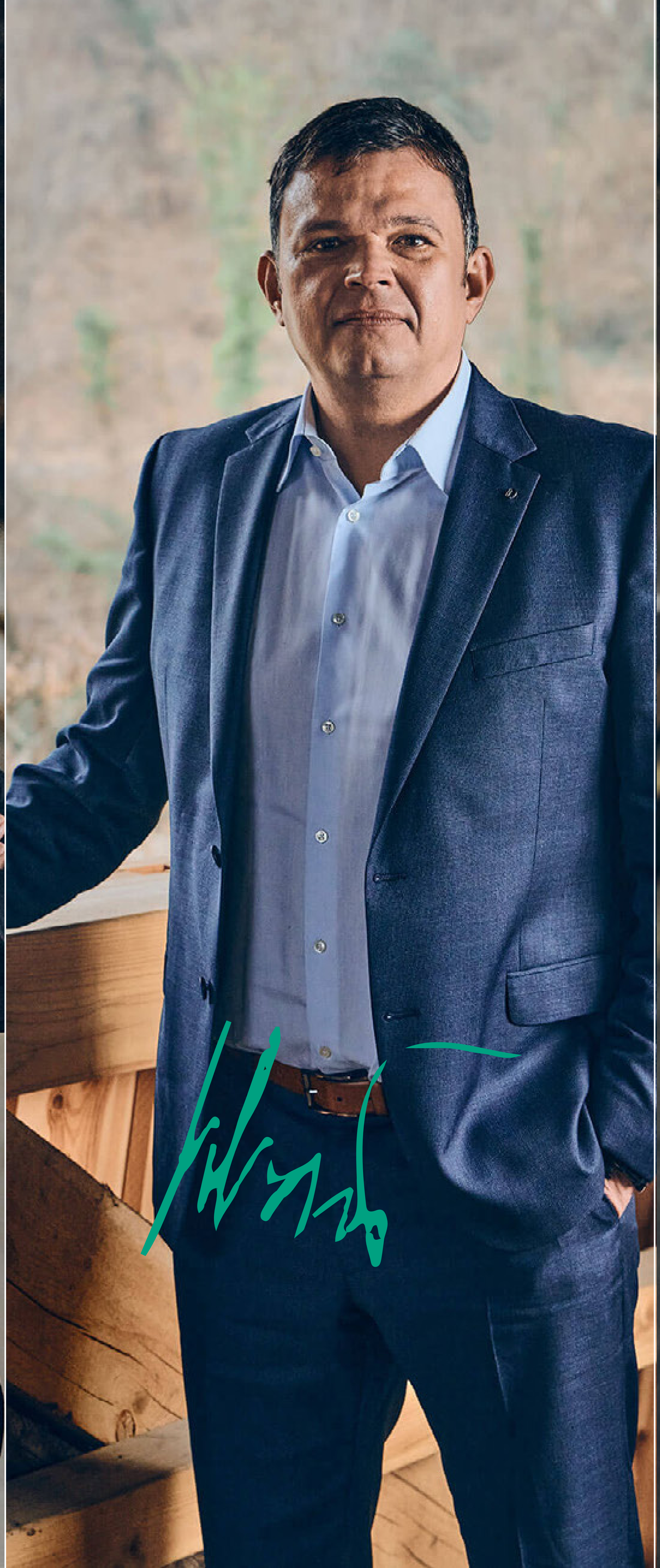
SAVA INSURANCE GROUP
Solvency and financial condition report
for 2020

Together we can bridge all challenges.

NEVER ALONE

MARKO JAZBEC
CHAIRMAN OF THE MANAGEMENT BOARD

PETER SKVARČA
MEMBER OF THE MANAGEMENT BOARD



POLONA PIRŠ ZUPANČIČ
MEMBER OF THE MANAGEMENT BOARD

JOŠT DOLNIČAR
MEMBER OF THE MANAGEMENT BOARD

Summary 5
A Business and performance 13
B System of governance 36
C Group risk profile 59
D Valuation for solvency purposes 87
E Capital management 114
Appendices
A Glossary of selected terms and calculation methodologies 129
B Quantitative reporting templates 132

Contents

General information

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

Summary

Introduction

The year 2020 was marked by the Covid-19 pandemic (hereinafter: Covid-19), which increased the uncertainty regarding the achievement of financial targets and strategic goals, and impacted the risks to which the Sava Insurance Group (hereinafter: the Group) is exposed. Due to the extraordinary situation in 2020, several interim ad hoc (partial) own risk and solvency assessments (ORSA) were conducted in addition to the regular ORSA. These were then considered at all Group levels and subsequently reported to the Slovenian Insurance Supervision Agency. In this way, we monitored the impact of changes in the risk profile and market situation on the Group's solvency position on an ongoing basis.

