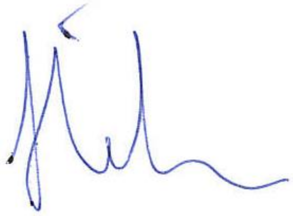
Solvency and financial condition report of the Sava Insurance Group 2019

Ljubljana, May 2020

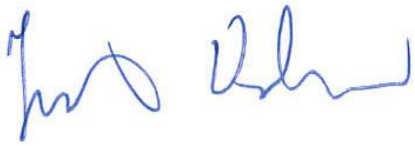
Management board of Sava Re d.d.

Marko Jazbec, Chairman of the Management Board

Srečko Čebron, Member of the Management Board



Jošt Dolničar, Member of the Management Board



Polona Pirš Zupančič, Member of the Management Board

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General information

All figures included in this report are consistent with those reported as part of the quantitative reporting procedure for the Slovenian Insurance Supervision Agency. The figures in 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.

The Group's audited 2019 report is available online, at https://www.sava-re.si/en/investors/financial-information/financial-reports/.

Summary

Introduction

The purpose of this report is to provide information on the solvency position of the Sava Insurance Group as at 31 December 2019, as well as on its business and performance, system of governance, risk profile and valuation methods used for assets and liabilities. The report also includes key quantitative data as appended. The Sava Insurance Group prepares such a report on an annual basis. This document has been prepared in accordance with the Slovenian Insurance Act (ZZavar-1) and other legislative acts.

Profile of the Sava Insurance Group

The Sava Insurance Group (hereinafter: the "Group" or the "Sava Insurance Group") is one of the largest insurance groups in south-east Europe. As at 31 December 2019, the insurance part of the Group was composed of seven 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 seven non-insurance companies.

The Group employs over 2,700 people. it provides insurance and reinsurance coverage for all lines of business, offering:

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

Sava Re has been operating in international reinsurance markets for over 40 years, and in the Slovenian 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 greenfield investments in two life insurance companies in 2008. The Group entered the Slovenian and Macedonian pension markets in 2015 and 2018, respectively. In 2019, Sava Re also acquired an 85% stake in Sava Infond, an investment fund management company.

In 2019, the Group's consolidated operating revenues totalled EUR 584.2 million.

The Sava Insurance Group's core strengths lie in its regional knowledge, reliability, responsiveness, flexibility and financial strength. We exceed client expectations by seeking continual improvement, building relationships in a responsible, frank and respectful manner, and playing an active role in our environment.

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

Business and performance[1]

In 2019, the Sava Insurance Group wrote nearly EUR 600 million in gross premiums and generated a net profit of EUR 50.2 million. Performance exceeded targets set for 2019, also thanks to a successful acquisition in the Croatia market. Return on equity was 13.8% in 2019.

Gross premiums written up 9.6% and operating revenues up 9.9%

Gross premium growth was mainly contributed by the Slovenian non-life insurance business (12.2% growth) and the non-life insurance business from abroad (20.3% growth). Part of this came from an acquisition in Croatia – Zavarovalnica Sava acquired 100% of the shares in the companies Ergo Osiguranje and Ergo Životno Osiguranje.

The Group's operating revenues grew by 9.9% in 2019, which was driven by higher gross premiums written by existing and new companies, but also contributed to by the full-year operations of the companies Sava Penzisko Društvo from North Macedonia, the insurance business of Energoprojekt Garant from Serbia and the assistance business of TBS Team 24 from Slovenia, which all joined the Group in 2018. At the end of June 2019, the investment fund manager Sava Infond became part of the Group.

Net profit 16.7% above target

The Sava Insurance Group generated a net profit of EUR 50.2 million in 2019, which is a 16.7% increase over both the previous year's figure and the target for the full year. The increase was driven by the non-life insurance, life insurance and pensions operating segments, partly reduced by the challenging claims experience in the Croatian non-life insurance segment and reinsurance business in international markets. Profitability was additionally supported by the acquisitions in Croatia, in which the Group produced a one-off profit of EUR 7.5 million from the reversal of badwill due to the difference between the purchase price and the fair value of the acquired net assets.

Return on equity was 13.8% In 2019, the parent company paid out a dividend of EUR 0.95 per share, providing shareholders with a dividend yield of over 5%. The share price rose by 17.6% in 2019, resulting in a 23.2% increase in shareholder value in 2019 when adding the dividend yield.

Better cost-efficiency

The Group's performance was also bolstered by better cost-efficiency, with a 1.5-point year-on-year improvement in the expense ratio, primarily reflecting faster growth in premiums over expenses.

Larger claims burden

Primary insurance mainly saw an increased claims burden in Croatia, where claims rose in motor third-party liability and in motor casco business, as well as owing to the integration of the Croatian Ergo non-life insurer into the Group. The reinsurance segment also experienced a large claims volume in 2019, primarily because of an increased number of catastrophic events – two typhoons in Japan, a hurricane in the Bahamas and certain large fire losses. The claims incurred by the reinsurance segment exceeded planned figures.

Subordinated bond issue to support the Group's expansion and optimisation of capital structure

[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.

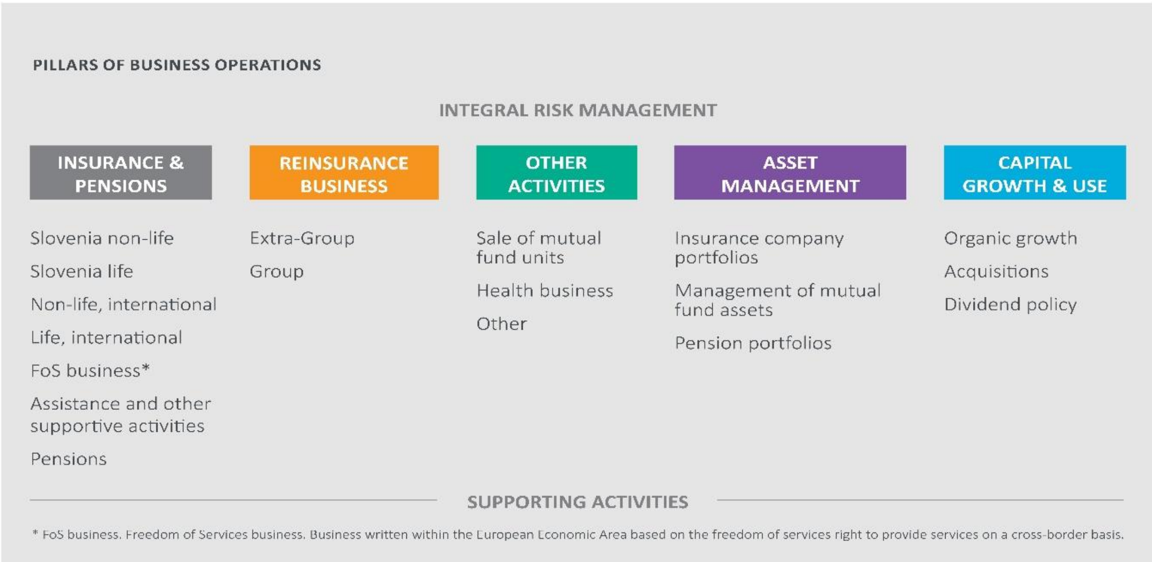
In order to support its development activities and the optimisation of its capital structure, in October 2019, Sava Re issued 20-year subordinated bonds with an issue size of EUR 75 million and a prepayment option after 10 years. Having integrated all previously acquired companies into the Group (ERGO Osiguranje d.d., Ergo Životno Osiguranje d.d., KBM Infond, Družba za Upravljanje d.o.o.) , two more deals were signed in 2019: the acquisition of the health service provider Diagnostic Centre Bled d.o.o. in August, and in December the purchase of NLB Vita, the second-largest life insurer in Slovenia.

Credit standing

In 2019, Standard & Poor's and AM Best reaffirmed Sava Insurance Group's A-ratings, with a stable outlook, which makes it easier for the Group to obtain business in international reinsurance markets.

Strategic focus of the Sava Insurance Group

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



The key guidelines set out in the strategy are:

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

Long-term strategic targets:

- The long-term objective is to achieve a return on equity of at least 11% at both the Group level and as a 3-year average. The internal calculation of the weighted average cost of capital (WACC) of the Sava Insurance Group as at 31 December 2019, which includes the subordinated debt, totals 7.6%, with a cost of equity of 8.5%.
- In the period 2020–2022, a solvency ratio of 180% to 220% is expected at the Sava Insurance Group level.
- The combined ratio of non-life business in Slovenia will not exceed 94%, while the combined ratio abroad will not exceed 95%, with the exception of the Croatian market, where the combined ratio will not exceed 100%. The five-year average combined ratio of reinsurance business (total Group and non-Group business) will not exceed 93%.
- With regard to life insurance in Slovenia, profitability (the ratio of the value of new policies to the present value of the expected premiums of such new policies) of the portfolio of new life policies will be at least 9%, and in Croatia and on other markets at least 5% and 7.5%, respectively.
- The return on the Group's investment portfolio will average at least 1.0% over three years.

System of governance

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

- an adequate organisation, including management bodies, key functions and committees,
- an integrated risk management system,
- 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 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, controlling).
- The second line of defence consists of the risk management function, actuarial function, compliance function and the risk management committee.
- The third line of defence is provided by the internal audit function.

In 2019 there were no changes in the composition of the parent company's management board.

Risk profile

The Group calculates its capital requirement in accordance with the Solvency II standard formula as defined in Delegated Regulation (EU) 2015/35[2] (hereinafter: "Solvency II standard formula" or "standard formula"). The Group's risk profile is dominated by non-life underwriting risk and is exposed to a significant level of market risk. 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, managed primarily by following a strategy for ensuring sufficient liquidity. Because of the

[2] Commission Delegated Regulation (EU) 2015/35, dated 10 October 2014 amending Directive 2009/138/EC of the European Parliament and of the Council on the taking up and pursuit of the business of Insurance and Reinsurance (Solvency II).

complex internal and external environment in which it operates, the Group also has significant exposure to various strategic risks.

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

Group solvency capital requirement by risk module[3]

EUR thousand	31 Dec 2019	31 Dec 2018
Group SCR	**237,652**	**216,735**
Capital requirements for other financial sectors	7,165	5,532
Capital requirements for other undertakings	8,846	17,380
Consolidated SCR at Group level	**221,641**	**193,823**
Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-19,021	-17,840
Operational risk	18,135	16,358
Basic solvency capital requirement (BSCR)	222,527	195,304
Sum of risk components	322,071	293,212
Diversification effect	-99,544	-97,907
Market risk	76,396	60,439
Counterparty default risk	25,373	21,819
Life underwriting risk	28,785	43,695
Health underwriting risk	27,885	25,859
Non-life underwriting risk	163,632	141,399

Valuation for solvency purposes

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

The Group uses the full consolidation method in accordance with the International Financial Reporting Standards (IFRS) for all its companies in its preparation of the IFRS consolidated financial statements, except for the associates ZTSR 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), and Sava Penzisko Društvo and the associates ZTSR and G2I are included in accordance with article 335 1(f).

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

[3] Capital requirements for other financial sectors include the companies Sava Pokojninska and Sava Infond, the capital requirements for other companies G2I, ZTSR and Sava Penzisko.

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

EUR thousand	31 Dec 2019	31 Dec 2018
IFRS equity	**382,981**	**339,675**
Difference in the valuation of assets	-170,943	-135,221
Difference in the valuation of technical provisions	260,298	301,791
Difference in the valuation of other liabilities	-7,858	-19,380
Foreseeable dividends, distributions and charges	-16,195	-14,723
Adjustment for minority interests	-154	-195
Deduction for participations in other financial undertakings	-9,130	-6,943
Subordinated liabilities in basic own funds	73,847	0
Total basic own funds after deductions	**512,845**	**465,004**
Total own funds in other financial sectors	9,130	6,943
Eligible own funds to meet the Group SCR	**521,975**	**471,947**

Capital management

The Group manages its capital to ensure that it has available, on an ongoing basis, sufficient funds to meet its obligations and regulatory capital requirements. The composition of eligible own funds held to ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. The level of own funds must also be sufficient to achieve other goals of the Group.

When allocating own funds to business segments, the Group needs to ensure that an adequate return on equity is achieved.

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

Capital adequacy of the Group

EUR thousand	31 Dec 2019	31 Dec 2018
Group SCR	**237,652**	**216,735**
Eligible own funds to meet the Group SCR	**521,975**	**471,947**
Of which tier 1	*448,129*	*471,947*
Of which tier 2	*73,847*	*0*
Of which tier 3	*0*	*0*
Group solvency ratio	**220%**	**218%**
Minimum capital requirement (MCR) of Group	112,920	102,730
Eligible own funds to meet the Group MCR	461,582	465,004
Of which tier 1	*438,999*	*465,004*
Of which tier 2	*22,584*	*0*
Of which tier 3	-	-
Group MCR	**409%**	**453%**

As at 31 December 2019, most eligible own funds to cover the Group SCR were tier one funds. As evident from the table, the Group has a strong solvency ratio and, as at 31 December 2019, complied with statutory requirements on the amount and quality of capital for covering the SCR and MCR.

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

According to the Group's risk strategy applicable at 31 December 2019, a Group solvency ratio of 140% is still considered adequate, albeit suboptimal, while the optimal level of capitalisation starts at 170%. This demonstrates that the Group is well capitalised, also by its own criteria.

A. Business and performance

A.1 Business

Name and legal form of the parent company

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

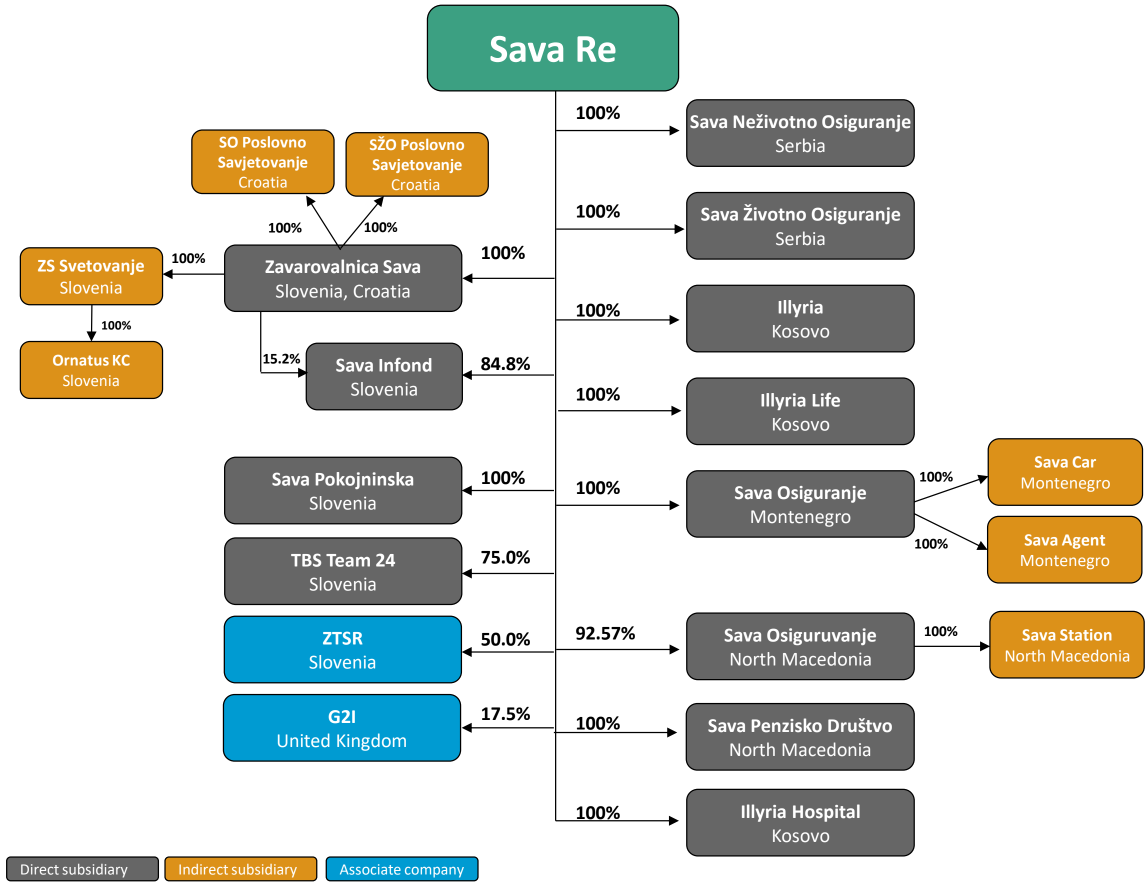
Composition of the Group

Sava Re, the parent company of the Sava Insurance Group, transacts reinsurance business. The insurance part of the Group is composed of seven insurers based in Slovenia and in the countries of the Adriatic region: the composite insurer Zavarovalnica Sava, the non-life insurers Sava Neživotno Osiguranje (Serbia), Sava Osiguruvanje (North Macedonia), Illyria and Sava Osiguranje (Montenegro), and the two life insurers Sava Životno Osiguranje (Serbia) and Illyria Life.

In addition to these (re)insurers, the Group consists of:

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

Composition of the Group as at 31 December 2019



The tables below provide details of all Group companies in which Sava Re holds direct equity participations.

Subsidiaries and associates as at 31 December 2019

	Zavarovalnica Sava	Sava Pokojninska	Sava Neživotno Osiguranje (Serbia)	Sava Životno Osiguranje (Serbia)
Registered office	Cankarjeva ulica 3, 2000 Maribor, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Beograd, Serbia	Bulevar vojvode Mišića 51, 11040 Beograd, Serbia
Business activity	composite insurer	pension company	non-life insurer	life insurer
Share capital (EUR)	68,417,377	6,301,109	10,570,373	4,496,544
Book value of equity interest (EUR)	68,417,377	6,301,109	10,570,373	4,496,544
% equity interest (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2019 (EUR)	38,477,268	735,098	1,079,603	16,199
Position in the Group	subsidiary insurance company	subsidiary pension company	subsidiary insurance company	subsidiary insurance company

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

	Sava Penzisko Društvo	TBS Team 24	ZTSR	G2I	Sava Infond
Registered office	Majka Tereza 1, 1000 Skopje, North Macedonia	Ljubljanska ulica 42, 2000 Maribor, Slovenia	Dunajska cesta 22, 1000 Ljubljana, Slovenia	Bailey House, 4-10 Barttelot Road, Horsham, West Sussex, RH12 1DQ, UK	Ulica Vita Kraigherja 5, 2000 Maribor, Slovenia
Business activity	pension fund management	organisation of assistance services and customer care	market research	insurance	investment fund asset management
Share capital (EUR)	2,110,791	8,902	250,000	121,300	1,460,524
Book value of equity interest (EUR)	2,110,791	6,677	125,000	21,228	1,460,524
% equity interest (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 75.0%	Sava Re: 50.0%	Sava Re: 17.5%/25.0%	Sava Re: 84.00 % / 84.85 % Zavarovalnica Sava: 15.00%/15.15%
Profit or loss for 2019 (EUR)	1,343,277	858,888	-122,515	37,405	1,359,735
Position in the Group	subsidiary pension company	subsidiary	associate company	associate company	subsidiary

Following are details of 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 solvency and financial condition reports.

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

Insurance Supervision Agency
Trg republike 3
1000 Ljubljana
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
1000 Ljubljana
Slovenia
Telephone: +386 1 420 11 70
Telefax: +386 1 420 11 58
Email: kpmg.lj@kpmg.si

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

Holders of qualifying shares in the Company as at 31/12/2019

Shareholder	Number of shares	Holding	% voting rights
SDH d.d.	3,043,883	17.7%	19.6%
Zagrebačka Banka d.d., fiduciary account	2,439,852	14.2%	15.7%

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

Major lines of business transacted and major markets of the Group[4]

In 2019, the main lines of business were:

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

These lines of business accounted for 62.0% of the total gross premiums written (2018: 61.3%).

The Group operates in the market of the Republic of Slovenia and globally. The following table shows the most important markets of the Group in terms of premiums written in 2019. Listed are countries where the Group wrote over EUR 11 million in gross premiums[5]. The Sava Insurance Group sourced most of its business from Slovenia, other countries of the Adriatic region and South Korea.

[4] This subsection presents consolidated data based on SII calculations that do not include Sava Pokojninska and Sava Penzisko Društvo; therefore, figures do not equal IFRS calculations.

[5] The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and solvency capital requirement. As at 31 December 2019, it was set at EUR 11 million at the Group level.

Major countries in which the Group operates[6]

EUR thousand	Gross premiums written in 2019	Gross premiums written in 2018	Index
Slovenia	440,586	395,768	111.3
Serbia	27,047	23,788	113.7
Macedonia	14,397	13,038	110.4
Montenegro	13,777	12,832	107.4
South Korea	12,907	14,219	90.8
Kosovo	12,678	11,489	110.3

Significant events in 2019

- On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions, becoming the sole owner of the Croatia-based companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.
- In May 2019, the 35th general meeting of shareholders was held.
- On 7 June 2019, having met all the suspensive conditions under the sales agreement of 24 December 2018, Sava Re d.d. acquired a 77% stake in the share capital of Infond d.o.o. and an additional 7% stake under the sales agreement of 15 January 2019, totalling an 84% stake in the share capital, and, taking into account own shares, 85% of the voting rights. With the subsidiary Zavarovalnica Sava already holding a 15% stake in the company, the members of the Sava Insurance Group now hold 100% of the voting rights in Infond d.o.o.
- Following its regular annual rating review in July 2019, the rating agency Standard & Poor's affirmed the "A" insurer financial strength rating on Sava Re and Zavarovalnica Sava. The outlook was stable.
- In August 2019, Sava Re as the buyer and Cinxro Holdings Ltd. as the seller signed a contract for the sale of 80% of the share capital of Diagnostični Center Bled d.o.o. (Diagnostic Centre Bled), representing 100% of the voting rights. In addition, Sava Re signed an agreement with Zavarovalnica Triglav d.d. on the manner of cooperation in the acquisition of interests in the Diagnostic Centre Bled. In the agreement, the parties set out the key steps that will guide their joint control over the Diagnostic Centre Bled through their ZTSR d.o.o. joint venture. In March 2020, ZTSR d.o.o, a 50-50 joint venture of Sava Re d.d. and Zavarovalnica Triglav d.d., completed the acquisition of the health-care provider Diagnostic Centre Bled d.o.o. (Diagnostični center Bled, d.o.o.).
- Following its regular annual rating review in October 2019, the rating agency AM Best affirmed the "A" (excellent) insurer financial strength rating of Sava Re. The outlook was stable.
- In October 2019, Sava Re issued subordinated bonds with a scheduled maturity of 2039 and with an early recall option for 7 November 2029. The capital raised is Tier 2 eligible and Solvency II compliant. Sava Re intends to use the net proceeds for general corporate purposes of the Sava Insurance Group and for the optimisation of its capital structure. The total issue size is EUR 75 million. The bond issue is intended for qualified investors and is listed on the regulated market of the Luxembourg Stock Exchange.
- In October 2019, Japan was hit by Typhoon Hagibis, one of the worst storms in the region in decades. The negative impact of the loss event on the Group's result in 2019 exceeded EUR 5 million.
- At its meeting in December, the supervisory board of Sava Re took note of the notice of Srečko Čebron on his early termination of his term of office as Sava Re management board member and accepted his proposal for a consensual termination of employment contract as management board member as of 31 May 2020. At the same meeting, the supervisory board unanimously supported the proposal of Chairman of the Management Board Marko Jazbec and

[6] Premiums include premium estimates.

appointed Peter Skvarča, who comes from within the ranks of the Sava Insurance Group, as a new member of the management board.

