methodology. The parent company's actuarial function holder also performs the role of the Groups' actuarial function holder for non-life business.

The actuarial function holders of Group members serve on the Group's actuarial committee. Among other things, this committee adopts decisions in the form of proposals and recommendations for the management board of Sava Re, 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 Group's actuarial function policy. The members of the actuarial committee have a responsibility towards individual companies for communicating information about relevant arrangements to relevant parts of the company.

The chief tasks of the actuarial function of each individual Group company 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 the calculation of technical provisions so that they reflect key risks and are sufficiently stable;
- assess the sufficiency and quality of the data used in the calculation of technical provisions and provide recommendations on how to best 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;
- oversee the use of approximations in the calculation of best estimate Solvency II 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 for underwriting risk and the conduct 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 and providing recommendations for their elimination.

The chief tasks of the Group's actuarial function are to:

- carry out the above-listed tasks as appropriate at the Group level, summarising and coordinating the findings of individual companies' actuarial functions;
- express an opinion on the adequacy of the reinsurance arrangements of the Group as a whole;
- prepare and submit, at least annually, a written report for the management and supervisory boards of the parent company; the report documents the implementation of the above tasks and their results, clearly identifying any weaknesses and providing recommendations for their elimination;
- coordinate the activities of individual companies' actuarial functions in order to enable the overall functioning of the Group's actuarial function;
- provide support to individual Group companies' actuarial functions;
- harmonise the underwriting and reserving risk guidelines laid down in the Group's underwriting and reserving risk policy;
- organise meetings of the Group's actuarial committee;
- serve on the Group's risk management committee.

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

CONTENTS

B.7 Outsourcing

An outsourcing arrangement is a function or activity of a (re)insurance company (or other company of the Sava Insurance Group) transferred to an outside service provider that is critical or important for the operation of the (re)insurer (or other Sava Insurance Group member).

In accordance with the provisions of the applicable Insurance Act, the parent company adopted an outsourcing policy that governs the outsourcing of the Group companies' critical or important operational functions or activities. The policy provides guidance on preparing, implementing and documenting outsourcing arrangements as well as ensuring that the Company operates in compliance with the applicable regulations and guidelines governing outsourcing. The policy also outlines the procedure and responsibilities for outsourcing functions or activities, defining the standards required for their administration and oversight. The policy further defines the registering of outsourcing engagements comprising all contracts considered as outsourced, the documenting of the entire decision-making process, compiling of required documents and the signing of such contracts. In line with the policy, each outsourcing engagements requires an administrator, whose main task is overseeing the outsourcing engagements. By signing a contract, all providers of outsourced services undertake to act in accordance with the applicable law and cooperate with the local regulator, who must be notified of the intention to enter an outsourcing contract before it is concluded.

Each company is fully responsible for the functions or activities it has outsourced, and this responsibility cannot be transferred to any service provider or other transferee. Before deciding to outsource a function or activity, a Group company must assess and document the impact such an arrangement may entail. The conclusion of an outsourcing agreement is subject to the conditions laid down in the applicable regulations.

Outsourcing of business or functions to Group contractors

Conducting the internal audit function
Sava Re has carried out the internal audit function for Zavarovalnica Sava and Sava Pokojninska based on an outsourcing agreement concluded for an indefinite duration effective as from 1 February 2018, and for Sava Infond from 1 January 2020 and for Vita from 22 January 2021.

Conducting the key functions of compliance and risk management
Since 1 January 2021, Sava Re has conducted the key functions of compliance and risk management for Sava Pokojninska based on an outsourcing agreement concluded for an indefinite duration.

Conducting an outsourcing arrangement of asset management
Since 1 July 2021, Sava Pokojninska has outsourced its asset management business to Sava Infond, and so have Sava Re and Zavarovalnica Sava since 1 February 2022.

Implementation of the information technology function
While Group companies use their own infrastructure, for certain functions, such as security and secondary location, they rent services with one Group company operating the central infrastructure.

Since 1 February 2019, the performance of IT system and telecommunication services of Sava Pokojninska has been outsourced to Zavarovalnica Sava for an indefinite duration. Since 18 February 2020, IT system, telecommunication and information management services of Sava Infond have been outsourced to Zavarovalnica Sava.

Since 1 July 2021, business continuity operations for software and hardware of the IN2 application have been outsourced by Sava Infond to Sava Pokojninska for an indefinite duration.

CONTENTS

Outsourcing of business or functions to non-Group service providers

On 28 December 2012, the IT services of Vita were transferred to NLB d.d., Trg Republike 2, 1000 Ljubljana, for an indefinite duration.

On 28 December 2012, the document archiving function of Vita was transferred to Mikrocop, information engineering and services, d.o.o., Industrijska 1, 1000 Ljubljana, Slovenia.

On 10 March 2014, the management of financial instruments of Vita was transferred to NLB Skladi, asset management, d.o.o., Tivolska 48, 1000 Ljubljana, Slovenia.

On 30 March 2020, Vita transferred its insurance product distribution function to NLB d.d., Trg Republike 2, 1000 Ljubljana, Slovenia. The contract implementation started on 1 June 2020 once all suspensive conditions had been met.

On 1 March 2019, Zavarovalnica Sava transferred its claims handling activities for permitted direct writing of insurance business in the United Kingdom to the company WNS ASSISTANCE LIMITED, Acre House, 11/15 William Road, London, NW1 3ER, United Kingdom.

On 1 June 2019, Zavarovalnica Sava transferred its claims handling for ship insurance as part of FoS business in Norway and in some other countries as defined under the business cooperation contract (Germany, the Netherlands, Belgium, Italy, Greece, United Kingdom and Cyprus) to the company Risk Point, Hammerensgade 4, DK-1267, Copenhagen K, Denmark.

Since 5 June 2020, Sava Infond has outsourced internal controls regarding the accuracy of the implementation of sales procedures at the entry point to NKBM d.d., Ulica Vita Kraigherja 4, 2000 Maribor, Slovenia, for an indefinite time.

Since 31 August 2020, Sava Infond has outsourced its IT system support and computer equipment maintenance services to LANcom d.o.o., Tržaška 63, Maribor, Slovenia, for an indefinite time.

Since 1 January 2021, Sava Pokojninska has outsourced its actuarial function to KR-TEAM, business consulting, Martina Krücken, s.p., Pašnica 6, 3272 Rimske Toplice, Slovenia, for an indefinite time.

In 2020, oversight of cyber security SOC (24/7) of the Group (except for the companies TBS Team 24 and Vita) was outsourced to two external service providers.

B.8 Any other information

The Sava Insurance Group has in place a transparent and appropriate risk-based governance system.

The Group governance policy sets out the main guidelines for the governance of individual Group companies, as well as the control and supervision of Group companies, taking into account the Group's goals, mission, vision and values. The purpose of the policy is to define the foundation of the Group's system of governance, the basic management rules, rules of corporate governance and a transparent organisational structure with transparent and clear allocation and segregation of roles and responsibilities. Corporate governance is a combination of processes and frameworks used by the management and supervisory boards, including 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 reviewed and amended in December 2020.

The rules of the Group governance system are subject to regular annual review. This review is the responsibility of the Group's compliance function, which in cooperation with the Group's internal audit function verifies the consistency of the governance policy with other policies within the governance system and with other internal acts, legislation and regulations. When verifying and assessing the effectiveness of the corporate governance framework, the reviewer focuses on the changes in internal and external factors affecting the Group.

The report of the internal audit department on the audit review of corporate governance carried out in January 2018 also demonstrated that the Group had in place an adequate system of governance. The internal audit department assessed the corporate governance system as good, concluding that the corporate governance system, to the extent reviewed, was largely compliant with the Slovenian Companies Act (ZGD-1), the Insurance Act (ZZavar-1), relevant implementing acts and other Solvency II requirements. The system provides for clear segregation of duties in all areas of governance of the Group and its individual companies. All large subsidiaries completed corporate governance audits within a three-year cycle. The internal audit department is planning a corporate governance audit at the Group level in 2022.

C. Group risk profile

CONTENTS

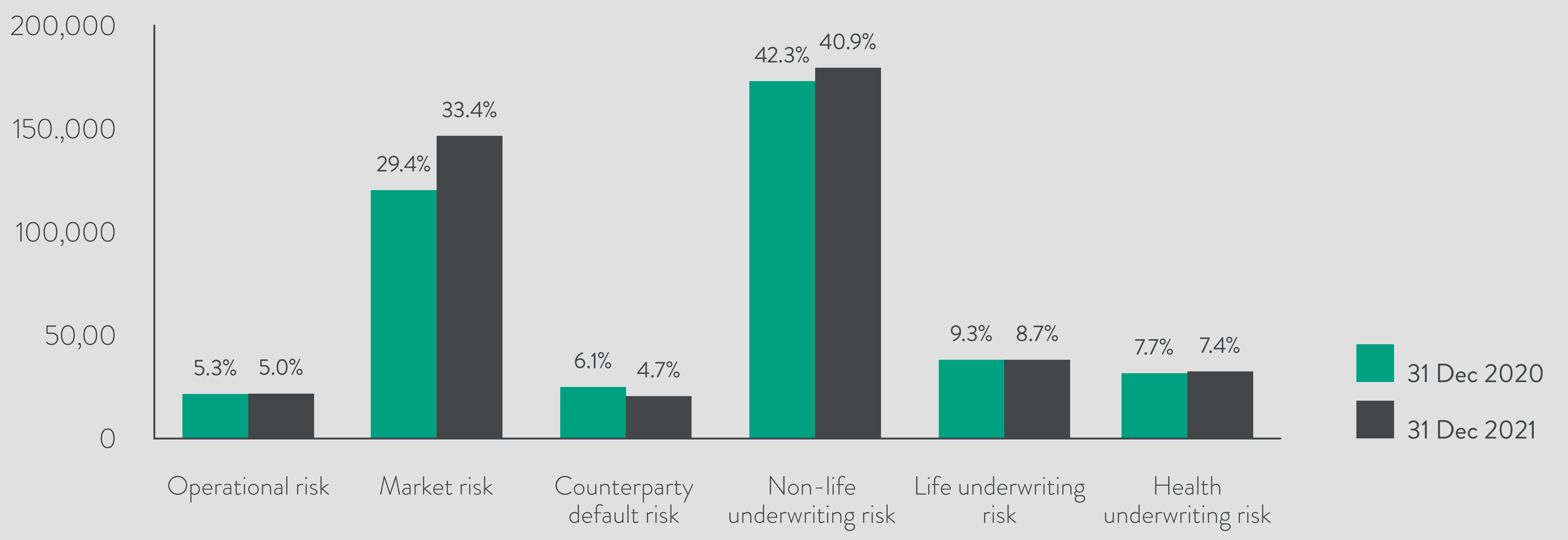
In the course of its operation, the Group is exposed to various risks. These are identified, measured, managed, monitored and reported on in accordance with the processes described in section B.3 “Risk management system including the own risk and solvency assessment”. The main risk categories that the Group is exposed to are:

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

The following subsections discuss individual risk categories one by one. The Group regularly measures underwriting, market, credit and operational risks using the Standard Formula, whereas other risks, including operational risk, that are not readily quantifiable are measured by using the methods described in the below sections.

The following graph shows the Group’s risk profile in accordance with the Standard Formula. The share of each risk model is expressed as a percentage of the total of all risk modules (including operational risk).

Undiversified SCR by risk module[14] **(€ thousand)**



14 The proportion of an individual risk module is calculated as the proportion to the sum of all modules (including operational risk).

CONTENTS

The Group's main risks in line with the Standard Formula are non-life underwriting and market risks; other risk categories are small. In 2021, non-life underwriting risk chiefly increased on account of higher best estimate provisions, whereas market risk grew as the result of portfolio growth and a somewhat changed asset allocation in the investment portfolio.

In line with the Standard Formula, the Group SCR by risk module also includes the capital requirement for financial institutions treated in accordance with relevant sectoral regulations (Sava Pokojninska Družba and Sava Infond) and the capital requirement for other Group companies (Sava Penzisko Društvo and the associates DCB and G2I). The capital requirement for residual undertakings decreased by EUR 6.4 million as at 31 December 2021 compared to 31 December 2020, as the result of a change in the valuation methodology for companies under the equity method (for more details, refer to section D.1.6 "Investments") and the reclassification of the company DCB as a strategic participation (for more details, refer to section E.2.1 "Group solvency capital requirement (Group SCR)").

Covid-19-related impact on the Group's risk profile

Covid-19 and the related pandemic has been present for a year and a half now, and remains a source of direct and indirect uncertainties related to the attainment of the Group's financial targets and strategic goals. In 2021, we integrated the monitoring of Covid-19-related risks into the regular Group-level risk monitoring scheme, reporting on them in risk reports. Monitoring extended to the companies' capital adequacy as well as the impact on individual risks, current operating results and liquidity. Analyses conducted and reports were taken into consideration by the management when making decisions. We now understand the risks much better than at the onset of the pandemic, and we estimate that the risks faced by the Group are well managed. We do not expect Covid-19 to have a significant negative impact on key risks in the future, as the Group has been managing these risks actively. There remains a legal regulatory risk that policy conditions for business interruption covers could be interpreted unfavourably in some markets, which could result in additional claim payments related to Covid-19. The Group continuously identifies, monitors, analyses and manages risks associated with Covid-19.

CONTENTS

C.1 Underwriting risk

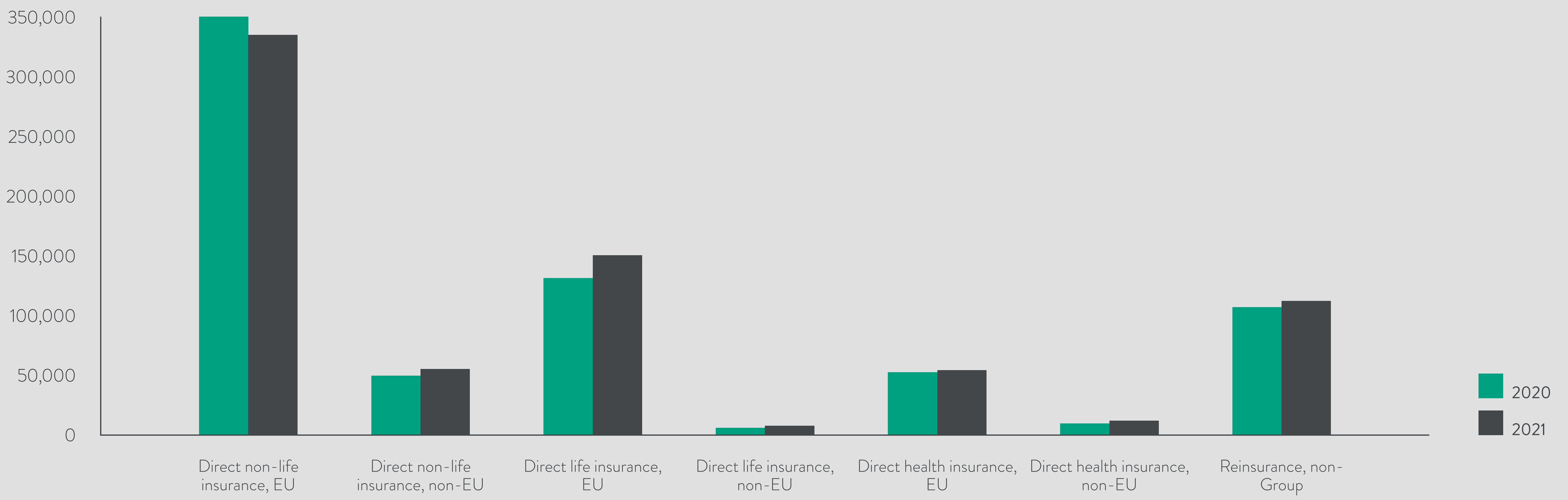
Underwriting risk arises from the Group's (re)insurance activities, i.e. the underwriting of (re)insurance contracts, and execution of (re)insurance contracts and transactions directly related to (re)insurance activities. It relates to the risks covered under (re)insurance contracts and associated processes, 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 (re)insurance business, and
- health underwriting risk, including accident (re)insurance.

The Group markets all three types of (re)insurance and is consequently exposed to all three risk types. Accepted life reinsurance business of non-Group cedants, including accident reinsurance business, is discussed under health underwriting 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 following chart shows gross premiums written by line of business, separately for EU-based and non-EU based Group companies. The movement in gross premiums written by class of business is discussed in greater detail in section A.2 "Underwriting performance".

Breakdown of Group gross premiums written (€ thousand)

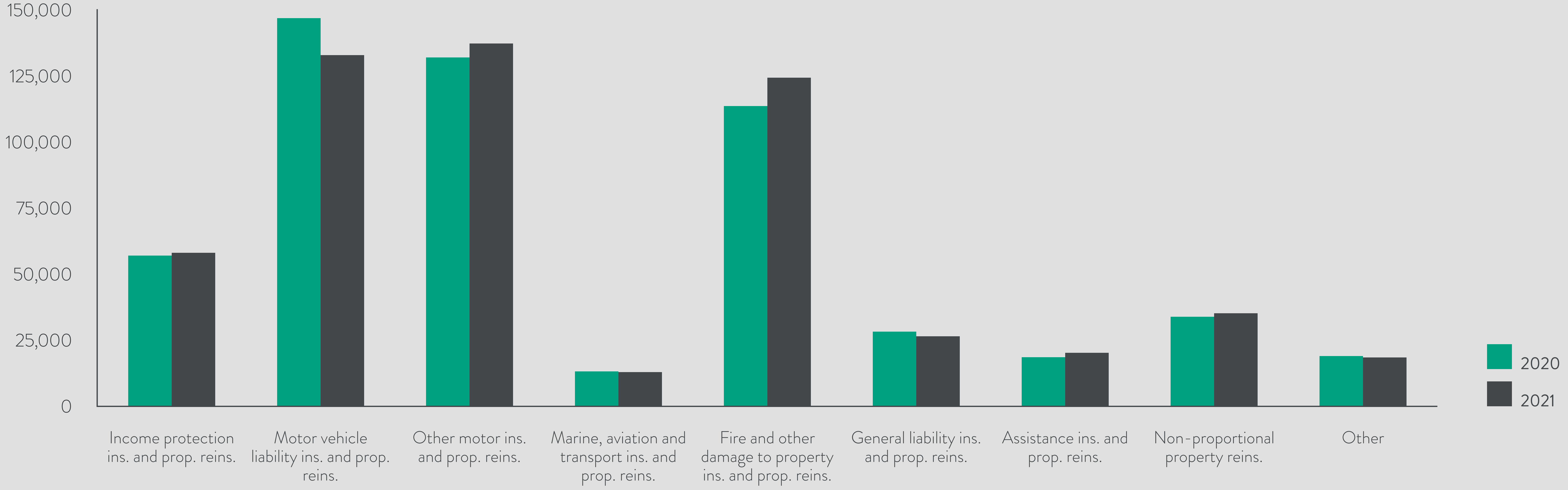


C.1.1 Non-life underwriting risk

Risk exposure

The following graph shows net non-life insurance premiums earned by material line of business. The breakdown of the Group's net non-life premiums earned did not change significantly in 2021 (for more details, refer to section A.2 "Underwriting performance").

Consolidated net premiums earned by major line of business **(€ thousand)**



CONTENTS

Non-life underwriting risk is divided into:

- **Premium risk** is the risk that premiums written are insufficient to meet the obligations arising from (re)insurance contracts. This risk depends on many factors, such as inadequate assessment of market developments, poor assessment of claims development, use of inadequate statistics, intentionally insufficient premiums for 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,
  - pricing risk, and
  - risk of unexpected increase in claims.

  Given the Group's portfolio composition, the largest contributors to premium risk include motor vehicle and property (re)insurance (fire and other damage to property, including associated business interruption insurance).
- **Reserve risk** is the risk that either 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 a company's financial position. These include:
  - the risk of data availability and accuracy,
  - the risk of adequacy of methods and assumptions used,
  - the risk of a calculation error,
  - the risk of complex tools used in processes yielding misleading results.

  Similar to premium risk, the bulk of reserve risk arises from motor and property business (fire and other damage to property, including associated business interruption insurance), with the largest best estimate provisions owing to the Group's traditional focus on such business.
- **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 a large number of catastrophic events in a short period. The risk also includes an excessive geographical accumulation of risks. The Group's portfolio is geographically relatively well diversified, with risks being slightly more concentrated in Slovenia, which is further addressed by means of the retrocession programme. The capital requirement is relatively high for non-life catastrophe risk because of the aggregation of a large number of such requirements for various smaller natural perils and regions and various man-made catastrophic events.
- **Lapse risk** is 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 Group is not materially exposed to this type of 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 underwriting risk.

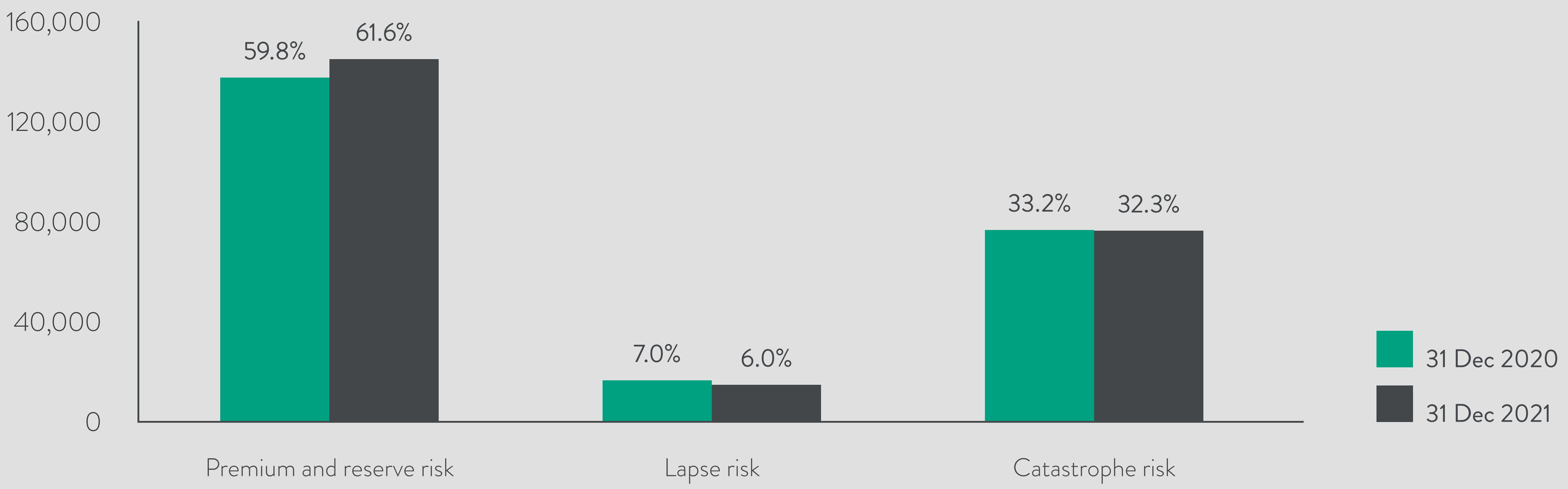
Risk measurement

The Group makes quantitative assessments of non-life underwriting risk using the Standard Formula. To this end, it does not apply Group-specific parameters, in accordance with Article 104(7) of Directive 2009/138/EC. The Group also makes quantitative assessments of underwriting risk using its own assessment (as part of ORSA). Premium and reserve risks are estimated by using undertaking-specific parameters (hereinafter: USPs) the calculation for the Group applies weighted USP averages of individual Group companies.