Due to the impact of Covid-19, there has been an increase in certain risks. We have been operating in exceptional circumstances for almost a year and have obtained a better understanding of the risk than at the onset of the pandemic. Risks are identified, monitored, analysed and managed on a regular basis. We believe these risks are well managed in the Group.

Profile of the Sava Insurance Group

The Sava Insurance Group is one of the largest insurance groups in south-east Europe. As at 31 December 2020, the insurance part of the Group was composed of a reinsurer and eight insurers based in Slovenia and in the countries of the Adriatic region. In addition to the (re)insurance companies, the Group is made up of seven non-insurance companies.

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

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

Sava Re has been operating in international reinsurance markets for over 40 years and in the Slovenian primary insurance market, through its former subsidiary Zavarovalnica Tilia, since 1998. The Group expanded to some other markets of the former Yugoslavia through the acquisition of six insurance companies between 2006 and 2009 and through greenfield investments in two life insurance companies in 2008. In 2015 and 2018, the Group entered the Slovenian and Macedonian pensions market, and in 2018 it entered the Slovenian market of assistance services. In 2019, Sava Re acquired an 85% stake in Sava Infond, an investment fund management company. In 2020, the Group entered the Slovenian private healthcare market by acquiring the Bled Diagnostic Centre through its associate ZTSR. The acquisition of Vita in 2020 strengthened the Group's market position in Slovenia, and the Group now ranks second in terms of insurance market share. These acquisitions allow the Group to tap into the synergies resulting from the growth in business volume, and the acquisition of Vita is also an important step for the Group in growing partnerships with banks and developing the bancassurance sales channel for marketing insurance products, which is one of the Group's main strategic directions.

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.

In 2020, Standard & Poor's and AM Best reaffirmed the Sava Insurance Group's "A"-ratings with a stable outlook, which reflect the Group's robust capital position and make it easier for the Group to obtain business in international reinsurance markets.

Business and performance[1]

In 2020, the Sava Insurance Group generated EUR 674.9 million in operating revenue, up 15.5% compared to 2019. The 2020 net profit was EUR 56.4 million, a 12.3% increase over the previous year and better than planned. Return on equity was 13.3% in 2020, 1.3 p.p. above the target return set in the Group's 2020–2022 strategy.

In 2020, the Group wrote EUR 679.7 million in gross

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.

premiums, an increase of 13.6% over the previous year. The growth in gross premiums written was contributed by Slovenian life business (53% growth), mostly attributable to the acquisition of Vita, Slovenian non-life insurance business (8% growth), reinsurance business (18% growth) and non-Slovenian life insurance business (9% growth), whereas non-Slovenian non-life premium income shrank by 6% year on year.

The net expense ratio improved by 2.1 p.p. year on year, which was primarily driven by the inclusion of Vita in the Group but also by growth in most other operating segments and measures to contain costs taken by the Group to ease the negative financial impact of Covid-19 on operations.

Gross claims paid in the Slovenian non-life segment declined significantly in 2020 compared to 2019, primarily in motor insurance, reflecting a lower claims frequency owing to Covid-19. On the other hand, there were more claims in the reinsurance segment in 2020 and significantly more major losses, many also related to Covid-19. The 2020 result was impacted by Covid-19-related reinsurance claims, amounting to EUR 10.8 million. Also Covid-19-related was the increase in net claims incurred in business written abroad under the freedom of services rules (hereinafter: FoS business). As a result, the Group set aside claims provisions for potential legal expenses and claims because of the uncertainties surrounding new case law and regulatory practices regarding business interruption coverage of Covid-19-related claims written in the Republic of Ireland and Great Britain. In this regard, the Group reserved EUR 6.4 million at the end of 2020.

Despite the challenging business environment in the year, the Group's 2020 incurred loss ratio remained at the 2019 level.

In 2020, the Group made a net profit of EUR 56.4 million, an increase of 12.3% over the previous year. The increase was driven by good results in the life and non-life insurance segments, partly offset by the challenging claims experience in international reinsurance business. Higher profitability was also driven by the acquisition of Vita, which resulted in EUR 9.9 million of one-off income from negative goodwill.