- In December 2019, Sava Re as the buyer, and NLB d.d. and KBC Insurance NV as the sellers signed a sale, purchase and transfer agreement regarding 100% of the share capital in NLB Vita d.d. The acquisition of NLB Vita represents an important step for the Sava Insurance Group in the consolidation of its position in Slovenia's life insurance market. The bancassurance partnership between NLB Vita and NLB will continue to develop, as the bank remains the primary sales channel. The strengthening of partnerships with banks and the development of the bancassurance sales channel are important strategic objectives for the Sava Insurance Group. The transaction's completion depends on the satisfaction of certain suspensive conditions and regulatory approval. The transaction is expected to close by mid-2020.
- All procedures for the acquisition of Sava Terra by Zavarovalnica Sava were conducted in December 2019. The acquisition was completed on 13 February 2020.

Significant events after the reporting date

- On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic. In Slovenia, the government declared an epidemic on 12 March 2020. Sava Re and other companies of the Sava Insurance Group are working to contain the effects of realised operational risk by following their business continuity protocols because the health of their staff and customers is paramount. The Sava Insurance Group prepared a preliminary assessment of the impacts of Covid-19 on the operations of the Group and its solvency position. The assessment and its findings were posted on the Company's website on 17 April 2020.

The Group uses the full consolidation method for all its companies in the preparation of the IFRS consolidated financial statements, except for ZTSR 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, Sava Pokojninska and Sava Infond are included in the consolidation in accordance with article 335 1(e), and Sava Penzisko Društvo and the associates ZTSR and G2I are included in accordance with article 335 1(f).

A.2 Underwriting performance[7]

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	2019	2018	Index
Gross premiums written	596,200	544,080	109.6
Net premiums earned	545,714	502,451	108.6

Consolidated gross premiums written by region

EUR thousand	2019	2018	Index
Slovenia	440,586	395,768	111.3
International	155,614	148,312	104.9
Total	**596,200**	**544,080**	**109.6**

Consolidated gross premiums written by material line of business

EUR thousand	2019	2018	Index
Motor vehicle liability insurance and proportional reinsurance	136,390	117,350	116.2
Other motor insurance and proportional reinsurance	119,777	107,093	111.8
Fire and other damage to property insurance and proportional reinsurance	113,570	109,076	104.1
Life insurance	68,869	68,551	100.5
Income protection insurance and proportional reinsurance	48,824	46,739	104.5
Other lines of business	108,770	95,271	114.2
Total	**596,200**	**544,080**	**109.6**

In 2019, gross premiums written grew by 9.6%, with a largely unchanged breakdown by line of business compared to 2018. Non-life premiums accounted for 88.4% (2018: 87.4%) of total premiums, life premiums for 11.6% (2018: 12.6%). Gross premiums written are dominated by the lines of business: motor vehicle liability insurance and proportional reinsurance, and other motor insurance and proportional reinsurance, which together account for 43.0% of total premiums (2018: 41.3%).

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 2019 were up by 1.0% from the previous year. Premium growth was achieved in non-proportional reinsurance business, especially in Asian markets (through organic growth and new contracts). In 2019, net premiums earned were lower than in 2018 by 3.1% due to the higher change in net unearned premiums (in 2018, a decline in gross premiums and consequently a decrease in net unearned premiums was recorded, while in 2019, an increase in gross premiums and consequently an increase in net unearned premiums was recorded).

Gross **non-life** insurance premiums grew by 13.7% in 2019 as a result of the growth in gross non-life premiums of all non-life insurance companies in the Group. Accordingly, net premiums earned also

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

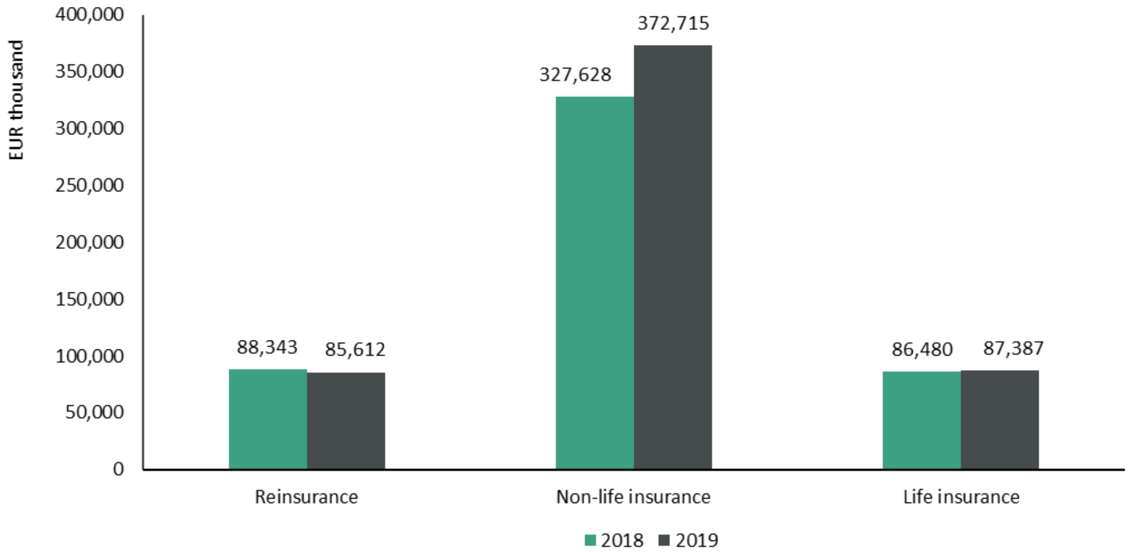
grew, by 13.8% in total. Slovenia-sourced gross non-life premiums grew by 12.2%. To this, EUR 13.7 million was contributed by FOS (freedom of service) business written by the Group's Slovenian non-life insurer in cooperation with various companies within the EU Member States. This chiefly includes motor and general liability policies. Growth in the amount of EUR 22.9 million refers to Slovenian non-life business without FOS business. In the aforementioned period, the Slovenian insurance market registered 7.5% growth in non-life gross premiums, excluding FOS business and accepted co-insurance, while the Slovenian part of the Group achieved 7.7% premium growth, largely generated by motor business. A large part of the growth relates to private motor insurance business, where the number of policies is increasing. In addition, favourable economic conditions with rising sales of motor vehicles boosted the sale of upmarket motor insurance packages. There was also a rise in gross premiums written in property business, due to an increase in insured property value of a large client. Net non-life insurance premiums earned in Slovenia grew by 12.4% in 2019. Gross non-life insurance premiums written abroad rose by 20.3%. The growth was chiefly driven by the inclusion of the Croatian non-life insurer ERGO into the Sava Insurance Group. The largest jump in absolute terms was in motor premiums, chiefly as the result of higher sales in Croatia. Gross motor premiums also rose for the other non-Slovenian non-life insurers of the Group as a result of a range of promotional activities (opening of new branches and roadworthiness tests) and the joining of new policyholders.

In 2019, gross **life** premiums written in Slovenia remained at approximately the same level as in the previous year. The company managed to offset the entire shortfall in premiums related to maturities, deaths and surrenders with new insurance contracts. In 2019, gross premiums written by the non-Slovenian life insurers grew by 9.1% year on year, with the largest growth recorded in Serbia, reflecting greater efficiency of the own sales network, as was the case also in Kosovo; however, the Croatian part of Zavarovalnica Sava experienced a decline in gross premiums written as the result of expiring policies (due to maturities, deaths, surrenders) that the company did not manage to compensate by writing new business.

Consolidated net premiums earned by material line of business

EUR thousand	2019	2018	Index
Motor vehicle liability insurance and proportional reinsurance	125,909	110,811	113.6
Other motor insurance and proportional reinsurance	112,447	100,813	111.5
Fire and other damage to property insurance and proportional reinsurance	97,286	95,443	101.9
Life insurance	68,059	67,670	100.6
Income protection insurance and proportional reinsurance	48,628	46,513	104.5
Other lines of business	93,385	81,202	115.0
Total	**545,714**	**502,451**	**108.6**

Consolidated net premiums earned by operating segment



The life operating segment also includes income from supplementary accident policies.

Claims

Consolidated gross claims paid and net claims incurred

EUR thousand	2019	2018	Index
Gross claims paid	392,032	342,557	114.4
Net claims incurred	396,377	321,862	110.9

Consolidated gross claims paid by region

EUR thousand	2019	2018	Index
Slovenia	285,772	255,798	111.7
International	106,260	86,758	122.5
Total	**392,032**	**342,557**	**114.4**

Consolidated gross claims paid and net claims incurred rose in 2019 compared to 2018. Below we set out the movements in gross claims paid and claims incurred by operating segment as analysed by the Sava Insurance Group.

In 2019, exchange differences had a negative impact on net claims incurred of the reinsurance segment in the amount of EUR 1.6 million (positive impact of EUR 0.3 million in 2018). In 2019, net claims incurred, excluding the effect of exchange differences, rose by 17.1% compared to 2018 as there were more catastrophic events in 2019 than in the previous year (2018: a typhoon in Japan and floods in India; 2019: two typhoons in Japan, a hurricane in the Bahamas, fires in the United Kingdom and a fire in Qatar). The net incurred loss ratio relating to the reinsurance segment (excluding the effect of exchange differences) deteriorated by 13.4 p.p. year on year, to 74.8% (2018: 61.4%).

Consolidated gross **non-life** claims grew by 8.2% in 2019, chiefly as the result of growth in gross non-life claims of the Group's non-Slovenian non-life insurers. Consolidated gross claims paid relating to Slovenian business rose by 4.0% in 2019 over the previous year. The increase in consolidated gross claims of the Slovenian business was mostly due to the change in the ownership of a subsidiary assistance service provider. In 2018, the costs of services of the assistance service provider concerning the performance of activities for the other Group companies were recognised in operating expenses, while in 2019 a part of these expenses, which the assistance service provider performs for the Group companies, was transferred to the gross claims item. Without this change, the consolidated gross claims related to Slovenian business would remain at the same level as the previous year. In 2019 compared to the same period in the previous year, Zavarovalnica Sava incurred higher claims concerning motor insurance due to the increase in the average incurred claims. Two large claims also contributed to the increase in the level of claims. On the other hand, in the property insurance segment gross claims decreased, since 2018 saw higher claims paid due to weather-related disasters. Consolidated gross claims paid relating to non-Slovenian business rose by 31.5%. In absolute terms, growth was mainly driven by the inclusion of the non-life insurer ERGO into the Sava Insurance Group. The largest rise in claims was registered by the Croatian branch of Zavarovalnica Sava, specifically in motor liability business followed by motor casco claims. The main reason for the rise in motor claims is a rise in the number of reported claims and several larger claims, which is related to the high growth in the sale of these policies, stronger external distribution channels and online sales. In 2019, the Group's Kosovan non-life insurer also paid out one significant claim in the fire segment.

In 2019, gross **life** insurance claims paid in Slovenia rose by 34.7% year on year as the result of a large number of policies reaching maturity. The bulk of the maturity benefits incurred in the period related to traditional life policies, specifically EUR 65.5 million, an increase of EUR 29.3 million year on year. Life policies where policyholders bear the investment risk registered EUR 16.7 million in surrenders and policy loans, up EUR 8.6 million from 2018, whereas this class of insurance incurred lower maturity benefits in 2019 than in the previous year. Of the non-Slovenian insurers, Sava Životno Osiguranje (Serbia) recorded the largest increase in gross claims paid (from maturities and deaths), at 46.5%. The Croatian branch of Zavarovalnica Sava had an increase in gross claims of 25.3% due to the merger with the ERGO life insurer (approximately EUR 0.7 million in gross claims). Without the ERGO portfolio, the gross claims in the Croatian branch of the Zavarovalnica Sava would have decreased by approximately 12%. Illyria Life's gross claims paid grew by 18.1% in 2019 (driven by maturities and surrenders).

Consolidated net claims incurred by material line of business

EUR thousand	2019	2018	Index
Life insurance	108,484	80,534	134.7
Motor vehicle liability insurance and proportional reinsurance	80,141	63,422	126.4
Other motor insurance and proportional reinsurance	79,774	74,557	107.0
Fire and other damage to property insurance and proportional reinsurance	56,774	50,966	111.4
Non-proportional property reinsurance	26,681	9,370	284.7
Other lines of business	44,523	43,012	103.5
Total	**396,377**	**321,862**	**123.2**

Expenses

Consolidated net operating expenses by material line of business

EUR thousand	2019	2018	Index
Fire and other damage to property insurance and proportional reinsurance	46,287	47,366	97.7
Motor vehicle liability insurance and proportional reinsurance	37,825	33,794	111.9
Other motor insurance and proportional reinsurance	29,738	26,740	111.2
Life insurance	17,354	17,168	101.1
Income protection insurance and proportional reinsurance	16,249	14,560	111.6
Other lines of business	30,459	31,491	96.7
Total	**177,912**	**171,120**	**104.0**

Net operating expenses rose by 4.0% in 2019. In absolute terms, the largest increase was in expenses for motor vehicle liability insurance and proportional reinsurance and other motor insurance and proportional reinsurance (likewise, there was an increase in the gross premiums written of these lines). The 2019 split of net operating expenses by line of business did not change materially compared to 2018. Below we set out the movements in operating expenses by operating segment as analysed by the Group. The commentary covers all elements used in the calculation of net operating expenses (acquisition costs, change in deferred acquisition costs, other operating expenses).

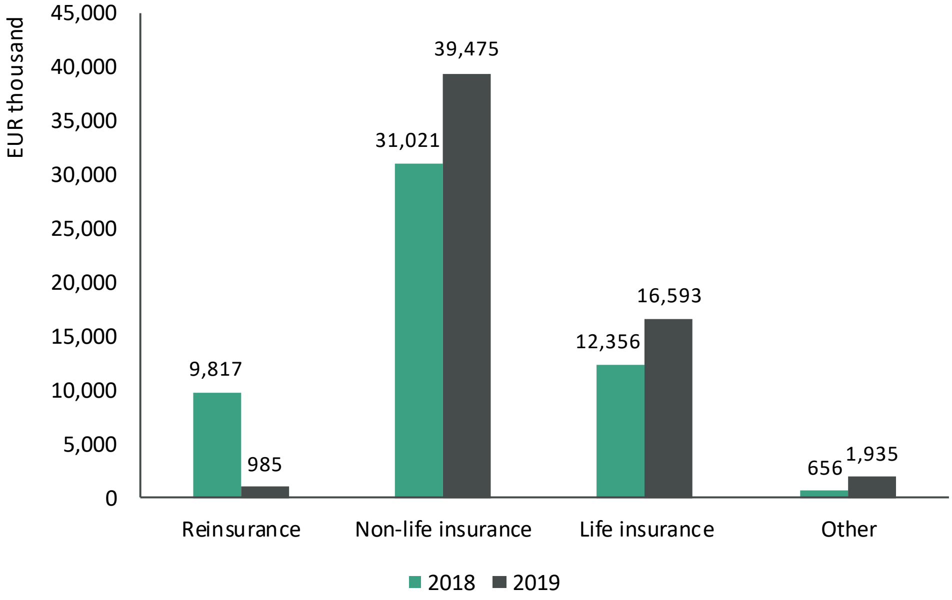
Acquisition costs (commissions) of the **reinsurance** segment were lower, despite higher gross premiums. Acquisition costs accounted for 22.1% of gross premiums written in 2019, which is 1.6 p.p. less than in 2018. The lower increase in commissions compared to gross premiums written is the result of a relative decline in proportional business, which earns higher commission rates than non-proportional business. The change in deferred acquisition costs in 2019 is lower than in 2018, reflecting developments in unearned premiums. Other operating expenses increased by 2.2%, primarily on account of IT services. In 2019, the net expense ratio dropped by 1.1 p.p. to 28.2% year on year, due to lower acquisition costs.

Consolidated acquisition costs of the **non-life** segment were up by 29.7%. The rise in acquisition costs was driven by the growth in premiums written, specifically Slovenian business, FOS business and the inclusion of ERGO into the Sava Insurance Group. Consolidated other operating expenses were up by merely 0.2%. This was mostly due to the change in ownership of the subsidiary assistance service provider. This is because in 2018 operating expenses of the assistance service provider incurred in its activities on behalf of other Group companies were reallocated from the “other” segment to the Slovenian and international non-life segments. In 2019, a part of these expenses was reallocated to the gross claims paid item. The increased change in deferred acquisition costs arose our of portfolio growth resulting in more deferred acquisition costs. The consolidated gross expense ratio of the non-life segment dropped by 1.7 p.p. due to the increase in gross premiums written of the Slovenian non-life insurer (a decrease in the gross expense ratio of 2.1 p.p.) and an increase in gross premiums written for foreign non-life insurers (a decrease in the gross expense ratio of 1.5 p.p.).

In 2019, acquisition costs of the **life** segment fell by 4.6% year on year; specifically, they fell in the life business of Slovenia, Croatia and Kosovo, but rose in Serbian business. The difference in the change in deferred acquisition costs between the years chiefly relates to Slovenian life business. Other operating expenses grew year on year by 5.3%, namely in the life business of Slovenia, Croatia (due to the merger with the company ERGO Životno Osiguranje), Kosovo and Serbia. The consolidated gross expense ratio rose by 0.4 p.p. year on year. The Slovenian insurer saw an increase in the gross expense ratio by 0.5 p.p. (higher other operating expenses, mostly regarding information technology, while policy acquisition costs were lower and gross premiums remained roughly the same), while the gross expense ratio fell significantly with foreign companies, namely by 1.9 p.p. (significantly higher gross premiums and lower policy acquisition costs, while the other operating expenses were higher due to the merger with ERGO Životno Osiguranje).

Consolidated gross profit or loss

Composition of the consolidated gross income statement by operating segment[8,9,10]

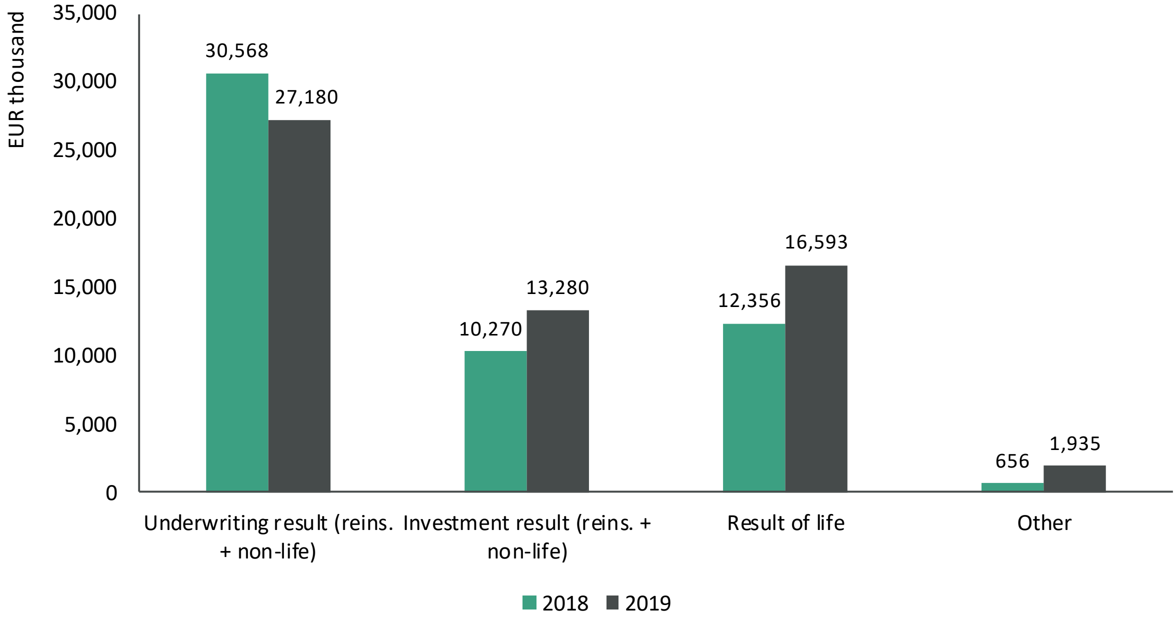


[8] The chart does not include the gross profit of the pensions segment, comprising both Sava Pokojninska and Sava Penzisko Društvo, as the companies are not included in the Solvency II consolidation.

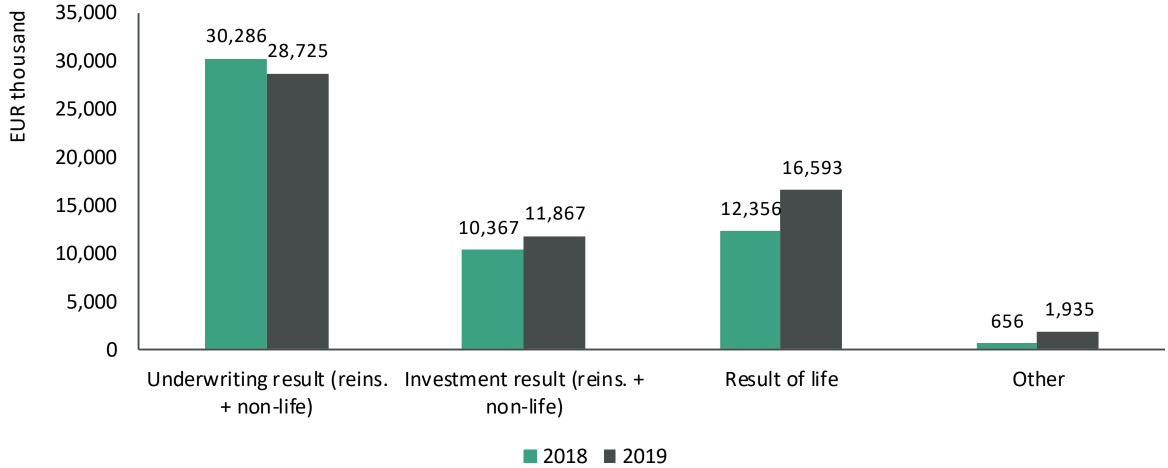
[9] The "other" segment includes profit or loss of the companies TBS Team24, Sava Infond and Illyria Hospital.

[10] The result of the life segment also includes the net investment income of the life insurance portfolio.

Composition of the consolidated gross income statement[11,12,13]



Composition of the consolidated gross result, excluding exchange differences[11,12,13]



The Group's gross result for 2019 (excluding Sava Pokojninska and Sava Penzisko Društvo) rose by 9.5% year on year. All operating segments, except the reinsurance segment, posted better gross results in 2019 compared to 2018. The 2019 underwriting result deteriorated year on year as the result of an adverse claims experience. The investment result, excluding the effect of exchange differences, improved chiefly due to the partial reversal of impairment losses recognised on a corporate bond. Besides, in 2018 the Group realised EUR 1.9 million impairments, which were not realised in 2019. The result for life business improved at the Slovenian insurer as well as at the non-

[11] The chart does not include the gross profit of the pensions segment, comprising both Sava Pokojninska and Sava Penzisko Društvo, as the companies are not included in the Solvency II consolidation.