The following graph shows the Group's non-life underwriting risk in accordance with the Standard Formula by risk sub-module. The proportion of each risk sub-module is expressed as a percentage of the total of all non-life underwriting risk sub-modules.

CONTENTS

Undiversified non-life underwriting risk by risk sub-module[15] **(€ thousand)**



According to the Standard Formula, the Group was exposed to non-life underwriting risk in the amount of EUR 180.1 million as at 31 December 2021 (31 December 2020: EUR 173.6 million). The capital requirement for non-life underwriting risk represented 40.9% (31 December 2020: 42.3%) of the total SCR of all risk modules[16]. Premium and reserve risks, followed by catastrophe risk, represented the largest portion of the undiversified non-life underwriting risk. Lapse risk for non-life business was relatively low.

As at 31 December 2021, the non-life underwriting risk module increased, chiefly because of the increase in the premium and reserve risk sub-module as the result of an increase in best estimate claims provisions (mainly due to major and catastrophe losses).

In addition to this quantitative risk measurement, individual Group companies monitor their exposures to non-life underwriting risk quarterly using various risk indicators. Certain indicators are also monitored at the Group level. This information allows Group companies or the Group to promptly detect any changes, which in turn allows management to take action in a timely manner.

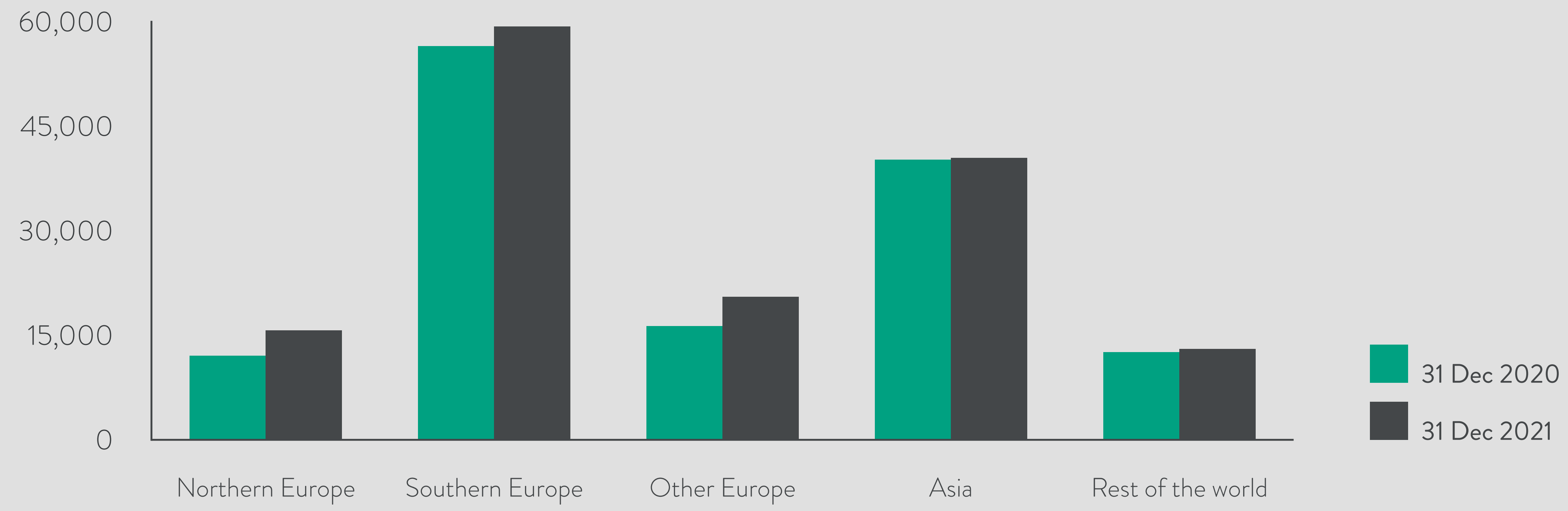
Risk concentration

The following graph shows a breakdown of net premiums earned relating to fire and other damage to property insurance and proportional reinsurance, and to non-proportional property reinsurance business by region. Most of this income is sourced from southern Europe, where the Group's direct insurance companies operate, with most of the exposure in Slovenia. The diversification remains at a similar level to 2020.

15 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

16 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

Net premiums earned relating to property (re)insurance (€ thousand)



At the Group level, the exposure to natural catastrophes is largest in the regions where the Group companies underwrite property business. The largest gross aggregate exposure to natural catastrophes is thus concentrated in Slovenia. The Group has in place a catastrophe reinsurance programme (detailed later), under which it covers a maximum of EUR 5 million per event, with the remainder ceded to reinsurers. The following table gives the gross aggregate exposures in Slovenia by peril.

Gross aggregate exposures in Slovenia by peril

EUR thousand[17]	2021	2020
Flood	12,469,313	11,957,377
Earthquake	13,298,175	10,278,567
Storm and hail	51,152,165	50,011,579

17 The data compiled is as at 30 June of each year.

CONTENTS

The Group's primary insurance business and separately accepted non-Group reinsurance business is protected against natural catastrophes under non-proportional catastrophe excess-of-loss coverages for own account. Even prior to the operation of the non-proportional protection, the portfolio of earthquake (re)insurance business of the Group's cedants is protected by a quota share retrocession treaty. This means that if a major event occurs, the Group will suffer a loss equal, at most, to the amount of the priority of the catastrophe excess-of-loss cover plus a reinstatement premium. The priority of the catastrophe programme for Group business remained unchanged in 2021 at EUR 5 million, while the priority of the catastrophe programme for non-Group accepted reinsurance was reduced to EUR 4 million in 2021, resulting in reduced net exposure to a catastrophic event in this portfolio.

Apart from the abovementioned reduction in the priority of the catastrophe programme for accepted reinsurance of cedants outside the Group, the reinsurance programme was adjusted to the changes in accepted business (termination of FoS business) compared to the previous year, but it did not change significantly from the previous year. In this way, the Group maintains catastrophe risk at a level comparable to 2020.

Risk management

The Group manages underwriting risk through:

- established underwriting processes, comprising procedures and an authorisation system for the underwriting of (re)insurance contracts with high sums insured, and a process for the underwriting of (re)insurance contracts in accordance with internal underwriting guidelines for facultative business with high limits;
- underwriting limits;
- geographical diversification;
- an appropriate actuarial pricing policy applied in product design and controlling; and
- an appropriate reinsurance programme.

The Group does not use special purpose vehicles (SPV) or hedging techniques to mitigate its underwriting risk.

In addition to the above, the Group monitors the impact of sensitivity analyses on risk levels. In the calculation as at 31 December 2021, we tested the impact of **an increase in the volume measure for the premium risk** of non-life and not-similar-to-life-technique health insurance business (hereinafter: NSLT health insurance) of 10% on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 4.1 p.p. decrease in the solvency ratio (31 December 2020: 4.4 p.p.).

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 on the overall SCR. A 10% increase in the reserving volume measure would result in a 3.1 p.p. decrease in the solvency ratio (31 December 2020: 2.9 p.p.).

Results of sensitivity analyses

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2021	601,277		304,405		198%	
Increase in volume measure for premium risk of non-life and NSLT health insurance	601,277	0	310,830	6,425	193%	-5 p.p.
Increase in volume measure for reserving risk of non-life and NSLT health insurance	601,277	0	309,187	4,782	195%	-3 p.p.
Base values as at 31 December 2020	567,780		287,432		198%	
Increase in volume measure for premium risk of non-life and NSLT health insurance	567,780	0	293,962	6,530	193%	-4 p.p.
Increase in volume measure for reserving risk of non-life and NSLT health insurance	567,780	0	291,771	4,339	195%	-3 p.p.

CONTENTS

The sections below explain risk management in greater detail by each non-life underwriting risk.

Premium risk

The Group seeks to mitigate underwriting process risk by restricting authorisations for mass underwriting, as well as by means of additional training of underwriters and agents, by providing understandable, clear and detailed instructions, and by defining appropriate underwriting limits that are consistent with the business strategy, the risk strategy and the reinsurance programme. In addition, we make special efforts to offer products to appropriate target clients (to prevent mis-selling and/or adverse selection), to accept reinsurance from trusted cedants, and to ensure that appropriate limits are in place for exposure concentration by geographical location and homogeneous risk groups, which maintain favourable risk diversification. Another underwriting process risk is PML error (inaccurate assessment of the Probable Maximum Loss, PML). In order to mitigate this risk, the Group has in place guidelines for PML assessment, requires that PML assessments are a team exercise and ensures that the retrocession programme covers PML error.

The Group seeks to mitigate price risk before launching a product by making in-depth market analyses, staying informed (media, competitors, clients), monitoring applicable regulations and associated requirements, and monitoring historical claim trends (for the entire market) and forecasts. In accepted reinsurance underwriting, it is important to know the market and to verify how reliable partners are. The reinsurer may also use special clauses in accepted reinsurance contracts to limit performance volatility, e.g. a sliding scale commission and profit commission, and loss ratio limitations.

The Group monitors claims risk through in-depth assessments of underwriting process risk, by restricting the authorisations in the underwriting process, and by developing IT support that allows an accurate overview of claims accumulation. For accepted reinsurance, this risk, too, can be managed by means of special clauses in proportional reinsurance contracts, which 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 reinsurance protection by using a variety of stress tests and scenarios, and setting appropriate retentions.

Reserve risk

The Group manages reserve risk by means of robust processes and effective controls as regards the calculation of technical provisions both in accordance with IFRS and Solvency II regulations. In addition, it conducts annual backtesting of the appropriateness of technical provisions, analysing any major reasons for their insufficiency. All experience so gained is then used in the calculation of future technical provisions.

By documenting and understanding such a process, the Group can identify and describe potential risks, such as:

- data availability and accuracy,
- the adequacy of methods and assumptions used,
- calculation errors,
- process support in the IT system 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 the calculation of technical provisions. The design and operational effectiveness of controls are reviewed at least annually and whenever a significant change occurs in the process or methods and models used to calculate technical provisions.

Such controls include:

- the reconciliation of technical provision items with a company's accounting records,
- a peer review of actuarial methods and assumptions,
- defined change management controls for IT tools used in the process,
- an actuarial review and approval of the level of technical provisions.

The process by which technical provisions are calculated is subject to periodic approval. Where substantial changes have been made to the process, the methodology or models used in the calculation of technical provisions, a validation is carried out in accordance with the reporting schedule.

Lapse risk

It is estimated that lapse risk is less important for the Group, as the vast majority of non-life insurance policies is written for one year and cannot be terminated early without the insurer's consent (except in case of premium default or if the subject-matter of the insurance policy is no longer owned by the policyholder or has been destroyed due to a loss event). The majority of accepted reinsurance contracts is also written for a period of one year. The risk associated with these contracts is also mitigated by nurturing good business relations with policyholders and cedants and by closely analysing the market situation.

CONTENTS

Catastrophe risk

The Group manages catastrophe risk by means of a well-designed underwriting process, by controlling risk concentration for products covering larger complexes against natural disasters and fire, by geographical diversification, and by adequate retrocession protection against natural and man-made catastrophes.

To protect against natural catastrophes, the Group has in place a catastrophe excess-of-loss coverage to protect its retention, separately for Group and non-Group accepted reinsurance. Before the non-proportional protection is triggered, the Slovenian portfolio is protected by proportional covers: a surplus cover providing protection at the level of individual risks (including PML error), and an earthquake quota share cover. This means that if a major event occurs, the Group will suffer a loss equal, at most, to the amount of the priority of the catastrophe excess-of-loss cover plus a reinstatement premium. If the Group makes additional use of the coverage, it is subject to provisions concerning reinstatements, meaning that it would purchase protection for the remaining period of cover. This is a common instrument available in the international reinsurance market at a price that is usually lower than the original cover due to the shorter coverage period. The portfolio is further protected against the risk of a larger frequency of natural catastrophes in Slovenia by an aggregate excess-of-loss cover; therefore, if several events exceed the Group's priority in a year, the Group will suffer a loss lower than the sum of all priorities. It ensures that the Group remains solvent even if several catastrophic events occur in one single year.

The Group also analyses 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.

Catastrophe risk is a very important risk for the Group. Therefore, as part of the ORSA process, we test 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 1000 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, a scenario of two major Japanese typhoons occurring in one year and two Bernd-type hurricanes hitting western Europe one after the other. As part of man-made disasters, we tested a scenario of terrorist attacks in France. In each of these cases, Group 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, the Group would maintain a large surplus of eligible own funds over the SCR. The Group's solvency ratio would remain within the optimal range thanks to reinsurance coverage in place to protect against such events. We are aware that some of these events (e.g. an earthquake in Ljubljana) can have a number of other direct effects on the business, which is why the Group also manages such risks through designing business continuity plans, which include modes and measures for operating in emergency situations.

C.1.2 Life underwriting risk

The main life underwriting risks are:

- biometric risks, which are divided into:
  - mortality risk,
  - longevity risk,
  - disability-morbidity risk,
- life expense risk,
- revision risk,
- lapse risk, being the risk of early termination of life insurance contracts, includes terminations due to surrenders, conversion to paid-up status, and premium default,
- life catastrophe risk.

Risk exposure

The Group is moderately exposed to life underwriting risk. The Group's main exposure to life underwriting risk is in the European Union. Similar to 2020, the largest proportion of 2021 consolidated net life insurance premiums earned comprised index- and unit-linked insurance business, which even increased compared to 2020, especially due to the new single-premium business (for more details, refer to section A.2 "Underwriting performance").

CONTENTS

Consolidated net premiums earned by material line of business **(€ thousand)**

Key risk exposures are lapse risk, life expense risk and mortality risk. Other risks are smaller and hence not discussed in detail.

Lapse risk is the risk of an increase or decrease in lapse rates (rate of early termination of contracts) due to surrenders, conversions to paid-up status or premium default. Risk levels depend on the use of adequate statistics, the identification of terminations for various reasons in an underwriting year and the economic situation, which may also affect the behaviour of policyholders. Risk levels also depend on competitive insurance products available in the market, and advice provided by insurance intermediaries and financial advisers.

Mortality risk is the risk that the actual mortality of insured persons will turn out to be greater than projected in mortality tables used during premium pricing. Risk levels depend on the use of adequate statistics and identification of insured persons with an increased mortality risk due to health reasons or a risky lifestyle.

Life-expense risk is the risk that the actual expenses incurred in servicing life insurance contracts turn out to be greater than projected in pricing. Risk levels depend on the use of appropriate statistics, and an increase in the actual expenses incurred in servicing life insurance contracts.

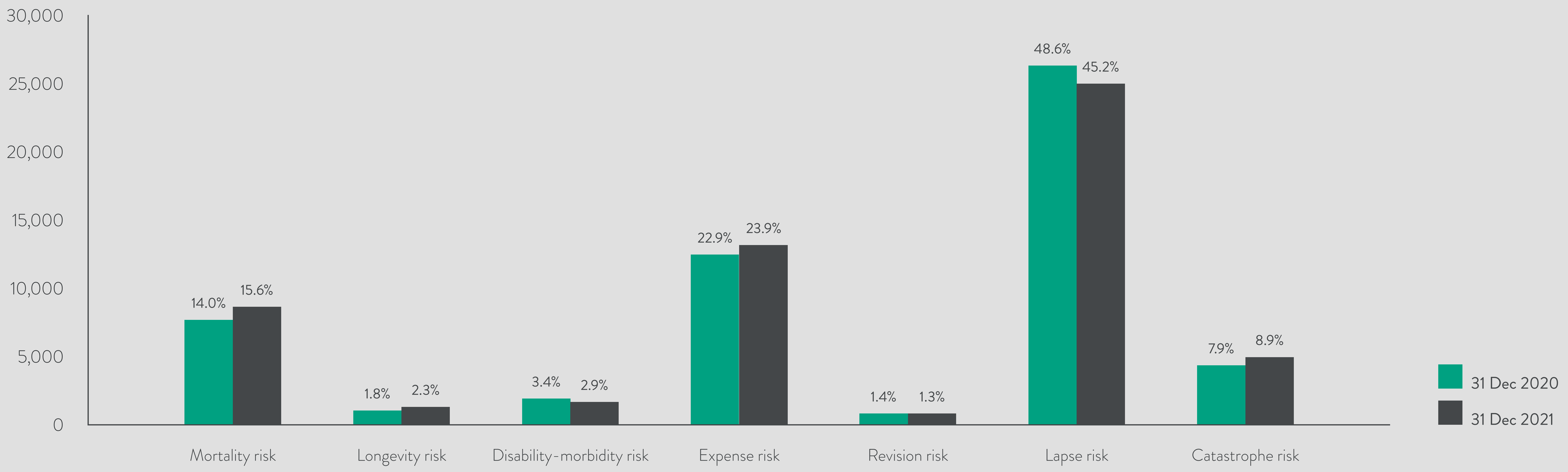
Risk measurement

The Group makes quantitative assessments of life underwriting risk using the Standard Formula. According to the Standard Formula, the exposure to life underwriting risk totalled EUR 38.3 million as at 31 December 2021 (31 December 2020: EUR 38.2 million). The capital requirement for life underwriting risk represented 8.7% (31 December 2020: 9.3%) of the total SCR of all risk modules[18]. As at 31 December 2021, life underwriting risk was at the same level as at 31 December 2020. Lapse risk, specifically mass lapse risk, represented the largest proportion of the Group's undiversified life underwriting risk. Mass lapse risk declined modestly year on year because of changes in the business volume and updated valuation assumptions. Mortality risk and expense risk are also important risk categories, which as at 31 December 2021 increased compared to 31 December 2020 (partly because of higher mortality assumptions, higher expense assumptions as a result of a contracted portfolio portion and a change in the risk-free interest rate assumption). Other life underwriting risks of the Group are rather small. A comparison of risks is provided in the following breakdown of undiversified risk (amount and percentage of total) by life underwriting risk sub-module. The proportion of each risk sub-module is expressed as a percentage of the total of all life underwriting risk sub-modules.

18 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

CONTENTS

Undiversified life underwriting risk by risk sub-module[19] **(€ thousand)**



As we believe that our own risk profile for life insurance does not deviate significantly from the underlying assumptions in the Standard Formula, life underwriting risks in the ORSA are treated as in the Standard Formula.

Risk concentration

There is no significant concentration of life underwriting risk at the Group level, as the portfolio is well-diversified in terms of the age of the insured persons, the remaining period of insurance, exposures (of sums insured and sums at risk), and premium payment schedules. The portfolio is also diversified in terms of the percentage of policies lapsed in a period, expenses and mortality, and morbidity rates by product.

Risk management

The Group manages **lapse risk** mainly by quarterly monitoring of the number and percentage of policies lapsed, by restricting surrenders where the insurer's approval is required, and by the systematic prevention of policy rearrangements on the part of intermediaries.

The procedures used to manage **mortality risk** are: consistent application of underwriting protocols, which specify in detail the deviation from normal mortality risk, regular monitoring of exposures and adequacy of mortality tables used, and appropriate reinsurance protection.

Life-expense risk is managed by the Group by periodic monitoring of the expenses incurred in servicing life insurance contracts, monitoring the macroeconomic situation (e.g. inflation), and appropriately planning the servicing of expenses for the coming years.

Life underwriting risks are also managed by the Group by periodically monitoring the life portfolio composition, exposures, premium payment patterns, lapse rates and expenses incurred, as well as by analysing the appropriateness of the modelling of the expected mortality and morbidity, and lapse rates. The information so obtained allows for timely action in the case of adverse developments in these indicators.

19 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

C.1.3 Health underwriting risk

Health underwriting risk includes:

- health underwriting risks pursued on a similar technical basis as non-life insurance (hereinafter: NSLT health business);
- health underwriting risks pursued on a similar technical basis as life insurance (hereinafter: SLT health business).

The Group is exposed to both types of health underwriting risk. The majority of the exposure relates to accident insurance, which is classified as NSLT health insurance, while the exposure to SLT health insurance is small.

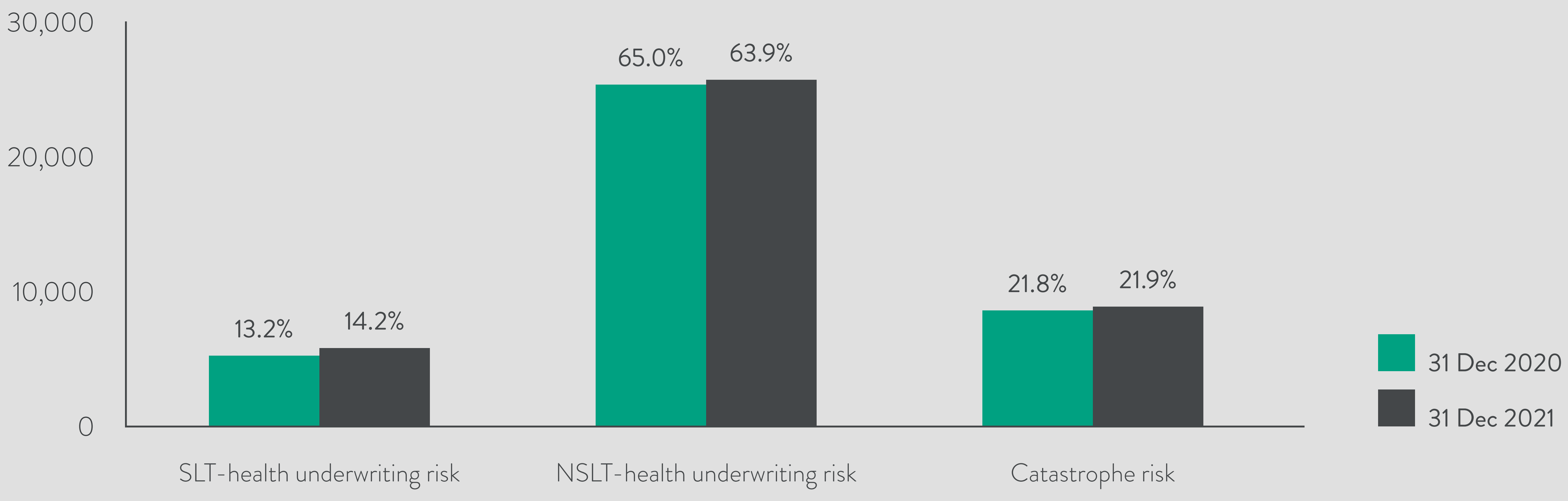
NSLT health underwriting risks are by their nature very similar to non-life underwriting risks, which are discussed in greater detail in section C.1.1 "Non-life underwriting risk" of this report, and are as such managed by the Group using similar techniques, i.e. by means of a well-designed underwriting process, the control of risk concentration for accident and health insurance products, and an adequate reinsurance protection.