Because of Covid-19, the year 2020 was also special regarding dividends from insurance companies. Sava Re paid no dividends in 2020, nor did it receive any from its subsidiaries following regulators' recommendations to retain profits. The capital strength of its major subsidiaries increased in 2020 because of the profits generated in 2019 and 2020, which will allow dividend payments to the parent once restrictions on dividend distributions are lifted and the Covid-19-related claims risk declines. The supervisory board will decide on the appropriation of Sava Re's profit when considering the unaudited results for 2020, taking into account the recommendations of the Insurance Supervision Agency.

The 2020 return on the investment portfolio was 1.6%, which is 0.2 p.p. above the plan. The portfolio of predominantly highly rated government and corporate bonds continues to show resilience in the face of financial market volatility. The key goal of the Group's investment policy is to maintain low volatility and a high level of security of assets intended for covering obligations, as well as to ensure high liquidity and risk diversification.

The Group is also making good progress in its strategy and is evolving into a customer-centric, modern, digital, socially responsible and sustainability-oriented insurance group. In 2020, we stepped up projects for developing digital solutions to provide customers with faster and easier access to services. We also placed special attention on investment opportunities in environmental and sustainability-oriented projects.

Strategic focus of the Sava Insurance Group in 2020–2022

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

INTEGRAL RISK MANAGEMENT

Insurance and pensions	Reinsurance	Other activities	Asset management	Capital growth & use
Non-life, Slovenia	Non-Group	Sale of mutual fund units	Insurance company portfolios	Organic growth
Life, Slovenia	Group	Health business	Management of mutual fund assets	Acquisitions
Non-life, Adria		Other	Pension portfolios	Dividend policy
Life, Adria				
FoS business*				
Assistance and other supporting activities				
Pensions				

SUPPORTING ACTIVITIES

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

The key focus areas set out in the strategy are:

- **Digital transformation and 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.

System of governance

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

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

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

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

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

In 2020, there was a change in the composition of the parent company's management board. Details are provided in section *B.1.2 Governing bodies*.

Risk profile

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

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

Group solvency capital requirement by risk module[2]

EUR thousand	31 December 2020	31 December 2019
Group SCR (= (4) + (5) +(6))	**287,432**	**237,652**
(6) Capital requirement for other financial sectors	7,383	7,165
(5) Capital requirement for residual undertakings	12,588	8,846
(4) SCR as calculated based on consolidated figures of Group insurance companies that are consolidated under Solvency II[3] (= (1) + (2) + (3))	**267,460**	**221,641**
(3) Adjustment for TP and DT[4]	-18,313	-19,021
(2) Operational risk	21,585	18,135
(1) Basic solvency capital requirement (BSCR)	264,189	222,527
Diversification effect	-124,900	-99,544
Sum of risk components	389,089	322,071
Market risk	120,583	76,396
Counterparty default risk	25,045	25,373
Life underwriting risk	38,208	28,785
Health underwriting risk	31,604	27,885
Non-life underwriting risk	173,649	163,632

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

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

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

Valuation for solvency purposes

We prepare the Group's consolidated financial statements in accordance with the International Financial Reporting Standards (hereinafter: IFRSs), using the full consolidation method for all Group companies, except for the associates 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) of the Delegated Regulation, whereas Sava Penzisko Društvo and the associates ZTSR and G2I are included in accordance with article 335 1(f) of the Delegated Regulation.

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

Adjustments to IFRS equity for the Solvency II valuation of the balance sheet

EUR thousand	31 December 2020	31 December 2019
IFRS equity[5]	**459,320**	**382,981**
Difference in the valuation of assets	-179,001	-170,943
Difference in the valuation of technical provisions	232,047	260,298
Difference in the valuation of other liabilities	-6,890	-7,858
Foreseeable dividends, distributions and charges	-13,173	-16,195
Adjustment for minority interests	-203	-154
Deduction for participations in other financial undertakings	-11,201	-9,130
Subordinated liabilities in basic own funds	75,681	73,847
Total basic own funds after deductions	**556,579**	**512,845**
Total own funds in other financial sectors	11,201	9,130
Eligible own funds to meet the Group SCR	**567,780**	**521,975**