[12] The "other" segment includes profit or loss of the companies TBS Team24, Sava Infond and Illyria Hospital.

[13] The result of the life segment also includes the net investment income of the life insurance portfolio.

Slovenian life insurers. The “other” segment includes the profit or loss of the companies TBS Team 24, Sava Infond and Illyria Hospital. Sava Infond was not a member of the Group in 2018.

The result of the reinsurance segment in 2019 deteriorated year on year owing to the occurrence of more catastrophic losses (2018: a typhoon in Japan and floods in India; 2019: two typhoons in Japan, a hurricane in the Bahamas, fires in the United Kingdom and a fire in Qatar).

The **non-life** segment improved, largely as the result of the improved technical performance of Zavarovalnica Sava. All the non-Slovenian non-life insurers also improved their performance over 2018. Net investment income of the investment portfolio declined because of lower interest income.

In 2019, the **life** segment performed better than in 2018 although Zavarovalnica Sava paid out many maturity benefits both in Slovenia and in Croatia. In 2019, the net investment income of the investment portfolio of life insurance business declined compared to 2018 due to lower interest income.

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.

Consolidated net inv. income of the investment portfolio

EUR thousand	2019	2018	Absolute difference
Net investment income relating to financial investments	18,817	17,198	1,620
Net investment income from investments in associates	2,584	-151	2,735
Net investment income relating to the investment property	899	722	177
Net investment income from the investment portfolio	**22,300**	**17,768**	**4,532**
Net investment income from the investment portfolio, excluding the effect of exchange differences	**20,960**	**17,923**	**3,037**

Net investment income relating to the Group's portfolio amounted to EUR 22.3 million in 2019, and EUR 21.0 million, excluding the effect of exchange differences.

Investment income and expenses by type

EUR thousand	1 Jan – 31 Dec	
Type of income	**2019**	**2018**
Interest income	14,016	16,459
Change in fair value and gains on disposal of FVPL assets	1,719	214
Gains on disposal of other IFRS asset categories	787	2,252
Income from associate company	2,718	0
Income from dividends and shares – other investments	1,623	1,378
Exchange gains	1,340	0
Diverse other income	2,137	1,316
Income relating to the investment portfolio	**24,340**	**21,619**
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	23,279	0
Type of expense	**2019**	**2018**
Interest expenses	510	28
Change in fair value and losses on disposal of FVPL assets	626	637
Losses on disposal of other IFRS asset categories	243	305
Impairment losses on associates	55	151
Impairment losses on other investments	0	1,944
Exchange losses	0	154
Other	605	631
Expenses relating to the investment portfolio	**2,040**	**3,851**
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	0	6,631

In 2019, investment income totalled EUR 24.3 million, up EUR 2.7 million year on year; excluding exchange differences, investment income increased by EUR 1.4 million. In 2019, the largest part of income was interest income of EUR 14.0 million (accounting for 57.6% of total finance income), down EUR 2.4 million year on year.

In 2019, expenses relating to the investment portfolio dropped by EUR 1.8 million year on year, and were down EUR 1.7 million if the effect of exchange differences is excluded. The lion's share of expenses relates to expenses arising from investments measured at fair value through profit or loss and interest expenses.

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.

Net investment income by class of asset

EUR thousand 2019	Interest income/expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	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 goodwill impairment losses
Held to maturity	2,238	0	43	0	0	0	**2,282**	221	0
Debt instruments	2,238	0	43	0	0	0	2,282	221	0
At fair value through P/L	566	1,093	0	29	-12	-80	**1,596**	22,624	0
Debt instruments	566	901	0	0	-12	-46	1,408	85	0
Equity instruments	0	192	0	29	0	34	255	22,462	0
Other investments	0	0	0	0	0	-68	-68	78	0
Available for sale	10,597	0	500	1,594	1,372	653	**14,715**	432	2,663
Debt instruments	10,597	0	666	0	1,372	664	13,299	424	0
Equity instruments	0	0	-109	1,024	0	0	915	8	2,663
Other investments	0	0	0	0	0	-11	-11	0	0
Investments in infrastructure funds	0	0	-57	532	0	0	475	0	0
Investments in property funds	0	0	0	37	0	0	37	0	0
Loans and receivables	405	0	0	0	-21	60	**444**	1	0
Debt instruments	580	0	0	0	-15	60	625	1	0
Other investments	-175	0	0	0	-6	0	-181	0	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	23	0	0	0	0	0	23	0	0
Subordinated liabilities	-495	0	0	0	0	0	-495	0	0
Total	**13,334**	**1,093**	**544**	**1,623**	**1,340**	**632**	**18,566**	**23,279**	**2,663**

Group net investment income totalled EUR 18.6 million in 2019. The largest items of the Group's net investment income are interest income of EUR 13.3 million, and income from dividends and participating interests of EUR 1.6 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 thousand	2019	2018
As at 1 January	**11,613**	**18,332**
Change in fair value	11,354	-5,901
Transfer of the negative fair value reserve to the IS due to impairment	0	-1,944
Transfer from fair value reserve to the IS due to disposal	-479	-578
Deferred tax	-1,769	1,704
Total fair value reserve	**20,719**	**11,613**

The Group held no securitised assets.

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 2019, the Group generated EUR 1.3 million in rental income from its investment property (2018: EUR 1.1 million). Maintenance costs associated with investment property are either included in the rent or charged to the lessee; in 2019, a total of EUR 88 thousand (2018: EUR 201 thousand).

Material intra-Group business

The tables below 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.

Income and expenses relating to Group companies

EUR thousand	2019	2018
Gross premiums written	76,278	62,319
Gross claims payments	-34,001	-32,563
Dividend income	36,948	33,558
Acquisition costs	-15,754	-13,611
Total	**63,471**	**49,703**

Investments in and amounts due from Group companies

EUR thousand	31 Dec 2019	31 Dec 2018
Debt securities and loans granted to Group companies	3,638	2,532
Receivables for premiums arising from accepted reinsurance	21,228	15,107
Total	**24,866**	**17,639**

Payables to Group companies

EUR thousand	31 Dec 2019	31 Dec 2018
Payables for shares in reinsurance claims due to Group companies	8,659	9,801
Other payables from coinsurance and reinsurance	4,483	3,766
Total (excl. provisions)	**13,142**	**13,567**

A.5 Any other information

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

B. System of governance

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 Sava Insurance Group as a whole and of its members.

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 risk strategy sets the risk appetite at both the Group and the individual company levels.

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.

Management and supervisory bodies of Sava Insurance Group subsidiaries individually pursue the same values and corporate governance policies as the parent company, unless otherwise required by law, the local regulator or based on the proportionality principle. Therefore, the management or supervisory bodies of each Sava Insurance 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 Sava Insurance Group subsidiaries, the parent's supervision of its subsidiaries 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 Sava Insurance 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 Sava Insurance Group at the top management level.

The Sava Insurance 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 Sava Insurance 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 (adoption and amendment of the articles of association, increase and reduction of share capital, winding up and transformation in terms of status).

General meetings of shareholders of Sava Insurance 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 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 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.

The following table shows the composition of the Sava Re supervisory board in 2019.

Composition of the supervisory board of Sava Re in 2019

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	16/07/2017	16/07/2021
Keith William Morris	deputy chair	16/07/2017	16/07/2021
Davor Ivan Gjivoje	member	07/03/2017	07/03/2021
Andrej Kren	member	16/07/2017	16/07/2021
Andrej Gorazd Kunstek	member, employee representative	12/06/2019	12/06/2023
Mateja Živec	member, employee representative	12/06/2019	12/06/2023

Supervisory board committees

In accordance with the law, 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 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 Sava Insurance 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 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.

Sava Re management board in 2019

In 2019, the Sava Re management board was composed of the following members: Marko Jazbec, chairman, and members Srečko Čebron, Jošt Dolničar and Polona Pirš Zupančič.

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

Composition of the Sava Re management board in 2019

	Marko Jazbec	Srečko Čebron	Jošt Dolničar	Polona Pirš Zupančič
Function	chair	member	member	member
Area of responsibility at management board level	- coordination of the work of the management board - finance - general, human resources, organisational and legal affairs - public relations - compliance - internal audit - management of mutual funds - health business - projects and innovation - modelling	- Company operations in reinsurance underwriting - facultative reinsurance underwriting - actuarial affairs	- management of strategic investments in direct insurance subsidiaries, including pension insurance - process and information technology - oversight and development of non-life, life and pension insurance - sales and customer relations	- corporate finance and controlling - accounting - investor relations - risk management
First appointed	12/05/2017	09/02/2009	31/12/2008	14/01/2018
End of term of office	12/05/2022	31/05/2020	01/06/2023	14/01/2023

B.1.3 Selection of management system and the proportionality principle

The management system selected by any 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 both for 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 and Zavarovalnica Sava operate on a two-tier management system.

B.1.4 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 those 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. This takes into account the scope, nature and complexity of the risks to which the Group or individual companies are exposed.

The basis for an effective risk management system is an appropriate organisational structure at both the Group and individual Group company levels.

More details on risk management are provided in section B.3. "Risk management system, including the own risk and solvency assessment" of this report.

B.1.5 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 company's key function in addition to their role at the Group level.

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 Sava Insurance Group level are:

- coordinating the development of a uniform methodology for the relevant key function at all the Group's insurers;
- ensuring the development of appropriate framework policies for the relevant key function, and professional guidelines for the adoption of area-specific operational rules for the parent company and its subsidiaries;
- ensuring strict application Group-wide 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.

With due regard for the proportionality principle, the risk management system of individual Group insurance 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 Sava Insurance 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 Sava Insurance 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 Sava Insurance Group.

Role of individual key functions

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

The chief duties of the **risk management function** are:

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

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

The chief duties of the **actuarial function** are:

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

Details on duties, terms of reference, responsibilities and powers of the actuarial function holder, procedures, obligations, time limits and reporting distribution lists are governed by the actuarial function policy of the Group and that of each individual company.

The chief duties of the **compliance function** are:

- ensuring the compliance of the company's operations with regulations and other commitments;
- advising the management board on compliance with the laws, implementing regulations and internal regulations;
- assessing the impact of potential changes in the legal environment on the company's operations;

- identifying and assessing compliance risks, and assisting in their management.

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

The chief duties of the **internal audit function** are:

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

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

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 also, if so provided, to the audit committee or supervisory board and, in some cases, taking into account country-specific regulatory arrangements and internal regulations of individual companies, to certain sectoral committees;
- to the holder of the relevant key function at the Sava Insurance 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.

B.1.6 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, 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.

B.1.7 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.

This remuneration policy is applied by Sava Re and serves as guidance at the other Group companies. It applies to all organisational levels and all employees. It includes:

- the management body,
- senior and lower management,
- key function holders, and
- other employees.

The remuneration policy aims at building 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.

Sava Insurance 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 the variable part of remuneration 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 basic salary,
- variable 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.

Variable 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. Variable 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, variable 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 variable 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 variable pay.

The variable pay system and scheme for the management board is considered and approved by the supervisory board. Variable 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 variable 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 the 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 2019.

The Group companies run no share option schemes.

The Group companies run no additional pension schemes.

B.1.8 Related-party transactions

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

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

Operational transactions that are subject to assessment as related-party transactions are charged using the comparable uncontrolled price method based on internal or external comparisons and, to a very small extent, by reimbursing expenses incurred in rendering services.

The system of related party transactions is set out in detail in the transfer pricing report (general documentation) and the transfer pricing report (special documentation) prepared annually.

Material related-party transactions

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

- owners and related enterprises;
- the management and supervisory boards, audit committee and employees not subject to the tariff section of the collective bargaining agreement;
- subsidiary companies.

In 2019, large 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 7.0 million (2018: EUR 5.7 million),
- loans granted to subsidiaries of EUR 3.6 million as at 31 December 2019 (2018: EUR 2.5 million),
- Sava Re dividend distribution of EUR 16.3 million (31 December 2018: EUR 14.7 million).

All third-party transactions are set out in detail in the Sava Insurance Group's 2019 annual report, section 17.10 "Related-party disclosures," and are available on the Sava Re website.

B.2 Fit and proper requirements

In accordance with the law, the Sava Insurance Group members ensure that persons who effectively run and oversee operations are properly qualified (fit) and suitable (proper) for running and overseeing operations in a professional manner.

To this end, the companies conducts fit and proper assessments of their personnel: management board members, supervisory board members, members of the supervisory board committees, key managers, key function holders of the risk management system and personnel overseeing individual outsourced activities prior to their appointment and after their appointment 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 2019, 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 company's supervisory body and its committees. These three 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 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 insurance companies, understanding financial and actuarial analysis, understanding regulatory frameworks and requirements.

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 three 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 company, 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. Unless possible, such 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.

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

The Sava Insurance Group management is aware that risk management is key to achieving operational and strategic objectives and to ensuring the long-term solvency of the Group. 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 both the individual company and the 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 the policy is regularly reviewed.

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;
- development of own risk assessment models and upgrading of the own risk and solvency assessment,
- 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 is provided by 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 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 parent company's supervisory board to provide expertise, in particular with regard to risk management in the company and the Sava Insurance 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,
- responsibility for 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 order to reduce or eliminate risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Directors of business centres and directors of departments are tasked with ensuring that the operational performance of the processes for which they are responsible is conducted so as to minimise risk and that limits set in the risk strategy are complied with. 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; key function holder appointments also require 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 below; 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 effective risk management framework and for the coordination of 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 key function holder. 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).

Apart from the key functions, the second line of defence at Sava Re and Zavarovalnica Sava also consists of 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 attend meetings of the committee. 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 and, since 1 January 2020, at Sava Infond 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.

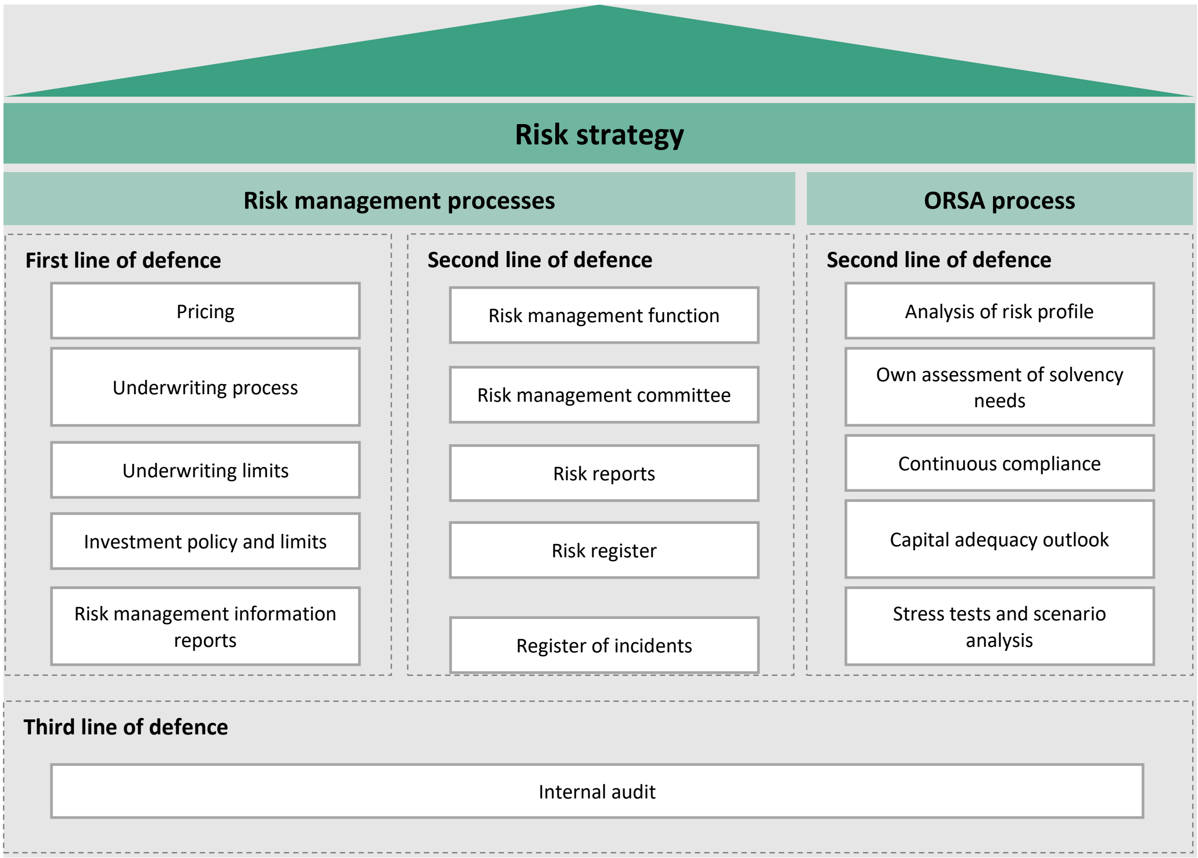
Good practices from Sava Re's risk management model and the organisation of risk management are also transferred to other Group companies.

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 components of the Sava Insurance Group risk management system are shown in the figure below.



Risk strategy

In order to establish a solid risk management framework, in 2017, the management board – with the consent of the Sava Re supervisory board – approved the Sava Insurance Group risk strategy for 2017–2019, which defines the Group's risk strategy based on its risk bearing capacity. Each individual Group company drafts its own risk strategy by taking into account the framework of the Sava Insurance Group's risk strategy. The Group document sets:

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

The key areas that risk appetite is based on are:

- capital,
- liquidity,
- product profitability, and
- reputation of each Group company and the Group.

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

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

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.

Based on the risk appetite and risk tolerance limits, 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 define a minimum set of risk measures for each risk category to allow for a simplified monitoring of the Group's and each Group company's current risk profile and capital position without having to carry out a complete calculation of the solvency capital requirement. 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 compiled in each company's risk register, constituting the company's risk profile, are periodically reviewed and amended with consideration of new risks as required. 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.

Bottom-up risk identification takes place in individual organisational units and with risk owners (first line of defence). A Group company's risk thus identified is categorised and incorporated into the relevant monitoring, measuring, managing and reporting processes.

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

Risk assessment

The 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 department has been set up on the Sava Insurance Group level for the development of quantitative models for Group-wide risk assessment.

The Group thus measures risk by:

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

Risk 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.

In practice, Group companies and the Group already examine, 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.

Risk reporting

A risk reporting scheme has been set up in the large 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 each individual company's entire risk profile. 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, stress tests and scenarios, and the establishment of the link between the risk profile and capital management. In ORSA, all material risks are assessed, whether quantifiable or not, that may have an impact on the operations of the Group from either an economic or a regulatory perspective.

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

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

The ORSA results are taken into account by other processes, especially capital management and risk management processes. ORSA is an integral part of the decision-making process conducted to ensure that the key decisions and the business strategy are adopted with consideration of risks and associated capital requirements. Based on 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 Group generally conducts the full ORSA on an annual basis. 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 management and supervisory boards review and confirm the ORSA report (at least) on an annual basis. The Group reports (at least) annually to the regulator on the ORSA.

The ORSA process is extensive and spans a large part of the year. Based on input from the business and strategic plans and the risk strategy, the Group calculates the SCR and makes Solvency II valuations for items of the balance sheet and eligible own funds for the entire term of the business and strategic plans. This is how it ensures that the business and strategic plans comply with the legislation and are aligned with the risk strategy. Based on projection, it reviews continuous compliance with the regulatory requirements related to capital and technical provisions.

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. In the ORSA process, the Group also carries out stress tests and scenario analyses as relevant with regard to its current and planned risk profile.

Throughout the ORSA, the management board is actively involved in the process: it confirms the set of stress tests and scenarios, reviews the ORSA, and challenges it before giving its formal approval.

Based on the ORSA conducted, a joint report for the Sava Insurance Group is prepared and considered on several levels: it is first discussed by the risk management committee, followed by the management board, risk committee and supervisory board of the parent company. After the results are approved at all levels, they are distributed to all the heads of business units. The ORSA report is also submitted to the Insurance Supervision Agency. The ORSA results are taken into account by the management in its decision-making, capital management and insurance product development.

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.

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 2019, the parent company carried out the regular annual mapping of all internal controls and quarterly or annual (depending on individual risks) assessments of internal controls for risk mitigation within the framework of the risk register (at the individual company and Group levels). In addition, a register of incidents is used for improving the internal control system.

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. 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 parent company's compliance function is organised within the "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 in the compliance function holder role.

The compliance function holder is authorised by the management board, and subject to consent by the individual company's supervisory board.

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.

The chief duties of the compliance function are to:

- monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in compliance with regulations and other commitments;
- advise and assist in the coordination of the company's operations with the obligations imposed by regulations and other commitments;

- assess potential impacts of changes in the legal environment on the operations of the Company in terms of compliance with its regulations and other commitments, and report on them to the company's management, 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;
- coordinate the preparation and adoption of policies and rules on the parent company level and between the parent company and Group subsidiaries;
- 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.

B.5 Internal audit function

Internal auditing in the Group companies is carried out by independent organisational 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 (ZZavar-1) and based on outsourcing agreements Sava Re 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 Družba. In 2019, Sava Re signed a contract – in accordance with the Investment Funds and Management Companies Act (ZISDU-3) – 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.

The internal audit is part of the internal control system of the Company and the Group that ensures independent, regular and comprehensive review and assessment of the adequacy of the Company's and the Group's governance, risk management and control procedures. Internal audit reports directly (orally and in writing) to the management board, the audit committee and the supervisory board.

The internal audit function, being an internal control function, is part of the third line of defence of the Company's 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 operations aimed at verifying and assessing whether the processes of risk management, control procedures and corporate governance are appropriate and function in a manner that ensures the achievement of the following major goals of the Company:
    - effective and efficient operation of the company;
    - business and financial efficiency, including 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.

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 director of the internal audit service must hold the title of Certified Internal Auditor. More detailed conditions for the performance of the function are set out in each individual company's fit and proper policy.

The internal audit department of the parent company provides guidance for a unified methodology for all the Group's internal audit departments, coordinates their work and drives the development of a unified methodology of work, supervising the quality of work of internal audit departments across the Sava Insurance 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 accordance with the Group's corporate governance policy, the internal audit 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 department 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 joint training to the Group's internal auditors;
- organising periodic meetings of the Group's internal auditors;
- implementing quality assessments of subsidiary internal audit departments.

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 at the Group level, 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 internal audit in any subsidiary.

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.

B.6 Actuarial function

The actuarial function is an administrative concept comprising all the persons performing actuarial tasks of the second line of defence as detailed below. Actuarial function performers are employed in the areas of the actuarial function in 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 are tasked with 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 the introduction and implementation of the risk-management system, in particular with respect to the development, use and monitoring of adequacy of the models underlying the calculation of capital requirements and the conduct of the ORSA;
- 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 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.

B.7 Outsourcing

The outsourcing of business or functions is the contracting out of work related to the business of insurance or an important or key business function or activity of any Sava Insurance Group company otherwise carried out by the company as part of its licensed activities.

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

Each individual Group company is fully responsible for its outsourced functions or activities since its liability to third parties is not transferable to service providers or other contractors. Before deciding on the assignment or outsourcing of any task or function, each Group company must assess and document the impact that such outsourcing of tasks or functions will have, ensuring regular conduct of this process in the future. Contracts for the outsourcing of business or functions may only be entered by Group company in compliance with statutory requirements.