SLT health underwriting risks are by their nature very similar to life underwriting risks, and are therefore managed by the Group using similar techniques. Life underwriting risks are discussed in greater detail in section C.1.2 "Life underwriting risk".

The Group makes quantitative assessments of health underwriting risk using the Standard Formula. According to the Standard Formula, the exposure to life underwriting risk totalled EUR 32.5 million as at 31 December 2021 (31 December 2020: EUR 31.6 million) or 7.4% (31 December 2020: 7.7%) of the total SCR of all risk modules[20]. The level of risk under the Standard Formula increased modestly compared to 31 December 2020, driven by portfolio growth of both SLT and NSLT health insurance business. A comparison of risks is provided in the following breakdown of undiversified risk by health underwriting risk sub-module. The proportion of each risk sub-module is expressed as a percentage of the total of all health underwriting risk sub-modules.

Similar to non-life underwriting risk, this risk, too, is not optimally evaluated by the Standard Formula, which is why in the ORSA we used USPs for assessing premium and reserving risk.

Undiversified health underwriting risk by risk sub-module[21] **(€ thousand)**



20 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

21 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

CONTENTS

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 in the volatility of market prices of assets, liabilities and financial instruments.

Market risks include the following:

- **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, loans, bond and mixed mutual funds, and private and infrastructure debt funds. Interest-rate-sensitive liabilities mainly include technical provisions. When calculating capital requirements for interest rate risk, the amount of interest-rate-sensitive assets is considered on the assets side, whereas the best estimate technical provisions and provisions for employees 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. The exposure to this risk arises from equity investments and investments in equity and mixed mutual funds. On the liabilities side, the exposure results from life insurance obligations arising from life policies where policyholders bear the investment risk. For unit-linked policies, where the policyholders bear the investment risk, the Group matches the associated assets and liabilities with the level of technical provisions in accordance with IFRSs. Due to the Solvency II valuation of obligations arising from such insurance contracts, a shock has a different impact on the level of assets and liabilities, resulting in a mismatch between assets and liabilities in the calculation of equity risk, which leads to an additional capital requirement. The risk is further affected by the level of the symmetric adjustment based on the historical movement of the specific stock index.
- **Property risk** is the risk of a fall in the value of property due to changes in the level and volatility of property prices. This risk affects own-use property, investment property, real-estate funds and right-of-use assets.
- **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 foreign currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. This risk affects bonds, deposits, loans, and bond and mixed mutual funds, and private and infrastructure debt funds.
- **Market risk concentration** is the risk of a suboptimal diversification of the asset portfolio or of an increased exposure to the default of a single counterparty or group of counterparties.

CONTENTS

C.2.1 Risk exposure

As at the date of this report, the Group had the following composition of investments that affect its exposure to market risk.

Composition of investments included in the calculation of market risk (Solvency II valuation)[22]

EUR thousand	31 December 2021	As % of total at 31 December 2021	31 December 2020	As % of total at 31 December 2020
Asset class				
Bonds	1,353,173	66%	1,337,777	71%
Government bonds	743,470	37%	699,487	37%
Corporate bonds	609,702	30%	638,290	34%
Structured notes	0	0%	0	0%
Investment funds	95,185	5%	83,358	4%
Deposits	25,971	1%	29,544	2%
Equity investments	34,171	2%	37,070	2%
Shares – listed	32,342	2%	35,241	2%
Shares – unlisted	1,828	0%	1,828	0%
Property	80,126	4%	74,394	4%
Own-use property	64,141	3%	57,088	3%
Other property	15,985	1%	17,306	1%
Loans and mortgages	1,675	0%	2,120	0%
Investments of policyholders who bear the investment risk	447,155	22%	325,417	17%
Total	2,037,454	100%	1,889,679	100%

The value of assets included in the calculation of market risk was EUR 2,037.5 million as at 31 December 2021 (31 December 2020: EUR 1,889.7 million). The value of investment portfolio assets invested in government bonds, investment funds and property increased in 2021. The increase in the value of investment fund assets was mainly driven by capital called up from commitments made for alternative funds (infrastructure, real-estate funds), whereas the increase in the value of property assets was chiefly due to the investment in the new Zavarovalnica Sava office building.

In addition to portfolio investments, the calculation includes assets of policyholders who bear the investment risk and the related obligations arising from these contracts, which increased significantly in 2021 due to both portfolio growth and appreciation of policyholder assets.

The predominance of fixed-income financial instruments reflects the Group's policy that defines asset and liability matching as one of the main objectives of investment management. The Group's investment portfolio shows a relatively high exposure to credit risk.

22 Overview of the basic investment portfolio (the look-through approach is not considered).

CONTENTS

C.2.2 Risk measurement

The Group conducts the quantitative assessment of market risk by using the Standard Formula as well as its own risk assessment. For investment fund assets, the Group uses the look-through approach when calculating market risk.

The following graph shows the Group's market risk in accordance with the Standard Formula. The proportion of each risk sub-module is expressed as a percentage of the total of all market risk sub-modules.

Under the Standard Formula, the Group was exposed to market risk in the amount of EUR 147.0 million as at 31 December 2021 (31 December 2020: EUR 120.6 million), representing 35.1% (31/12/2020: 29.4%) of the total SCR of all risk modules[24]. The increase in market risk in 2021 is mainly due to the growth of the investment portfolio and the volume of unit-linked business where policyholders bear the investment risk.

Undiversified market risk by risk sub-module[23] **(€ thousand)**

23 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

24 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

CONTENTS

Interest rate risk represents a relatively small proportion of market risk, accounting for 9% of the total undiversified capital requirement for market risk. The risk rose in 2021, chiefly due to a change in the methodology of accounting for subordinated debt, a change in the duration of portfolio investments and a larger excess of assets over liabilities as the result of good business performance (for details, refer to section E.2 "Solvency capital requirement").

Equity risk, accounting for 24% of the undiversified capital requirement of market risk, is the second-largest market risk. The rise in equity risk in 2021 also reflects growth in the portfolio of equities and alternative funds, a greater volume of unit-linked business, where policyholders bear the investment risk, and a higher symmetric adjustment.

Property risk mainly relates to property held by the Group for own use, but it also relates to investment property and assets invested in real-estate funds. The allocation to investment property within the investment portfolios of Group companies is limited by the limits system and is therefore relatively small at the Group level. The risk increased in 2021 primarily because of the investment in a new office building for Zavarovalnica Sava.

Spread risk is the largest market risk, accounting for 40% of the total undiversified capital requirement of market risk. The risk is high, reflecting the Group's relatively large exposure to debt securities and deposits. In 2021, this risk increased chiefly owing to higher exposure to non-EU government bonds, and private and infrastructure debt funds, and partly because of the slightly modified rating profile and maturity of assets.

Currency risk represents 15% of the undiversified capital requirement of market risk. Both assets and liabilities are exposed to this risk. The Group's exposure to currency risk arises mainly from the reinsurance business of Sava Re, FoS business of Zavarovalnica Sava, Group companies established outside the European Union and the look-through approach. Despite the considerable currency match between IFRS assets and liabilities, there is a minor currency mismatch under Solvency II due to differences in the valuation of technical provisions under IFRS and Solvency II, and capital of Group companies not denominated in euros. The rise in this risk as at 31 December 2021 compared to 31 December 2020 reflects slightly higher currency mismatch of assets and liabilities under Solvency II and a higher volume of unit-linked business, where the policyholders bear the investment risk and investments are exposed to foreign currencies through the look-through approach.

Market risk concentration of the Group was nil as at both 31 December 2020 and 31 December 2021.

When assessing the risks associated with the investment portfolio, the Group also regularly monitors other risk and performance measures relating to the investment portfolio:

- duration,
- market and book return, and net investment income,
- income volatility.

As part of asset and liability management, the Group and each EU-based Group company quarterly calculate and monitor the following for each asset and liability portfolio:

- risk measures: modified duration, convexity and key rate duration,
- estimated future cash flows,
- the change in fair value,
- the currency composition of assets and liabilities.

In addition to the Standard Formula, the Group uses its own solvency model to monitor and assess market risk. The own model only considers financial investments, excluding assets of policyholders who bear the investment risk. These are taken into account like in the Standard Formula. 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 historical data. For other investments, the Company uses stresses prescribed by the Standard Formula. In the own assessment, 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[25]. Furthermore, in its own model, the Company assesses the credit risk of financial investments, which also captures market risk concentration and spread risk. In accordance with Article 180 of the Delegated Regulation, the Standard Formula assigns a risk factor stress of 0% to certain government bonds.

25 The currencies modelled are the euro, US dollar, Chinese yuan, Indian rupee, Korean won and Russian rouble.

CONTENTS

Given past market behaviour, however, these actually do bear a certain level of risk. Accordingly, this is assessed within the own model, together with other debt securities.

C.2.3 Risk concentration

The Group's largest regional concentration is in the EU Member States. The Group's highest single issuer concentration arises from the Republic of Slovenia. Aware of this concentration risk, the Group actively manages it by lowering the maximum exposure limit set in the internal limit system.

C.2.4 Risk management

Market risks are monitored at the individual Group company and Group levels.

To systematically address material market risks, the Group is place an asset and liability management policy and an investment risk management policy. The policies define:

- the basic investment guidelines,
- measures to be used in the monitoring of investment performance,
- measures to be used in the monitoring of investment risks,
- persons responsible in the investment process.

The Group's framework for market risk management has been appropriately transferred to and is being used by each Group company.

The Group manages and monitors market risk taking into account:

- 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 Group manages the risks arising from the financial investments portfolio by regularly monitoring and analysing issuers' financial data, monitoring the market prices of financial instruments, and regularly analysing asset and liability management.

The Group companies primarily address asset and liability mismatch by means of matching. If practicable and cost efficient, assets are matched to liability cash flows. Group companies do not use derivative financial instruments for asset and liability matching.

The Group manages equity risk through the diversification of this investment portfolio segment to various capital markets and a limit system that limits the exposure to equities.

Individual Group companies manage currency mismatches through currency overlay and based on IFRS liabilities. The monitoring and management of currency risk is presented in greater detail in the Group's annual report, section 17.6.4.1.4 "Currency risk".

To avoid concentration of investments by investment type, issuer, industry, and other similar concentrations, Group companies ensure that their investment portfolios are diversified within the possibilities of their respective capital markets and legal frameworks, in accordance with local insurance regulations and their own internal rules. To avoid risk concentration at the Group level, additional limits are set by issuer, industry, region and credit rating. Thus, the Group prevents large concentrations within the investment portfolio and limits the level of risk. The Group's portfolio, broken down by these parameters and by rating, is shown in the 2021 annual report of the Sava Insurance Group and Sava Re d.d. in section 17.6.4.3 "Credit risk".

In addition, the Group carried out three sensitivity analyses on market risk, applying various parameters that affect the level of the solvency capital requirement of market risk and the level of the Group's eligible own funds and, consequently, its solvency position. The following table shows the results of selected sensitivity analyses.

CONTENTS

Impact of sensitivity analyses on eligible own funds, SCR and Group solvency ratio

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2021	601,277		304,405		198%	
Increase in interest rates of 100 basis points	587,213	-14,065	302,133	-2,272	194%	-4 p.p.
Decrease in interest rates of 100 basis points	608,098	6,821	309,069	4,664	197%	-1 p.p.
Fall in value of equity securities of 20%	584,435	-16,842	298,361	-6,044	196%	-2 p.p.
Decrease in value of property of 25%	579,762	-21,516	301,006	-3,399	194%	-5 p.p.
Base values as at 31 December 2020	567,780		287,432		198%	
Increase in interest rates of 100 basis points	562,640	-5,140	284,596	-2,835	198%	0 p.p.
Decrease in interest rates of 100 basis points	564,872	-2,908	291,995	4,563	193%	-5 p.p.
Fall in value of equity securities of 20%	556,917	-10,864	284,817	-2,615	196%	-2 p.p.
Decrease in value of property of 25%	548,645	-19,135	284,444	-2,988	193%	-5 p.p.

The first sensitivity analysis was an **increase and decrease in interest rates**. We conducted the analysis by raising or lowering the base curve of the risk-free interest rate for all maturities by 100 basis points. Then, we made a new calculation of eligible own funds and the SCR for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points resulted in a decrease in the Group's eligible own funds by more than the Group's materiality threshold as well as a decline in its SCR. The impact of the sensitivity analysis on the solvency ratio was small; however, because of a larger impact on own funds, it was slightly larger than the one as at 31 December 2020. A sensitivity analysis of a 100 basis point reduction in interest rates resulted in a modest increase in the Group's eligible own funds and SCR. The impact on the Group's solvency ratio was slightly lower than as at 31 December 2020 because of a positive impact on the own funds side.

The second sensitivity analysis, involving a **drop in equity prices of the Group's equity portfolio**, was conducted by reducing equity prices by 20% as at the reporting date. In addition, we evaluated the impact of the change on best estimate provisions, which depends on the level of investments. We calculated the impact of the sensitivity analysis on the Group's eligible own funds and the level of the Group's SCR. There was a drop in both the Group's eligible own funds and the Group SCR. The impact on the Group's solvency ratio was small and similar to the one as at 31 December 2020.

The third sensitivity analysis assumed a **fall in property prices** of 25%. The calculation was made using the amount of property as at the reporting date. The sensitivity analysis mainly caused a reduction in the Group's eligible own funds. In addition, there was a drop in the capital requirements of the property risk and currency risk sub-modules. Because eligible own funds decline in line with the Group SCR, the impact of the stress test on the Group's solvency ratio is minor and similar to that at 31 December 2020.

CONTENTS

In addition to the sensitivity analysis, the Group considered a number of scenarios and their impact on its performance and solvency position in the ORSA. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on performance and capital adequacy, and taking into account their probability of occurrence. As part of market risks, we considered an inflation scenario assuming an inflation shock and an increase in credit spreads for debt securities. Based on the scenario, impacts were recalculated to the level of the Group's eligible own funds and Group SCR as at 31 December 2022. The scenario would result in a material fall in the Group's eligible own funds (substantially exceeding the Group's materiality threshold). The Group SCR would be even slightly increased (primarily due to elevated non-life and life underwriting risks). If such a scenario realised, the Group's solvency ratio would significantly drop, but it would not compromise the Group's solvency owing to the Group's high baseline solvency ratio (the solvency ratio would remain within the suboptimal capitalisation range[26], in accordance with the risk strategy for the 2020–2022 strategy period).

We also tested a scenario prescribed by EIOPA in the 2021 insurance stress test, which we recalculated to 31 December 2022. The scenario assumes a fall in the risk-free interest rate, an increase in risk premia, a fall in share prices, a fall in the value of real estate investments and a fall in the value of alternative investments. This scenario, too, would result in a material fall in the Group's eligible own funds (substantially exceeding the Group's materiality threshold). Furthermore, this would result in a drop in the Group SCR (especially market risk), which would somewhat mitigate the impact on the Group's solvency ratio, which would decrease significantly, if such a scenario were to realise. Nevertheless, not even this scenario would compromise the Group's solvency owing to the Group's high baseline solvency ratio (the solvency ratio would remain within the suboptimal capitalisation range, in accordance with the risk strategy for the 2020–2022 strategy period). The impact of this scenario on the Group's solvency ratio is slightly weaker than in the inflation scenario.

Prudent person principle

The Group makes investment decisions that take into account all investment-related risks, not only risks considered in the calculation of its capital requirement. In the optimisation process, strategic asset allocation is defined based on risk appetite and restrictions imposed by local legislation.

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 (re)insurance liabilities. These assets are invested in the best interest of all policyholders and beneficiaries.

Each Group company has in place a limit system based on applicable legislation and its risk appetite. Group companies have in place set exposure limits for specific investment classes and commercial issuers. Exposure to individual commercial and government issuers is monitored at both individual Group company and Group levels.

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

26 The suboptimal capitalisation for 2020–2022 ranges from 150% to 180%.

CONTENTS

C.3 Credit risk

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

C.3.1 Risk exposure

Credit risk is composed of:

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

Spread and market concentration risks are discussed and presented in section C.2 "Market risk", in accordance with the risk classification and measurement under the Standard Formula. Later in this section, 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 next twelve months. This risk covers risk-mitigating contracts, such as reinsurance contracts, receivables, as well as other credit exposures not covered in the spread risk sub-module of the Standard Formula (cash and cash equivalents and deposits to cedants). Receivables-related credit risk arises from delays in the payment of receivables arising from the Group's primary insurance and accepted reinsurance business, and in the payment of recourse receivables. To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue receivables. Therefore, the Group's exposure to counterparty default risk is low.

C.3.2 Risk measurement

The Group makes quantitative assessments of credit risk using the Standard Formula. As mentioned, spread risk and market risk concentration are assessed within the market risk module, whereas counterparty default risk is assessed in a separate counterparty default risk module. This section will set out the results for counterparty default risk, whereas market risk is discussed in section C.2 "Market risk".

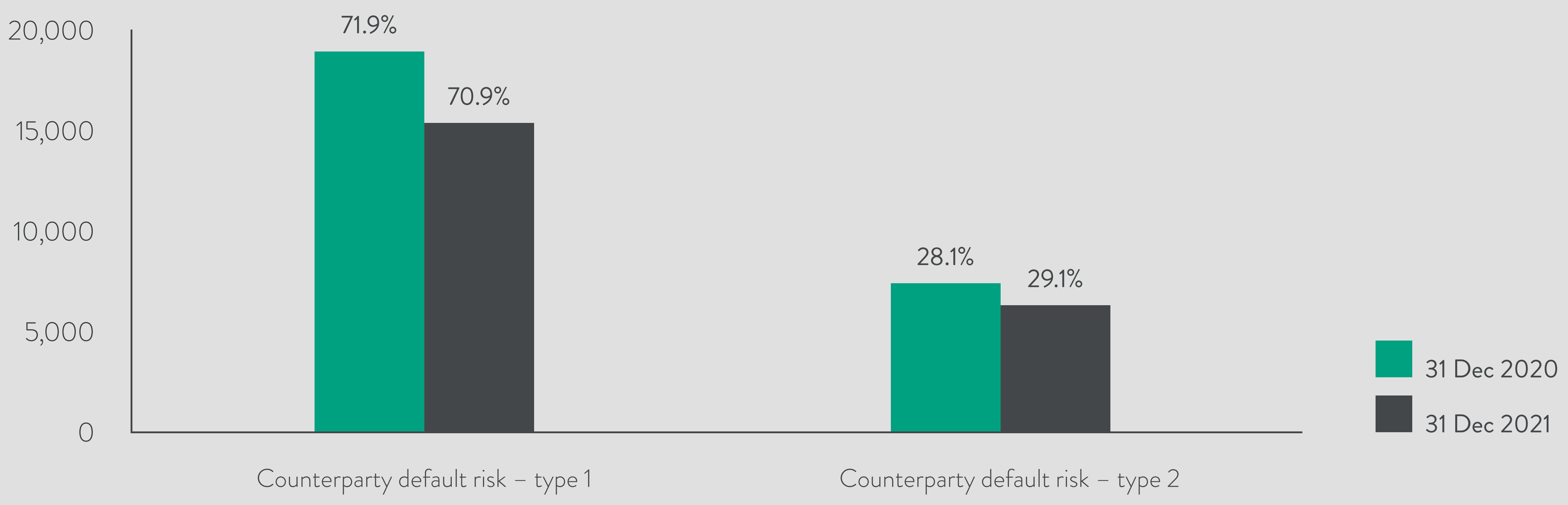
The Group's solvency capital requirement in accordance with the Standard Formula for counterparty default risk amounted to EUR 20.6 million as at 31 December 2021 (31 December 2020: EUR 25.0 million) or 4.7% (31 December 2020: 6.1%) of the total SCR of all risk modules[27]. The risk decreased somewhat from 31 December 2021 to 31 December 2020.

The following chart shows the composition of the counterparty default risk module in accordance with the Standard Formula by risk sub-module. The proportion of each risk sub-module is expressed as a percentage of the total of all counterparty default risk sub-modules.

27 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

CONTENTS

Undiversified counterparty default risk by risk sub-module[28] **(€ thousand)**



Type 1 risk includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. Although the exposure to retrocessionaires and banks with regard to cash equivalents increased compared to the previous year, type 1 risk declined in 2021, mainly due to the improved credit ratings of NLB d.d. and Nova KBM d.d.

Type 2 risk includes all receivables of the Solvency II balance sheet not included under type 1 risk other than tax assets and deferred tax assets. The risk decreased moderately in 2021 due to a moderately lower level of receivables in the SII balance sheet.

In addition to the calculation of the solvency capital requirement in accordance with the Standard Formula, the Group uses 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 and discussed as part of market risk. For more information on the own model for assessing market and credit risk, see section C.2.2 "Risk measurement". As regards counterparty default risk related to reinsurers and co-insurers, and deposits to cedants, we believe that the Standard Formula appropriately evaluates the risk and, therefore, made no own calculations for this part, whereas cash and cash equivalents are treated as risk-free investments. In our own credit risk calculation, we also consider the diversification effect.

C.3.3 Risk concentration

The Group has no significant concentration with counterparty default risk.

28 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

C.3.4 Risk management

To avoid late payment, Group companies closely monitor policyholders, and actively collect overdue unpaid receivables.