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

Capital management

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

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

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

Capital adequacy of the Group

EUR thousand	31 December 2020	31 December 2019
Group SCR	**287,432**	**237,652**
Eligible own funds to meet the Group SCR	**567,780**	**521,975**
Of which tier 1	492,099	448,129
Of which tier 2	75,681	73,847
Of which tier 3	0	0
Group solvency ratio	**198%**	**220%**
Minimum capital requirement (MCR) of Group	136,355	112,920
Eligible own funds to meet the Group MCR	508,170	461,582
Of which tier 1	480,899	438,999
Of which tier 2	27,271	22,584
Of which tier 3	-	-
Group MCR	**373%**	**409%**

As at 31 December 2020, most eligible own funds to cover the Group SCR were tier one funds. In addition, eligible own funds also include subordinated liabilities classified as tier 2 eligible own funds. As at 31 December 2020, the Group complied with the regulatory requirements at the level and quality of capital to cover the Group SCR and the Group MSR because its solvency ratio substantially exceeded the regulatory requirement of 100% and stood at 198%, and the MCR ratio was 373%.

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

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

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

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

- Sava Pokojninska (SVN): a Slovenian pension company;
- Sava Penzisko Društvo (MKD): a pension fund manager based in North Macedonia managing second- and third-pillar pension funds;
- Sava Infond (SVN): a subsidiary managing investment funds;
- TBS Team 24 (SVN): a company providing assistance services relating to motor, health and homeowners insurance;
- ZTSR (SVN): a Sava Re associate company, a holding company and the owner of the Diagnostic Centre Bled;
- G2I (GBR): an associate company marketing on-line motor polices;
- S Estate (RKS)[6]: a company based in Kosovo that owns some real property but is currently dormant;
- Indirect subsidiary companies.

The following chart shows the Group's composition.

6 Formerly Illyria Hospital.

Composition of the Group as at 31 December 2020

UNITED KINGDOM

- G21

SLOVENIA

- Zavarovalnica Sava | **100%**
  - ZS Svetovanje | **100%**
    - Omatus KC | **100%**
- Vita | **100%**
- Sava Infond | **84.8%**
- Sava Pokojninska | **100%**
- TBS Team 24 | **75%**
- ZTSR | **50%**

15.2%

CROATIA

- SO Poslovno Savjetovanje | **100%**

MONTENEGRO

- Sava Osiguranje | **100%**
  - Sava Car | **100%**
  - Sava Agent | **100%**

SERBIA

- Sava Životno Osiguranje | **100%**
- Sava Neživotno Osiguranje | **100%**

KOSOVO

- Illyria | **100%**
- Illyria Life | **100%**
- S Estate | **100%**

NORTH MACEDONIA

- Sava Osiguruvanje | **92.57%**
  - Sava Station | **100%**
- Sava Penzisko Društvo | **100%**

- Direct subsidiary
- Indirect subsidiary
- Associate company

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

ZAVAROVALNICA SAVA (SVN)

Registered office
Cankarjeva ulica 3,
2000 Maribor, Slovenia

Main activity
insurance

Share capital (EUR)
68,417,377

Book value of equity interest (EUR)
68,417,377

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
48,896,888

Position in the Group
subsidiary insurance company

SAVA NEŽIVOTNO OSIGURANJE (SRB)

Registered office
Bulevar vojvode Mišića 51,
11040 Beograd, Serbia

Main activity
non-life insurance

Share capital (EUR)
6,314,464

Book value of equity interest (EUR)
6,314,464

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
1,437,546

Position in the Group
subsidiary insurance company

ILLYRIA (RKS)

Registered office
Sheshi Nëna Terezë 33,
10000 Pristina, Kosovo

Main activity
non-life insurance

Share capital (EUR)
7,228,040

Book value of equity interest (EUR)
7,228,040

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
601,381

Position in the Group
subsidiary insurance company

SAVA OSIGURUVANJE (MKD)

Registered office
Zagrebska br. 28A,
1000 Skopje, North Macedonia

Main activity
non-life insurance

Share capital (EUR)
3,820,077

Book value of equity interest (EUR)
3,536,245

% equity interest / voting rights held by Group members
Sava Re: 92.57%

Profit or loss for 2020 (EUR)
540,674

Position in the Group
subsidiary insurance company

SAVA OSIGURANJE (MNE)

Registered office
Ulica Svetlane Kane Radević br. 1,
81000 Podgorica, Montenegro

Main activity
non-life insurance

Share capital (EUR)
4,033,303

Book value of equity interest (EUR)
4,033,303

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
1,759,863

Position in the Group
subsidiary insurance company

ILLYRIA LIFE (RKS)