In 2019, individual Group companies had some outsourcing arrangements with non-Group contractors. These included Zavarovalnica Sava with two outsourcing arrangements relating to claims settlement, and some other companies with IT outsourcing arrangements.

In 2019, the Group entered into three intra-Group outsourcing arrangements, all relating to IT.

Outsourcing of business or functions to intra-Group contractors

Implementation of the internal audit function

As of 1 February 2018, the performance of the internal audit key function of Zavarovalnica Sava and Sava Pokojninska Družba was transferred to Sava Re indefinitely. As of 1 January 2020, the performance of the internal audit function of Sava Infond was also transferred to Sava Re indefinitely.

Implementation of the information technology function

As of 1 February 2019, the information technology function of Sava Pokojninska Družba has been outsourced to Zavarovalnica Sava for an indefinite period.

Outsourcing of business or functions to extra-Group contractors

As of 1 March 2019, Zavarovalnica Sava has outsourced activities relating to the handling of claims to occur during the permitted direct conduct of insurance business in the United Kingdom to the company WNS ASSISTANCE LIMITED, Acre House, 11/15 William Road, London, NW1 3ER, UK.

B.8 Any other information

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

The Group's 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 March 2019.

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 December 2017 and January 2018 also supports the position that the Group has 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. In 2019, two subsidiaries had their corporate governance systems audited. Thus, all large subsidiaries completed corporate governance audits within a three-year cycle.

C. Group risk profile

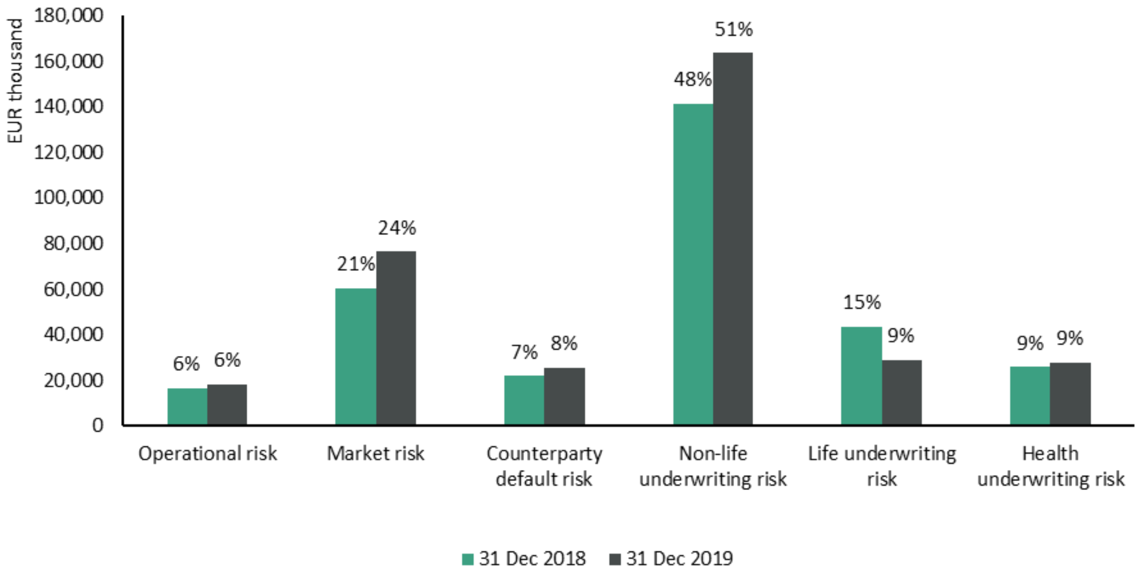
In the course of its operation, the Group is exposed to various risks. These are identified, measured, managed, monitored, and reported on in accordance with the processes described in section B.3 “Risk management system including the own risk and solvency assessment”. The main risk categories that the 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 Solvency II standard formula, whereas other risks, including operational risk, that are not readily quantifiable are measured using the methods described in the below sections.

The chart below shows the Group’s risk profile in accordance with the standard formula.

Undiversified SCR by risk module[14]



The Group’s risk profile in accordance with the standard formula is dominated by non-life underwriting risk, followed by market risk. In 2019, non-life underwriting risk chiefly increased on account of business growth and legal changes relating to the valuation of catastrophe risk, whereas market risk on account of portfolio growth and a somewhat changed asset allocation of the investment portfolio. Life underwriting risk decreased in 2019 reflecting policy maturities.

[14] Percentages in the chart relate to the sum total of all risks (including operational risk), while percentages in the text below relate to the sum total of all risks, excluding operational risk (i.e. the sum total of the undiversified basic solvency capital requirement).

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.

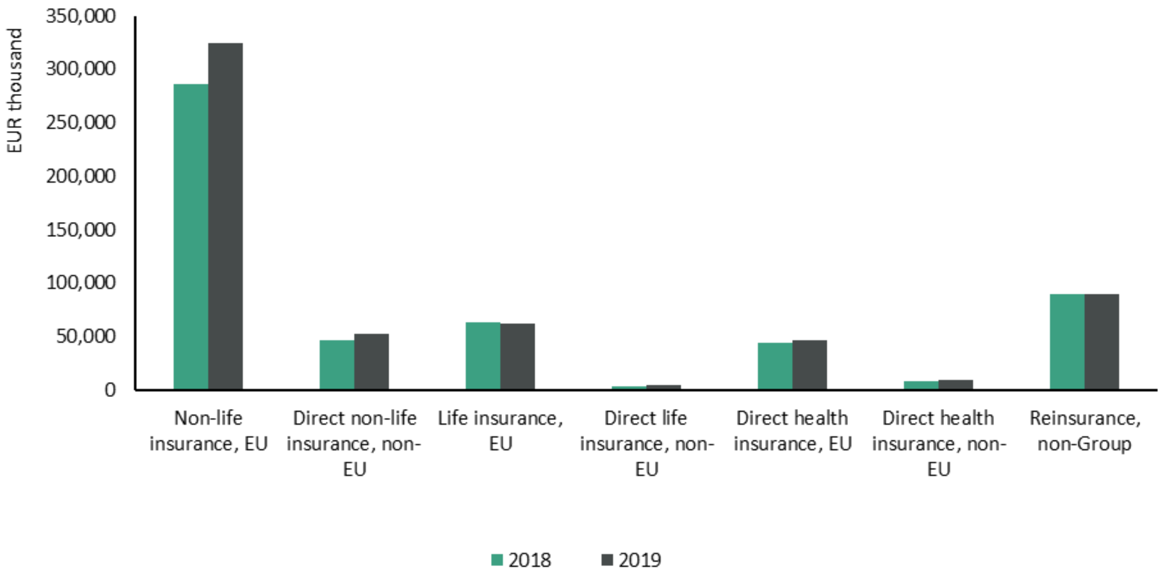
Underwriting risk is generally divided into:

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

The Group markets all three types of (re)insurance and is consequently exposed to all three risk categories. Accepted life reinsurance business of non-Group cedants, including accident reinsurance business, is grouped with health reinsurance risk. This is because, due to its annual coverage period and technical basis, such life reinsurance business is similar to accepted accident reinsurance business.

The chart below shows the structure of gross premiums written by line of business, separately for EU-based and non-EU based Group companies. The composition of gross premiums written did not change materially in 2019.

Split of Group gross premiums written

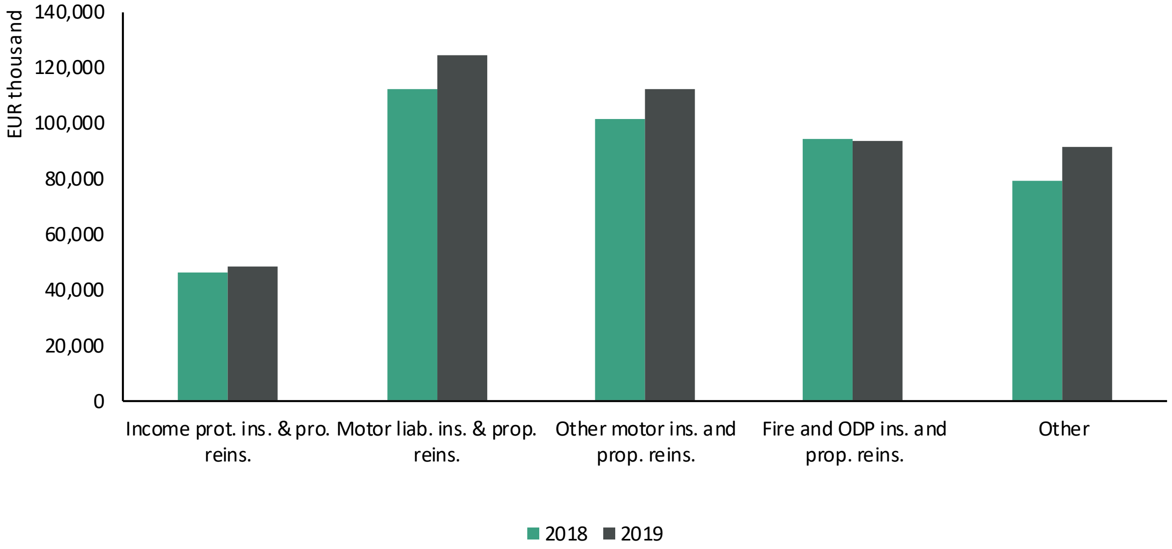


C.1.1 Non-life underwriting risk

Risk exposure

The chart below shows net non-life premiums earned by material line of business. The breakdown of the Group's net non-life premiums earned in 2019 did not change significantly.

Consolidated net premiums earned by major line of business



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,
  - product design risk, and
  - risk of unexpected increase in claims.

  Given the Group's portfolio composition, motor vehicle insurance and property (re)insurance contribute the most to premium risk.
- **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 for which the best estimate provisions are also structurally the most important 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 in the case of extreme events 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.

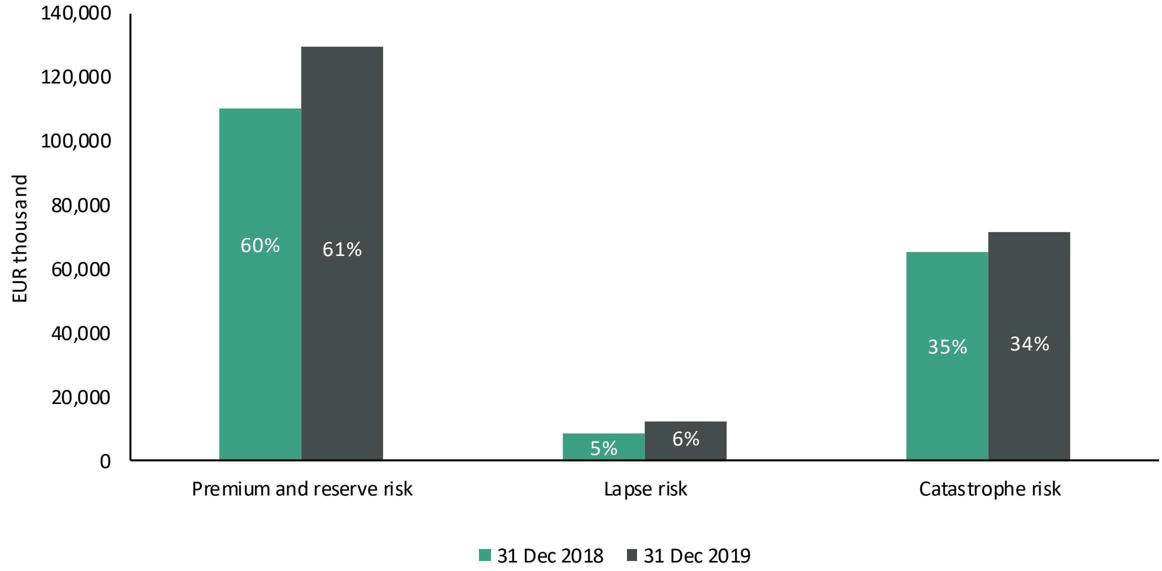
- **Lapse risk** is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates. The Group is not materially exposed to this type of risk.

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

For the quantitative assessment of non-life underwriting risk, the Group uses the Solvency II standard formula. It does not apply Group-specific parameters. According to the standard formula, the Group was exposed to non-life underwriting risk in the amount of EUR 163.6 million as at 31 December 2019 (31 December 2018: EUR 141.4 million). The capital requirement for non-life underwriting risk represented 50.8% of the undiversified basic solvency capital requirement of the Group (31 December 2018: 48.2%). 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.

Undiversified non-life underwriting risk by risk sub-module



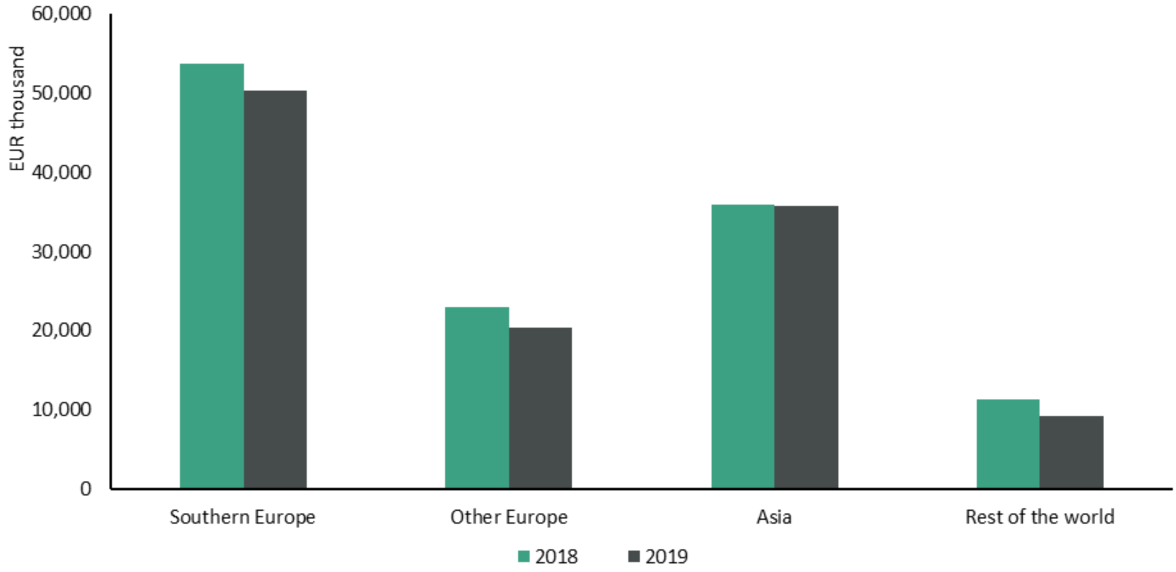
The Group measures non-life underwriting risk quantitatively, also as part of the ORSA. Premium and reserve risks are estimated using undertaking-specific parameters (hereinafter: "USP") the calculation for the Group uses weighted USP averages of individual Group companies.

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

Risk concentration

The chart below shows a breakdown of net premiums earned relating to fire and other damage to property insurance and proportional reinsurance, and to proportional and non-proportional property reinsurance business by region. It shows that the Group sources more premiums from southern Europe, where the Group's direct insurance companies operate; Exposure to Slovenia is predominant. The diversification remains similar as in the previous year.

Net premiums earned relating to property (re)insurance



In terms of exposure in Slovenia, the Group has highest portfolio concentration in Styria (north-east Slovenia) and in Lower Carniola (south-east Slovenia).

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 higher sums insured, and a process for the underwriting of (re)insurance contracts in accordance with internal underwriting guidelines for facultative underwriting for high exposures;
- 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 analyses the impact of various stress tests on the level of risk. In the calculation as at 31 December 2019, we tested the impact of a **10% increase in the volume measure for the premium risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 6.3% increase in the premium and reserving risk of non-life insurance (31 December 2018: 6.4%) and a 7.3% increase in the premium and reserving risk of NSLT health insurance (31 December 2018: 7.6%). The increase in the Group's overall SCR is below the materiality threshold[15] and hence does not materially affect the Group's solvency.

We also analysed the impact of a **10% increase in the volume measure for the reserving risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10%

[15] The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and solvency capital requirement. As at 31 December 2019, it was set at EUR 11 million at the Group level.

increase in the provision volume measure would result in a 3.7% increase in the premium and reserving risk of non-life insurance (31 December 2018: 3.6%) and a 2.7% increase in the premium and reserving risk of NSLT health insurance (31 December 2018: 2.4%). The increase in the overall Group SCR is below the Group's materiality threshold; thus, the stress test does not have a material effect on the Group's solvency.

Stress test results

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 Dec 2019	**521,975**		**237,652**		**220%**	
Increase in the volume measure for the premium risk of non-life and NSLT health insurance	521,975	0	244,642	6,989	213%	-6 p.p.
Increase in the volume measure for the reserving risk of non-life and NSLT health insurance	521,975	0	241,596	3,944	216%	-4 p.p.
Base values as at 31 Dec 2018	**471,947**		**216,735**		**218%**	
Increase in the volume measure for the premium risk of non-life and NSLT health insurance	471,947	0	222,652	5,918	212%	-6 p.p.
Increase in the volume measure for the reserving risk of non-life and NSLT health insurance	471,947	0	219,946	3,211	215%	-3 p.p.

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, requirements that PML assessments are a team exercise, and ensures that the retrocession programme covers PML error.

The Group seeks to mitigate product design risk before launching a product by making in-depth market analyses, keeping 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 mitigates 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 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 the:

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

Controls are put in place for the mitigation of each identified risk. These controls ensure data quality and mitigate the risks associated with 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:

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

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 intra- and extra-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 cover; therefore, if several events exceed the Group's priority in a year, the Group will suffer a loss lower than the sum of the priorities. The extra-Group portfolio is additionally insured through a sublimit in case of a higher catastrophe frequency. 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 one thousand years (including default of lead retrocessionaire), a Kyrill-type hurricane (2007), an Andrew-type hurricane (1990), an earthquake in China, an earthquake in Turkey, the scenario of three catastrophic events in Slovenia in one year (two hail storms and one flood), the impact of two hurricane events in the Caribbean as in 2017 and a scenario of two major Japanese typhoons occurring in one year. In each of these cases, 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 the design of business continuity plans, which include modes and measures for operating in emergency situations.

C.1.2 Life underwriting risk

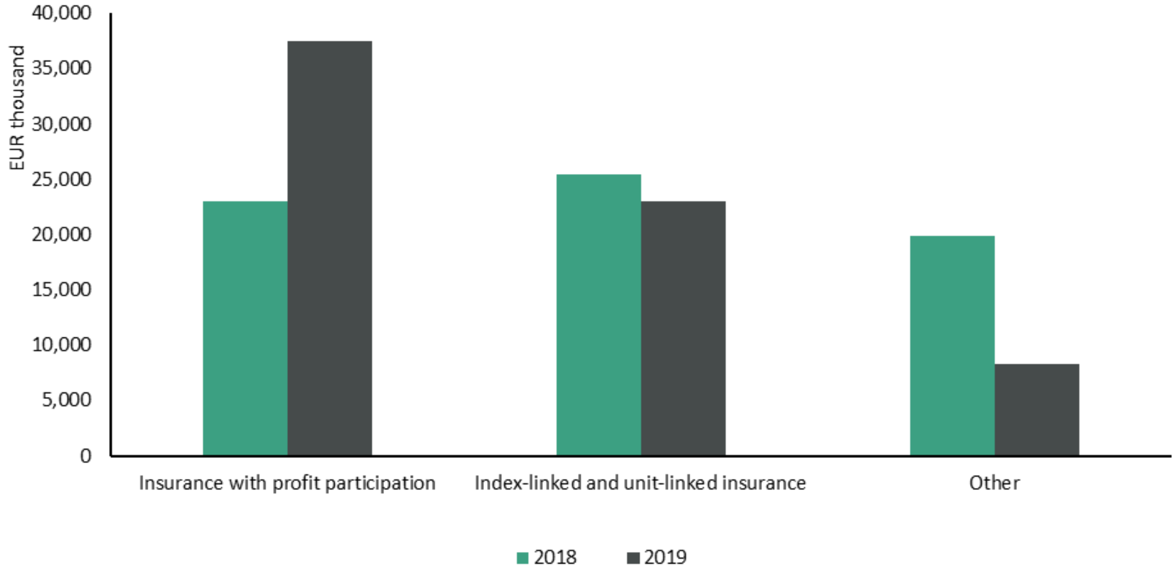
The main life underwriting risks are:

- 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 to the European Union. The breakdown of the Group's net life premiums earned in 2019 did not change materially.

Consolidated net premiums earned by material line of business[16]



Key exposures are related to lapse risk, mortality risk and life expense 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, identification of terminations for various reasons in an underwriting year, and economic situation, which, to a certain extent, 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

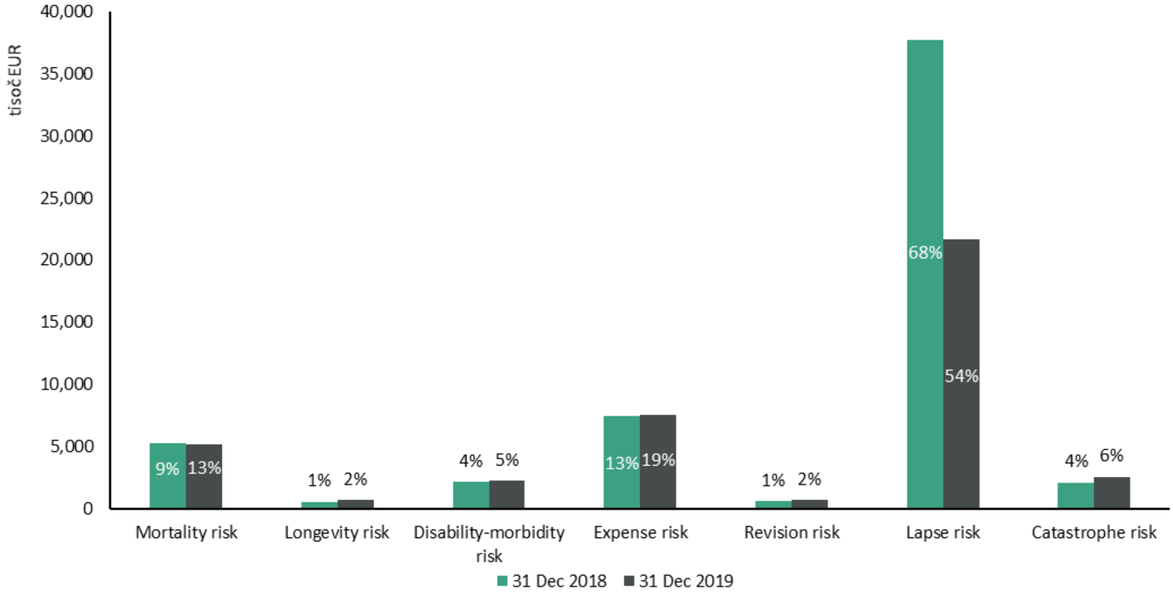
The Group makes quantitative assessments of life underwriting risk using the Solvency II standard formula. According to this formula, the Group was exposed to non-life underwriting risk in the amount of EUR 28.8 million as at 31 December 2019 (31 December 2018: EUR 43.7 million). The

[16] In 2019, there was a restructuring of part of the portfolio from the line of business Other to the line of business Insurance with profit participation.

capital requirement for life underwriting risk represented 8.9% (31 December 2018: 14.9%) of the Group's undiversified basic solvency capital requirement.