Group companies manage the risk associated with reinsurance and co-insurance contract assets by limiting the exposure to any one reinsurer and co-insurer and by entering into contracts with highly-rated partners. Generally, Group companies arrange reinsurance directly with the parent company. Exceptionally, if so required by local regulations, they buy reinsurance from providers of assistance services and local reinsurers. In such cases, local reinsurers transfer the risk to Sava Re, so that the actual exposure to counterparty default risk arising from assets under reinsurance contracts is low.

The Group manages credit risk arising from cash and cash equivalents by means of diversification through a number of banks, with each individual Group company defining its exposure limits to individual issuers.

The Group monitors and reports on credit risk exposure on a quarterly basis, which ensures timely action. Partner credit ratings are also monitored, with a focus on any indications of their potential downgrade. To this end, the Group has put in place a process for reviewing external credit ratings by the credit rating committee, which operates as part of the risk management committee.

In its review of reinsurer credit ratings as part of the capital adequacy calculation, the Group conducted a sensitivity analysis of a one-notch **deterioration in reinsurer credit standing**. Calculations were made using reinsurers' credit ratings and exposures to them on the reporting date. The sensitivity analysis results in increased capital requirements for the counterparty default risk sub-module and, via minority interests, it increases the Group's eligible own funds. The table below shows the results of sensitivity analyses conducted.

Results of sensitivity analyses

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2021	601,277		304,405		198%	
Reinsurer credit rating downgrade	601,279	2	305,858	1,453	197%	-1 p.p.
Base values as at 31 December 2020	567,780		287,432		198%	
Reinsurer credit rating downgrade	567,781	1	288,363	931	197%	-1 p.p.

A sensitivity analysis of a one-notch ratings downgrade of reinsurers results in a slight increase in the Group's eligible own funds with an increase in the Group's SCR, which leads to a decline of one percentage point in the solvency ratio of the Group. This decline is very small, so the ratio remained at a similar level to 31 December 2020.

CONTENTS

C.4 Liquidity risk

Liquidity risk is the risk that the Group 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 long-term mismatch of assets and liabilities.

C.4.1 Risk exposure

The Group has substantial monetary obligations (mainly to policyholders), and must therefore adequately manage its cash flows, ensuring an appropriate level of liquidity. Group companies carefully plan and monitor realised cash flows (cash inflows and outflows). Furthermore, they regularly monitor the receivables aging analysis, considering the impact of receivables settlement on their current liquidity position.

C.4.2 Risk measurement

Liquidity risk is difficult to quantify and hence is not covered by the Standard Formula. Therefore, the Group does not manage liquidity risk by holding additional capital, but rather centres its approach on monitoring and managing risk.

In accordance with their capabilities, Group companies determine their exposures to liquidity risk by implementing, analysing and monitoring risk measures:

- cash in bank accounts,
- highly liquid assets as a percentage of total financial investments (the non-EU based companies monitor a similar ratio),
- 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 Group is not exposed to a concentration of liquidity risk, but may, due to the nature of the business, in certain cases still face certain emergency liquidity needs.

C.4.4 Risk management

The Group defined liquidity risk as one of its key risk exposures in its risk strategy. In order to effectively manage liquidity risk, the Company has also 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 Group does not manage such risk by holding additional capital, but through an appropriate strategy for ensuring sufficient liquidity.

The estimated liquidity requirement of an individual Group company is composed of the estimated normal current liquidity requirement (arising from operations and investment maturity) and a liquidity buffer (estimated based on scenarios).

Group companies conduct assessments of normal current liquidity requirements 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 data from previous monthly and weekly liquidity plans and expectations regarding future performance.

CONTENTS

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, the Group's EU-based insurers maintain liquidity buffers of highly liquid assets accounting for at least 20% of their investment portfolios (category L1A under the ECB methodology, investments in US government bonds, government and supranational issuers rated AAA and AA+, cash and cash equivalents, and money market funds to manage UCITS).[29] Other Group companies use cash in bank accounts and short-term deposits as short-term assets for ensuring liquidity. As at 31 December 2021, the EU-based Group insurers held a level of highly liquid assets significantly exceeding the 20% requirement set in the risk strategy: Zavarovalnica Sava 41%, Vita 31% and Sava Re 45%. Extreme liquidity requirements of Group companies not based in Slovenia are attended to by the parent company, since these represent less than 5% of the Group's liquidity.

Each Group company also regularly monitors its receivables ageing analysis, assessing any impact on the current liquidity position.

Based on the above, we believe that the Group's liquidity risk is low and well managed.

C.4.5 Expected profits included in future premiums

Expected profits included in future premiums (hereinafter: EPIFP) that the Group, in accordance with Article 260(2) of the 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, and for life insurance, all policies are treated as paid-up.

The table below shows EPIFP for the Group's non-life and life business. The EPIFP decreased compared to 31 December 2020.

EPIFP – life and non-life business

EUR thousand	31 December 2021	31 December 2020
Non-life business	24,912	25,922
Life business	90,180	103,786
Total	115,092	129,708

29 Undertaking for collective investment in transferable securities.

C.5 Operational risk

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

C.5.1 Risk exposure

Operational risks are not among the Group's most significant risk exposures. Nevertheless, some are relatively important, in particular:

- risk associated with the computer and communication system,
- the risk of information system hacking,
- risk associated with supervision and reporting,
- risk of loss of key, expert and high-potential employees,
- risk of incorrect data input, incomplete data and inadequate documentation,
- risks associated with clients, products and business practices,
- compliance risk relating to laws and regulations,
- risk due to Group complexity,
- risks associated with outsourcing,
- the risk of personal data protection breaches.

The Group's major risks include cyber risks. It is important for the Group to lower this risk, as its realisation can lead to a complete interruption of business and extensive financial damage. This is why the Group regularly upgrades the management of and limits exposure to these risks.

C.5.2 Risk measurement

The Group calculates its capital requirements for operational risks by using the Standard Formula at least annually. This calculation of operational risk, however, is only of limited practical value as the Standard Formula is not based on the actual exposure of the Group to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses.

The capital requirement for the operational risk calculated using the Standard Formula was EUR 21.8 million as at 31 December 2021 (31 December 2020: EUR 21.6 million), representing 5% (31/12/2020: 5.3%) of the total SCR of all risk modules[30].

The Group companies and the Group assess operational risk mainly by qualitatively assessing the related likelihood and financial impact (severity) within the risk register. The companies also monitor operational risk indicators. Through regular risk assessments, the Group companies and the Group obtain insight into the actual level of their exposure to these risks. In addition to risk registers maintained by individual Group companies, a register is also maintained at the Group level for risks arising at that level. Risks are assessed in the same way as at the individual Group company level.

C.5.3 Risk concentration

The Group 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, risk associated with the new accounting standards and new legal requirements).

C.5.4 Risk management

Group companies have established processes for identifying, measuring, monitoring, managing and reporting on such risks for the effective management of operational risk. Such processes for operational risk management are also in place at the Group level. Accountability and operational risk management processes are set out in greater detail in the operational risk policy and the risk management rules of the Group.

The internal control system plays a key role in operational risk management, ensuring appropriate control activities and appropriate internal controls integrated into business processes and activities of individual Group companies, which are put in place to mitigate and monitor risk. An adequate implementation of internal controls is the responsibility of individual organisational units in which internal controls are to be carried out.

30 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

CONTENTS

The chief measures of operational risk management at the individual company and Group levels include:

- maintaining an effective business processes management system and internal control system;
- awareness-raising and training of all employees on their role in the implementation of the internal control system and management of operational risks;
- assessing the adequacy and effectiveness of internal controls;
- maintaining a register of incidents to identify deficiencies in processes and internal controls;
- maintaining a positive organisation 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 business interruption);
- awareness-raising of all employees involved in processing of personal data regarding the benefits and necessity of conducting impact assessments for efficient risk management of personal data protection;
- development of IT-supported processes and controls in the key areas of business of every Group company.

All major internal controls related to operational risk are included in the risk registers of individual Group companies and the Group. The companies monitor weaknesses and newly introduced improvements in internal controls.

The Group and individual Group companies periodically report on assessed operational risks in risk reports. Risk reports are considered by the risk management committee (if set up in the company), the company's management board, the risk committee (if set up in the company) and the supervisory board. The risk management function and the risk management committee may issue recommendations to the management board for further steps and improvements to operational risk management.

CONTENTS

C.6 Other material risks

Other material risks of the Group consist of strategic risks and investment contract risks.

C.6.1 Strategic risk

Strategic risk is the risk of an unexpected decrease in the Group's or a company's value due to the adverse effects of management decisions, changes in the business and legal environment, and market developments. Such events could have an adverse effect on revenue or capital adequacy.

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. In 2021, the Group was exposed to the following key strategic risks:

- risk associated with change in law,
- risk of market and economic conditions,
- risk of an inadequate development strategy,
- risks associated with strategic investments,
- political risk,
- project risk, and
- reputation risk.

Risk measurement

Strategic risks are by nature very diverse, difficult to quantify and heavily dependent on various (including external) factors. Strategic risks are also not included in the calculation of the solvency capital requirement under the Standard Formula.

Therefore, individual Group companies as well as the Group assess strategic risks qualitatively in the risk register, assessing their likelihood and potential financial severity. In addition, key strategic risks are evaluated by using qualitative analysis of various scenarios. Based on both analyses combined, we obtain an overview of the extent and change in the exposure to this type of risk.

Risk concentration

In 2021, the Group was not materially exposed to concentrations of strategic risk.

Risk management

The Group companies and the Group mitigate individual strategic risks mainly through preventive measures.

In addition to being managed by the competent organisational units in Group companies, strategic risks are identified and managed by management bodies, risk management committees, risk management functions and the key functions of the risk management system. Strategic risks are additionally identified by the Group's risk management committee.

Strategic risks are also managed by continually monitoring the realisation of short- and long-term goals of Group companies, and by monitoring regulatory changes in the pipeline and market developments.

The Group 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. Each Group company must seek to minimise the likelihood of actions that could have a material impact on its reputation or that of the Group. In addition, Group companies have 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 response 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 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 Group manages and mitigates **regulatory risk** by continually monitoring the anticipated legislative changes in all countries where Group companies are established or operate, and by assessing their potential impact on the operations of the Group in the short and long term. All Group insurers have established compliance functions to monitor and assess the adequacy and effectiveness of periodic procedures and measures taken to remedy any deficiencies in compliance with the law and other commitments.

CONTENTS

Strategic risks also include **project risks**. The Group systematically monitors the risks for each key project, analysing and managing them to ensure the timely adoption of necessary measures. The risks associated with the Group's key projects are monitored and assessed by project team members as well as other stakeholders, also in the risk register.

The Group is paying increasing attention to **risks associated with sustainable development**. Sustainable development is among our top priorities in the 2020–2022 strategy period. Therefore, we have prepared and adopted a sustainable development strategy in cooperation with all Group companies. It provides for the disclosure of non-financial information relating to the environment, social issues, human resources, protection of human rights and anti-corruption policies. The Group adheres to the guidance provided by GRI (Global Initiative Reporting) standards, which cover sustainable development in a comprehensive way, looking at the Company's operations from all perspectives and taking account of all impacts – economic performance, impact on the environment and society at large.

In connection with sustainable development, monitoring of sustainability risks and new legislation in the field of sustainability, a sustainability risk working group was set up at the Sava Insurance Group level to monitor, on an ongoing basis, legislation and developments regarding sustainability risk and to take relevant action. The Group is implementing changes based on the requirements of the Solvency II Delegated Regulation and IDD[31], which provide for the integration of sustainability risk into the risk management system.

The Group has also proactively done some analysis of risks and scenarios related to climate change, as discussed in the 2022 ORSA, as it is aware of the importance of the risk of climate change to its long-term operation. During compiling the ORSA, material transition risks and physical risks of climate change were first identified in the strategic period. The risks were then qualitatively assessed in the same way as the other risks in the risk register. Based on assessments, the Group's largest exposure to transition risk relates to market risk, while its exposure to non-life underwriting risk is also high. In terms of physical risks, the Group is most exposed to strategic risks, whereas non-life underwriting risks are also assessed as high.

Two climate scenarios were also included in the 2022 ORSA: a moderately optimistic scenario of rapid transition and fewer physical risks, and a pessimistic scenario assuming little action to prevent climate change and many physical risks. In the pessimistic scenario, the Group is most exposed to the effects of an increase in non-life (re)insurance claims, the uninsurability of certain regions in terms of non-life (re)insurance, stricter conditions for obtaining reinsurance cover, indirect effects on financial markets and asset prices, and a fall in GDP. The risks are assessed to be lower in the rapid transition scenario.

In the next ORSA, we will also quantify the effects of each scenario as far as practicable.

In the coming years, we will continue our efforts to contribute to sustainable development, monitoring and analysing risks associated with sustainability and social responsibility. In addition, we will focus on the effective implementation of SFDR[32] regulations. For more information on sustainable development, see the Group's annual report, section 13 "Sustainable development in the Sava Insurance Group".

C.6.2 Investment contract risks

The Group's investment contracts include assets from annuity-certain contracts, which under accounting standards are classified as investment contracts, and life cycle fund assets relating to supplementary pension insurance of Sava Pokojninska in the accumulation phase. Investment contract assets as at 31 December 2021 totalled EUR 172.8 million (31 December 2020: EUR 158.8 million). For the purpose of calculating capital adequacy, the company Sava Pokojninska is consolidated in accordance with the rules applicable to other financial sectors, and is not considered in the modules of the Standard Formula. The risks associated with the company are therefore not discussed as part of underwriting or market risks. The capital requirement for the company Sava Pokojninska was calculated in accordance with sectoral regulations and amounted to EUR 6.7 million as at 31 December 2021 (31 December 2020: EUR 6.3 million).

31 Insurance Distribution Directive.
32 Sustainable Finance Disclosure Regulation (SFDR).

CONTENTS

Based on its investment contract assets and liabilities, the Group is exposed to the risk of not achieving the guaranteed return on the MZS fund. Policyholders under (members of) the supplementary pension insurance business therefore bear the entire investment risk arising out of the two funds, MDS and MUS, and the investment risk above the guaranteed return of the MZS fund. The guaranteed return on MGF is 60% of the average annual interest rate on government securities with a maturity of over one year.

The risk of failing to realise guaranteed returns is managed primarily through an appropriate management of policyholders' assets and liabilities, an appropriate investment strategy, an adequate capital level and provisioning. The Group tests its risk exposure arising out of guaranteed return through sensitivity analysis and scenarios as part of its own risk and solvency assessment. We assess that the risk of having to contribute funds in order to deliver the guaranteed return did not change compared to 2020.

Sava Penzisko Društvo only manages assets; funds do not provide a guaranteed return. Therefore, the company is not exposed to the risk arising from investment contracts in case of failure to realise guaranteed return.

C.7 Any other information

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

CONTENTS

D. Valuation for solvency purposes

CONTENTS

The basis for the balance sheet in accordance with Solvency II (hereinafter: SII balance sheet), in which assets and liabilities are valued in accordance with the valuation principles set out in Articles 174–190 of the ZZavar-1, is the consolidated balance sheet as prepared for Group reporting under the International Financial Reporting Standards as adopted by the EU (hereinafter: IFRS balance sheet).

The Group uses the full consolidation method for all its companies in the preparation of the IFRS consolidated financial statements, except for the associates DCB and G2I, which have been consolidated using the equity method. For the purpose of the valuation of the SII balance sheet, however, all Group (re)insurance undertakings and all ancillary services undertakings are consolidated in accordance with Article 335 1(a) of the Delegated Regulation; the Sava Pokojninska pension company and Sava Infond are included in the consolidation in accordance with Article 335 1(e), whereas Sava Penzisko Društvo and the associates DCB and G2I are included in accordance with Article 335 1(f).

For the purposes of determining the Group's solvency position, assets are stated – in accordance with Article 174 of the Slovenian Insurance Act (ZZavar-1) – 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 Group's creditworthiness.

The valuation of assets is conducted in accordance with IFRSs as adopted by the EU. 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 valuation consistent with Solvency II principles.

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 items for which the SII value differs from the IFRS value. For more details on the IFRS valuation, refer to the Group's annual report, section 17.4 "Significant accounting policies".

The fundamentals, methods and main assumptions used at the level of the Group in the valuation of the Group's assets, technical provisions (TP) and other liabilities for solvency purposes are generally no different from those used by any of the Group companies in its own valuation of assets, technical provisions and other liabilities for Solvency II purposes.

The Group holds no material off-balance sheet liabilities that it would be required to account for as contingent liabilities in the SII balance sheet; however, it holds off-balance sheet liabilities arising from commitments for payments into alternative funds.

In accordance with Article 267 of the Delegated Regulation, the Group set up a control procedure to ensure that the estimates used in the valuation of assets and liabilities are reliable and appropriate to ensure compliance with Article 174, paragraph 2, of ZZavar-1, and a periodic review procedure to verify that market prices and input data are reliable.

When alternative valuation models are used (in accordance with Article 263 of the Delegated Regulation), the following must be ensured:

- independent external audit of the valuation,
- periodic validation of information, data and assumptions underlying the valuation approach, results, and appropriateness of the valuation approach.

The following tables show the Group's balance sheet as at 31 December 2021 and 31 December 2020. This includes the values of assets and liabilities under the IFRSs (before and after adjustments for the companies Sava Pokojninska, Sava Penzisko Društvo and Sava Infond) as well as 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.

CONTENTS

IFRS and Solvency II balance sheets as at 31 December 2021[33]

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Assets							
1.	Goodwill (D.1.1)	32,433	-16,667	15,766	-15,766	0	0
2.	Deferred acquisition costs (D.1.2)	27,270	0	27,270	-27,270	0	0
3.	Intangible assets (D.1.3)	30,176	-14,205	15,972	-15,972	0	0
4.	Deferred tax assets (D.1.4)	5,487	-22	5,466	11,395	0	16,861
5.	Property, plant and equipment held for own use (D.1.5)	63,320	-697	62,623	1,518	0	64,141
6.	Property, plant and equipment other than for own use (D.1.6)	14,685	-383	14,302	1,683	0	15,985
7.	Investments in subsidiaries and associates (D.1.6)	20,480	55,088	75,568	-35,806	0	39,761
8.	Shares (D.1.6)	34,171	0	34,171	0	0	34,171
9.	Bonds (D.1.6)	1,310,636	-25,009	1,285,627	1,058	66,487	1,353,173
10.	Investment funds (D.1.6)	98,035	-4,828	93,208	0	1,977	95,185
11.	Deposits other than cash equivalents (D.1.6)	18,562	-4,470	14,092	0	11,879	25,971
12.	Investments for the benefit of life insurance policyholders who bear the investment risk (D.1.6)	517,440	0	517,440	188	-70,473	447,155
13.	Loans and mortgages (D.1.7)	1,675	0	1,675	0	0	1,675
14.	Reinsurers' share of technical provisions (D.1.8)	57,767	0	57,767	-12,668	-7,573	37,526
15.	Deposits to cedants (D.1.9)	9,610	0	9,610	0	0	9,610
16.	Insurance and intermediaries receivables (D.1.10)	131,780	31	131,811	0	-97,379	34,433
17.	Reinsurance and co-insurance receivables (D.1.11)	9,077	0	9,077	0	-695	8,382
18.	Other receivables (D.1.12)	9,084	-1,136	7,948	0	0	7,948
19.	Own shares (D.1.13)	24,939	0	24,939	23,104	0	48,043
20.	Cash and cash equivalents (D.1.14)	88,648	-7,816	80,832	0	-9,870	70,961
21.	Other assets (D.1.15)	177,987	-173,305	4,683	-3,668	0	1,015
Total assets		2,683,261	-193,416	2,489,845	-72,204	-105,647	2,311,994

33 The notes in parentheses are links to report sections with details on valuation methods.

CONTENTS

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Liabilities							
22.	Gross technical provisions – non-life (D.2.1)	751,379	0	751,379	-111,230	-86,657	553,492
23.	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	556,949	-14,047	542,902	-7,517	64	535,449
24.	Gross technical provisions – index-linked and unit-linked (D.2.1)	453,356	0	453,356	-41,313	29	412,072
25.	Provisions other than technical provisions (D.3.1)	9,018	-449	8,569	0	0	8,569
26.	Deferred tax liabilities (D.1.4)	11,387	-760	10,627	34,932	0	45,560
27.	Financial liabilities other than debts owed to credit institutions	173,245	-172,660	584	0	0	584
28.	Insurance and intermediaries payables (D.3.2)	46,497	0	46,497	396	-10,815	36,078
29.	Liabilities from reinsurance and co-insurance business (D.3.3)	10,109	0	10,109	0	-8,269	1,840
30.	Other trade payables (D.3.4)	24,536	-852	23,685	0	0	23,685
31.	Subordinated liabilities (D.3.5)	74,864	0	74,864	3,202	0	78,065
32.	Other liabilities (D.3.6)	42,905	-1,567	41,338	-19,346	0	21,992
Total liabilities		2,154,245	-190,335	1,963,909	-140,877	-105,647	1,717,386
Excess of assets over liabilities		529,016	-3,081	525,936	68,673	0	594,608

CONTENTS

Bilanca stanja v skladu z MSRP in v skladu s Solventnostjo II na dan 31. 12. 2020

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Assets							
1.	Goodwill (D.1.1)	32,433	-16,667	15,766	-15,766	0	0
2.	Deferred acquisition costs (D.1.2)	29,194	0	29,194	-29,194	0	0
3.	Intangible assets (D.1.3)	26,930	-16,086	10,844	-10,844	0	0
4.	Deferred tax assets (D.1.4)	4,925	-23	4,902	10,518	0	15,420
5.	Property, plant and equipment held for own use (D.1.5)	56,783	-475	56,308	780	0	57,088
6.	Property, plant and equipment other than for own use (D.1.6)	16,323	-407	15,916	1,390	0	17,306
7.	Investments in subsidiaries and associates (D.1.6)	15,056	55,088	70,144	-20,559	0	49,585
8.	Shares (D.1.6)	37,070	0	37,070	0	0	37,070
9.	Bonds (D.1.6)	1,279,661	-21,857	1,257,804	1,810	78,164	1,337,777
10.	Investment funds (D.1.6)	81,622	-2,223	79,399	0	3,959	83,358
11.	Deposits other than cash equivalents (D.1.6)	19,159	-4,825	14,334	0	15,210	29,544
12.	Investments for the benefit of life insurance policyholders who bear the investment risk (D.1.6)	411,225	0	411,225	324	-86,132	325,417
13.	Loans and mortgages (D.1.7)	2,120	0	2,120	0	0	2,120
14.	Reinsurers' share of technical provisions (D.1.8)	42,609	0	42,609	-11,676	-4,731	26,202
15.	Deposits to cedants (D.1.9)	7,261	0	7,261	0	0	7,261
16.	Insurance and intermediaries receivables (D.1.10)	138,045	32	138,076	0	-97,146	40,931
17.	Reinsurance and co-insurance receivables (D.1.11)	6,055	0	6,055	0	-697	5,357
18.	Other receivables (D.1.12)	9,772	-730	9,042	0	0	9,042
19.	Own shares (D.1.13)	24,939	0	24,939	6,918	0	31,856
20.	Cash and cash equivalents (D.1.14)	86,715	-6,652	80,064	0	-11,201	68,863
21.	Other assets (D.1.15)	164,294	-159,082	5,213	-3,209	0	2,004
Total assets		2,492,190	-173,906	2,318,284	-69,509	-102,574	2,146,200

CONTENTS

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Liabilities							
22.	Gross technical provisions – non-life (D.2.1)	748,774	0	748,774	-156,428	-86,961	505,385
23.	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	484,538	-11,052	473,486	121,573	110	595,169
24.	Gross technical provisions – index-linked and unit-linked (D.2.1)	409,604	0	409,604	-110,475	134	299,264
25.	Provisions other than technical provisions (D.3.1)	9,288	-361	8,927	0	0	8,927
26.	Deferred tax liabilities (D.1.4)	14,902	-948	13,953	30,070	0	44,023
27.	Financial liabilities other than debts owed to credit institutions	159,739	-158,596	1,143	0	0	1,143
28.	Insurance and intermediaries payables (D.3.2)	51,213	0	51,213	433	-10,428	41,218
29.	Liabilities from reinsurance and co-insurance business (D.3.3)	6,837	0	6,837	0	-5,429	1,409
30.	Other trade payables (D.3.4)	12,248	-579	11,670	0	0	11,670
31.	Subordinated liabilities (D.3.5)	74,805	0	74,805	876	0	75,681
32.	Other liabilities (D.3.6)	35,088	-1,476	33,612	-8,632	0	24,981
Total liabilities		2,007,037	-173,012	1,834,024	-122,582	-102,574	1,608,868
Excess of assets over liabilities		485,153	-894	484,259	53,073	0	537,332

The Group's off-balance sheet items as at 31 December 2021 include contingent assets of EUR 38 million, the nominal value of the cancelled subordinated instruments, regarding which the Group continues with measures designed to protect its interests. In addition, off-balance sheet items as at 31 December 2021 include contingent liabilities associated with commitments to make payments into alternative funds in the amount of EUR 17.4 million (31 December 2020: EUR 32.4 million).