Registered office
Sheshi Nëna Terezë 33,
10000 Pristina, Kosovo

Main activity
life insurance

Share capital (EUR)
3,285,893

Book value of equity interest (EUR)
3,285,893

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
222,061

Position in the Group
subsidiary insurance company

SAVA ŽIVOTNO OSIGURANJE (SRB)

Registered office
Bulevar vojvode Mišića 51,
11040 Beograd, Serbia

Main activity
life insurance

Share capital (EUR)
4,326,664

Book value of equity interest (EUR)
4,326,664

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
58,374

Position in the Group
subsidiary insurance company

S ESTATE (RKS)

Registered office
Sheshi Nëna Terezë 33,
10000 Pristina, Kosovo

Main activity
currently none

Share capital (EUR)
1,800,000

Book value of equity interest (EUR)
1,800,000

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
-180

Position in the Group
subsidiary

SAVA POKOJNINSKA (SVN)

Registered office
Ulica Vita Kraigherja 5,
2103 Maribor, Slovenia

Main activity
pension fund

Share capital (EUR)
6,301,109

Book value of equity interest (EUR)
6,301,109

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
499,727

Position in the Group
subsidiary pension company

TBS TEAM 24 (SVN)

Registered office
Ljubljanska ulica 42,
2000 Maribor, Slovenia

Main activity
provision of assistance services

Share capital (EUR)
8,902

Book value of equity interest (EUR)
6,677

% equity interest / voting rights held by Group members
Sava Re: 75.0%

Profit or loss for 2020 (EUR)
518,743

Position in the Group
subsidiary

SAVA PENZISKO DRUŠTVO (MKD)

Registered office
Majka Tereza 1,
1000 Skopje, North Macedonia

Main activity
fund management activities

Share capital (EUR)
2,110,791

Book value of equity interest (EUR)
2,110,791

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
1,580,100

Position in the Group
subsidiary pension company

ZTSR (SVN)

Registered office
Miklošičeva cesta 19,
1000 Ljubljana, Slovenia

Main activity
activities of holding companies

Share capital (EUR)
250,000

Book value of equity interest (EUR)
125,000

% equity interest / voting rights held by Group members
Sava Re: 50.0%

Profit or loss for 2020 (EUR)
301,725

Position in the Group
associate

G2I (GBR)

Registered office
Bailey House, 4–10 Barttelot Road,
Horsham, West Sussex, RH12 1DQ, UK

Main activity
insurance agency

Share capital (EUR)
152,958

Book value of equity interest (EUR)
26,768

% equity interest / voting rights held by Group members
Sava Re: 17.5% / 25.0%

Profit or loss for 2020 (EUR)
-50,140

Position in the Group
associate

SAVA INFOND (SVN)

Registered office
Ulica Vita Kraigherja 5,
2103 Maribor, Slovenia

Main activity
fund management activities

Share capital (EUR)
1,460,524

Book value of equity interest (EUR)
1,460,524

% equity interest / voting rights held by Group members
Sava Re: 84.00% / 84.85%
Zavarovalnica Sava: 15.00% / 15.15%

Profit or loss for 2020 (EUR)
1,522,399

Position in the Group
subsidiary

VITA (SVN)

Registered office
Trg republike 3,
1000 Ljubljana, Slovenia

Main activity
life insurance

Share capital (EUR)
7,043,900

Book value of equity interest (EUR)
7,043,900

% equity interest / voting rights held by Group members
Sava Re: 100.0%

Profit or loss for 2020 (EUR)
8,671,328

Position in the Group
subsidiary insurance company

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

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

Insurance Supervision Agency

Trg republike 3

SI-1000 Ljubljana

Tel.: + 386 1 2528 600

Telefax: + 386 1 2528 630

Email: agencija@a-zn.si

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

KPMG SLOVENIJA, Podjetje za Revidiranje, d.o.o.

Železna cesta 8A

SI-1000 Ljubljana

Slovenia

Telephone: +386 1 420 11 70

Telefax: +386 1 420 11 58

Email: kpmg.lj@kpmg.si

The Group's financial statements have been audited by KPMG Slovenia, Podjetje za Revidiranje, d.o.o., who audited the financial statements of Sava Re and the Sava Insurance Group for 2020. In 2020, most of the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. The 2020 financial statements of three Group member were audited by another audit firm. A contract for auditing the financial statements was signed with KPMG in 2019, covering the period 2019–2021. Sava Re complies with the provision on auditor rotation under the Insurance Act.