Lapse risk, specifically mass lapse risk, represented the largest proportion of the Group's undiversified life underwriting risk. The decline in the capital requirement for lapse risk compared to 2018 is due to methodological changes in the sub-module calculation. Mortality risk and expense risk are also significant, while other life underwriting risks of the Group are rather small. A comparison of risks is provided in the below breakdown of undiversified risk by life underwriting risk sub-module.

Undiversified life underwriting risk by risk sub-module



As we believe that our own risk profile for life business does not deviate significantly from the underlying assumptions in the standard formula, we apply the same treatment to life underwriting risks in the ORSA 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 schedule. The portfolio is also diversified in terms of the percentage of policies lapsed in a period, expenses and mortality, and morbidity rates by product.

Rik management

The Group manages **lapse risk** mainly by means of quarterly monitoring of the number and percentage of policies lapsed, by restricting surrenders if an approval by the insurer is required, and by the systematic prevention of insurance rearrangements by 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. To assess and assume life insurance risks, the Group uses a single web-based tool.

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 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.

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.

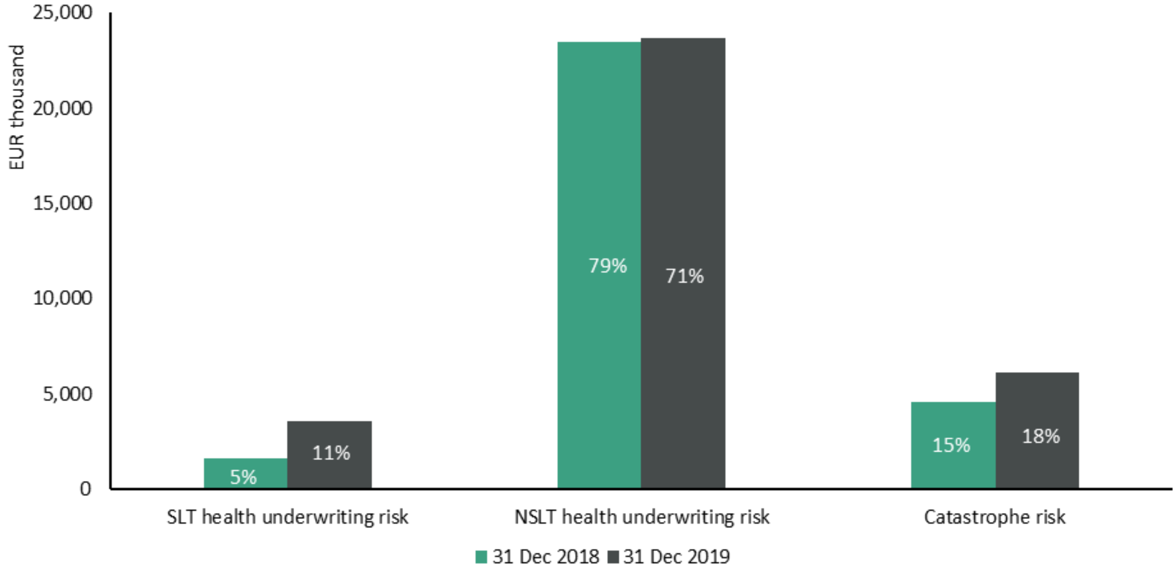
NSLT health underwriting risks are by their nature very similar to non-life underwriting risks, which are discussed in greater detail in section C.1.1 “Non-life underwriting risk” of this report, and are as such managed by the Group using similar techniques, i.e. by means of a well-designed underwriting 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”.

For the quantitative assessment of health underwriting risk, the Group uses the Solvency II standard formula. According to the standard formula, the exposure to life underwriting risk totalled EUR 27.9 million as at 31 December 2019 (31 December 2018: EUR 25.9 million) or 8.7% (31 December 2018: 8.8%) of the Group’s undiversified basic solvency capital requirement. The level of risk in accordance with the standard formula is roughly the same as at 31 December 2018.

The majority of this requirement was associated with NSLT health underwriting risk, notably premium and reserve risk. Like non-life underwriting risk, this risk, too, is not optimally evaluated by the standard formula, which is why we used USP in the ORSA.

Undiversified health underwriting risk by risk sub-module



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.

To systematically address material market risks, the Group adopted an asset and liability management policy and an investment risk management policy. Market risks are monitored at the individual Group company and Group levels.

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 and loans. When calculating capital requirements for interest rate risk, the amount of interest-rate-sensitive assets is considered on the assets side, while the best estimate technical provisions, subordinated debt and employee provisions are considered on the liabilities side.
- **Equity risk** is the risk of a fall in the level of equity prices resulting in a fall in the value of equities. The exposure to this risk arises from equity investments and investments in equity and mixed mutual funds. On the liabilities side, the exposure arises from life insurance obligations arising from life policies where policyholders bear the investment risk.
- **Property risk** is the risk of a fall in the value of property due to changes in the level and volatility of property prices.
- **Currency risk** is the risk of a drop in the value of assets or increase in the level of liabilities due to changes in the level of currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
- **Market concentration risk** is the risk of a suboptimal diversification of the asset portfolio or of an increased exposure to the default of a single counterparty or group of counterparties.

C.2.1 Risk exposure

As at the date of this report, the 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)[17]

EUR thousand	31 Dec 2019	As % of total 31 Dec 2019	31 Dec 2018	As % of total 31 Dec 2018
Asset class				
Bonds	**998,796**	**75.4%**	**978,652**	**80.4%**
Government bonds	*574,072*	*43.3%*	*583,208*	*47.9%*
Corporate bonds	*424,723*	*32.0%*	*395,444*	*32.5%*
Structured products	*0*	*0.0%*	*0*	*0.0%*
Investment funds	**59,186**	**4.5%**	**39,924**	**3.3%**
Deposits	**48,771**	**3.7%**	**27,864**	**2.3%**
Equity investments	**49,091**	**3.7%**	**44,024**	**3.6%**
Participations	*31,588*	*2.4%*	*28,365*	*2.3%*
Listed equities	*15,355*	*1.2%*	*13,346*	*1.1%*
Unlisted equities	*2,149*	*0.2%*	*2,313*	*0.2%*
Property	**76,216**	**5.8%**	**64,906**	**5.3%**
Own-use property	*58,656*	*4.4%*	*43,430*	*3.6%*
Other property	*17,560*	*1.3%*	*21,477*	*1.8%*
Deposits to cedants	**7,089**	**0.5%**	**6,275**	**0.5%**
Cash and cash equivalents	**86,060**	**6.5%**	**55,518**	**4.6%**
Total	**1,325,209**	**100.0%**	**1,217,164**	**100.0%**

The value of assets included in the calculation of market risk was EUR 1,325.2 million as at 31 December 2019 (31 December 2018: EUR 1,217.2 million). Their composition shows that the bulk of the Group's financial investments consists of fixed-income financial instruments.

In addition to these investments, investments of policyholders who bear the investment risk of EUR 126.4 million (31 December 2018: EUR 133.3 million) and the related obligations under these contracts were also included in the calculation. These have a significant impact on the level of capital requirements.

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.

C.2.2 Risk measurement

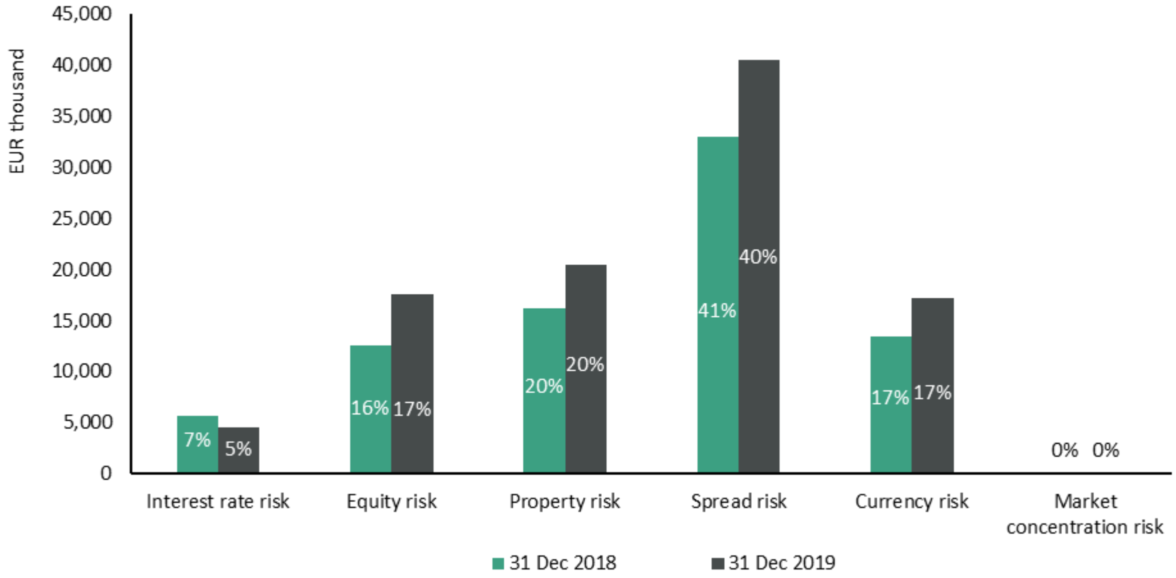
The Group conducts the quantitative assessment of market risk using the Solvency II standard formula as well as its own risk assessment. For investments in mutual funds, the Group uses the look-through approach when calculating market risk.

The solvency capital requirement for the Group's market risk calculated using the standard formula amounted to EUR 76.4 million as at 31 December 2019 (31 December 2018: EUR 60.4 million) or 23.7% of the total undiversified basic solvency capital requirement (31 December 2018: 20.6%). The rise in the solvency capital requirement for market risk in 2019 is largely the result of an increase in spread risk.

[17] Overview of the basic investment portfolio (does not consider the look-through approach).

The split of market risk did not change significantly in 2019. Market risks were dominated by spread risk.

Undiversified market risk by risk sub-module



Market risk:

- **Interest rate risk** accounted for 5% of the total undiversified capital requirement for market risks. Interest-rate-sensitive investments include bonds, deposits and loans. On the liabilities side, interest-rate-sensitive liabilities mainly include technical provisions of longer maturities, especially those supporting life insurance obligations. Compared to 31 December 2018, interest rate risk decreased due to the issue of subordinated bonds, which reduces the excess of interest rate-sensitive assets over interest rate-sensitive liabilities at the Group level;
- **Equity risk** accounts for 17% of the total undiversified market risk and remained largely unchanged year on year. Capital requirements arise partly from portfolio investments and partly from the mutual-fund investments that the Group holds to match the liabilities under life insurance contracts in which policyholders bear the investment risk. The Group matches the assets and liabilities of such policies with the amount of technical provisions pursuant to IFRSs. Due to the Solvency II valuation of obligations arising from such insurance contracts, the shock has a different impact on the amount of assets and liabilities, reflected in the calculation of equity risk as a mismatch of assets and liabilities, which can in turn lead to an additional capital requirement. Equity risk increased in 2019 due to an increase in investments in alternative funds.
- **Property risk.** The allocation to investment property within the investment portfolios of Group companies is limited by the limits system and is therefore relatively small also at the Group level. The risk mainly relates to property held for own use. Due to the high capital charge for property risk used in the standard formula, this risk represented 20% of total undiversified market risk.
- **Currency risk** represented 17% of the undiversified 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, from Group companies established outside the euro area and the look-through approach. Notwithstanding the high degree of currency matching 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.
- **Spread risk** is the largest market risk, accounting for 40% of the total undiversified capital requirement for market risk. This is due to the Group's relatively large exposure to corporate

bonds and deposits. Compared to 31 December 2018, this risk increased because of portfolio growth and a moderate change in the credit rating profile of corporate bonds.

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

- income volatility,
- net investment income and return on investment.

In managing assets and liabilities, the Group and each EU-based Group company calculate the following on a quarterly basis:

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

In addition to the standard formula, the Group uses its own risk assessment model (within ORSA) to monitor and assess market risk. Depending on the capability of each Group company, the following risks are assessed in the own model: equity risk, interest rate risk and credit risk. Apart from counterparty default risk, credit risk comprises market concentration risk 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, which – given past market behaviour – actually 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 highest single issuer concentration (as well as the highest regional concentration) arises from the Republic of Slovenia. Aware of these concentrations, the Group actively manages them by reducing the maximum exposure limit set in the internal limit system.

C.2.4 Risk management

The framework for market risk management is set out in the Sava Insurance Group's asset and liability management policy and 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.

In the management and monitoring of market risks, the Group takes account of the following:

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

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

The Group companies address any asset and liability mismatch by means of adjustments and hedging, and – if practicable and cost efficient – by adjusting assets 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.

Currency mismatches are managed at the individual Group company level through currency overlay and based on IFRS liabilities. The monitoring and management of currency risk is presented in greater detail in the 2019 annual report of the Sava Insurance Group and Sava Re, section 17.6.3.2.4 "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 Group-level limits are set by issuer, industry and credit rating. The Group thus prevents large concentrations within the investment portfolio, and limits the risk. The Group's portfolio, broken down by these parameters and by rating, is shown in the 2019 annual report of the Sava Insurance Group and Sava Re, in section 17.6.3.2.6 "Credit risk".

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

Stress test results

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 Dec 2019	**521,975**		**237,652**		**220%**	
Increase in interest rates of 100 basis points	517,076	-4,899	235,894	-1,758	219%	0 p.p.
Decrease in interest rates of 100 basis points	522,647	672	241,624	3,972	216%	-3 p.p.
Fall in value of equity securities of 20%	516,716	-5,259	235,820	-1,832	219%	-1 p.p.
Decrease in value of property of 25%	505,426	-16,549	235,413	-2,239	215%	-5 p.p.
Base values as at 31 Dec 2018	**471,947**		**216,735**		**218%**	
Increase in interest rates of 100 basis points	466,771	-5,176	215,674	-1,060	216%	-1 p.p.
Decrease in interest rates of 100 basis points	471,137	-810	217,345	611	217%	-1 p.p.
Fall in value of equity securities of 20%	467,065	-4,881	216,735	0	216%	-2 p.p.
Decrease in value of property of 25%	458,800	-13,147	214,834	-1,900	214%	-4 p.p.

The first sensitivity test was an **increase and decrease in interest rates**. We carried out a stress test of interest rate sensitivity by raising and 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 solvency capital requirement for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points resulted in a decrease in the Group's eligible own funds, as well as a decline in the Group SCR. The impact of the stress test on the solvency ratio is relatively small and comparable with the calculation of the stress test impact as at 31 December 2018. In a stress test, a decrease in interest rates of 100 basis points resulted in an increase in the Group's eligible own funds, as well as to some extent in the Group SCR. The absolute impact on the solvency ratio is small in this stress test, too.

We have also tested the sensitivity to a **fall in the Group's equity securities**. The test was carried out by decreasing equity prices by 20% as at the reporting date. We calculated the impact of the stress test on the Group's eligible own funds (we also evaluated the impact of this change on best estimate provisions, which depend on the level of investments), and calculated the impact on the level of the SCR (we did not calculate the impact on the SCR as at 31 December 2018). The stress test resulted in a decline in the Group's eligible own funds, whereas the impact on the solvency ratio was very small.

The impact of a change in property prices on the Group's solvency position was analysed through a stress test assuming a **25% fall in property prices**. The calculation was made using the amount of property as at the reporting date. The stress test mainly caused a reduction in the Group's eligible own funds. In addition, there is a drop in the capital requirements of the property risk and currency risk submodules. 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 2018.

In addition to sensitivity and stress tests, the Group considered a number of scenarios and their impacts 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. We decided to test a **financial crisis** scenario and analysed a strong deterioration in economic conditions, assuming a change in interest rates, credit risk spreads, and exchange rates. Such a scenario would have an impact on the Group's eligible own funds that would exceed the Group's materiality threshold[18]. This decline in the value of investments would also result in lower capital requirements for market risk and, consequently, a lower Group SCR, which would somewhat alleviate the impact on the solvency position. Despite the significant impacts, the Group will remain solvent even if such an extreme scenario realises.

Prudent person principle

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

[18] The materiality threshold is an internal measure associated with the level of eligible own funds and solvency capital requirement. The Group's materiality threshold is EUR 11 million based on a calculation as at 31 December 2019.

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.

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 concentration risk.

Spread and market concentration risks are discussed and presented, in accordance with the risk classification and measurement of the standard formula, within the market risk section C2 "Market risk" of this document. Below, we provide details regarding counterparty default risk.

Counterparty default risk includes losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the coming 12 months. Counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements and receivables from intermediaries, as well as any other credit exposures not covered in the spread risk sub-module of the standard formula (cash and cash equivalents and deposits of up to 3 months). 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.

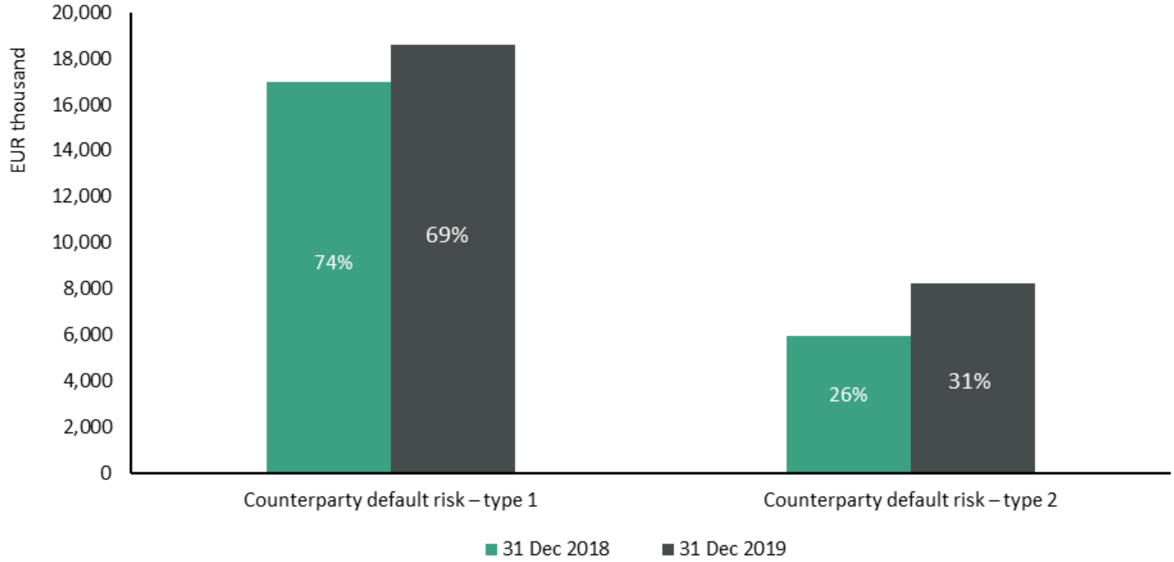
C.3.2 Risk measurement

The Group makes quantitative assessments of credit risk using the Solvency II standard formula. As mentioned, spread and market concentration risks are assessed within the market risk module, while counterparty default risk is defined in a separate module. This section shows the results for counterparty default risk, while market risk is discussed in section C.2 "Market risk".

The Group's solvency capital requirement in accordance with the Solvency II standard formula for counterparty default risk amounted to EUR 25.4 million as at 31 December 2019 (31 December 2018: EUR 21.8 million) or 7.9% (31 December 2018: 7.4%) of the Group's total undiversified basic solvency capital requirement. The increase in this risk mostly reflects an increased level of cash and cash equivalents.

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

Undiversified counterparty default risk by risk sub-module



Type 1 exposure includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. Type 2 exposure includes all receivables not included under type 1 exposure other than: pending premium receivables, pending commission receivables, tax assets and deferred tax assets.

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

C.3.3 Risk concentration

The Group has no significant concentration with counterparty default risk.

C.3.4 Risk management

To avoid late payments, 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. Group companies mainly arrange reinsurance directly with the controlling 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 equivalents by means of diversification through a number of banks, whereby individual Group companies set up maximum exposure limits for this type of investment.

The Group monitors and reports on credit risk exposure on a quarterly basis, which ensures timely actions. Partner credit ratings are also monitored, with a focus on any indications of their potential downgrade. To this end, the Group also has a process in place for checking external ratings.

A credit rating subcommittee has been set up as part of the Group's risk management committee. It is responsible for the assessment of the Group's reinsurers, and for reviewing the assessment of the appropriateness of external credit ratings for the purpose of capital requirement calculations under the standard formula.

In addition to the above, we conducted a stress test of a one-notch ratings downgrade of reinsurers. Calculations were made using reinsurers' credit ratings and exposures to them on the reporting date. The stress test results in increased capital requirements for the counterparty default risk sub-module and, via the risk margin, in increased eligible own funds. The table below shows the results of a stress test conducted.

Stress test results

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 Dec 2019	**521,975**		**237,652**		**220%**	
Downgrade in reinsurers' credit ratings	521,977	2	238,730	1,077	219%	-1 p.p.
Base values as at 31 Dec 2018	**471,947**		**216,735**		**218%**	
Downgrade in reinsurers' credit ratings	471,948	1	217,442	707	217%	-1 p.p.

The stress test 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 on a similar level as at 31 December 2018.

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 Solvency II 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 these risk measures:

- cash in bank accounts,
- the percentage of highly-liquid assets[19] and the haircut amount in relation of the total amount of financial investments, in accordance with the ECB methodology (or comparable ratio, if established outside the European Union),
- 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

In order to effectively manage liquidity risk, the Group has adopted a liquidity risk management policy, which sets out the risk management processes, liquidity risk measures, and procedures involved in the event of emergency liquidity needs. Furthermore, it defines liquidity risk as a key risk in its risk strategy. 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.

[19] Liquidity class L1A according to the ECB classification of assets eligible for collateral.

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 stress 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.

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. Both the Group’s EU-based insurers provide the required assets for covering the assessed liquidity buffer by investing at least 15% of their portfolio in highly liquid assets. Other Group companies use cash in bank accounts and short-term deposits as short-term assets for ensuring liquidity. As at 31 December 2019, the two EU-based Group companies held a level of L1A assets significantly exceeding the 15% set in the risk strategy: Zavarovalnica Sava 34% and Sava Re 20%. Extreme liquidity requirements of extra-Slovenian Group companies are attended to by the controlling 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 its current liquidity position.

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% rate of cancellations is assumed, and all policies are treated as paid-up.

EPIFP is calculated separately for each homogeneous risk group, which means that loss-making policies may only be offset against profit-making policies within a homogeneous risk group.

The table below shows EPIFP for the Group’s non-life and life business. Compared to the calculation as at 31 December 2018, EPIFP decreased.

EPIFP – life and non-life business

EUR thousand	31 Dec 2018	31 Dec 2019
Non-life business	18,512	16,969
Life business	52,420	41,738
Total	**70,931**	**58,707**

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 risks. Nevertheless, some are relatively important, in particular:

- risk associated with the computer and communication system,
- 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,
- compliance risk relating to laws and regulations,
- Risk due to Group complexity
- risks associated with outsourcing.
- risk of unauthorised access to data, theft and fraud.