CONTENTS

D.1 Assets

We set out below the individual categories of assets, along with the methods of their valuation.

D.1.1 Goodwill

Goodwill is stated at nil in the Group's SII balance sheet.

D.1.2 Deferred acquisition costs

Deferred acquisition costs are stated at nil in the Group's SII balance sheet.

D.1.3 Intangible assets

The Group has not identified any intangible assets that may be sold separately and for which it cannot prove that there is a market value for identical or similar assets. The value of intangible assets in the Group's SII balance sheet is stated at nil.

D.1.4 Deferred tax assets and liabilities

The Group accounts deferred tax assets and liabilities in the IFRS balance sheet in line with IAS 12; "Income Taxes".

Deferred tax assets and liabilities are defined based on identified temporary differences. These are differences between the tax value and the carrying amount 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 income taxes payable in future periods depending on taxable temporary differences. In periods of recognition, they increase income tax expenses and decrease net profit.

Deferred tax assets are the amounts of income taxes recoverable in future periods depending on:
- deductible temporary differences,
- the carryforward of unused tax losses to future periods,
- the transfer of credits utilised to future periods.

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 IFRS balance sheet, deferred tax assets and liabilities are accounted for at tax rates at which the management estimates differences will actually be taxed.

In the SII balance sheet, deferred tax assets and liabilities are recognised based on the IFRS value of deferred tax assets and liabilities plus additional deferred tax assets and liabilities relating to revaluations in the SII balance sheet, and they are presented separately.

In the SII balance sheet, deferred tax assets and liabilities are accounted for all revaluations apart from:
- the revaluation of the "participations in subsidiaries and associates" item if considered strategic investments, based on which revaluation differences are treated as permanent and there is therefore no basis for accounting for deferred taxes;
- the revaluation of the listed own shares item because it does not constitute a taxable temporary difference;
- revaluation of the subordinated liabilities item as it does not represent a taxable temporary difference.

Deferred tax relating to revaluation for the SII balance sheet is accounted for at tax rates applicable in Slovenia (19%), the domicile of the parent that draws up the consolidated accounts.

Pursuant to Solvency II principles, the Group reports a net deferred tax liability resulting from revaluations in the amount of EUR 23.5 million (2020: EUR 19.6 million). The following table provides a detailed overview by item.

CONTENTS

Deferred tax assets and liabilities

EUR thousand	31 December 2021 IFRS value	Revaluation	SII value	31 December 2020 IFRS value	Revaluation	SII value
Deferred tax assets	**5,466**	**11,395**	**16,861**	**4,902**	**10,518**	**15,420**
Deferred acquisition costs	0	5,181	5,181	0	5,547	5,547
Intangible assets	0	3,035	3,035	0	2,060	2,060
Financial investments	2,240	0	2,240	1,335	0	1,335
Reinsurers' share of technical provisions	0	2,407	2,407	0	2,218	2,218
Other items of deferred tax assets	3,226	772	3,998	3,567	692	4,259
Deferred tax liabilities	**10,627**	**34,932**	**45,560**	**13,953**	**30,070**	**44,023**
Property, plant and equipment held for own use	0	288	288	0	148	148
Property, plant and equipment other than for own use	0	320	320	0	264	264
Financial investments	10,587	201	10,788	13,950	344	14,294
Gross TPs	0	30,411	30,411	0	27,613	27,613
Other items of deferred tax liabilities	40	3,712	3,752	3	1,702	1,705

D.1.5 Property, plant and equipment held for own use

Every three years, the Group obtains fair value valuations of its main properties held for own use from independent external property appraisers. These certified property appraisers assess fair value and fair value less costs to sell in accordance with 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 makes use of the market approach and the income approach.

Equipment for the direct transacting of reinsurance business represents an immaterial amount and is stated at the same level in both the SII and IFRS balance sheets. Similarly, the valuation of right-of-use assets is the same in both the SII and IFRS balance sheets.

D.1.6 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.1.5 "Property, plant and equipment held for own use". The proprietary holiday facilities constitute a non-material part of assets; therefore, we do not have them appraised by external independent appraisers.

Investments in subsidiaries and associates

In accordance with Article 335(1)(e) of the Delegated Regulation, the data of the EU-based pension and fund management companies (Sava Pokojninska and Sava Infond) was not fully consolidated. Thus, these two companies remained part of the investments in subsidiaries and associates item of the adjusted IFRS balance sheet, valued at their carrying amounts. In the SII balance sheet they are stated in the amount equal to the proportional share of their own funds; that is, the amount of available capital calculated under sectoral regulations applicable to pension and fund management companies in Slovenia.

In accordance with Article 335(1)(f) of the Delegated Regulation, no full consolidation was carried out for data of the Group's non-EU-based pension companies (Sava Penzisko Društvo). These companies are included in the investments in subsidiaries and associates item of the adjusted IFRS balance sheet, stated at their carrying amount. On the other hand, they are valued using the IFRS equity method in the SII balance sheet, in accordance with Article 13(5) of the Delegated Regulation. As at 31 December 2021, we adjusted the methodology by subtracting from cost, which is the basis for calculations under the equity method, the goodwill that was part of the cost. The value of goodwill and other intangible assets that would be valued at nil under the asset valuation methodology is deducted from the obtained value of the company.

In accordance with Article 335(1)(f), the Group values interests in associate companies (DCB and G2I) in the SII balance sheet using the IFRS equity method in compliance with Article 13(5) of the Delegated Regulation.

Shares

Shares – listed

The valuation methodology for listed shares under Solvency II is consistent with the methodology used for the IFRS balance sheet valuation, as marketable shares are already stated at their market value, rendering a restatement for the purpose of the SII balance sheet redundant.

Shares – unlisted

Since unlisted equities represent an immaterial part of the Sava Insurance Group's investment portfolio, they are not stated at fair value in the SII balance sheet but rather at the IFRS balance sheet amount.

Bonds

All bonds, other than bonds classified as held to maturity, are valued in the SII balance sheet in accordance with IAS 39. Bonds classified as held to maturity are revalued to fair value in the SII balance sheet based on their market value as at the reporting date.

Also reclassified to this item are bonds from registers of assets supporting obligations to policyholders who bear the investment risk for which the Group provides a guarantee (guaranteed NAVPS) provided that, in accordance with IFRSs, the item includes assets for the benefit of life policyholders who bear the investment risk. If such bonds are classified as held to maturity, they are revalued to fair value for the purpose of preparing the SII balance sheet based on their market value as at the reporting date.

Structured notes

In 2021, the Group held no structured notes.

Investment funds

The value of investment funds in the IFRS balance sheet is shown at market value; therefore, no revaluation is required for the SII balance sheet.

Into this item, the Group reclassifies investment funds from registers of assets supporting obligations to policyholders who bear the investment risk for which the Group provides a guarantee (guaranteed NAVPS) if the investment items for the benefit of life policyholders who bear the investment risk are presented in accordance with IFRSs.

Alternative funds

The value of alternative funds (real-estate and infrastructure funds, private debt funds, private equity funds) for the purpose of IFRS reporting is shown on the basis of the unit value (net asset value per unit) provided by the fund manager or as the value of assets invested. Fund managers generally make valuations by using methods that comply with the IPEV[34] standards, such as cash flow discounting and the multiples method.

We assume that both approaches used in the IFRS balance sheet are the best approximation for market valuation; therefore, the value of these investments in the SII balance sheet are consistent with the IFRS balance sheet presentation.

34 International Private Equity and Venture Capital Valuation.

CONTENTS

Deposits other than cash equivalents

Valuation in the SII balance sheet is consistent with the methodology used for the IFRS balance sheet. Deposits other than cash equivalents are not revalued because we assume that the IFRS value is a sufficiently good approximation of market value.

Deposits with an original maturity of up to three months are reclassified in the SII balance sheet from the cash and cash equivalents item to the deposits other than cash equivalents item.

Investments for the benefit of life insurance policyholders who bear the investment risk

Financial investments supporting obligations arising out of insurance for which policyholders bear the entire investment risk while the Group does not guarantee a defined level of return (guaranteed NAV), are show under the item "Investments for the benefit of life insurance policyholders who bear the investment risk". Financial investments supporting obligations arising out of insurance for which policyholders bear the investment risk where the Group guarantees a defined level of return (guaranteed NAV), are reclassified in the SII balance sheet as other financial investments that support life insurance obligations.

Investments that in the SII balance sheet are included in investments for covering obligations of policyholders who bear the investment risk are valued in the IFRS balance sheet at market value, rendering a revaluation for the SII balance sheet redundant.

Held-to-maturity bonds supporting assets for the benefit of policyholders who bear the investment risk that are reclassified to other financial investments in the SII balance sheet, are revalued to market value.

D.1.7 Loans and mortgages

The SII balance sheet and the IFRS balance sheet valuations are the same.

D.1.8 Reinsurers' share of technical provisions

Hereinafter, we use the term "SII provisions" for technical provisions calculated in line with SII regulations and "IFRS provisions" for technical provisions calculated in line with the International Financial Reporting Standards. The main principles used in calculating IFRS provisions are described in the notes to the Group's financial statements in the annual report section 17.4.25 "Technical provisions".

The reinsurers' share of technical provisions is measured by the actuaries of Group companies. The methodology takes into account the guidelines set out in the underwriting and reserving risk policy.

The Group establishes premium provisions for reinsurance ceded, taking into account reclassifications of items for (1) not-past-due receivables for commission from ceded reinsurance and co-insurance business and (2) accrued liabilities for premiums for ceded reinsurance and co-insurance.

As ceded co-insurance and reinsurance business generates relatively small premium volumes, the reinsurers' share of technical provisions cannot be calculated using the same actuarial methods as for calculating gross provisions. We apply simplifications, calculating the share of the retrocession business based on retrocession data for each homogeneous group and each cohort. Using the share thus obtained, retroceded best estimate provisions (before costs, reclassifications and discounting) are calculated from gross best estimate provisions (before taking into account the costs, and future cash flows from premiums and provisions, and without taking into account the time value of money). The currency structure and the time value of money are taken into account in the same way as for gross best estimate provisions. In designing cash flows, historical data on paid claims are used to check for a possible time delay in retrocession payments as opposed to gross disbursements. Adjustments for a counterparty's anticipated default are made on the basis of the amount of the reinsurers' share of technical provisions (for the IFRS balance sheet valuation) being divided according to the credit ratings of counterparties and the probability of default associated with these ratings.

CONTENTS

D.1.9 Deposits to cedants

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, whereas the market value for the SII balance sheet is taken to be the IFRS balance sheet value.

D.1.10 Insurance and intermediaries receivables

The Group eliminates the items of not-past-due insurance receivables and not-past-due receivables for premiums arising out of assumed reinsurance and co-insurance from the item insurance and intermediaries receivables of the SII balance sheet. The Group treats this item as future cash flows when calculating gross best estimate premium provisions. Changes in receivables and premium provisions are recognised as reclassifications.

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

D.1.11 Reinsurance and co-insurance receivables

The Group eliminates from the reinsurance receivables item of the SII balance sheet the following two items: not-past-due receivables for commission from the reinsurer's retroceded business and not-past-due receivables for commission from the insurers' ceded reinsurance and co-insurance business. The Group treats these items as future cash flows when calculating future cash flows for the reinsurers' share of the best estimate premium provision. Changes in receivables and premium provisions are recognised as reclassifications.

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

D.1.12 Other receivables

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

Measurement for the SII balance sheet is the same as for the IFRS balance sheet as the carrying amount constitutes a sufficient approximation of fair value.

D.1.13 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.1.14 Cash and cash equivalents

The SII and IFRS balance sheet valuation of cash and cash equivalents is the same.

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.1.15 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.

Other assets are valued for the purpose of the SII balance sheet following the cash-flow aspect. Items for which the cash flow has already occurred are revalued to nil. Other items are recognised in the SII balance sheet at the same amounts as in the IFRS balance sheet.

CONTENTS

D.2 Technical provisions

The Group establishes the gross premium provision, reclassifying the items of not-past-due premium receivables relating to direct insurance, accepted reinsurance and co-insurance, and accrued commission payables relating to accepted reinsurance and co-insurance business. Specificities of individual companies are taken into consideration.

The valuation of gross technical provisions, including the reinsurers' share thereof, is conducted by the actuarial departments of Group companies. The valuation of the reinsurers' share of the SII provisions (best estimate provisions for accepted business) is described under valuation of assets, in section D.1.8 "Reinsurers' share of technical provisions". The methodology follows the guidelines set out in the Group's underwriting and reserving risk policy and complies with applicable actuarial methods.

In the calculation of Solvency II provisions, the Group does not apply the matching adjustment referred to in Article 182 of ZZavar-1 (or Article 77(b) of Directive 2009/138/EC), the volatility adjustment referred to in Article 184 of ZZavar-1 (or Article 77(d) of Directive 2009/138/EC), the transitional adjustment of the risk-free interest rate term structure referred to in Article 639 (or Article 308(c) of Directive 2009/138/EC), nor the transitional deduction referred to in Article 640 of ZZavar-1 (or Article 308(d) of Directive 2009/138/EC).

The Group establishes the following categories of SII provisions:

- best estimate claims provisions relating to direct insurance business,
- best estimate premium provisions relating to direct insurance business,
- best estimate provisions for annuities arising out of direct non-life insurance business (provisions for non-life annuities),
- best estimate provisions for life insurance business,
- best estimate provision for accepted reinsurance business,
- the risk margin.

SII provisions are equal to the sum of a best estimate and a risk margin. The categories of provisions mentioned above are described in greater detail later in this section.

Best estimate claims provisions relating to direct insurance

Claims provisions relate to loss events that have already occurred while the claims are yet to be resolved, whether claims have been reported or not. The best estimate is calculated taking into account the weighted average of all possible scenarios and the time value of cash flows, which means that all cash flows are discounted using risk-free interest rate term structures. The calculation also includes all expenses relating to the period from the date of the loss event to the date when it is accounted for, including any anticipated future recourse receivables from those claims.

Provisions for claims incurred but not yet paid are established based on historical data from previous years and are calculated together for reported claims and claims that have not yet been reported.

Each individual Group insurer calculates best estimate gross claims provisions for each homogeneous risk group using at least two of the following methods:

- the chain-ladder method, which, based on historical trends of settled and reported claims, estimates the further development of claim payments for incurred claims;
- the naive method, under which, for each insurance segment, a final ultimate loss ratio is estimated, regardless of how quickly claims are reported or paid;
- the Bornhuetter–Ferguson (BF) method, which is a combination of the naive method and the chain-ladder method, under which for each insurance segment a certain loss ratio is set depending on when the claim was reported and/or paid;
- the Fisher–Lange method (incremental average loss method), under which the average claims and number of claims are estimated based on historical data for each individual development year;
- the method of average IBNR claims, under which historical data is used to determine the amount of the incurred but not reported claims (IBNR) provisions as the product of the estimated number of IBNR claims and the average number of IBNR claims, while reported but not settled (RBNS) claims provisions are added to the final value of the best estimate claims provisions on the valuation date.

The most important assumptions in calculating the best estimate claims provisions (hereinafter: BE CP) are:

- the expected ultimate loss ratio: the expected final proportion of all settled claims in a given period as a percentage of the premiums earned in that period;
- loss development factors: for long-tail classes, the amount of the IBNR provision heavily depends on the choice of loss development factors, especially the choice of the tail representing the factors for the years for which the companies at the time have no actual loss experience. Development factors are selected based on historical development factors, adjusted for expected future changes, whereas the tail development factor is determined using a logarithmic regression, for which a curve is selected that best fits the chosen development factors for the fully developed accident years. This factor is appropriately adjusted based on actuarial judgement;
- expected proportion of loss adjustment expenses in future claim payments: the proportion of loss adjustment expenses in future claims is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of loss adjustment expenses;
- expected proportion of recourse receivables as a percentage of future claim payments: the proportion of recourse receivables in future claim payments is determined based on historical data on paid recourses and, if necessary, adjusted based on expectations for the future and trends;
- discounting: to calculate best estimate claims provisions, all cash flows are discounted using the relevant risk-free interest rate term structures;
- annuities: the reported motor and general liability claims may include claims that are scheduled to be paid out in the form of life annuities, or annuities until age 26 or until graduation; the Group companies calculated the related provisions separately using life techniques, which is why the best estimate claims provisions for non-life lines of business are calculated without these provisions and the related data.

For the most recent accident year (2021), the total average expected ultimate loss ratio is slightly higher than in the calculation as at 31 December 2020 for the 2020 accident year. In the previous year, we noticed a number of positive effects of Covid-19 or pandemic-related precautions, especially on motor business. These impacts were less pronounced in 2021.

Best estimate premium provisions relating to direct insurance

The premium provision refers to loss events that will occur after the valuation date; that is, during the remaining period of validity of the insurance coverage. It is calculated for those contracts that are active at the date of the calculation, and it is made up of all estimated future cash flows within the boundaries of insurance contracts (hereinafter: contract boundaries). The best estimate is calculated taking into account the weighted average of all possible scenarios and the time value of cash flows, which means that all cash flows are discounted based on relevant risk-free interest rate term structures.

The Group's largest direct EU-based insurer takes into account the following cash flows in calculating the premium provision, broken down by individual year and subsequently discounted using the risk-free interest rate term structure:

- all claims that will occur in the future,
- all loss adjustment expenses relating to the handling of claims referred to in the preceding indent,
- all future recourse receivables based on the claims referred to in indent one,
- all future expenses associated with the servicing of in-force contracts,
- all future premium inflows from not-past-due receivables,
- commissions and fire brigade charges arising from the premiums referred to in the preceding indent,
- the estimated value of future premium refunds due to contract lapses,
- future written premiums of multi-year contracts with annual statements of accounts and permanent contracts for periods covered for which premiums have not been invoiced,
- future written premiums for multi-year contracts accounted for annually and permanent contracts with annual premium accounting within contract boundaries,
- the expenses associated with the premiums referred to in the preceding two indents (bullet points),
- the amount of future expected bonuses and rebates dependent on the level of the loss ratio of certain contracts.

The Group's smaller insurance companies (not EU-based) calculate the premium provision relating to future claims and expenses using a simplified method from the IFRS unearned premiums and the expected loss and expense ratios.

CONTENTS

The most important assumptions in calculating the best estimate premium provisions (hereinafter: BE PP) are:

- the expected loss ratios: when setting the expected loss ratios, we take into account the ultimate loss ratios by accident year derived from the calculation of the claims provision, the change in the average premium over the previous year and expected future claim trends;
- expected proportion of loss adjustment expenses in future claim payments: the proportion of loss adjustment expenses in future claim payments is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of loss adjustment expenses;
- the expected proportion of commissions as a percentage of future premium cash flows: the proportion of commissions in paid premiums is determined based on historical data and, if necessary, adjusted based on future expectations and potential changes in premium rates;
- the expected proportion of other expenses as a percentage of future premium cash flows: the proportion of other expenses as a percentage of premiums written is determined based on historical data and, if necessary, adjusted based on future expectations and trends in the level of expenses;
- an expected proportion of recourse receivables as a percentage of future claim payments: this proportion is determined based on historical data on recourse payments;
- expected claims development by year: this claims development is determined based on historical patterns of claim payments;
- expected development of recourse receivables by year: this development of recourse receivables is determined based on historical data of recourse payments;
- expected lapse rate: the expected lapsed or refunded premiums due to early termination of contracts are determined based on the data of the previous year, which, if necessary, is adjusted in accordance with expectations.

The total expected ultimate loss ratio used in the calculation of the best estimate premium provision as at 31 December 2021 is somewhat lower than the one used in the calculation of the best estimate premium provision as at 31 December 2020, with a predominantly favourable impact from the discontinued less profitable FoS business, which only makes up a small part of the unexpired portfolio.

Best estimate provisions for annuities stemming from direct non-life insurance

Best estimate provisions for annuities stemming from non-life insurance (hereinafter: best estimate provision for non-life annuities) are calculated separately from the best estimate claims provisions for non-life insurance business due to the specific mode of benefit payments. They are separately determined for:

- reported annuities arising out of non-life insurance business (both accumulation and payout phase): these best estimate annuities are reported under the line of business life annuities stemming from non-life insurance contracts and relate to obligations other than health insurance obligations;
- non-life annuities not yet reported: best estimate provisions for this type of annuities are reported in non-life lines of business as part of best estimate claims provisions.