Holders of qualifying shares in the company as at 31 December 2020

Shareholder	Number of shares	Holding	% voting rights
SDH d.d.	3,043,883	17.7%	19.6%
Intercapital Securities Ltd. – fiduciary account	2,487,252	14.4%	16.0%

Source: Central securities register KDD d.d.

Notes:

Sava Re holds 1,721,966 own shares with no voting rights attached.

On 2 June 2016, Sava Re received a notice from Adris Grupa d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia (hereinafter: Adris Grupa), advising Sava Re of a change in major holdings in Sava Re. On 2 June 2016, Adris Grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04% and 21.15% of issued and outstanding shares, respectively. The Company has received no subsequent notice of any change in holding from Adris Grupa d.d.

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

In 2020, the Group's main lines of business were:
- motor vehicle liability insurance and proportional reinsurance,
- fire and other damage to property insurance and proportional reinsurance, and
- other motor insurance and proportional reinsurance.

These lines of business accounted for 57.4% of the total gross premiums written (2019: 62.0%).

The Group operates in the market of Slovenia and globally. The following table shows the key markets of the Group in terms of premiums written in 2020. Listed are countries where the Group wrote over EUR 11 million in gross premiums in line with the Group's materiality threshold.[8] As shown in the table, the Group sourced most of its premiums from Slovenia, other countries of the Adriatic region and South Korea.

Major countries in which the Group operates[9]

EUR thousand	Gross premiums written in 2020	Gross premiums written in 2019	Index
Slovenia	505,732	440,586	114.8
Serbia	26,530	27,047	98.1
South Korea	13,967	12,907	108.2
Kosovo	13,901	12,678	109.7
North Macedonia	13,761	14,397	95.6
Montenegro	12,852	13,777	93.3

Significant events in 2020

- 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.).
- Having met all suspensive conditions of the sales and purchase agreement dated 27 December 2019 in May 2020, Sava Re finalised the acquisition of a 100% stake in the company NLB Vita d.d. (now renamed Vita).
- In June 2020, the 36th general meeting of shareholders was held.
- In June 2020, the composition of the Sava Re management board changed. Srečko Čebron, a member of the management board, retired as from 31 May 2020 whereupon Peter Skvarča entered his five-year term of office as a member of the management board on 19 June 2020.
- Following its regular annual rating review, the rating agency Standard & Poor's affirmed the "A" (strong) insurer financial strength rating on Sava Re and Zavarovalnica Sava. The outlook was stable.
- In line with the Company's amended 2020 financial calendar, the 37th general meeting of shareholders was called on 14 October 2020 to consider the distribution of dividends (EUR 1.05 per share). After the general meeting had been called, Sava Re was informed of new circumstances that had arisen in certain EU insurance markets and in the United Kingdom that were in contrast to previously obtained legal advice. These circumstances mainly included legal and regulatory practices and other material facts related to potential additional adverse effects of the Covid-19 pandemic on the operations of Zavarovalnica Sava and Sava Re. The circumstances primarily concerned Covid-19-related claims on policies written in the market of the Republic of Ireland (FoS business) and reinsurance contracts written in the United Kingdom for business interruption coverage as part of property policies, which under new case law and regulatory practices could potentially have an adverse effect on the Group's business results and solvency position. As these circumstances could have a material impact on the Group's business performance and its solvency position up until year-end 2020 and in 2021, the management board, with the consent of the supervisory board, decided that it was in the best interest of Sava Re, the Sava Insurance Group and its policyholders to cancel the general meeting of shareholders scheduled for 16 November 2020 and to temporarily suspend the payment of dividends. The Company announced the cancellation of the notice of the 37th general meeting of Sava Re d.d. on 6 November 2020, in the same way as the notice of the general meeting.
- Following its regular annual rating review in October 2020, the rating agency AM Best affirmed the "A" (excellent) insurer financial strength rating of Sava Re. The outlook was stable.

Impact of Covid-19 pandemic

- The year 2020 was marked by the Covid-19 pandemic (hereinafter: Covid-19), which increased uncertainty regarding the achievement of financial targets and strategic goals, and impacted the risks to which the Group is exposed.
- We conducted assessments and reported the first estimates of Covid-19 impacts on the business, liquidity and capital requirements to the Insurance Supervision Agency as early as March 2020. We demonstrated the resilience of the Group's solvency position to the market circumstances at the time – which turned out to be the bottom of the financial market – as well as the resilience of the solvency position to a stress scenario with a larger impact on financial investments based on the 2008–2009 financial crisis, as conducted in the own risk and solvency assessment (ORSA 2020). We also verified the Group's liquidity

7 This subsection presents consolidated data based on Solvency II valuations that does not include Sava Pokojninska and Sava Penzisko Društvo; therefore, figures do not equal IFRS calculations.