C.5.2 Risk measurement

The Group calculates its capital requirements for operational risks using the Solvency II standard formula at least once 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 of the Group.

As at 31 December 2019, the solvency capital requirement for market risk pursuant to the standard formula amounted to EUR 18.1 million (31 December 2018: EUR 16.4 million).

The Group assesses operational risk mainly by qualitatively assessing the related probability and financial impact in the risk register, as well as by monitoring some indicators of operational risk. Through regular risk assessments, individual Group companies and the Group obtain insight into the actual level of their exposure to such risks. In addition to risk registers maintained by individual Group companies, a register is also maintained at the Group level, containing the risks arising at the Group level and those where the Group risk is not equal to the sum total of risks of individual Group companies. 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)[20].

[20] The period after the reporting date is marked by the Covid-19 pandemic, which has a material impact on operational risk. The parent company has set up a crisis task force to monitor developments and take mitigation measures.

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 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.

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

- streamlining the business processes management system and the 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 efficiency of internal controls;
- maintaining a register of incidents to identify deficiencies in processes and internal controls;
- a positive climate, good business culture and continuous employee training;
- implementing appropriate policies as regards information security and developing IT to reduce cyber risk;
- having in place a business continuity plan for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting 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.

In addition, the Group companies also manage such risks through independent oversight conducted by the internal audit department.

All major internal controls related to operational risk are included in the risk registers of individual Group companies and the Group.

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 to 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 processes.

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 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 the Group's income or capital adequacy.

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. In 2019, the Group was exposed to the following key strategic risks:

- regulatory risk,
- risk of an inadequate development strategy,
- risks associated with strategic investments,
- political risk,
- project risk,
- risk of market and economic conditions, 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 in accordance with the Solvency II standard formula.

Therefore, we assess strategic risks qualitatively in the risk register, their likelihood and potential financial severity. In addition, we seek to evaluate key strategic risks using a qualitative analysis of various scenarios (also as part of the ORSA). 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 2019, the Group was not materially exposed to strategic risk.

Risk management

Group companies mitigate individual strategic risks mainly through preventive measures.

In addition to 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 the reputation of the company or 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, 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.

Currently, a project is running for the implementation of the new international accounting standards IFRS 9 and IFRS 17. Because implementation risk is high and the project involves extensive management of existing resources, a Group-level project team was set up for this purpose as early as 2017.

In addition, a number of important **IT projects** are underway: among other things, an enterprise resource planning system will be selected in 2020 to support business operations. Risks associated with key projects are monitored in the risk register and assessed by project team members and other stakeholders.

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

C.6.2 Investment contract risks

The Group's investment contracts include assets from annuity 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 2019 totalled EUR 151.2 million (31 December 2018: EUR 135.6 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 Solvency II standard formula. The risks associated with the company are therefore not discussed as part of underwriting or market risks. The capital requirement for Sava Pokojninska was calculated in accordance with sectoral regulations and amounted to EUR 6.0 million as at 31 December 2019 (31 December 2018: EUR 5.5 million).

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 (members) within 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 stress tests 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 2018.

Sava Penzisko Društvo only manages assets; funds do not have any 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.

D. Valuation for solvency purposes

The basis for the balance sheet under Solvency II, where 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 Commission (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 ZTSR 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), and Sava Penzisko Društvo and the associates ZTSR 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 European Commission. If the IFRSs allow for several valuation methods, a method has to be chosen that is consistent with Solvency II principles as set out in the Delegated Regulation and other Solvency II implementing regulations. In 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 where the SII value differs from the IFRS value. For all other items, IFRSs are deemed to ensure a valuation consistent with Solvency II principles.

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 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 does have 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(2) of ZZavar-1, and a periodic review procedure to verify that market values and input data are reliable.

Where 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 the appropriateness of the valuation approach.

The following tables show the Group's balance sheet as at 31 December 2019 and 31 December 2018. This includes the values of assets and liabilities under the IFRSs (before and after adjustments for the Sava Pokojninska pension company, 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, taking into account the revaluations and reclassifications of asset and liability items.

IFRS and SII balance sheets as at 31 December 2019[21]

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)	39,147	-23,381	15,766	-15,766	0	0
2.	Deferred acquisition costs (D.1.2)	27,656	0	27,656	-27,656	0	0
3.	Intangible assets (D.1.3)	17,758	-12,064	5,693	-5,693	0	0
4.	Deferred tax assets (D.1.4)	2,044	-18	2,026	8,347	0	10,373
5.	Property, plant and equipment held for own use (D.1.5)	57,364	-592	56,772	1,884	0	58,656
6.	Property, plant and equipment other than for own use (D.1.6)	16,921	-423	16,498	1,062	0	17,560
7.	Investments in subsidiaries and associates (D.1.6)	581	55,088	55,669	-24,082	0	31,588
8.	Shares (D.1.6)	17,504	0	17,504	0	0	17,504
9.	Bonds (D.1.6)	933,981	-19,875	914,105	2,437	82,253	998,796
10.	Investment funds (D.1.6)	58,430	-2,628	55,802	0	3,384	59,186
11.	Deposits other than cash equivalents (D.1.6)	44,764	-4,454	40,310	1	8,461	48,771
12.	Investments for the benefit of life-insurance policyholders who bear the investment risk (D.1.6)	213,160	0	213,160	472	-87,194	126,438
13.	Loans and mortgages (D.1.7)	1,203	0	1,203	0	0	1,203
14.	Reinsurance recoverables (D.1.8)	38,621	0	38,621	-8,135	-6,582	23,904
15.	Deposits to cedants (D.1.9)	7,089	0	7,089	0	0	7,089
16.	Insurance and intermediaries receivables (D.1.10)	142,421	45	142,466	0	-94,419	48,047
17.	Reinsurance and co-insurance receivables (D.1.11)	6,735	0	6,735	0	-805	5,930
18.	Other receivables (D.1.12)	10,258	-664	9,594	0	0	9,594
19.	Own shares (D.1.13)	24,939	0	24,939	6,057	0	30,995
20.	Cash and cash equivalents (D.1.14)	95,708	-2,744	92,964	0	-6,904	86,060
21.	Intangible assets (D.1.15)	154,609	-151,502	3,107	-2,008	0	1,099
Total assets		**1,910,892**	**-163,213**	**1,747,679**	**-63,081**	**-101,806**	**1,582,792**
Liabilities							
22.	Gross technical provisions – non-life (D.2.1)	704,732	0	704,732	-164,474	-81,192	459,067
23.	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	229,220	-8,598	220,622	93,866	0	314,489
24.	Gross technical provisions – index-linked and unit-linked (D.2.1)	220,614	0	220,614	-108,499	0	112,115
25.	Provisions other than technical provisions (D.3.1)	8,705	-353	8,353	0	0	8,353
26.	Deferred tax liabilities (D.1.4)	5,295	10	5,305	36,582	0	41,887
27.	Financial liabilities other than debts owed to credit institutions	151,415	-151,041	374	0	0	374
28.	Insurance and intermediaries payables (D.3.2)	55,949	0	55,949	440	-13,227	43,162
29.	Liabilities from reinsurance and co-insurance business (D.3.3)	9,300	0	9,300	0	-7,387	1,914
30.	Other trade payables (D.3.4)	11,857	-544	11,313	0	0	11,313
31.	Subordinated liabilities (D.3.5)	74,823	0	74,823	-976	0	73,847
32.	Other liabilities (D.3.6)	29,265	-891	28,374	-7,574	0	20,800
Total liabilities		**1,501,176**	**-161,417**	**1,339,759**	**-150,635**	**-101,806**	**1,087,319**
Excess of assets over liabilities		**409,716**	**-1,796**	**407,920**	**87,554**	**0**	**495,474**

[21] The note in brackets indicates the section of this report with details on the valuation.

IFRS and SII balance sheets as at 31 December 2018

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	29,006	-13,240	15,766	-15,766	0	0
2.	Deferred acquisition costs	23,982	0	23,982	-23,982	0	0
3.	Intangible assets	3,892	-149	3,743	-3,743	0	0
4.	Deferred tax assets	1,950	0	1,950	6,366	0	8,317
5.	Property, plant and equipment held for own use	42,635	-101	42,534	896	0	43,430
6.	Property, plant and equipment other than for own use	20,902	0	20,902	575	0	21,477
7.	Investments in subsidiaries and associates	463	28,384	28,847	-481	0	28,365
8.	Equities	15,676	-17	15,659	0	0	15,659
9.	Bonds	919,678	-16,395	903,283	4,086	71,283	978,652
10.	Investment funds	37,612	-976	36,636	0	3,288	39,924
11.	Deposits other than cash equivalents	25,646	-5,439	20,207	0	7,657	27,864
12.	Investments for the benefit of life-insurance policyholders who bear the investment risk	204,819	0	204,819	585	-72,133	133,270
13.	Loans and mortgages	1,116	0	1,116	0	0	1,116
14.	Reinsurance recoverables	27,293	0	27,293	-3,661	-2,969	20,663
15.	Deposits to cedants	6,275	0	6,275	0	0	6,275
16.	Insurance and intermediaries receivables	129,352	-11	129,340	0	-95,029	34,311
17.	Reinsurance and coinsurance receivables	5,836	0	5,836	0	-405	5,431
18.	Other receivables	5,363	-2	5,360	0	0	5,360
19.	Own shares	24,939	0	24,939	1,407	0	26,346
20.	Cash and cash equivalents	66,752	-1,140	65,613	0	-10,095	55,518
21.	Other assets	137,701	-135,875	1,826	-1,693	0	133
Total assets		**1,730,886**	**-144,961**	**1,585,925**	**-35,411**	**-98,403**	**1,452,111**
Liabilities							
22.	Gross technical provisions – non-life	649,162	0	649,162	-194,823	-80,907	373,432
23.	Gross technical provisions – life (excl. policies where policyholders bear the investment risk)	263,184	0	263,184	77,923	0	341,107
24.	Gross technical provisions – index-linked and unit-linked	210,033	0	210,033	-103,984	0	106,048
25.	Provisions other than technical provisions	7,730	-140	7,590	0	0	7,590
26.	Deferred tax liabilities	3,529	-27	3,503	44,703	0	48,206
27.	Financial liabilities other than debts owed to credit institutions	135,711	-135,442	269	0	0	269
28.	Insurance and intermediaries payables	48,132	0	48,132	428	-14,122	34,438
29.	Reinsurance and co-insurance payables	6,176	0	6,176	0	-3,374	2,802
30.	Other payables (trade, not insurance)	10,455	-449	10,006	0	0	10,006
31.	Subordinated liabilities	0	0	0	0	0	0
32.	Other liabilities	23,515	-258	23,257	-8,255	0	15,002
Total liabilities		**1,357,626**	**-136,315**	**1,221,311**	**-184,007**	**-98,403**	**938,901**
Excess of assets over liabilities		**373,260**	**-8,646**	**364,614**	**148,597**	**0**	**513,211**

D.1 Assets

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

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 SII balance sheet is stated at nil.

D.1.4 Deferred tax assets and liabilities

The Group accounts for deferred tax assets and deferred tax liabilities in accordance 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, and
- 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 SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:

- the revaluation of the participations in related companies item if considered strategic investments based on which revaluation differences cases are treated as permanent and therefore there is no basis for accounting for deferred taxes under this item;
- the revaluation of the listed own shares item because it does not constitute a taxable temporary difference;

- reclassifications among balance sheet items.

Comparison of deferred tax assets and deferred tax liabilities

31 Dec 2019 EUR thousand	IFRS value	Revaluation	SII value
Deferred tax assets	2,026	8,347	10,373
Deferred tax liabilities	5,305	36,582	41,887
Net deferred tax liabilities			**31,514**

Comparison of deferred tax assets and deferred tax liabilities

31 Dec 2018 EUR thousand	IFRS value	Revaluation	SII value
Deferred tax assets	1,950	6,366	8,317
Deferred tax liabilities	3,503	44,703	48,206
Net deferred tax liabilities			**39,889**

In 2019, net deferred tax liabilities fell by EUR 8.4 million. The main impact mostly arises from the revaluation of technical provisions. Deferred tax assets and deferred tax liabilities were accounted for using the applicable tax rate of 19% (unchanged from 2018).

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. Equipment for the direct transacting of the 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 as in the IFRS balance sheet.

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

D.1.6 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, data of the EU-based pension and fund management companies (Sava Pokojninska and Sava Infond) was not fully consolidated. In the adjusted IFRS balance sheet, they thus remained among investments in subsidiaries, stated at the carrying amount, while in the SII balance sheet they are stated in the amount equal to the proportional share of their own funds, i.e. the amount of available capital calculated under sectoral regulations applicable to pension and fund management companies in the Republic of Slovenia.

In accordance with article 335(1)(f) of the Delegated Regulation, no full consolidation was carried out for data of the non-EU-based pension companies (Sava Penzisko Društvo). Accordingly, this data remained in the investments in subsidiaries and associates item of the adjusted IFRS balance sheet, stated at the carrying amount. In the SII balance sheet they are valued using the IFRS equity method, in accordance with article 13(5) of the Delegated Regulation.

In accordance with article 335(1)(f), the Group values shares in associate companies in the SII balance sheet using the IFRS equity method in compliance with article 13(5) of the Delegated Regulation. The value of goodwill and other intangible assets that would be valued at zero in accordance with the asset valuation methodology is deducted from the obtained value of the company.

Equities

Equities and mutual funds are valued in accordance with international accounting standards, specifically IAS 39, which provides for shares and mutual funds to be classified as either available-for-sale (AFS) financial assets or financial assets designated at fair value through profit or loss (FVTPL).

Equities – listed

The item includes equity securities listed on a stock exchange. All equities are classified as either available-for-sale financial assets or as carried at fair value through profit or loss, in accordance with IAS 39. The value in the IFRS balance sheet is the fair value (market value) of marketable equity securities.

The revaluation methodology pursuant to the requirements of Solvency II is consistent with the methodology used for the IFRS balance sheet valuation, as marketable equities are already stated at their market value, rendering a restatement for the purposes of the SII balance sheet redundant.

Equities – unlisted

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

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

For the purposes of the IFRS balance sheet valuation, bonds are measured in accordance with IAS 39. They are measured based on the IAS category into which they are classified.

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

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

The bond item also includes non-cash-equivalent subordinated deposits from the deposits item.

Structured financial products

In 2019, the Group held no structured financial products.

Investment funds

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

The revaluation methodology pursuant to the requirements of SII is consistent with the methodology used for the IFRS balance sheet valuation, as investment funds are already stated at their market value, rendering a restatement for the purposes of the SII balance sheet redundant.

Deposits other than cash equivalents

These deposits are measured at amortised cost or acquisition cost plus accrued interest. In accordance with the IAS 39, they are classified in the Group’s IFRS balance sheet as loans and receivables.

Valuation in the SII balance sheet is consistent with the methodology used for the IFRS balance sheet. Deposits other than cash equivalents are not subject to revaluation; it is assumed that their carrying amount is a reasonable approximation of their market value.

In the SII balance sheet, subordinated deposits are reclassified from the deposits item to the corporate bonds item because the Group considers that the risk involved in subordinated deposits is at about the same level as the risk of subordinated corporate bonds.

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

Assets of unit-linked business without financial guarantees are shown in the SII balance sheet under the assets held for index-linked and unit-linked funds item. The change in the value between the IFRS and SII balance sheets is the result of the reclassification of assets relating to insurance contracts where policyholders bear the investment risk, while the company guarantees a defined level of return (guaranteed NAVPS). Assets are reclassified to other financial investments covering life insurance obligations (ZS varnost, ZS Zajamčeni, ZM Garant and ZM Zajamčeni). Thus, the SII balance sheet financial investments item covering obligations to policyholders who bear the investment risk includes investments in mutual funds and structured products of the investment registers KSNT 1 (Prizma), KSNT 2a (ZM Prizma Hibrid) and the KSNT investment register of the Zavarovalnica Sava branch office.

D.1.7 Loans and mortgages

Loans and mortgages are initially recognised at their contract value.

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

D.1.8 Reinsurance recoverables

In the text below the term SII provisions is used for technical provisions calculated in line with the SII regulations, while the term IFRS provisions is used 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 financial statements in the 2019 annual report of the Sava Insurance Group and Sava Re, section 17.4.24 "Technical provisions".

The amount of reinsurance recoverables is measured by the actuaries of Sava Insurance Group companies. The methodology takes into account the guidelines set out in the underwriting and reserving risk policy.

The Group reclassifies items from premium provisions (reinsurance ceded) for not-past-due receivables for commission from ceded reinsurance and coinsurance business, and for not-past-due ceded reinsurance and coinsurance premium payables.

As ceded coinsurance and reinsurance business generates relatively small premium volumes, reinsurance recoverables cannot be calculated using the same actuarial methods as for calculating gross provisions. Simplifications are applied, whereby the share of the retrocession business is calculated using retrocession data for each homogeneous group and each cohort. Retroceded best estimate provisions (before costs, reclassifications and discounting) are calculated – using the share thus obtained – from the gross best estimate provisions (before taking into account the costs, 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 reinsurance recoverables (for the IFRS balance sheet valuation) being divided according to the credit ratings of counterparties and the probability of default associated with these ratings.

D.1.9 Deposits to cedants

Under reinsurance contracts, cedants may retain a part of the reinsurance premiums as a guarantee for the payment of future claims, such retained premiums being generally released after one year. These deposits bear contractually-agreed interest. Deposits to cedants are stated at cost, less any adjustments.

As these investments are short-term, their carrying amount is considered a sufficiently good approximation of their market value. The market value of such deposits is therefore not calculated in the model, and in calculating the solvency capital requirement (SCR) the market value is taken to be the IFRS balance sheet value.

D.1.10 Insurance and intermediaries receivables

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

The Group is excluding the following items from insurance and intermediaries receivables in the SII balance sheet:

- undue insurance receivables, and
- undue receivables for premiums arising out of accepted reinsurance and coinsurance.

The Group factors this item in as future cash flows when calculating gross best estimate premium provisions. Since the entire change in premium provisions is disclosed as a reclassification, not-past-due receivables are eliminated in the same way when compiling the SII balance sheet.

D.1.11 Reinsurance and co-insurance receivables

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

The following receivables undue as at the SII balance sheet reporting date are eliminated from reinsurance receivables:

- undue receivables for commission from the reinsurer's retroceded business, and
- undue receivables for commission from the insurers' ceded reinsurance and coinsurance business.

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.

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 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

In the IFRS balance sheet, own shares are stated as a contra account in equity. The Group recognises own shares in the amount of their purchase price on a regulated or non-regulated market. Consistent with the provisions of article 36 of IAS 32 "Financial Instruments – Presentation", they are not revalued to fair value even if they be listed on a regulated securities market.

The SII balance sheet presents own shares under assets. Since the parent company's own shares are listed on a regulated market, they are restated at their stock exchange price for the purposes of the SII balance sheet as at the balance sheet date.

D.1.14 Cash and cash equivalents

The SII balance sheet and the 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 Other assets

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

D.2 Technical provisions

The Group reclassifies the items of the gross premium provision for not-past-due premium receivables relating to direct insurance, accepted reinsurance and coinsurance and for not-past-due commission payables relating to accepted reinsurance and coinsurance 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 Sava Insurance 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. "Reinsurance recoverables". 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 77d 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 Solvency II 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 above-mentioned categories of provisions are described in more detail in the section below.

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 historic 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 how fast claims are reported or paid;

- the Bornhuetter-Ferguson method 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 (short: 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, while the tail development factor is determined using a logarithmic regression, where 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 percent 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, 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 (2019), the total average expected ultimate loss ratio is slightly higher than in the calculation as at 31 December 2018 for the 2018 accident year. The largest impact on the deterioration came from FOS business relating to motor insurance and general liability insurance.

Best estimate premium provisions relating to direct insurance

The premium provision refers to loss events that will occur after the valuation date, i.e. 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 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,
- the amount of future expected bonuses and rebates dependent on the level of the loss ratio of certain contracts.

The smaller direct 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.

The most important assumptions in calculating the best estimate premium provisions (short: 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 percent 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 2019 is slightly higher than the one used in the calculation of the best estimate premium provision as at 31 December 2018, which agrees with the expected ultimate loss ratio from the best estimate claims provision calculation as a result of FOS business relating to motor and general liability business.

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 relating to non-life insurance business due to the specific mode of benefit payments. It is separately determined for:

- reported annuities arising out of non-life insurance business (both accumulation and distribution 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 distribution phase or not) are:

- expected proportion of loss adjustment expenses as a percentage of future claim payments,
- expected inflation,
- mortality based on relevant mortality tables.

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

- the expected number of such annuities,
- the average amount of the present value of all future annuity obligations at the time of the annuity's inception.

The calculation at the end of 2019 considered a slightly higher expected average subsequently reported annuity than year on year because of higher annuities reported in recent years.

The proportion of loss adjustment expenses as a percentage of future annuity payments is determined on the basis of data of the previous accounting year, while the future expected inflation is determined based on the current macroeconomic situation and outlook.

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-lined 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, future inflation.

For cash flows estimated until the policy expiry, their present value as at the reporting date is calculated using the risk-free interest rate. In respect of the majority of life policies, a separate estimate of the present value of embedded options and guarantees is made, using stochastic economic scenarios. 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 where 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 guaranteed interest rates 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 (IBNR). Best estimate provisions for incurred reported claims are equal to case provisions. Best estimate provisions for incurred but not reported 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.

Last year, 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. There have been no significant changes in assumptions compared to the previous year. Compared to the previous year, there has been a transfer of unit-linked life insurance contracts with guaranteed interest rate from the "other life insurance" line of business to the insurance with profit participation line of business. Additionally, provisions for policies of the index-linked and unit-linked insurance line of business that meet certain conditions were valued as technical provisions calculated as a whole. As this items is reported separately, best estimate technical provisions declined considerably.

Best estimate provisions for accepted reinsurance

Calculations are made on the level of lines of business in accordance with annex 1 to the Delegated Regulation, separately for intra-Group and extra-Group business (for Group-level balances, after the elimination of intra-Group transactions, only the latter is considered). Due to the negligible volume and the nature of the obligations relating to accepted extra-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 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 (hereinafter: BF) modification. In the chain-ladder method, the development factors are selected based on the 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, while 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 2019, 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 extra-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 slightly higher year on year, largely due to the larger claims volume in proportional fire and other damage to property reinsurance business, and non-proportional property reinsurance.

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 the above-mentioned 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 only to (re)insurance receivables,
- market risk, if it cannot be avoided through the 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 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.