The assumptions used in the calculation of best estimate provisions for reported non-life annuities (whether in the payout phase or not) are:

- expected proportion of loss adjustment expenses in future claim payments: the proportion of loss adjustment expenses as a percentage of future annuity payouts is determined based on historical data relating to the previous accounting year;
- expected inflation: future expected inflation is determined based on the current macroeconomic situation and outlook;
- mortality based on selected mortality tables.

The assumptions used in the calculation of best estimate provisions for non-life annuities not yet reported are:

- expected number of such annuities determined based on past years, loss events and outlook,
- the average amount of the present value of all future annuity obligations at the time of the inception determined as the average value of all expected annuity obligations already being distributed and, if necessary, corrected by actuarial judgment based on trends.

The expected average subsequently reported annuity for the calculation at the end of 2021 was slightly higher than for the calculation in 2020.

Best estimate provisions for direct life insurance

Best estimate provisions for life insurance business are made at the insurance contract level using unified assumptions for individual homogeneous groups of life insurance policies. These are roughly divided into traditional life (endowment, term life, whole life, life annuities), unit-linked life (guaranteed or not, term life or whole life) and similar-to-life-technique health insurance. The calculation is made based on best estimates of future contractual cash flows, including best estimates of all contractual cash flows and of related cash flows such as claims handling costs, administrative expenses and financial income from invested assets covering the obligations arising from insurance contracts. Best estimate claims provisions for life insurance business are calculated separately.

To the extent that the insurance contract meets all of the following three conditions:

- premiums are uncollectible,
- the contract has no risk component at the valuation date,
- the contract does not include any financial guarantees,

the contract boundary is then assumed to be equal to the valuation date and thus no future premiums are taken into account in the cash-flow projection. The contract is valued as a combination of technical provisions calculated as a whole and best estimate provisions. In the case of a purely unit-linked insurance policy, the contract is valued as technical provisions calculated as a whole for the amount of the value of assets in investment funds, and the difference between expected actual and accrued costs is valued through the establishment of a best estimate provision.

The expected contractual cash flows include:

- income from premiums,
- claim/benefit payments (death, critical illness, maturity, surrender),
- expenses (agent commissions, other policy acquisition costs, loss adjustment expenses, administrative expenses),
- income from investments (investment management charges).

For individual contracts, the following needs to be considered:

- annual premiums, payment frequency, death benefits, critical illness and maturity benefits;
- product technical bases: technical interest rate, mortality and morbidity tables, expenses,
- assumptions: the proportion of unrealised mortality and morbidity, lapse rate, future profitability, realised expenses and future inflation.

For cash flows estimated until policy expiry, their present value as at the reporting date is calculated using the risk-free interest rate. With respect to life policies, a separate estimate of the present value of embedded options and guarantees is made, using stochastic economic scenarios or an approximation method. The future dynamic behaviour of policyholders has not been modelled, while future management actions have only been modelled for the calculation of the present value of options and guarantees for which it is anticipated that amounts in the fair value reserve will be realised in the event of scenarios if certain investment income – before realising fair value gains – does not meet the required level based on interest guarantees in traditional life policies.

Best estimate provisions for guaranteed payouts upon childbirth are calculated based on the anticipated number and level of payments for written policies. These provisions are calculated based on estimated future payments calculated using the triangle method, taking into account the number of births by policy year and development year or based on analytical formulas. The present value of the cash flows is calculated using the risk-free interest rate.

Best estimate claims provisions for life business are calculated using the method of average claims, making separate estimates for the provision for incurred reported claims and for the provision for incurred but not reported claims. Best estimate provisions for incurred reported claims are equal to case provisions. Best estimate provisions for incurred but not reported (IBNR) claims are calculated as the product of the ultimate number of IBNR claims (estimate from the triangle of reported claims) and the average level of IBNR claims. For this purpose, only claims arising from death or critical illness are considered. The average level of IBNR claims is calculated as the average sum at risk for each homogeneous group of policies. The present value of the cash flows is calculated using the risk-free interest rate.

In 2021, all assumptions used were re-evaluated and certain minor changes were made. In some segments, expenses as a percentage of insurance rose as the result of smaller portfolios, and there were minor changes in expected lapse ratios and expected mortality. The valuation was also affected by a change in the risk-free interest rate.

CONTENTS

Best estimate provisions for accepted reinsurance

Calculations are made at the level of lines of business in accordance with annex 1 to the Delegated Regulation, separately for Group and non-Group business (for Group-level balances, after the elimination of intra-Group transactions, only the latter are considered). Due to the negligible volume and the nature of the obligations relating to accepted non-Group life reinsurance business, the methodology for the valuation of these obligations is the same as for non-life and NSLT health insurance; therefore, the obligations arising out of accepted life reinsurance are classified as NSLT health insurance.

Best estimate provisions for accepted reinsurance consist of best estimate premium provisions and best estimate claims provisions. The calculation is based on the classification of business by underwriting year.

The calculation of best estimate provisions comprises the following steps:

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

"Technical" gross provisions are calculated using the chain-ladder method applied to cumulative paid claims triangles, taking into account the Bornhuetter–Ferguson (BF) modification. In the chain-ladder method, the development factors are selected based on data from the years reflecting the nature of the portfolio for which the provision is calculated. If, due to extraordinary events, individual factors deviate excessively from the average, they are excluded from the calculation of development factors. The development tail is calculated using an approximation together with one distribution function: exponential, Weibull, power, inverse power; the R-squared criterion is applied in the selection of the distribution function. The BF prior loss ratio is selected based on the judgement of the actuary and the reinsurance underwriting department. 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 judgment, 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 best estimate ultimate losses are selected, which is then 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 composition for the IFRS valuation of the balance sheet. Future cash flows broken down by currency are discounted using the relevant risk-free interest rate term structures.

The most important assumptions underlying the calculation are the selection of an appropriate method for each line of business, which did not change in most lines of business in 2021, and the applied ultimate ratios, especially for the last underwriting year, which is subject to the greatest uncertainty due to unknown losses and unexpired coverage. For non-Group accepted reinsurance business of the most recent underwriting year, the ratio of expected ultimate claims and commissions as a percentage of expected ultimate premiums is significantly higher year on year, largely due to claims for catastrophic events in 2021.

Risk margin

The risk margin, along with best estimate provisions, ensures that the value of the technical provisions is equal to the amount that another insurer would require to take on the liabilities towards policyholders, insured persons and other beneficiaries under the insurance contracts. The risk margin is calculated by determining the cost to insure the amount of eligible own funds equal to the solvency capital requirement necessary to support the insurance obligations during their validity or until their expiry. The rate used in determining the cost to ensure this amount of eligible own funds, being a spread above the relevant risk-free interest rate that an insurer would take into account to ensure such eligible own funds, is set at 6%.

In accordance with Article 340 of the Delegated Regulation, the risk margin is set as the sum of the risk margins of individual Group (re)insurance companies.

Each Group company takes into account all non-hedgeable risks in the calculation of the mentioned solvency capital requirement. These risks include:

- non-life underwriting risk,
- life underwriting risk,
- health underwriting risk,
- counterparty default risk relating to (re)insurance exposures,
- market risk, if it cannot be avoided through asset selection, except interest rate risk,
- operational risk.

In accordance with Article 58 of the Delegated Regulation, the simplified calculation method is used by Group companies in projecting the solvency capital requirement; specifically, level 2 of the hierarchy referred to in Article 61 of the "Decision on detailed instructions for the evaluation of technical provisions" is taken into account: The total solvency capital requirement for each future year is calculated based on the ratio of the best estimate in that future year to the best estimate technical provisions as at the valuation date. Should this method prove to be inadequate for any company, level 3 of the hierarchy referred to in Article 61 of the "Decision on detailed instructions for the evaluation of technical provisions" should be applied.

For composite insurance companies, the risk margin is calculated separately for life and non-life insurance, and it is allocated to individual lines of business so as to adequately reflect the contributions of the lines of business to the solvency capital requirement (in accordance with Article 37(3) of the Delegated Regulation). In the calculation of the solvency capital requirement for each line of business of a company, we assume that policies are written only in the segments for which the capital requirement is calculated; also, only in the following risk modules is the capital requirement calculated for each segment:

- life underwriting risk,
- health underwriting risk,
- non-life underwriting risk,
- operational risk.

CONTENTS

D.2.1 Value of Solvency II 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 as at 31 December 2021 and 31 December 2020 by line of business. There are separate tables for the best estimate claims provision, the best estimate premium provision, and the best estimate provision for life lines of business and the risk margin.

Best estimate claims provision (BE CP)

EUR thousand	Gross BE CP		Reinsurers' share of BE CP	
Line of business	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Medical expense insurance and proportional reinsurance	1,585	1,690	317	590
Income protection insurance and proportional reinsurance	23,423	23,832	429	446
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	115,466	112,921	537	618
Other motor insurance and proportional reinsurance	24,213	21,168	309	228
Marine, aviation and transport insurance and proportional reinsurance	15,745	13,083	2,287	1,397
Fire and other damage to property insurance and proportional reinsurance	97,269	90,402	10,408	6,608
General liability insurance and proportional reinsurance	44,949	39,007	1,186	1,218
Credit and suretyship insurance and proportional reinsurance	1,300	1,364	0	0
Legal expenses insurance and proportional reinsurance	49	65	19	24
Assistance insurance and proportional reinsurance	1,638	1,284	3	9
Miscellaneous financial loss	8,067	9,120	1,087	878
Non-proportional health reinsurance	704	719	1	1
Non-proportional casualty reinsurance	11,839	13,493	2,891	7,423
Non-proportional marine, aviation and transport reinsurance	9,348	5,966	44	209
Non-proportional property reinsurance	79,743	53,535	15,013	1,560
Total	435,337	387,647	34,531	21,211

Movements are largely in line with portfolio volume, loss events and claims settlements. However, the gross (and reinsurance) best estimate claims provisions for non-proportional non-life reinsurance business increased significantly due to adverse claims experience, particularly natural disasters in western Europe.

Best estimate premium provision (BE PP)

EUR thousand	Gross BE PP		Reinsurance BE PP	
Line of business	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Medical expense insurance and proportional reinsurance	948	222	-13	-2
Income protection insurance and proportional reinsurance	-10,520	-11,032	-15	-13
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	33,926	36,557	-478	-89
Other motor insurance and proportional reinsurance	36,109	31,782	509	466
Marine, aviation and transport insurance and proportional reinsurance	622	-14	-63	141
Fire and other damage to property insurance and proportional reinsurance	13,672	7,349	789	285
General liability insurance and proportional reinsurance	-313	954	141	58
Credit and suretyship insurance and proportional reinsurance	1,101	1,795	0	-78
Legal expenses insurance and proportional reinsurance	-195	-133	-98	-33
Assistance insurance and proportional reinsurance	4,372	4,164	-57	-15
Miscellaneous financial loss	-39	880	61	43
Non-proportional health reinsurance	-23	-33	0	0
Non-proportional casualty reinsurance	-313	-150	-12	64
Non-proportional marine, aviation and transport reinsurance	-94	-421	-261	-300
Non-proportional property reinsurance	-15,444	-12,167	-3,240	-627
Total	**63,808**	**59,755**	**-2,736**	**-101**

The gross best estimate premium provision increased slightly in 2021 year on year, mainly reflecting portfolio growth.

CONTENTS

Best estimate provisions for life lines of business

EUR thousand	TP calculated as a whole		Gross BE	
Line of business	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Health insurance	0	0	-13,734	-12,523
Insurance with profit participation	0	0	362,584	407,696
Index-linked and unit-linked insurance	93,167	70,334	311,429	221,009
Other life insurance	0	0	133,739	141,835
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0	0	0	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0	0	34,976	33,519
Total	93,167	70,334	828,993	791,537

The increase in the best estimate technical provision for life insurance is chiefly the result of portfolio movement, but also due to relocated and updated valuation assumptions. The best estimate provision relating to health insurance declined as the result of writing new profitable business.

The decrease in technical provisions for the “insurance with profit participation” line of business largely reflected portfolio movement due to policy maturities, with some effects from the slightly elevated risk-free interest rate term structure.

The increase in technical provisions for the “index-linked and unit-linked insurance” line of business was mainly driven by new business and movements in asset value, partly offset by policy maturities and lapses. In this regard, the technical provision for policies that satisfied certain criteria was calculated as a whole.

Technical provisions for the “other life insurance” line of business decreased partly because of higher assumptions regarding mortality and expenses, and partly because of policy maturities and the change in the risk-free interest rate curve.

In 2021, the provision for annuities stemming from non-life insurance increased modestly compared to 2020 because of additions to the list of annuities and annuity provisions newly reported in 2021.

CONTENTS

Risk margin

EUR thousand	Risk margin	
Line of business	31 December 2021	31 December 2020
Medical expense insurance and proportional reinsurance	353	307
Income protection insurance and proportional reinsurance	9,169	10,989
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	7,841	8,419
Other motor insurance and proportional reinsurance	6,460	6,374
Marine, aviation and transport insurance and proportional reinsurance	1,555	1,918
Fire and other damage to property insurance and proportional reinsurance	10,060	11,011
General liability insurance and proportional reinsurance	3,683	4,043
Credit and suretyship insurance and proportional reinsurance	644	954
Legal expenses insurance and proportional reinsurance	10	12
Assistance insurance and proportional reinsurance	707	668
Miscellaneous financial loss	640	851
Non-proportional health reinsurance	84	92
Non-proportional casualty reinsurance	1,484	1,236
Non-proportional marine, aviation and transport reinsurance	1,400	1,370
Non-proportional property reinsurance	10,258	9,741
Total non-life	54,348	57,983
Health insurance	2,902	3,411
Insurance with profit participation	7,003	10,909
Index-linked and unit-linked insurance	7,475	7,920
Other life insurance	7,680	9,988
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	186	200
Life reinsurance	114	134
Total life	25,359	32,562
Total	79,707	90,545

The risk margin decreased compared to 31 December 2020, chiefly driven by the rise in interest rates for discounting.

CONTENTS

D.2.2 Comparison of IFRS technical provisions to Solvency II technical provisions

The main differences in the valuation of technical provisions under Solvency II and IFRS are:

- SII provisions are based on the cash-flow principle and include expected future profits of the in-force portfolio, while the IFRS provisions are based on the principle of earned income less expenses. For this reason, it is not meaningful to compare the value of unearned premiums to best estimate premium provisions, as unearned premiums represent the amount of premiums not yet earned (the company's future income), while the premium provision takes into account all future cash flows expected of the in-force portfolio. Thus, as at 31 December 2021, the expected future profits from the active portfolio accounted for 13% (31 December 2020: 11%) of the difference between IFRS and SII provisions of non-life lines of business. Receivables and payables relating to not-past-due premiums and reinsurance commissions are eliminated from the calculation of best estimate premium provisions and are reclassified from the balance sheet items of the IFRS balance sheet. This reclassification represents 44% (31 December 2020: 36%) of the difference between IFRS and SII provisions of non-life lines of business.
- Furthermore, a comparison of the values of the provisions under the two standards (IFRS and SII) is not immediately meaningful, although in terms of their purpose the provisions under both standards are intended to cover claims incurred but not yet paid. A major substantive difference between the IFRS and SII value of the claims provision is that the SII provisions must be sufficient to meet obligations only in the weighted average of all possible scenarios, whereas IFRS provisions must be sufficient in the vast majority of cases. Accordingly, assumptions for IFRS provisions are more prudent. When comparing the most material assumption about the expected ultimate loss ratio for non-life lines of business for the most recent year (where the uncertainty is largest), it stood at 69% for IFRS claims provisions (31 December 2020: 66%) and 63% for Solvency II best estimate claims provisions (31 December 2020: 58%).
- SII provisions for non-life insurance take into account the time value of money, whereas the corresponding IFRS provisions are generally not discounted. Interest rate levels remain rather low, so the impact of discounting on the difference between IFRS and SII provisions for non-life insurance is relatively small.
- The total value of SII provisions of life lines of business is lower than IFRS provisions, but there are more significant differences between individual lines of business. For some lines of business the SII provisions are higher, and for others IFRS provisions. IFRS provisions for life lines of business take into account the expected present value of future cash flows via the LAT test, but only if it exceeds the current mathematical provision established, which means that, at the time of conducting the LAT test, the present value of potential future life insurance losses is recognised on the liabilities side. By contrast, SII best estimates for life business take into account both expected losses as well as expected profits of life business. SII provisions for life insurance with a savings component, including an interest guarantee and/or profit participation feature, are higher than IFRS provisions because the risk-free interest rate term structure is lower than the interest guarantee. In contrast, SII provisions for risk and unit-linked life insurance are lower than IFRS provisions as the former takes into account expected future gains based on mortality, morbidity and expenses.

CONTENTS

D.2.3 Description of the level of uncertainty

The level of uncertainty associated with SII provisions has been tested by observing the sensitivity of the provision to key parameters of the calculation. We conducted an analysis on the portfolios of the Group's EU-based companies, separately for best estimate premium and claims provisions for direct business and for best estimate provisions for accepted reinsurance and best estimate provisions for life insurance, the latter covering all portfolios. The following tables sets out the scenarios tested and their impact on the level of provisions tested.

It should be noted that the calculation based on USPs for reserving risk yields lower results for most non-life lines of business than when using the parameters of the Standard Formula, which leads us to conclude that the volatility of the expected outgo and income used in the calculation of best estimate provisions is not high.

Based on analyses, we estimate that the level of uncertainty in the calculation of provisions is low.

Sensitivity testing of direct insurance premium provisions

	Stress impact (%)	
Scenario	31 December 2021	31 December 2020
Increase in ultimate loss ratios for most recent accident year of 5%	10.7%	11.0%
Increase in expenses (other than commissions) of 5%	2.4%	2.3%
Reduction in proportion of recourse receivables of 10%	0.3%	0.3%

Sensitivity testing of direct insurance claims provisions

	Stress impact (%)	
Scenario	31 December 2021	31 December 2020
Increase in ultimate loss ratios for most recent accident year of 5%	4.8%	5.0%
Increase in loss adjustment expenses of 10%	0.5%	0.4%
Reduction in proportion of recourse receivables of 10%	0.1%	0.1%

Sensitivity testing of the provision for accepted reinsurance

	Stress impact (%)	
Scenario	31 December 2021	31 December 2020
Increase in expected loss ratios of the most recent underwriting year of 5%	4.4%	6.0%
Decline in not-past-due items (premiums less commissions) of 10%	2.2%	2.7%
Increase in expenses (other than commissions) of 50%	0.4%	0.5%

Sensitivity testing of the provision for life insurance

	Stress impact (%)	
Scenario	31 December 2021	31 December 2020
Increase in expected mortality rates of 15%	0.9%	0.9%
Increase in expenses (other than commissions) of 10% and inflation rate of 1%	1.5%	1.4%
Increase in lapse rate of 50%	1.5%	1.8%

D.3 Other liabilities

Below we provide notes on the valuation of individual components of 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.

The value of other provisions in the SII balance sheet is the same as in the IFRS balance sheet.

D.3.2 Insurance and intermediaries payables

From this item, the Group eliminates not-past-due commission payables relating to accepted (inward) reinsurance business at the SII balance sheet date. The Group takes this item into account as future cash flows when calculating best estimate premium provisions. Changes in payables and premium provisions are recognised as reclassifications.

SII balance sheet valuation of insurance payables differs from the valuation in the IFRS balance sheet in the addition of the expected future commission and future payables for fire brigade charges from contracts that are no longer active as at the reporting date.

D.3.3 Liabilities from reinsurance and co-insurance business

As at the balance sheet date, the Group eliminates the following not-past-due payables from the reinsurance payables item of the SII balance sheet: not-past-due premium payables relating to ceded business of insurance companies and not-past-due premium payables relating to retroceded business of the reinsurance company. The Group takes these items into account as future cash flows when calculating future cash flows for the reinsurers' share of the best estimate premium provision. Changes in receivables and premium provisions are recognised as reclassifications.

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

D.3.4 Other payables (trade, not insurance)

Other trade payables comprise short-term payables to employees for accrued salaries and reimbursement of expenses, tax liabilities, payables to suppliers for operating expenses and other payables.

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

D.3.5 Subordinated liabilities

Subordinated liabilities include the bond issued by the parent company. The bond was admitted to trading on the regulated market of the Luxembourg Stock Exchange. For the purpose of the SII balance sheet, liabilities arising from the subordinated bond issue are valued at fair value based on prices quoted by Bloomberg.

D.3.6 Any other liabilities, not elsewhere shown

Other liabilities largely comprise accrued costs (expenses), deferred insurance premiums earned, deferred reinsurance and co-insurance commissions, and long-term liabilities from leases that qualify for valuation under IFRS 16.

In this SII balance sheet item, the Group's deferred commissions relating to accepted co-insurance and reinsurance, and deferred technical income arising from policies of the non-life insurance segment are valued at nil. The valuation of other liabilities included in this item in the SII balance sheet does not differ from the IFRS valuation.

CONTENTS

D.4 Alternative methods for valuation

The Group uses alternative valuation methods for obtaining the fair value of financial investments for which the Group has no available public market price. Alternative methods represent the valuation at IFRS balance sheet values, the valuation of subsidiaries and associates that are not consolidated under Solvency II and the valuation of real property obtained from independent external property appraisers.

In 2021, the Group held the following financial investments in its portfolio, which were stated at IFRS balance sheet values:

- illiquid debt instruments,
- shares – unlisted,
- deposits other than cash equivalents (including deposits to cedants),
- alternative funds.

Subsidiaries and associates that are not consolidated under Solvency II include EU-based pension companies and asset management companies (Sava Pokojninska and Sava Infond), non-EU-based Group pension companies (Sava Penzisko Društvo) and associates (DCB and G2I).

The Group recognises EU-based pension companies and asset management companies in the SII balance sheet at the proportionate amount of available capital calculated under sectoral regulations applicable in Slovenia to pension companies and asset management companies. Non-EU based Group pension companies and interests in associates are valued in the SII balance sheet using the IFRS equity method in compliance with Article 13(5) of the Delegated Regulation. As at 31 December 2021, we adjusted the methodology by subtracting from cost, which is the basis for calculations under the equity method, the goodwill that was part of the cost. The value of goodwill and other intangible assets that would be valued at nil under the asset valuation methodology is deducted from the obtained value of the companies.