8 The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and the Group SCR. As at 31 December 2020, the Group's materiality threshold was EUR 11 million.

9 Premiums include premium estimates.

position, which resulted in an assessment that the situation is stable and that the Group is able to fulfil its due financial obligations.

- Given the significantly changed market circumstances and the potential impact on business results and the solvency position, in the second and third quarters of 2020, we prepared and, in August confirmed, the revised strategic plan of the Sava Insurance Group for 2020–2022 with a more detailed assessment of the impact of Covid-19, including new financial projections. We also reported the solvency position projections to the Insurance Supervision Agency in the form of an ad hoc ORSA. The projections confirmed the compliance of the solvency position with statutory regulations and internal rules over the entire strategic period, and the ability to continuously ensure adequate liquidity. Based on the revised strategic plan, we drafted and confirmed the revised risk strategy of the Sava Insurance Group for 2020–2022, which updates and defines the risk appetite for 2021–2022.
- Along with monitoring the current business results and liquidity, we also regularly monitored Group capital adequacy, mainly in the light of the impact of Covid-19 on the (in)stability of the financial markets and other emerging circumstances. We regularly monitored the impact of Covid-19 and related risks, reporting on them in risk reports. Theses analyses and reports were taken into consideration by the management when making decisions.
- The basis for performing the own risk and solvency assessment for 2021 (hereinafter: 2021 ORSA) is the Group's business plan for 2021 and financial projections for 2022 and 2023. The business plan and financial projections also include the estimated impact of Covid-19 on operations. The 2021 ORSA focused on projections of the solvency capital requirement (SCR), solvency ratio and own risk assessment based on the business plan and financial projections, as well as on the implementation of stress scenarios and their impacts. We identified scenarios that could occur and result in a significant impact on operations and/or the solvency position. These allowed us to test the robustness of capital adequacy. In the scenarios we also considered the potential impact on the Group's insurance portfolio. All scenarios confirmed the robustness of the Group's capital adequacy, which is significantly higher than the required regulatory amount, even if an individual scenario is realised.
- In November 2020, Sava Re was informed of new circumstances that had arisen in certain EU insurance markets and in the United Kingdom related to potential additional adverse effects of the Covid-19 pandemic on the operations of Zavarovalnica Sava and Sava Re. The new circumstances primarily concerned Covid-19-related claims on policies written in the market of the Republic of Ireland (under freedom of services rules) and reinsurance contracts written in the United Kingdom for business interruption coverage as part of property policies, which under case law and regulatory practices could potentially have an adverse effect on the Group's business results and solvency position. Based on current detailed analyses of the Group's insurance exposure, we find that Covid-19-related business interruption claims, in the vast majority of cases, are not covered under the policies written by the Group directly under freedom of services rules in the European Union. For those business interruption (re)insurance contracts that legally could respond to Covid-19 claims, additional provisions had already been set aside at the end of 2020. At year-end 2020, provisions were also set aside for potential legal defence costs that could occur based on the current circumstances.
- For details on Covid-19-related impacts on the Company's risk profile, see section *C Risk profile*.
- In 2020, the Group monitored the situation, adjusted its operations to the measures enacted by the Slovenian government and complied with expert recommendations to protect the health of its employees and clients, prevent the spread of Covid-19 and limit operational risks. For details, see the annual report of the Sava Insurance Group and Sava Re d.d. for 2020 (hereinafter: the Group's annual report), section 17.6.1 "Impact of Covid-19 pandemic" posted *on this website*.

Significant events after the reporting date

On 5 March 2021, Sava Re received a letter from the Insurance Supervision Agency stating that, due to the uncertain situation regarding the spread of the Covid-19 pandemic and the associated uncertain consequences for the economy and the insurance sector, the Insurance Supervision Agency expects that, until 30 September 2021, insurance undertakings, reinsurance undertakings and pension companies suspend dividend payments, not enter into irrevocable commitments to pay dividends and refrain from buying own shares intended to reward shareholders. Furthermore, the recommendation of the Agency set certain criteria for companies by which, contrary to the recommendation, the management and supervisory boards decide to propose the appropriation of the distributable profit prior to the above date, and it required such companies to demonstrate compliance with the principle of prudence in their decisions. Evidence must be based on stress test results and their impacts on financial stability, liquidity and the solvency ratio. The Company published the Agency's letter via the SEOnet system on 8 March 2021.