D.2.1 Value of SII technical provisions

The following tables set out the values of gross best estimate provisions, the reinsurers' share of best estimate provisions and the risk margin as at 31 December 2019 and 31 December 2018 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 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Medical expense insurance and proportional reinsurance	1,386	1,092	383	389
Income protection insurance and proportional reinsurance	23,826	21,247	262	50
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	107,091	88,810	888	626
Other motor insurance and proportional reinsurance	24,014	20,096	208	174
Marine, aviation and transport insurance and proportional reinsurance	8,491	7,327	305	182
Fire and other damage to property insurance and proportional reinsurance	69,900	58,173	4,525	4,746
General liability insurance and proportional reinsurance	33,847	26,607	974	1,040
Credit and suretyship insurance and proportional reinsurance	1,132	875	0	0
Legal expenses insurance and proportional reinsurance	49	6	18	0
Assistance insurance and proportional reinsurance	1,275	1,200	7	154
Miscellaneous financial loss	498	478	57	50
Non-proportional health reinsurance	571	482	2	2
Non-proportional casualty reinsurance	12,568	11,336	8,362	7,095
Non-proportional marine, aviation and transport reinsurance	5,403	7,957	353	284
Non-proportional property reinsurance	47,304	36,113	2,556	2,332
Total	**337,355**	**281,798**	**18,899**	**17,124**

Movements are largely in line with portfolio volume, loss events and claims settlements. Thus, the largest increase in the gross best estimate claims provision was in motor liability and general liability business reflecting portfolio growth, albeit with slightly deteriorated expected loss ratios. Due to an unfavourable loss experience there was a considerable increase in the provisions for fire and other damage to property insurance and proportional reinsurance and non-proportional property reinsurance.

Best estimate premium provision (BE PP)

EUR thousand	Gross BE PP		Reinsurance recoverables from BE PP	
Line of business	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Medical expense insurance and proportional reinsurance	254	389	-30	209
Income protection insurance and proportional reinsurance	-9,605	-10,855	-7	0
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	39,492	29,519	-79	-49
Other motor insurance and proportional reinsurance	35,466	30,793	359	280
Marine, aviation and transport insurance and proportional reinsurance	137	-147	-949	-22
Fire and other damage to property insurance and proportional reinsurance	3,613	4,073	512	19
General liability insurance and proportional reinsurance	777	-516	-15	-122
Credit and suretyship insurance and proportional reinsurance	3,079	4,211	0	0
Legal expenses insurance and proportional reinsurance	-110	-106	-67	-95
Assistance insurance and proportional reinsurance	4,451	4,034	-18	-17
Miscellaneous financial loss	29	194	-87	-22
Non-proportional health reinsurance	-24	-151	0	-1
Non-proportional casualty reinsurance	-346	-729	369	76
Non-proportional marine, aviation and transport reinsurance	-554	-2,321	-206	-46
Non-proportional property reinsurance	-8,020	-9,876	-504	-505
Total	**68,639**	**48,512**	**-722**	**-295**

The most significant change compared to the prior year is the increase in the best estimate premium provision for motor insurance, as the result of direct business portfolio growth and partly the slightly higher expected loss ratio.

Best estimate provisions for life lines of business

EUR thousand	TP calculated as a whole		Gross BE	
Line of business	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Health insurance	0	0	-8,547	-3,372
Insurance with profit participation	0	0	291,381	260,256
Index-linked and unit-linked insurance	71,274	0	35,613	98,108
Other life insurance	0	0	-16,403	42,714
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	31,179	25,186
Total	**71,274**	**0**	**333,223**	**422,892**

Changes in best estimate technical provisions are driven by movements in the portfolio and reallocations or changes in valuation. The best estimate provision relating to health insurance declined as the result of writing new profitable business.

The decline in the technical provision for the insurance with profit participation line of business was chiefly due to portfolio movements as the result of maturities as well as the transfer of unit-linked life insurance contracts with guaranteed interest rate from the “other life insurance“ line of business to this line of business.

The decline in the technical provision for the index-linked and unit-linked insurance line of business was mostly due to portfolio movements as the result of policy maturities and lapses, while additionally provisions for policies that meet certain conditions were valued as technical provisions calculated as a whole. As this items is reported separately, best estimate technical provisions declined considerably.

The technical provision for the “other life insurance” line of business has declined because of the transfer of unit-linked life insurance contracts with guaranteed interest rate to the insurance with profit participation line of business. The provision was additionally reduced through improved mortality and morbidity assumptions, resulting in lower best estimate technical provision.

The provision for annuities stemming from non-life insurance increased because of additions to the list of annuities and annuity provisions newly reported in 2019.

Risk margin

EUR thousand	Risk margin	
Line of business	31 Dec 2019	31 Dec 2018
Medical expense insurance and proportional reinsurance	179	177
Income protection insurance and proportional reinsurance	9,051	8,008
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	7,789	6,804
Other motor insurance and proportional reinsurance	5,483	4,483
Marine, aviation and transport insurance and proportional reinsurance	3,557	1,105
Fire and other damage to property insurance and proportional reinsurance	10,424	6,642
General liability insurance and proportional reinsurance	3,398	3,081
Credit and suretyship insurance and proportional reinsurance	775	1,249
Legal expenses insurance and proportional reinsurance	16	12
Assistance insurance and proportional reinsurance	705	688
Miscellaneous financial loss	299	226
Non-proportional health reinsurance	84	59
Non-proportional casualty reinsurance	1,234	950
Non-proportional marine, aviation and transport reinsurance	1,213	1,610
Non-proportional property reinsurance	8,867	8,029
Total non-life	**53,073**	**43,123**
Health insurance	2,146	813
Insurance with profit participation	7,647	7,571
Index-linked and unit-linked insurance	5,228	7,941
Other life insurance	6,808	7,704
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	147	135
Life reinsurance	132	99
Total life	**22,108**	**24,264**
Total	**75,180**	**67,386**

The risk margin increased compared to 31 December 2018, largely as the result of increased capital requirements, which form the basis of the calculation using the cost of capital method.

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

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

- Solvency II 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 2019, the expected future profits from the active portfolio accounted for 7% (31 December 2018: 7%) 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 33% (31 December 2018: 29%) 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 Solvency II value of the claims provision is that the Solvency II provisions must be sufficient to meet obligations only in the weighted average of all possible scenarios, while IFRS provisions must be sufficient in the vast majority of cases, which is why the 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 71% for IFRS claims provisions (31 December 2018: 72%) and 60% for SII best estimate claims provisions (31 December 2018: 60%).
- SII provisions for non-life insurance take into account the time value of money, while the corresponding IFRS provisions are generally not discounted. As interest rates are currently very low, this has no material effect on the difference between IFRS and SII provisions for this business.
- 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, for others IFRS provisions. The presentation is also impacted by the change in the mapping of homogeneous risk groups onto lines of business between 2018 and 2019. SII provisions for life lines of business are based on expected cash flows and take into account both expected losses and profits from life business. The IFRS provision for life lines of business takes into account the expected present value of future cash flows via the LAT (liability adequacy test) test, but only if it exceeds the current mathematical provision established. The test additionally includes profitable supplementary insurance business that lowers the estimated provision in the test. By contrast, SII provisions do not include cash flows from supplementary insurance because these are included in non-life lines of business. Consequently, SII provisions for insurance with profit participation are larger than IFRS provisions. For other lines of business the SII value of provisions is lower than the IFRS value due to the inclusion of expected future profits from mortality, morbidity and expenses. IFRS provisions, by contrast, may not be reduced based on lower estimated provisions in LAT tests. IFRS and SII provisions are similar across the entire portfolio of life lines of business.

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. An analysis has been conducted 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 following tables sets out the tested scenarios and their impact on the level of tested provisions.

Sensitivity testing of direct insurance premium provisions

Scenario	Stress impact (%)	
	31 Dec 2019	31 Dec 2018
Increase in expected loss ratios of 5%	10.8%	9.9%
Increase in expenses (other than commissions) of 5%	2.6%	2.4%
Reduction of proportion of recourse receivables of 5%	0.7%	0.4%

Sensitivity testing of direct insurance claims provisions

Scenario	Stress impact (%)	
	31 Dec 2019	31 Dec 2018
Increase in ultimate loss ratios for the most recent accident year	5.8%	6.1%
Increase in loss adjustment expenses of 10%	0.5%	0.6%
Reduction in proportion of recourse receivables of 5%	0.1%	0.2%

Sensitivity testing of the provision for accepted reinsurance

Scenario	Stress impact (%)	
	31 Dec 2019	31 Dec 2018
Increase in expected loss ratios of the most recent underwriting year of 5%	5.8%	7.3%
Decline in proportion of not-past-due items (premiums less commissions) of 10 %	3.6%	4.4%
Increase in expenses (other than commissions) of 50%	0.5%	0.5%

Sensitivity testing of the provision for life insurance

Scenario	Stress impact (%)	
	31 Dec 2019	31 Dec 2018
Increase in expected mortality rates of 15%	1.1%	1.0%
Increase in expenses (other than commissions) of 10% and inflation rate of 1%	1.6%	1.5%
Increase in lapse rate of 50%	1.8%	1.8%

It should be noted that the calculation based on own (undertaking-specific) parameters 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 low.

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

D.3 Other liabilities

Comparison of IFRS and SII values of other liabilities

EUR thousand	31 Dec 2019		31 Dec 2018	
	IFRS value	SII value	IFRS value	SII value
Provisions other than technical provisions	8,353	8,353	7,590	7,590
Financial liabilities other than debts owed to credit institutions	374	374	269	269
Insurance and intermediaries payables	55,949	43,162	48,132	34,438
Reinsurance and co-insurance payables	9,300	1,914	6,176	2,802
Other payables (trade, not insurance)	11,313	11,313	10,006	10,006
Subordinated liabilities	74,823	73,847	0	0
Any other liabilities, not elsewhere shown	28,374	20,800	23,257	15,002

Below we provide notes to 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. They are calculated in accordance with IAS 19, using the ratio of the period of service in the company.

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

D.3.2 Insurance and intermediaries payables

Insurance and intermediaries payables comprise payables relating to insurance claims and commissions from own insurance business and payables relating to claims and commissions for accepted (inward) reinsurance and coinsurance business. In the IFRS balance sheet, these are recognised on the accrual basis. SII valuation of insurance and intermediaries 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 in force as at the reporting date.

From this item, the Group eliminates not-past-due commission payables relating to accepted reinsurance and co-insurance business as at the SII balance sheet date of EUR 13.2 million (31 December 2018: EUR 14.1 million).

The Group takes this item into account as future cash flows when calculating best estimate premium provisions. Since the change in the premium provision in this part is disclosed as a reclassification, the exclusion of not-past-due payables is disclosed in the same manner in the Solvency II balance sheet.

D.3.3 Liabilities from reinsurance and co-insurance business

Reinsurance payables include premium payables relating to ceded reinsurance business of insurance companies and premium payables relating to retroceded reinsurance business of the reinsurer. In the IFRS balance sheet, these are recognised on the accrual basis by reference to (re)insurance accounts. Solvency II valuation of reinsurance payables does not differ from the valuation in the IFRS balance sheet.

The Group eliminates the following not-past-due reinsurance payables from the reinsurance payables as at the IFRS balance sheet date:

- 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.

These items in the total amount of EUR 7.4 million (31 December 2018: EUR 3.4 million) are taken into account as future cash flows when calculating future cash flows for the reinsurers' share of best estimate premium provisions. Since the change in the premium provision in this part is disclosed as a reclassification, the exclusion of not-past-due payables is disclosed in the same manner in the Solvency II balance sheet.

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, trade payables for operating expenses, and other payables. In the IFRS balance sheet, these are recognised on the accrual basis based on authentic documents.

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

D.3.5 Subordinated liabilities

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

The bond was admitted to trading on the regulated market of the Luxembourg Stock Exchange. 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 coinsurance commissions and long-term liabilities from leases that qualify for valuation under IFRS 16.

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

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 valuation at IFRS balance sheet values, valuation according to the model for EU-based pension companies (discussed in detail in section D.1.6 “Investments”), and the valuation of real property obtained from independent external property appraisers.

In 2019, the Group held the following financial investments in its portfolio, which were valued at IFRS balance sheet values:

- non-liquid debt instruments,
- unlisted shares,
- deposits other than cash equivalents (including deposits to cedants).

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. We believe that these fair value appraisals are most representative of the amount for which the appraised properties could be exchanged between knowledgeable parties in arm’s length transactions.

In 2019, the Group valued EUR 215 million of investments (31 December 2018: EUR 157 million) using alternative valuation methods.

In 2019, almost 57% of alternatively valued investments are shown at the same level as in the IFRS balance sheet values, 40% at values obtained from independent appraisers, while the remaining 4% stem from the model used for EU-based pension companies.

D.5 Any other information

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

E. Capital management

Capital management at the Group level is defined in the capital management policy of the Sava Insurance Group and Sava Re d.d., which sets out the objectives and key activities associated with 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,
- adequate degree of financing flexibility,
- ability to achieve adequate profitability for operating segments that tie up capital,
- ability to report an adequate return on equity and adequate dividend yields for shareholders.

The Group manages its capital to ensure that 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 ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. 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 out therein. The Group risk strategy defines levels of capital adequacy as listed in section E.2. "Solvency capital requirement and minimum capital requirement". The level of capital adequacy or target capital adequacy for each Group company is determined based on the Group's capital adequacy.

The Group risk strategy in conjunction with capital adequacy is defined so as to meet regulatory requirements and the requirements of rating agencies, and to ensure that the parent company 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 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 (dividends, own shares, acquisitions and similar) includes a review of the results of the last calculation of the level and composition 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 or the Group are calculated based on three-year projections of financial parameters. Calculations verify the alignment with the risk appetite, whereupon adjustments to the financial plan are made, if necessary. The planned use of capital duly includes capital consumption items, such as regular dividends, own shares and projects that require additional capital.

In allocating capital to business segments, adequate return on equity is a prerequisite. For the capital allocated to cover risks, we seek to maximise the ratio of return generated by a particular operating segment tying up capital to allocated capital (optimum ratio of return to risk).

E.1 Own funds

As at 31 December 2019, the Group reported an excess of assets over liabilities of EUR 495.5 million (31 December 2018: EUR 513.2 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 31.0 million (31 December 2018: EUR 26.3 million);
- foreseeable dividends[22] in the amount of EUR 16.2 million (31 December 2018: EUR 14.7 million). Their amount is determined based on the proposed resolution of the parent company's management and supervisory boards for the general meeting;
- EUR 154 thousand of minority interests not available at the Group level (31 December 2018: EUR 195 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 9.1 million (31 December 2018: EUR 6.9 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 basic own funds. As at 31 December 2019, the Group's Solvency II subordinated bonds were valued at EUR 73.8 million.

For the purpose of determining basic own funds, basic own funds are reduced by the total value of 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). Similarly, for the purpose of determining basic own funds, basic own funds are reduced by part of the value of all participations in financial and credit institutions that exceeds 10% of the Group's own-fund items (other than those alone exceeding 10% and thus being excluded). As at 31 December 2019, the Group did not have any such exclusions from own funds, the same as at 31 December 2018.

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.

As at 31 December 2019, the Group had no adjustments for other items in accordance with ZZavar-1, the same as at 31 December 2018.

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 2019, the Group held no ancillary own funds, the same as at 31 December 2018.

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

[22] Following the coronavirus outbreak in early 2020 and the recommendation of the regulator to suspend dividend payments until 1 October 2020, the Group will rerun its financial condition assessment and review its position regarding the proposal for dividend payments after this date.

Composition of the Group's own funds

EUR thousand	31 Dec 2019	31 Dec 2018
Ordinary share capital (gross of own shares)	71,856	71,856
Non-available called but not paid in ordinary share capital at Group level	0	0
Share premium account related to ordinary share capital	43,036	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 surplus funds at Group level	0	0
Preference shares	0	0
Non-available preference shares at Group level	0	0
Share premium account related to preference shares	0	0
Non-available share premium account related to preference shares at Group level	0	0
Reconciliation reserve (= (1) - (2) - (3) - (4) - (5) - (6))	332,888	356,700
(1) Excess of assets over liabilities	*495,474*	*513,211*
(2) Own shares (held directly and indirectly)	*30,995*	*26,346*
(3) Adjustment for restricted own-fund items in respect of matching adjustment portfolios and ring-fenced funds	*0*	*0*
(4) Foreseeable dividends, distributions and charges	*16,195*	*14,723*
(5) Other basic own fund items	*115,396*	*115,442*
(6) Other non-available own funds	*0*	*0*
Subordinated liabilities	73,847	0
Non-available subordinated liabilities at Group level	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)	503	550
Unavailable minority interests at Group level	-154	-195
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-9,130	-6,943
Total basic own funds after deductions	**512,845**	**465,004**
Total own funds in other financial sectors	**9,130**	**6,943**
Eligible own funds to meet the Group SCR	**521,975**	**471,947**

Total basic own funds, after deductions, increased by EUR 47.8 million in 2019, which is chiefly due to Sava Re subordinated bonds issued in the fourth quarter of 2019. Because these are subordinated liabilities, they are counted towards eligible own funds, tier 2, to cover solvency capital requirements.

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

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

EUR thousand	31 Dec 2019	31 Dec 2018
IFRS equity	**382,981**	**339,675**
Difference in the valuation of assets	-170,943	-135,221
Difference in the valuation of technical provisions	260,298	301,791
Difference in the valuation of other liabilities	-7,858	-19,380
Foreseeable dividends, distributions and charges	-16,195	-14,723
Adjustment for minority interests	-154	-195
Deduction for participations in other financial undertakings	-9,130	-6,943
Subordinated liabilities in basic own funds	73,847	0
Total basic own funds after deductions	**512,845**	**465,004**
Total own funds in other financial sectors	9,130	6,943
Eligible own funds to meet the Group SCR	**521,975**	**471,947**

As is evident from the table above with figures as at 31 December 2019, the majority of differences originate from differences in the valuation of Solvency II technical provisions in (re)insurance undertakings in and outside the European Union, the same as at 31 December 2018. The methodology used is detailed in section D.2 “Technical provisions” of this document.

The Group’s minimum capital requirement (“MCR”) and the Group’s SCR are covered by eligible own funds. Under the law, we must not use just any kind of own funds to meet our capital requirements. To this end, the Solvency II legislation classifies own funds into three capital tiers based on both permanence and loss absorbency.

Tier 1 funds include own funds that mostly meet the conditions laid down in article 196(1)(1) and 196(1)(2) 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.

Tier 2 funds include own fund items that mostly exhibit the features referred to in article 196(1)(2) 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 and paid. Considered are features, such as permanence, confirmed absence of redemption incentives and encumbrances. Tier 2 of the Group’s own funds includes subordinated liabilities.

Tier 3 capital 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 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	min. 50%	35% to 50%	max. 15%
Group MCR	min. 80%	max. 20%	not eligible

Eligible own funds designated to meet the Group SCR are obtained from available own funds by additionally factoring in statutory restrictions. Eligible own funds to meet the Group MCR are obtained from basic own funds after making deductions subject to statutory restrictions.

The two tables below show the amounts of the Group's eligible own funds designated to meet the Group SCR and the Group MCR as at 31 December 2019 and compared to figures as at 31 December 2018. 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 Dec 2019	521,975	448,129	73,847	0
As at 31 Dec 2018	471,947	471,947	0	0

Eligible own funds to meet the Group MCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 Dec 2019	461,582	438,999	22,584	-
As at 31 Dec 2018	465,004	465,004	0	-

As at 31 December 2019, the major part of the Group's eligible own funds to cover its SCR and MCR are classified as tier 1 funds and included no any ancillary own funds[23]. 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 154 thousand as at 31 December 2019 (31 December 2018: EUR 195 thousand).

[23] In the remainder of this document, the term *Group's eligible own funds* refers to *eligible own funds designated to meet the Group SCR,* unless stated otherwise.

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 in accordance with article 377 of ZZavar-1).

The SCR, as calculated based on consolidated figures of insurance undertakings in the Group () (hereinafter: "consolidated SCR at Group level"), is calculated as the basic solvency capital requirement (BSCR) plus adjustments for the loss-absorbing capacity of best estimate provisions and deferred taxes (Adj) 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 SCR at the Group level plus the capital requirement for other financial sectors, calculated in accordance with relevant sectoral regulations and capital requirements of other Group undertakings.

The solvency ratio is the ratio between Group eligible own funds and the Group SCR.

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

Additionally, the best estimate life insurance provision is calculated using a method for technical provisions calculated as a whole, whereas the capital requirement for life insurance is also the result of the changed methodology for calculating the life insurance lapse risk sub-module.

There was also a change in the calculation of capital requirements for the other companies, where the methodology was aligned with Delegated Regulation 2015/35.

The table below 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 Dec 2019	31 Dec 2018
Solvency capital requirement at Group level	**237,652**	**216,735**
Capital requirements of other financial sectors	7,165	5,532
Capital requirements of other undertakings	8,846	17,380
Consolidated SCR at Group level	**221,641**	**193,823**
Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-19,021	-17,840
Operational risk	18,135	16,358
Basic solvency capital requirement	222,527	195,304
Sum of risk components	322,071	293,212
Diversification effect	-99,544	-97,907
Market risk	76,396	60,439
Counterparty default risk	25,373	21,819
Life underwriting risk	28,785	43,695
Health underwriting risk	27,885	25,859
Non-life underwriting risk	163,632	141,399
Eligible own funds (excluding other financial sectors)	**512,845**	**465,004**
Eligible own funds in other financial sectors	**9,130**	**6,943**
Eligible own funds to meet the Group SCR	**521,975**	**471,947**
Solvency ratio	**220%**	**218%**

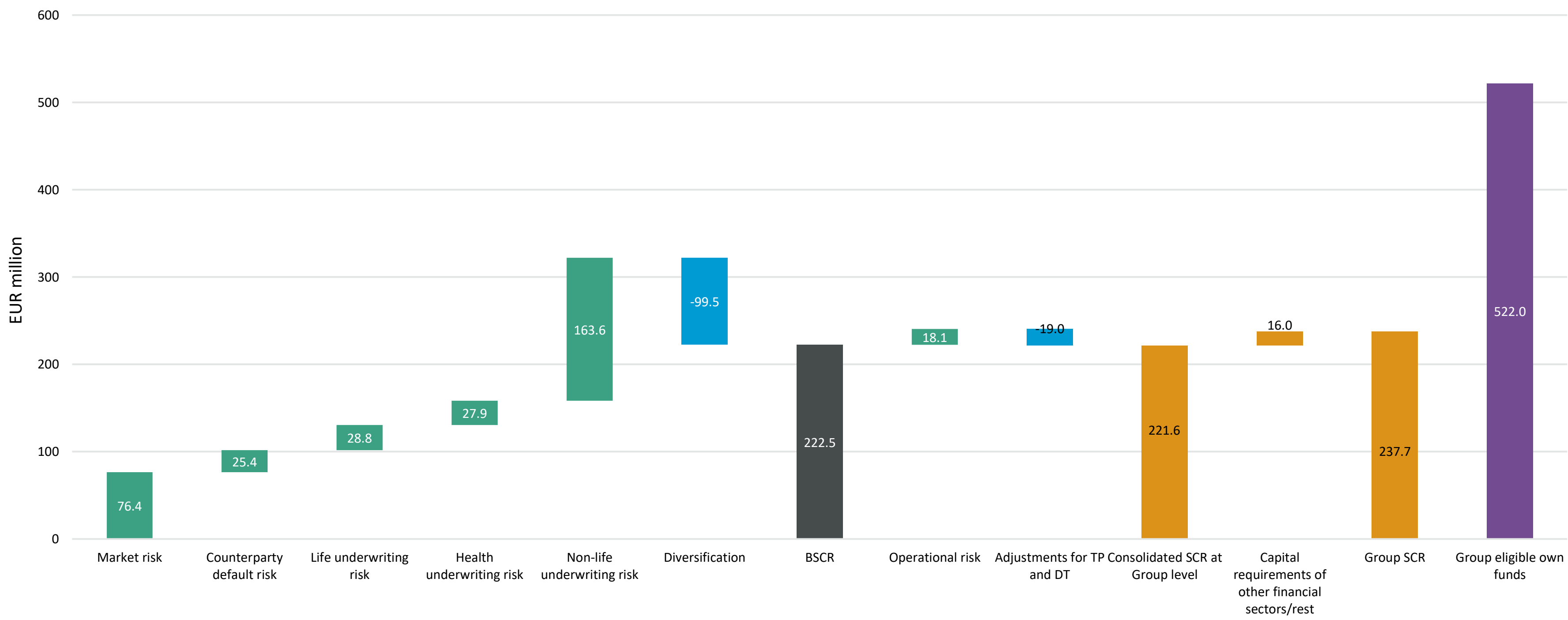
Thus, as at 31 December 2019, the largest proportion of the Group SCR arose from risks associated with non-life business, the same as at 31 December 2018. These increased compared to 31 December 2018, mainly as the result of an amendment of the Delegated Regulation and portfolio growth. The second largest group of risks faced by the Group is market risk, which grew in 2019 on account of the growth in the investment portfolio and because of a shift in the asset mix.