The Group periodically (generally every three years) obtains fair value valuations of its properties for own use from independent external property appraisers and of its investment properties. The fair value appraisals thus obtained are most representative of the amount for which the appraised properties could be exchanged between knowledgeable parties in arm's length transactions.

D.5 Any other information

The Group has no other material information relating to its valuation.

CONTENTS

E. Capital management

CONTENTS

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 Group's capital management objectives are:

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

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

An important input element of capital management and business planning is the Group's risk strategy, including the risk appetite set therein. The Group's risk strategy defines levels of capital adequacy as listed in section E.2 "Solvency capital requirement and minimum capital requirement". Each Group company is then determined a target capital adequacy level based on the Group's capital adequacy level.

The Group risk strategy in conjunction with capital adequacy is defined so as to (i) meet the requirements of regulators and rating agencies, and (ii) ensure that the Group has sufficient excess capital to cover any potential additional capital needs of subsidiaries in the event of a major stress scenario materialising in any of them. To this end, an excess of eligible own funds is determined over the statutory requirement.

As provided by the risk strategy, all Group subsidiaries must have, on an ongoing basis, a sufficient amount of capital available to meet solvency requirements in line with local law. In addition, Group subsidiaries subject to the Solvency II capital regime must have enough capital to absorb small to medium fluctuations in own funds and the solvency capital requirement due to the Standard Formula methodology and potential small and medium stresses and scenarios materialising.

Every year, Group companies and the Group prepare a financial plan for the next three-year period. The financial plan of the Group and each company must be in line with the risk strategy, meaning that they must ensure the Group's and each company's capital adequacy at an acceptable level.

The first phase of the annual verification of the potential for capital optimisation and additional allocation of capital includes a review of the results of the most recent calculation of the amount and structure of eligible own funds and the SCR. A financial 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 solvency ratio of the Company and the Group 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.

When allocating capital to business segments, it must be ensured that an adequate return on equity is achieved. 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 (an effective ratio of return to risk).

CONTENTS

E.1 Own funds

As at 31 December 2021, the Group reported an excess of assets over liabilities of EUR 594.6 million (31 December 2020: EUR 537.3 million).

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

- own shares in the amount of EUR 48.0 million (31 December 2020: EUR 31.9 million);
- foreseeable dividends in the amount of EUR 23.2 million (31 December 2020: EUR 13.2 million); their amount is determined based on the proposed resolution of the parent company's management and supervisory boards for the general meeting;
- EUR 107 thousand of minority interests not available at the Group level (31 December 2020: EUR 203 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 12.6 million (31 December 2020: EUR 11.2 million), i.e. an amount equal to the amount of own funds of Sava Pokojninska and Sava Infond;
- other items in accordance with the provisions of ZZavar-1.

Added to the excess of assets over liabilities are subordinated liabilities as these are part of the Group's basic own funds. As at 31 December 2021, the Group's Solvency II subordinated bonds were valued at EUR 78.1 million (31 December 2020: EUR 75.7 million).

The Group's basic own funds are additionally reduced by the total value of individual participations in other financial and credit institutions (excluding insurers) exceeding 10% of the Group's own-fund items (paid-up share capital plus capital reserves). In addition, they are reduced by part of the value of all participations in financial and credit institutions that exceeds 10% of the Group's own-fund items (other than those alone exceeding 10% and thus being excluded). As at 31 December 2021, the Group did not have any such exclusions from own funds, the same as at 31 December 2020.

Basic own funds after deductions are obtained in this way. The Group's available own funds are basic own funds after deductions plus the own funds of other financial entities (Sava Pokojninska and Sava Infond), which under ZZavar-1 are not subject to capital requirements under Solvency II.

Eligible own funds designated to meet the Group SCR are obtained from available own funds by additionally factoring in statutory restrictions regarding the quality of eligible own funds, which is further specified below.

As at 31 December 2021, the Group had no adjustments for other items in accordance with ZZavar-1, the same as at 31 December 2020.

Ancillary own funds are items that do not constitute basic own funds and that the Company or Group 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 undertaken by the Group. As at 31 December 2021, the Group held no ancillary own funds, the same as at 31 December 2020.

The following table shows the composition of the Group's own funds.

CONTENTS

Composition of the Group's own funds

EUR thousand	31 December 2021	31 December 2020
Ordinary share capital (gross of own shares)	71,856	71,856
Non-available called but not paid in ordinary Group share capital	0	0
Share premium account related to ordinary share capital	42,702	43,036
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
Non-available subordinated mutual member accounts at Group level	0	0
Surplus funds	0	0
Non-available Group surplus funds	0	0
Preference shares	0	0
Non-available Group preference shares	0	0
Share premium account related to preference shares	0	0
Non-available share premium account related to Group preference shares	0	0
Reconciliation reserve (= (1) - (2) - (3) - (4) - (5) - (6))	408,393	376,918
(1) Excess of assets over liabilities	594,608	537,332
(2) Own shares (held directly and indirectly)	48,043	31,856
(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	23,247	13,173
(5) Other basic own fund items	114,926	115,385
(6) Other non-available own funds	0	0
Subordinated liabilities	78,065	75,681
Non-available Group subordinated liabilities	0	0
Amount equal to the value of net deferred tax assets	0	0
Amount equal to the value of net deferred tax assets not available at Group level	0	0
Minority interests (if not reported as part of a specific own funds item)	367	493
Non-available minority interests at Group level	-107	-203
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-12,562	-11,201
Total basic own funds after deductions	588,715	556,579
Total own funds in other financial sectors	12,562	11,201
Eligible own funds to meet the Group SCR	601,277	567,780

CONTENTS

Eligible own funds to meet the Group SCR increased by EUR 33.5 million in 2021, largely reflecting the good performance of the Group companies.

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

The Group's minimum capital requirement (MCR) and the Group's SCR are covered by eligible own funds. These own funds must be of an adequate quality. To this end, the Solvency II legislation classifies own funds into three capital tiers based on both permanence and loss absorbency.

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

EUR thousand	31 December 2021	31 December 2020
IFRS equity[35]	500,997	459,320
Difference in the valuation of assets	-200,955	-179,001
Difference in the valuation of technical provisions	246,624	232,047
Difference in the valuation of other liabilities	-100	-6,890
Foreseeable dividends, distributions and charges	-23,247	-13,173
Adjustment for minority interests	-107	-203
Deduction for participations in other financial undertakings	-12,562	-11,201
Subordinated liabilities in basic own funds	78,065	75,681
Total basic own funds after deductions	588,715	556,579
Total own funds in other financial sectors	12,562	11,201
Eligible own funds to meet the Group SCR	601,277	567,780

As can be seen from the table, the majority of differences in figures as at 31 December 2021 originate from differences in the valuation of Solvency II technical provisions in (re)insurance undertakings in and outside the European Union, similar to 31 December 2020. The methodology used is detailed in section D.2 "Technical provisions".

35 IFRS equity is adjusted for the elimination of the companies Sava Pokojninska, Save Penzisko Društvo and Sava Infond.

CONTENTS

Tier 1 funds include own funds that mostly meet the conditions laid down in Article 196(1), indents one and two, of ZZavar-1; such items are available to absorb losses at all times (permanent availability) and, in the event of the Group's winding-up, they become available to the holder only after all of the Group's other obligations are met. Considered are features, such as permanence, confirmed absence of redemption incentives and encumbrances.

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

- paid-up ordinary shares,
- paid-up capital reserves,
- the reconciliation reserve 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.

The Group'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.

Tier 2 funds include own fund items that mostly exhibit the features referred to in Article 196(1), indent two, of ZZavar-1; in the event of the Group's winding-up, such items become available to the holder only after all of the Group's other obligations are met or paid. Considered are features, such as permanence, confirmed absence of redemption incentives and encumbrances. The Group classifies its subordinated liabilities, subordinated debt with a duration of 20 years and a contractual opportunity to redeem after 10 years, as tier 2 eligible own funds. Subordinated liabilities have the feature of subordination.

Tier 3 funds are 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 to the Group by credit institutions. Tier 3 also includes own funds from net deferred tax assets. The Group holds no tier 3 own funds

36 The total of tier 2 and tier 3 assets must not exceed 50% of the SCR.

37 Hereinafter the term "Group's eligible own funds" refers to the Group's eligible own funds designated to meet the Group SCR, unless stated otherwise.

CONTENTS

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

Statutory restrictions regarding own funds designated to meet the Group SCR and the Group MCR

	Tier 1	Tier 2	Tier 3
Group SCR coverage	minimum 50% of SCR	no additional restrictions[36]	maximum 15% of SCR
Group MCR coverage	minimum 80% of MCR	maximum 20% of MCR	not eligible

The following two tables show the amounts of the Group's eligible own funds designated to meet the Group SCR and the Group MCR as at 31 December 2021 compared to figures as at 31 December 2020. They are classified into the statutory tiers described above.

Eligible own funds to meet the Group SCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2021	601,277	523,212	78,065	0
As at 31 December 2020	567,780	492,099	75,681	0

Eligible own funds to meet the Group MCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2021	538,780	510,650	28,130	-
As at 31 December 2020	508,170	480,899	27,271	-

As at 31 December 2021, the major part of the Group's eligible own funds to cover its SCR and MCR is classified as tier 1 funds and included no ancillary own funds[37]. The Group classifies its subordinated liabilities, the subordinated debt issued by Sava Re in 2019, as tier 2 funds. Due to regulatory restrictions, as far as eligible own funds to meet the Group's MCR are concerned, the Group is only permitted to count subordinated liabilities, which include subordinate debt, up to 20% of the Group's MCR. There were no items subject to regulatory transitional arrangements among the disclosed eligible own funds of the Group.

As provided for by Article 330(1) of the Delegated Regulation, the parent company has assessed the availability of eligible own funds of associated undertakings at the Group level. No legal or regulatory requirements were found to apply to own fund items such as would restrict the ability of those items to absorb all types of losses Group-wide or restrict the transferability of assets to other Group companies, nor has a time limit been established for the availability of own funds to meet the Group SCR. The Group's subsidiaries and associates held no own fund items referred to in Article 330(3) of the Delegated Regulation.

The only item of the Group's non-available own funds is thus minority interests in subsidiaries (insurance undertakings) exceeding the subsidiary's contribution to the SCR calculated based on consolidated data of insurance undertakings in the Group, in the amount of EUR 107 thousand as at 31 December 2021 (31 December 2020: EUR 203 thousand).

38 Under Solvency II the consolidation includes insurance companies and ancillary services undertakings.

CONTENTS

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Group solvency capital requirement (Group SCR)

The Group calculates its SCR and MCR in accordance with the Solvency II Standard Formula. Solvency is calculated using the accounting consolidation method (first method under Article 377 of ZZavar-1).

The SCR, as calculated based on consolidated figures of insurance undertakings in the Group (hereinafter: consolidated Group SCR), is calculated as the basic solvency capital requirement (BSCR) plus adjustments for the loss-absorbing capacity of technical provisions and deferred taxes plus the capital requirement for operational risk. In accordance with Article 336 of the Delegated Regulation, the Group solvency capital requirement is calculated as the sum of the consolidated Group SCR plus the capital requirement for other financial sectors, calculated in accordance with relevant sectoral regulations, and capital requirement for residual undertakings of the Group.

Compared to the calculation as at 31 December 2020, the calculation as at 31 December 2021 has been aligned with the Delegated Regulation with regard to the methodology for calculating interest rate risk; accordingly, we now do not take subordinated debt into account in the calculation of interest rate risk as the change in the amount of subordinated debt does not affect the level of eligible own funds. The participation in DCB qualifies for treatment as a strategic investment under Solvency II and is therefore treated as a strategic investment (it was previously treated as a non-strategic investment).

The following table shows individual risk modules along with other Group SCR components, Group eligible own funds and the Group solvency ratio.

Group solvency capital requirement (Group SCR)

EUR thousand	31 December 2021	31 December 2020
(7) Group solvency capital requirement (Group SCR) (= (4) + (5) + (6))	304,405	287,432
(6) Capital requirement for other financial sectors	7,797	7,383
(5) Capital requirement for residual undertakings	6,142	12,588
(4) SCR as calculated based on consolidated figures of Group insurance companies that are consolidated under Solvency II[38] (= (1) + (2) + (3))	290,466	267,460
(3) Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-17,709	-18,313
(2) Operational risk	21,816	21,585
(1) Basic solvency capital requirement	286,360	264,189
Diversification effect	-132,071	-124,900
Total of risk components	418,431	389,089
Market risk	147,025	120,583
Counterparty default risk	20,596	25,045
Life underwriting risk	38,255	38,208
Health underwriting risk	32,460	31,604
Non-life underwriting risk	180,095	173,649
(A) Eligible own funds (excluding other financial sectors)	588,715	556,579
(B) Eligible own funds in other financial sectors	12,562	11,201
(C) Eligible own funds to meet Group SCR	601,277	567,780
Group solvency ratio (%) (= (C) / (7))	198 %	198 %

Similar to 31 December 2020, as at 31 December 2021, the largest proportion of the Group SCR arose from risks associated with non-life business, which rose compared to 31 December 2020 mainly because of the increase in best estimate provisions. The Group's second-largest risk is market risk, which significantly increased in 2021, as the result of portfolio growth. Other risks represent a smaller proportion of the Group SCR and are as at 31 December 2021 at a similar level as at 31 December 2020. As at 31 December 2021, the capital requirements for residual companies dropped compared to 31 December 2020 as the result of a change in the valuation methodology for equity-accounted companies and the reclassification of the company DCB as a strategic participation. For details regarding changes in individual risk modules, see section C. "Risk profile".

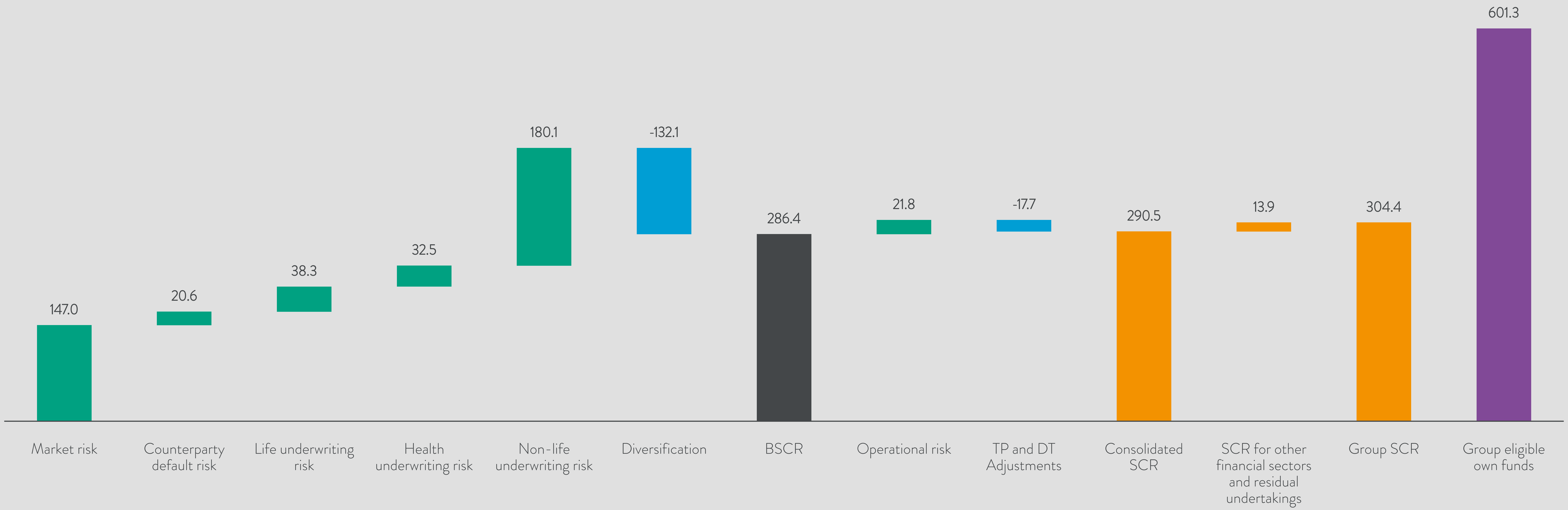
The Group does not use the simplifications referred to in Articles 88–112 of the Delegated Regulation, nor does the Group use undertaking-specific parameters in the calculation of the SCR.

As at 31 December 2021, the Group adjusted the SCR for deferred taxes in the amount of EUR 16.6 million (31 December 2020: EUR 17.3 million). The adjustment for the loss-absorbing capacity of deferred taxes is calculated in accordance with the Delegated Regulation and Article 23 of the "Decision on the terms and method of covering losses by reducing technical provisions and deferred taxes". At the individual company and Group levels, adjustments have been made in the amount of the maximum adjustment for loss absorbency of deferred taxes that may be taken into account without requiring any evidence, i.e. up to the amount of net liabilities for deferred taxes in the SII balance sheet.

The Group makes its catastrophe risk module calculation using certain necessary assumptions about the scenarios on the basis of which calculations are made of the impact of the reinsurance programme.

The following chart shows the individual risk modules of the Standard Formula, the Group SCR and Group eligible own funds as at 31 December 2021.

Solvency capital requirement by risk module as at 31 December 2021 **(EUR million)**



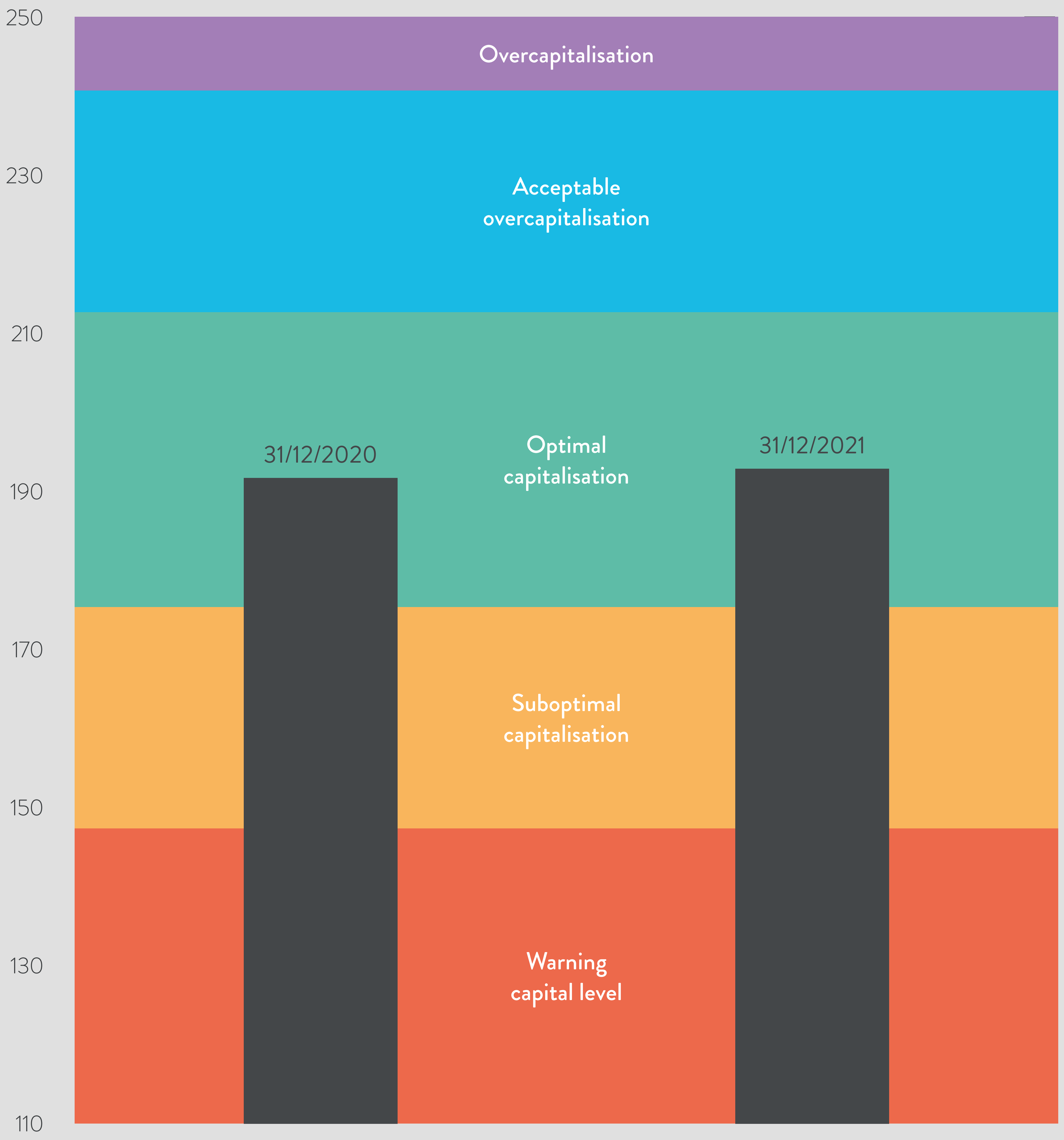
As illustrated by the graph, Group eligible own funds markedly exceed the Group SCR, as reflected in the Group's high solvency ratio of 198% as at 31 December 2021 (31 December 2020: 198%).

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 Group 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. It must also have available a sufficient level of eligible own funds to meet potential capital requirements of its subsidiaries if a major scenario were to materialise in any of them. To this end, an excess of eligible own funds is determined over the statutory requirement.

In line with the risk strategy, the suboptimal capitalisation range starts at a solvency ratio of 150%, and the optimum capitalisation is in the range between 180% and 220%. Based on this, as at 31 December 2021, the Group is also well capitalised by internal criteria.

In December 2021, the financial projections and the calculation of the Group's eligible own funds, the Group SCR and the Group solvency ratio for 2021–2024 were also confirmed. For the period 2021–2024, the Group's solvency ratio is planned at a level in line with the risk strategy.

Alignment of the Group solvency ratio with the risk strategy (in %)



E.2.2 Minimum capital requirement (MCR)

The Sava Insurance Group calculates the Group MCR as the sum of the parent company's MCR and the MCRs of its insurance subsidiaries, with local capital requirements factored in for non-EU based insurers.