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

As at 31 December 2019, the Group adjusted the SCR for deferred taxes in the amount of EUR 19.0 million (31 December 2018: EUR 17.8 million). Deferred taxes as at 31 December 2019 increased the solvency ratio by 17 percentage points.

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

Solvency capital requirement by risk module as at 31 December 2019

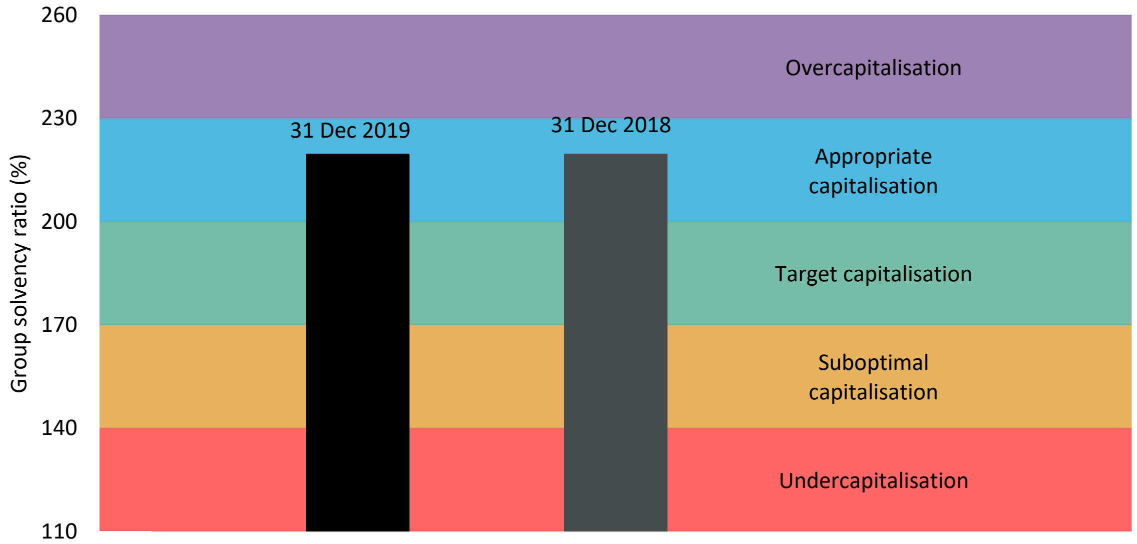


As illustrated by the chart above, Group eligible own funds markedly exceed the Group SCR, as reflected in the Group's high solvency ratio of 220% as at 31 December 2019 (31 December 2018: 218%).

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 stress 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 acceptable solvency ratio limit is 140% as at 31 December 2019 and the optimum capitalisation is in the 170–200% solvency ratio range. Based on this, as at 31 December 2019, the Group is also well capitalised by internal criteria. In December 2019, the supervisory board of Sava Re approved the strategic plan of the Sava Insurance Group for the period 2020–2022, including financial projections and a calculation of the Group's eligible own funds, Group SCR and the Group's solvency ratios for the 2020–2022 period. In addition, the Group's risk strategy for the period 2020–2022 was approved, which set the target level of the Group's solvency ratio at between 180% and 220%. The Group is planning to follow the strategy of maintaining its solvency ratio within its target range in the period 2020–2022.

Alignment of the Group solvency ratio with the risk strategy



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 subsidiaries, which are insurance companies; local capital requirements are factored in for insurance companies based outside the EU.

Input data for calculating the Group MCR

EUR thousand	31 Dec 2019	31 Dec 2018
Sava Re	46,252	40,639
Zavarovalnica Sava	47,775	43,309
Sava Neživotno Osiguranje (Serbia)	3,284	3,194
Sava Životno Osiguranje (Serbia)	3,206	3,194
Sava Osiguruvanje (North Macedonia)	3,003	2,995
Sava Osiguranje (Montenegro)	3,000	3,000
Illyria	3,200	3,200
Illyria Life	3,200	3,200
Group MCR	**112,920**	**102,730**

The Group's eligible own funds designated to meet the MCR of EUR 461.6 million (31 December 2018: EUR 465.0 million) substantially exceed the Group's MCR of EUR 112.9 million (31 December 2018: EUR 102.7 million).

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

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

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 Group companies nor the Group uses any internal model for the calculation of the SCR.

E.5 Non-compliance with the minimum capital requirement (MCR) and non-compliance with the solvency capital requirement (SCR)

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

E.6 Any other information

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

Appendix A – Glossary of selected terms and calculation methodologies

English term	Slovenian term	Meaning
Adjustment for loss-absorbing capacity of technical provisions and deferred taxes – TP and DT adjustment	**Prilagoditev zaradi absorbcijske 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.
Freedom of service	**FOS**	Business written under the freedom of services principle.
IFRS	**MSRP**	International Financial Reporting Standards. EU-wide uniform set of rules governing the accounting of business transactions.
Key rate duration	**Ključna stopnja trajanja**	Key rate duration is an extension of modified duration, but measures the sensitivity of the shifts along the interest rate curve at specific (key) maturity points. The sum of all KRDs along all key maturity points approximates modified duration.
Market value	**Tržna vrednost**	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. The amounts are based on prices in active and liquid markets that a company has access to and are commonly used.
Minimum capital requirement – MCR	**Zahtevani minimalni kapital – MCR**	The minimum capital requirement is equal to the amount of own funds below which policyholders, insured persons and other beneficiaries of insurance contracts would be exposed to an unacceptable level of risk if the insurer were allowed to continue operating.
Modified duration	**Modificirano trajanje**	Modified duration measures the portfolio’s sensitivity to parallel shifts in the interest rate curve. A change in interest rates of +/-1% has an impact of approximately -/+MD% on the portfolio.
Operational limits	**Operativni limiti**	Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by first-line-of-defence staff in the day-to-day risk management process to keep the Company within its set risk appetite range.
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 the Company’s business and strategic plans and assessment of the adequacy of own funds to cover risks.

Present value	**Sedanja vrednost**	The value of future cash flows recalculated to present-day values. This is done by discounting.
Probable maximum loss – PML	**Največja verjetna škoda – PML**	This is the maximum loss for a risk an insurer assesses could occur in one loss event. Normally, it is expressed as a percentage of the sum insured; in extreme cases, it equals the sum insured (PML is 100% of the sum insured).
Risk appetite	**Pripravljenost za prevzem tveganj**	Risk level that a company is willing to take in order to meet its strategic goals. At Sava Re defined based on the acceptable solvency ratio, the liquidity ratio of the assets, profitability of insurance products and reputation risk.
Risk management system	**Sistem upravljanja tveganj**	The risk management system is a set of measures taken by an insurer to manage (i.e. to identify, monitor, measure, manage, report) material risks arising from both the operations of a company and the external environment in order to enhance the implementation of strategic objectives and minimise any loss of own funds.
Risk profile	**Profil tveganj**	All of the risks that the Company is exposed to and the quantification of these exposures for all risk categories.
Risk Register	**Register tveganj**	List of all identified risks maintained and periodically updated by the Company.
Risk tolerance limits	**Meje dovoljenega tveganja**	Limits for risk categories included in the Company's risk profile and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite as stated in the Company's risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenario test	**Scenarijski test**	Scenario-based tests seek to determine the impact of multiple changes in parameters, such as concurrent changes in different risks types affecting the insurance business, the value of financial assets and a change in interest rates.
Solvency capital requirement – SCR	**Zahtevani solventnostni kapital – SCR**	The SCR is an amount based on the regulatory calculation of all quantifiable risk, including non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.
Solvency ratio	**Solventnostni količnik**	Ratio of eligible own funds to the solvency capital requirement. It represents a company's capital adequacy in accordance with the Solvency II principles. A solvency ratio in excess of 100% indicates that the company has more than sufficient resources to meet the solvency capital requirement.
Standard formula	**Standardna formula**	Set of calculations prescribed by Solvency II regulations used for generating the solvency capital requirement.
Stress test	**Stresni test**	In a stress test, a single parameter is changed to observe the effect on the value of assets, liabilities and/or own funds as well as any effects on the value of the parameter itself.
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).
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	**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.

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/ 080682187	SC	SO poslovno savjetovanje	10	PLLC	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
HR	SC/ 080662433	SC	SŽO 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		75.0%	100.0%	75.0%		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/ 8281262000	SC	ZTSR, raziskovanje trga, d.o.o., Ljubljana	99	PLLC	2		50.0%	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/ 70152892	SC	Illyria s.h.a., Prishtine	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	92.6%	100.0%	92.6%		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/ 70520893	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

								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	PLC	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	PLC	2	Serbian National Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/ 485100000G X4W2DFYV52	LEI	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	4	PLC	2	Agencija za zavarovalni nadzor	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/ 213800K2LJ 7JKL6CU689	LEI	Sava Pokojninska Družba, d.d.	9	PLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: industry regulations
XK	SC/ 70587513	SC	" Illyria Hospital " SH.P.K.	10	PLLC	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	PLLC	2	Ministry of Internal Affairs	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/ 2238799000	SC	ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o.	10	PLLC	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	PLLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
ME	SC/ 1550411	SC	DRUŠTVO ZA ZASTUPANJE U OSIGURANJU "SAVA AGENT" D.O.O. - Podgorica	10	PLLC	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	PLLC	2	North Macedonian Ministry of Internal Affairs	92.6%	100.0%	92.6%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/ 549300P6F1	LEI	Pozavarovalnica Sava d.d., Ljubljana	3	PLC	2	Slovenian Insurance						100.0%	YES		M1: full consolidation

								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
	BDSFSW5T72						Supervision Agency									

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:

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**	10,373
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	58,656
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	1,173,404
Property (other than for own use)	**R0080**	17,560
Holdings in related undertakings, including participations	**R0090**	31,588
Equities	**R0100**	17,504
Equities – listed	**R0110**	15,355
Equities – unlisted	**R0120**	2,149
Bonds	**R0130**	998,796
Government Bonds	**R0140**	574,072
Corporate Bonds	**R0150**	424,723
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	59,186
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	48,771
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	126,438
Loans and mortgages	**R0230**	1,203
Loans on policies	**R0240**	133
Loans and mortgages to individuals	**R0250**	5
Other loans and mortgages	**R0260**	1,065
Reinsurance recoverables from:	**R0270**	23,904
Non-life and health similar to non-life	**R0280**	18,177
Non-life excluding health	**R0290**	17,567
Health similar to non-life	**R0300**	610
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	5,727
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	5,727
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	7,089
Insurance and intermediaries receivables	**R0360**	48,047
Reinsurance receivables	**R0370**	5,930
Receivables (trade, not insurance)	**R0380**	9,594
Own shares (held directly)	**R0390**	30,995
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	86,060
Any other assets, not elsewhere shown	**R0420**	1,099
Total assets	**R0500**	1,582,792

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	459,067
Technical provisions – non-life (excluding health)	**R0520**	433,346
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	389,587
Risk margin	**R0550**	43,759
Technical provisions – health (similar to non-life)	**R0560**	25,720
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	16,407
Risk margin	**R0590**	9,313
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	314,489
Technical provisions – health (similar to life)	**R0610**	-6,401
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	-8,547
Risk margin	**R0640**	2,146
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	320,890
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	306,156
Risk margin	**R0680**	14,734
Technical provisions – index-linked and unit-linked	**R0690**	112,115
Technical provisions calculated as a whole	**R0700**	71,274
Best Estimate	**R0710**	35,613
Risk margin	**R0720**	5,228
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	8,353
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	0
Deferred tax liabilities	**R0780**	41,887
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	374
Insurance & intermediaries payables	**R0820**	43,162
Reinsurance payables	**R0830**	1,914
Payables (trade, not insurance)	**R0840**	11,313
Subordinated liabilities	**R0850**	73,847
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	73,847
Any other liabilities, not elsewhere shown	**R0880**	20,800
Total liabilities	**R0900**	1,087,319
Excess of assets over liabilities	**R1000**	**495,474**

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**	7,195	47,534	0	136,039	119,514	6,159	75,470	22,179	991	1,069	17,880	3,170
gross – accepted proportional reinsurance	**R0120**	1	1,290	0	352	262	5,764	38,100	2,523	281	9	0	325
gross – accepted non-proportional reinsurance	**R0130**												
Reinsurers' share	**R0140**	852	-83	0	5,224	1,993	2,512	14,789	-3,067	6	625	80	447
Net	**R0200**	6,344	48,907	0	131,166	117,783	9,411	98,780	27,769	1,265	453	17,800	3,048
Premiums earned													
Gross – Direct Business	**R0210**	7,218	47,173	0	127,593	113,444	4,100	73,311	20,724	3,568	1,073	16,775	3,014
gross – accepted proportional reinsurance	**R0220**	1	1,381	0	240	646	5,674	38,207	2,653	328	8	0	333
gross – accepted non-proportional reinsurance	**R0230**												
Reinsurers' share	**R0240**	873	-74	0	1,924	1,643	716	14,233	281	7	621	111	441
Net	**R0300**	6,346	48,628	0	125,909	112,447	9,058	97,286	23,096	3,889	459	16,665	2,905
Claims incurred													
Gross – Direct Business	**R0310**	4,483	15,354	0	80,918	80,937	1,503	38,046	9,639	2,413	302	10,025	874
gross – accepted proportional reinsurance	**R0320**	62	814	0	190	-177	6,459	26,791	1,594	127	1	0	56
gross – accepted non-proportional reinsurance	**R0330**												
Reinsurers' share	**R0340**	-7	138	0	967	987	307	8,063	5,995	-2	64	-131	32
Net	**R0400**	4,552	16,030	0	80,141	79,774	7,654	56,774	5,237	2,542	239	10,157	898
Change in other technical provisions													
Gross – Direct Business	**R0410**	-82	90	0	720	-1,011	83	-1,323	-9	-3	6	219	-41
gross – accepted proportional reinsurance	**R0420**	0	0	0	0	-5	783	0	0	0	0	0	0

		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**
gross – accepted non-proportional reinsurance	**R0430**												
Reinsurers' share	**R0440**	0	0	0	-8	1	1	-120	6	0	0	0	-8
Net	**R0500**	-82	90	0	728	-1,016	865	-1,203	-15	-3	6	219	-33
Expenses incurred	**R0550**	3,176	16,249	0	37,825	29,738	3,420	46,287	7,235	937	253	5,665	1,239
Other expenses	**R1200**												
Total expenses	**R1300**												

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**					437,199
Gross – Proportional reinsurance accepted	**R0120**					48,906
Gross – Non-proportional reinsurance accepted	**R0130**	351	2,324	864	37,686	41,226
Reinsurers' share	**R0140**	-10	4,808	561	6,917	35,654
Net	**R0200**	361	-2,484	303	30,770	491,677
Premiums earned						
Gross – Direct Business	**R0210**					417,993
Gross – Proportional reinsurance accepted	**R0220**					49,470
Gross – Non-proportional reinsurance accepted	**R0230**	357	2,215	1,212	36,800	40,584
Reinsurers' share	**R0240**	0	2,106	539	6,970	30,393
Net	**R0300**	357	109	673	29,829	477,655
Claims incurred						
Gross – Direct Business	**R0310**					244,494
Gross – Proportional reinsurance accepted	**R0320**					35,917
Gross – Non-proportional reinsurance accepted	**R0330**	326	2,140	111	28,159	30,736
Reinsurers' share	**R0340**	0	5,229	133	1,478	23,254
Net	**R0400**	326	-3,089	-22	26,681	287,893
Changes in other technical provisions						
Gross – Direct Business	**R0410**					-1,350
Gross – Proportional reinsurance accepted	**R0420**					778
Gross – Non-proportional reinsurance accepted	**R0430**	0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	-129
Net	**R0500**	0	0	0	0	-444
Expenses incurred	**R0550**	90	819	335	7,290	160,558
Other expenses	**R1200**					0
Total expenses	**R1300**					160,558

		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										
Gross	**R1410**	1,294	32,607	22,959	12,008	0	0	0	0	68,869
Reinsurers' share	**R1420**	7	72	61	352	0	0	0	0	492
Net	**R1500**	1,287	32,535	22,898	11,656	0	0	0	0	68,376
Premiums earned										
Gross	**R1510**	1,291	32,654	22,959	11,981	0	0	0	0	68,886
Reinsurers' share	**R1520**	6	72	61	688	0	0	0	0	827
Net	**R1600**	1,285	32,582	22,898	11,293	0	0	0	0	68,059
Claims incurred										
Gross	**R1610**	125	87,128	18,568	2,196	0	5,042	0	0	113,058
Reinsurers' share	**R1620**	0	0	4	184	0	4,386	0	0	4,574
Net	**R1700**	125	87,128	18,564	2,011	0	656	0	0	108,484
Changes in other technical provisions										
Gross	**R1710**	69	60,739	-23,215	-3,185	0	0	0	0	34,408
Reinsurers' share	**R1720**	0	0	0	0	0	0	0	0	0
Net	**R1800**	69	60,739	-23,215	-3,185	0	0	0	0	34,408
Expenses incurred	**R1900**	585	6,293	4,446	5,961	0	41	0	28	17,354
Other expenses	**R2500**									0
Total expenses	**R2600**									17,354

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	Macedonia	Montenegro	Serbia	
Premiums written		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross – Direct Business	**R0110**	369,795	0	0	14,397	13,759	22,474	420,425
Gross – Proportional reinsurance accepted	**R0120**	644	3,551	10,463	0	0	1,079	15,736
Gross – Non-proportional reinsurance accepted	**R0130**	102	4,430	2,444	0	18	552	7,547
Reinsurers' share	**R0140**	99,211	0	0	1,648	1,909	2,832	105,600
Net	**R0200**	271,330	7,981	12,907	12,750	11,867	21,272	338,108
Premiums earned								
Gross – Direct Business	**R0210**	354,052	0	0	13,607	13,117	21,153	401,929
Gross – Proportional reinsurance accepted	**R0220**	679	3,743	10,931	0	0	1,064	16,418
Gross – Non-proportional reinsurance accepted	**R0230**	107	4,179	2,372	0	18	571	7,247
Reinsurers' share	**R0240**	87,730	0	0	1,558	1,805	2,659	93,752
Net	**R0300**	267,108	7,922	13,304	12,049	11,330	20,128	331,842
Claims incurred								
Gross – Direct Business	**R0310**	209,285	0	0	6,173	5,827	9,254	230,539
Gross – Proportional reinsurance accepted	**R0320**	117	2,755	6,767	0	0	678	10,317
Gross – Non-proportional reinsurance accepted	**R0330**	-628	2,896	2,392	0	27	49	4,737
Reinsurers' share	**R0340**	44,773	0	0	587	867	1,205	47,432
Net	**R0400**	164,002	5,652	9,159	5,586	4,988	8,775	198,161
Changes in other technical provisions								
Gross – Direct Business	**R0410**	-1,289	0	0	-64	15	-2	-1,339
Gross – Proportional reinsurance accepted	**R0420**	0	24	71	0	0	0	95
Gross – Non-proportional reinsurance accepted	**R0430**	0	0	0	0	0	0	0
Reinsurers' share	**R0440**	-129	0	0	0	0	0	-129
Net	**R0500**	-1,160	24	71	-64	15	-2	-1,115
Expenses incurred	**R0550**	82,210	1,983	4,699	6,129	5,731	10,193	110,944
Other expenses	**R1200**							
Total expenses	**R1300**							110,944

		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							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	**R1410**	63,900						36,462
Reinsurers' share	**R1420**	484						0
Net	**R1500**	63,416						36,462
Premiums earned								
Gross	**R1510**	63,946						63,946
Reinsurers' share	**R1520**	464						464
Net	**R1600**	63,482						63,482
Claims incurred								
Gross	**R1610**	112,017						112,017
Reinsurers' share	**R1620**	4,438						4,438
Net	**R1700**	107,580						107,580
Changes in other technical provisions								
Gross	**R1710**	36,462						36,462
Reinsurers' share	**R1720**	0						0
Net	**R1800**	36,462						36,462
Expenses incurred	**R1900**	14,718						14,718
Other expenses	**R2500**							
Total expenses	**R2600**							

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	43,036	43,036		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	332,888	332,888			
Subordinated liabilities	R0140	73,847		0	73,847	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	503	503	0	0	0
Non-available minority interests at group level	R0210	154	154	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	9,130	9,130	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	154	154	0	0	0
Total deductions	R0280	9,285	9,285	0	0	0
Total basic own funds after deductions	R0290	512,845	438,999	0	73,847	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

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
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**	2,097	2,097	0	0	
Institutions for occupational retirement provision	**R0420**	7,033	7,033	0	0	0
Non-regulated entities carrying out financial activities	**R0430**	0	0	0	0	
Total own funds of other financial sectors	**R0440**	9,130	9,130	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
-	-					
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**	512,845	438,999	0	73,847	0
Total available own funds to meet the minimum consolidated group SCR	**R0530**	512,845	438,999	0	73,847	
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**	512,845	438,999	0	73,847	0
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	461,582	438,999	0	22,584	
Minimum consolidated Group SCR	**R0610**	112,920				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	408.7707%				
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**	521,975	448,129	0	73,847	0
Group SCR	**R0680**	237,652				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	219.6382%				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	**R0700**	495,474				
Own shares (held directly and indirectly)	**R0710**	30,995				
Foreseeable dividends, distributions and charges	**R0720**	16,195				
Other basic own fund items	**R0730**	115,396				
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**	332,888				
Expected profits						
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	41,738				
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	16,969				
Total Expected profits included in future premiums (EPIFP)	**R0790**	58,707				

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	76,396		
Counterparty default risk	R0020	25,373		
Life underwriting risk	R0030	28,785	none	
Health underwriting risk	R0040	27,885	none	-
Non-life underwriting risk	R0050	163,632	none	-
Diversification	R0060	-99,544		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	**R0100**	222,527		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	R0130	18,135
Loss-absorbing capacity of technical provisions	R0140	-734
Loss-absorbing capacity of deferred taxes	R0150	-18,286
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	221,641
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	237,652
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	112,920
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	7,165
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	1,141
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	6,024
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	8,846
Overall SCR		
SCR for undertakings included via D and A	R0560	0
Solvency capital requirement	R0570	237,652