Input data for calculating Group MCR

EUR thousand	31 December 2021	31 December 2020
Sava Re	54,498	54,850
Zavarovalnica Sava	55,698	52,265
Sava Neživotno Osiguranje (SRB)	11,430	10,219
Sava Životno Osiguranje (SRB)	3,416	3,414
Sava Osiguruvanje (MKD)	3,204	3,201
Sava Osiguranje (MNE)	3,004	3,007
Illyria	3,000	3,000
Illyria Life	3,200	3,200
Vita	3,200	3,200
Group MCR	140,651	136,355

Group MCR

EUR thousand	31 December 2021	31 December 2020
Minimalni zahtevani kapital (MCR) skupine	140,651	136,355
Eligible own funds to meet the Group MCR	538,780	508,170
Of which tier 1	510,650	480,899
Of which tier 2	28,130	27,271
Of which tier 3	-	-
Group MCR	383 %	373 %

The Group's eligible own funds designated to meet the MCR of EUR 538.8 million (31 December 2020: EUR 508.2 million) substantially exceed the Group MCR of EUR 140.7 million (31 December 2020: EUR 136.4 million).

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

The Group does not use the duration-based equity risk sub-module in the calculation of the solvency capital requirement.

CONTENTS

E.4 Difference between the Standard Formula and any internal model used

There are no differences between the Standard Formula and any internal model because neither any Group company nor the Group uses any internal model for the calculation of the solvency capital requirement.

CONTENTS

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

The Group experienced no non-compliance with either the minimum solvency requirement or the solvency capital requirement.

CONTENTS

E.6 Any other information

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

CONTENTS

Appendix A
Glossary of selected terms and calculation methodologies

CONTENTS

English term	Slovenian term	Meaning
Adjustment for loss-absorbing capacity of technical provisions and deferred taxes – TP and DT adjustment	Prilagoditev zaradi absorpcijske zmožnosti zavarovalno-tehničnih rezervacij in odloženih davkov – TP in DT	The capital requirement structure of the standard formula also includes the adjustment for the loss absorbing capacity of technical provisions and deferred taxes. The adjustment reflects the potential compensation of unexpected losses by reducing technical provisions or deferred taxes or a combination of both. The adjustment takes into account the effect of reduced risk arising from future discretionary benefits on (re)insurance contracts, as (re)insurance companies may take into account that the reduction in these entitlements may be used to cover potential unexpected losses.
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.
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.
Freedom of services business	FOS-posli	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 a company or group within its set risk appetite range.
Own funds	Primerni lastni viri sredstev	Own funds eligible to cover the solvency capital requirement.
Own risk and solvency assessment – ORSA	Lastna ocena tveganj in solventnosti – ORSA	Own assessment of the risks associated with a company's or group's business and strategic plans and assessment of the adequacy of own funds to cover risks.
Physical risks of climate change	Fizična tveganja podnebnih sprememb	Risks arising from the physical effects of climate change. They include acute physical risks arising from weather events that adversely affect the business and chronic physical risks arising from long-term climate change that adversely affects a company's business.
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 or group is willing to take in order to meet its strategic goals.

CONTENTS

English term	Slovenian term	Meaning
Risk management system	Sistem upravljanja tveganj	The risk management system is a set of measures taken by a company or group to manage (i.e. to identify, monitor, measure, manage, report) material risks arising from both the operations of a company or group 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 a company or group is exposed to and the quantification of these exposures for all risk categories.
Risk register	Register tveganj	List of all identified risks maintained and regularly updated by a company or group.
Risk tolerance limits	Meje dovoljenega tveganja	Limits for risk categories included in a company's or group'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 risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenario test	Scenarij	Scenarios 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.
Sensitivity analysis	Analiza občutljivosti	In a sensitivity analysis, a single parameter is changed to observe the effect on the value of assets, liabilities and/or own funds of a company or the Group as well as any effects of such changes on these values.
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 or group's capital adequacy in accordance with the Solvency II principles. A solvency ratio in excess of 100% indicates that a company or group 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 due to a potential future financial event to observe the effect on the value of a company's or group's assets, liabilities and/or own funds as well as any effects on the value of the parameter itself.
Tiers	Kakovostni razredi kapitala	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether basic or ancillary).
Transition risk of climate change	Tveganja prehoda podnebnih sprememb	Transition risk arises in the transition to a low-carbon and climate-resilient economy. Such risks include risks of new rules, requirements and policies, legal risks, technology risks, market risks and reputation risks.
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 by parameters specific to the undertaking concerned, in accordance with article 218 of Delegated Regulation (EU) 2015/35.
Unit value, net asset value – NAV	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.

CONTENTS

Appendix B Quantitative reporting templates

S.32.01.22	Undertakings in the scope of the Group
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.23.01.22	Own funds
S.25.01.22	Solvency Capital Requirement – for undertakings on Standard Formula

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

S.32.01.22 Undertakings in the scope of the Group

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of undertaking ID code	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
SI	SC/5822416000	SC	SAVA INFOND d.o.o.	8	PLLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: industry regulations
CRO	SC/02467143	SC	SO poslovno savjetovanje	10	PLLC	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/5946948000	SC	TBS TEAM 24 d.o.o.	10	PLLC	2		87.5%	100.0%	87.5%		dominant	100.0%	YES		M1: full consolidation
MK	SC/5989434	SC	SAVA PENZISKO DRUSTVO AD Skopje	9	PLC	2	Agency for Supervision of Fully Funded Pension Insurance – MAPAS	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: adjusted equity method
SI	SC/5690366000	SC	Diagnostični center Bled d.o.o.	10	PLLC	2		40.1%	50.0%	50.0%		significant	50.0%	YES		M1: adjusted equity method
GB	SC/10735938	SC	G2I Ltd	10	PLLC	2	Financial conduct authority	17.5%	17.5%	25.0%		significant	17.5%	YES		M1: adjusted equity method
XK	SC/810483769	SC	Illyria s.h.a., Pristina	2	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
MK	SC/4778529	SC	Sava osiguruvanje a.d., Skopje	2	PLC	2	North Macedonian Insurance Supervision Agency	93.9%	100.0%	93.9%		dominant	100.0%	YES		M1: full consolidation
ME	SC/02303388	SC	Sava osiguranje a.d., Podgorica	2	PLC	2	Montenegro Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
XK	SC/810793837	SC	Illyria Life s.h.a., Pristina	1	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation

CONTENTS

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of undertaking ID code	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
RS	SC/20482443	SC	Sava Životno Osiguranje a.d., Belgrade	1	d.d.	2	Serbian National Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
RS	SC/17407813	SC	SAVA NEŽIVOTNO OSIGURANJE A.D.O. BELGRADE	2	d.d.	2	Serbian National Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/48510000OG X4W2DFYV52	LEI	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	4	d.d.	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/213800K2LJ 7JKL6CU689	LEI	Sava Pokojninska Družba, d.d.	9	d.d.	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: industry regulations
XK	SC/810797912	SC	S Estate L.L.C.	10	d.o.o.	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
ME	SC/02806380	SC	Sava Car d.o.o., Podgorica	10	d.o.o.	2	Ministry of Internal Affairs	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/2154170000	SC	ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o.	10	d.o.o.	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/6149065000	SC	ORNATUS KLICNI CENTER, podjetje za posredovanje telefonskih klicev, d.o.o.	10	d.o.o.	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
ME	SC/02699893	SC	DRUŠTVO ZA ZASTUPANJE U OSIGURANJU "SAVA AGENT" D.O.O. - Podgorica	10	d.o.o.	2	Montenegro Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
MK	SC/ 7005350	SC	Sava Station dooel Skopje	10	d.o.o.	2	North Macedonian Ministry of Internal Affairs	92.57%	100.0%	92.57%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/485100004VO FFO18DD84	LEI	Življenjska Zavarovalnica Vita d.d. Ljubljana	1	d.d.	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation

CONTENTS

Country	Identification code of the undertaking	Type of undertaking ID code	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority	Criteria of influence: % capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	Date of decision if art. 214 is applied	Group solvency calculation: Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
SI	LEI/549300P6F1 BDSFSW5T72	LEI	Pozavarovalnica Sava d.d., Ljubljana	3	d.d.	2	Slovenian Insurance Supervision Agency						100.0%	YES		M1: full consolidation

Legend

Cell	Abbreviated	Long name
C0030	SC	special code
	LEI	Legal entity Identifier (LEI)
C0050	1	life insurance company
	2	non-life insurance company
	3	reinsurance company
	4	composite insurance company
	8	credit institution, investment company or financial institution
	9	institution for occupational retirement provision
	10	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35
	99	other
C0060	PLLC	private limited-liability company
	PLC	public limited company
C0070	2	non-mutual company
C0260	M1	method 1

CONTENTS

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	16,861
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	64,141
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1,564,245
Property (other than for own use)	R0080	15,985
Holdings in related undertakings, including participations	R0090	39,761
Equities	R0100	34,171
Equities – listed	R0110	32,342
Equities – unlisted	R0120	1,828
Bonds	R0130	1,353,173
Government Bonds	R0140	743,470
Corporate Bonds	R0150	609,702
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	95,185
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	25,971
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	447,155

		Solvency II value
Assets		C0010
Loans and mortgages	R0230	1,675
Loans on policies	R0240	135
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	1,540
Reinsurance recoverables from:	R0270	37,526
Non-life and health similar to non-life	R0280	31,795
Non-life excluding health	R0290	31,076
Health similar to non-life	R0300	719
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	5,742
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	5,742
Life index-linked and unit-linked	R0340	-11
Deposits to cedants	R0350	9,610
Insurance and intermediaries receivables	R0360	34,433
Reinsurance receivables	R0370	8,382
Receivables (trade, not insurance)	R0380	7,948
Own shares (held directly)	R0390	48,043
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	70,961
Any other assets, not elsewhere shown	R0420	1,015
Total assets		2,311,994

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	553,492
Technical provisions – non-life (excluding health)	R0520	527,769
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	483,028
Risk margin	R0550	44,741
Technical provisions – health (similar to non-life)	R0560	25,723
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	16,116
Risk margin	R0590	9,607
Technical provisions – life (excluding index-linked and unit-linked)	R0600	535,449
Technical provisions – health (similar to life)	R0610	-10,832
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	-13,734
Risk margin	R0640	2,902
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	546,281
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	531,299
Risk margin	R0680	14,982
Technical provisions – index-linked and unit-linked	R0690	412,072
Technical provisions calculated as a whole	R0700	93,167

		Solvency II value
Liabilities		C0010
Best Estimate	R0710	311,429
Risk margin	R0720	7,475
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	8,569
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	45,560
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	584
Insurance & intermediaries payables	R0820	36,078
Reinsurance payables	R0830	1,840
Payables (trade, not insurance)	R0840	23,685
Subordinated liabilities	R0850	78,065
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	78,065
Any other liabilities, not elsewhere shown	R0880	21,992
Total liabilities	R0900	1,717,386
Excess of assets over liabilities	R1000	594,608

CONTENTS

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

First part of table:

		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	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross – Direct Business	R0110	10,736	52,917	0	126,330	131,685	4,240	85,712	19,357	411	735	19,437	2,282
gross – accepted proportional reinsurance	R0120	0	1,512	0	444	2,445	7,172	49,880	2,935	723	9	0	5
gross – accepted non-proportional reinsurance	R0130												
Reinsurers' share	**R0140**	867	-6	0	4,812	2,070	1,117	19,070	1,048	49	626	122	1,062
Net	**R0200**	9,869	54,435	0	121,962	132,060	10,295	116,523	21,245	1,085	119	19,315	1,224
Premiums earned													
Gross – Direct Business	R0210	9,680	52,885	0	127,880	126,985	6,232	86,912	22,700	1,838	749	18,421	2,761
gross – accepted proportional reinsurance	R0220	0	1,503	0	441	2,273	7,738	49,060	3,208	801	9	0	22
gross – accepted non-proportional reinsurance	R0230												
Reinsurers' share	**R0240**	1,007	6	0	5,223	2,025	2,512	18,193	442	47	632	105	1,070
Net	**R0300**	8,673	54,382	0	123,099	127,232	11,457	117,780	25,466	2,591	127	18,316	1,714

CONTENTS

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	Income protection insurance	Workers' compensa-tion insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellane-ous financial loss
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Claims incurred													
Gross – Direct Business	R0310	4,598	13,535	0	63,840	78,427	4,219	45,017	11,837	1,011	-1	9,479	1,127
gross – accepted proportional reinsurance	R0320	-266	665	0	280	1,317	6,781	29,937	2,383	269	3	0	1,909
gross – accepted non-proportional reinsurance	R0330												
Reinsurers' share	R0340	-318	612	0	968	1,234	1,654	10,080	625	23	-1	20	677
Net	R0400	4,649	13,588	0	63,152	78,510	9,346	64,875	13,595	1,256	3	9,459	2,359
Change in other technical provisions													
Gross – Direct Business	R0410	3	13	0	683	296	76	-701	191	0	0	112	4
gross – accepted proportional reinsurance	R0420	0	0	0	0	-3	732	0	0	0	0	0	-5
gross – accepted non-proportional reinsurance	R0430												
Reinsurers' share	R0440	0	0	0	-1	-5	34	-32	-1	0	0	0	8
Net	R0500	3	14	0	684	298	774	-668	192	0	0	112	-9
Expenses incurred	R0550	3,552	20,014	0	35,027	32,894	3,942	47,002	8,931	887	286	8,671	1,002
Other expenses	R1200												
Total expenses	R1300												

CONTENTS

Second part of table:

		Line of Business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross – Direct Business	R0110					453,843
Gross – Proportional reinsurance accepted	R0120					65,125
Gross – Non-proportional reinsurance accepted	R0130	502	2,491	3,201	40,741	46,934
Reinsurers' share	R0140	-28	2,411	649	11,302	45,170
Net	R0200	530	80	2,552	29,438	520,732
Premiums earned						
Gross – Direct Business	R0210					457,043
Gross – Proportional reinsurance accepted	R0220					65,055
Gross – Non-proportional reinsurance accepted	R0230	507	2,476	3,211	40,962	47,157
Reinsurers' share	R0240	0	2,577	645	11,014	45,497
Net	R0300	507	-101	2,567	29,948	523,758
Claims incurred						
Gross – Direct Business	R0310					233,088
Gross – Proportional reinsurance accepted	R0320					43,278
Gross – Non-proportional reinsurance accepted	R0330	244	887	4,856	45,103	51,091
Reinsurers' share	R0340	0	-241	-172	16,047	31,208
Net	R0400	244	1,128	5,029	29,056	296,249
Changes in other technical provisions						
Gross – Direct Business	R0410					678
Gross – Proportional reinsurance accepted	R0420					723
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	2
Net	R0500	0	0	0	0	1,399
Expenses incurred	R0550	114	751	594	8,143	171,811
Other expenses	R1200					0
Total expenses	R1300					171,811

CONTENTS

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
Premiums written		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Gross	R1410	1,995	33,053	94,139	30,544	0	0	0	0	159,732
Reinsurers' share	R1420	42	115	45	744	0	0	0	0	946
Net	R1500	1,953	32,938	94,094	29,800	0	0	0	0	158,785
Premiums earned										
Gross	R1510	1,992	33,070	94,140	30,603	0	0	0	0	159,805
Reinsurers' share	R1520	41	114	45	1,053	0	0	0	0	1,253
Net	R1600	1,952	32,955	94,095	29,550	0	0	0	0	158,552
Claims incurred										
Gross	R1610	1,992	35,646	44,116	14,809	0	0	0	0	96,564
Reinsurers' share	R1620	0	-56	4	396	0	1,970	0	0	2,314
Net	R1700	1,992	35,702	44,112	14,414	0	-1,970	0	0	94,250
Changes in other technical provisions										
Gross	R1710	-166	28,828	-121,192	2,951	0	0	0	0	-89,580
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	-166	28,828	-121,192	2,951	0	0	0	0	-89,580
Expenses incurred	**R1900**	877	6,120	10,468	11,159	0	54	0	46	28,723
Other expenses	**R2500**									0
Total expenses	**R2600**									28,723

CONTENTS

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	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		China	South Korea	North Macedonia	Montenegro	Serbia	
Premiums written		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross – Direct Business	R0110	387,171	0	0	15,281	14,406	23,122	439,980
Gross – Proportional reinsurance accepted	R0120	675	4,082	11,010	0	0	1,601	17,368
Gross – Non-proportional reinsurance accepted	R0130	255	4,668	3,024	0	3	481	8,431
Reinsurers' share	R0140	101,767	91	22	1,192	1,904	7,991	112,966
Net	R0200	286,334	8,659	14,012	14,089	12,506	17,214	352,814
Premiums earned								
Gross – Direct Business	R0210	394,630	0	0	14,835	13,561	21,466	444,491
Gross – Proportional reinsurance accepted	R0220	653	5,152	10,759	0	0	1,602	18,165
Gross – Non-proportional reinsurance accepted	R0230	246	4,583	3,106	0	3	500	8,439
Reinsurers' share	R0240	107,161	91	22	1,557	1,950	7,751	118,532
Net	R0300	288,368	9,644	13,843	13,278	11,614	15,817	352,564
Claims incurred								
Gross – Direct Business	R0310	201,856	0	0	7,174	6,681	9,520	225,232
Gross – Proportional reinsurance accepted	R0320	-20	3,231	3,742	0	0	831	7,784
Gross – Non-proportional reinsurance accepted	R0330	3	3,454	4,342	11	0	198	8,008
Reinsurers' share	R0340	49,166	0	0	756	1,473	3,168	54,563
Net	R0400	152,674	6,685	8,084	6,429	5,209	7,381	186,461
Changes in other technical provisions								
Gross – Direct Business	R0410	879	0	0	-62	-207	-205	405
Gross – Proportional reinsurance accepted	R0420	0	-23	-60	0	0	0	-83
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	2	0	0	0	0	0	2
Net	R0500	877	-23	-60	-62	-207	-205	320
Expenses incurred	R0550	92,720	2,444	4,104	6,666	5,174	8,508	119,617
Other expenses	R1200							
Total expenses	R1300							

CONTENTS

		Home Country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
Premiums written		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Gross	**R1410**	152,247						152,247
Reinsurers' share	**R1420**	923						923
Net	**R1500**	151,324						151,324
Premiums earned								
Gross	**R1510**	152,239						152,239
Reinsurers' share	**R1520**	882						882
Net	**R1600**	151,357						151,357
Claims incurred								
Gross	**R1610**	116,466						116,466
Reinsurers' share	**R1620**	2,323						2,323
Net	**R1700**	114,143						114,143
Changes in other technical provisions								
Gross	**R1710**	105,302						105,302
Reinsurers' share	**R1720**	0						0
Net	**R1800**	105,302						105,302
Expenses incurred	**R1900**	25,430						25,430
Other expenses	**R2500**							0
Total expenses	**R2600**							25,430

CONTENTS

S.23.01.22 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						
Ordinary share capital (gross of own shares)	**R0010**	71,856	71,856		0	
Non-available called but not paid in ordinary share capital at group level	**R0020**	0	0		0	
Share premium account related to ordinary share capital	**R0030**	42,702	42,702		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
Non-available subordinated mutual member accounts at group level	**R0060**	0		0	0	0
Surplus funds	**R0070**	0	0			
Non-available surplus funds at group level	**R0080**	0	0			
Preference shares	**R0090**	0		0	0	0
Non-available preference shares at group level	**R0100**	0		0	0	0
Share premium account related to preference shares	**R0110**	0		0	0	0
Non-available share premium account related to preference shares at group level	**R0120**	0		0	0	0
Reconciliation reserve	**R0130**	408,393	408,393			
Subordinated liabilities	**R0140**	78,065		0	78,065	0
Non-available subordinated liabilities at group level	**R0150**	0		0	0	0
An amount equal to the value of net deferred tax assets	**R0160**	0				0
The amount equal to the value of net deferred tax assets not available at the group level	**R0170**	0				0
Other items approved by supervisory authority as basic own funds not specified above	**R0180**	0	0	0	0	0
Non-available own funds related to other own funds items approved by supervisory authority	**R0190**	0	0	0	0	0
Minority interests (if not reported as part of a specific own fund item)	**R0200**	367	367	0	0	0
Non-available minority interests at group level	**R0210**	107	107	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						

CONTENTS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	12,562	12,562	0	0	
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	0	0	0	0	
Deductions for participations where there is non-availability of information (Article 229)	R0250	0	0	0	0	0
Deduction for participations included by using D&A when a combination of methods is used	R0260	0	0	0	0	0
Total of non-available own fund items	R0270	107	107	0	0	0
Total deductions	R0280	12,669	12,669	0	0	0
Total basic own funds after deductions	R0290	588,715	510,650	0	78,065	0
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	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	0
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Non available ancillary own funds at group level	R0380	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Own funds of other financial sectors						
Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	R0410	4,471	4,471	0	0	
Institutions for occupational retirement provision	R0420	8,091	8,091	0	0	0
Non-regulated entities carrying out financial activities	R0430	0	0	0	0	
Total own funds of other financial sectors	R0440	12,562	12,562	0	0	0
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450	0	0	0	0	0
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	0	0	0	0	0

CONTENTS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	588,715	510,650	0	78,065	0
Total available own funds to meet the minimum consolidated group SCR	R0530	588,715	510,650	0	78,065	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	588,715	510,650	0	78,065	0
Total eligible own funds to meet the minimum consolidated group SCR	R0570	538,780	510,650	0	28,130	
Minimum consolidated Group SCR	**R0610**	140,651				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	383 %				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	601,277	523,212	0	78,065	0
Group SCR	**R0680**	304,405				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	198 %				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	594,608
Own shares (held directly and indirectly)	R0710	48,043
Foreseeable dividends, distributions and charges	R0720	23,247
Other basic own fund items	R0730	114,926
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0
Other non-available own funds	R0750	0
Reconciliation reserve before deduction for participations in other financial sector	**R0760**	408,393
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	90,180
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	24,912
Total Expected profits included in future premiums (EPIFP)	**R0790**	115,092

CONTENTS

S.25.01.22 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	**R0010**	147,025		
Counterparty default risk	**R0020**	20,596		
Life underwriting risk	**R0030**	38,255	none	-
Health underwriting risk	**R0040**	32,460	none	
Non-life underwriting risk	**R0050**	180,095	none	
Diversification	**R0060**	-132,071		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	**286,360**		

CONTENTS

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	21,816
Loss-absorbing capacity of technical provisions	R0140	-1,110
Loss-absorbing capacity of deferred taxes	R0150	-16,599
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	290,466
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	304,405
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
Minimum consolidated group solvency capital requirement	R0470	140,651
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	7,797
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	1,091
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	6,705
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non-regulated entities carrying out financial activities	R0530	0
Capital requirement for non-controlled participation requirements	R0540	0
Capital requirement for residual undertakings	R0550	6,142
Overall SCR		
SCR for undertakings included via D&A	R0560	0
Solvency capital requirement	R0570	304,405

CONTENTS

Sava Insurance Group
Solvency and Financial Condition Report for 2021
Ljubljana, May 2022