On 2 April 2021, Sava Re received a letter from the Insurance Supervision Agency stating that, in order for it to fully comply with recommendations to harmonise the treatments of supervised entities in the European Union, the Agency amends its recommendation regarding dividend payments issued on 8 March 2021 so that: (1) the Agency expects companies that are the parent of a group of companies to consider the financial position of both the company as well as of the group of companies they control when deciding on the payment of dividends before 30 September 2021, and (2) the Agency will take into account the specificities of the business model when examining the profitability criterion of the supervised entity. The Company published the Agency's letter via the SEOnet system on 2 April 2021.

For the purpose of substantiating its ability to pay dividends in 2021, Sava Re compiled documents for the Agency to demonstrate its financial stability, solvency, liquidity and resilience to stress scenarios (including Covid-19 impacts). The supervisory and management boards prepared a draft resolution for the general meeting to the effect that shareholders be paid a dividend of EUR 0.85 gross per share, in total EUR 13,173,041.60, or 23.4% of the Group's 2020 net profit. The Company presented evidence to the Agency that it was capable of paying out the proposed dividend because the Group demonstrates a robust solvency position with a solvency ratio of 198% as at 31 December 2020. On 16 April 2021, the Company published its notice of general meeting, proposing a dividend distribution at the above level.

Difference in the scope of the consolidated IFRS and Solvency II balance sheets

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

A.2 Underwriting performance[10]

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

Premiums

Consolidated gross premiums written and net premiums earned

EUR thousand	2020	2019	Index
Gross premiums written	676,508	596,200	113.5
Net premiums earned	632,121	545,714	115.8

Consolidated gross premiums written by region

EUR thousand	2020	2019	Index
Slovenia	505,732	440,586	114.8
International	170,776	155,614	109.7
Total	**676,508**	**596,200**	**113.5**

Consolidated gross premiums written by material line of business

EUR thousand	2020	2019	Index
Motor vehicle liability insurance and proportional reinsurance	133,133	136,390	97.6
Fire and other damage to property insurance and proportional reinsurance	129,300	113,570	113.9
Other motor insurance and proportional reinsurance	125,837	119,777	105.1
Life insurance	111,567	68,869	162.0
Income protection insurance and proportional reinsurance	51,527	48,824	105.5
Other lines of business	125,144	108,770	115.1
Total	**676,508**	**596,200**	**113.5**

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

In 2020, gross premiums written grew by 13.5%, and the breakdown changed somewhat because of Vita's inclusion in the Group in 2019. Non-life insurance premiums account for 83.5% (2019: 88.4%) of total premiums, and life insurance premiums for 16.5% (2019: 11.6%). Gross premiums written are dominated by two lines of business: (1) motor vehicle liability insurance and proportional reinsurance, and (2) fire and other damage to property insurance and proportional reinsurance, which together account for 38.8% of total gross premiums written (2019: 41.9%).

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 2020 increased by 18.3% from the previous year to EUR 106.8 million. Premium growth was especially achieved in Asian markets (through organic growth and new contracts). Premiums for the 2020 underwriting year increased 8.5% (or EUR 7.6 million) over 2019, which includes the drop caused by the economic downturn due to Covid-19. This increase in premiums is the result of positive price movements in markets, where in the 1 January 2020 renewals and even more so in the mid-year renewals clear indications of hardening were seen and consequently price increases. This partly reflects rate increases in programmes heavily hit in the previous year (Japan: price increases of about 30–50%). Rate increases also indicate a general trend because of past developments and the response to the uncertainty related to Covid-19. In addition, supported by our good repute and strong profile, we managed to increase our shares on promising existing treaties while expanding our portfolio with new, previously unattainable, opportunities. The premiums for past underwriting years were also higher, by EUR 9.0 million, especially in proportional business. Net premiums earned grew by 15.9% in 2020 compared to 2019 as the result of an increase in gross premiums written.

Gross **non-life** insurance premiums increased by 5.1% to EUR 439.4 million in 2020. The increase is chiefly the result of growth in both the non-life business of the Slovenian part of Zavarovalnica Sava and the Kosovo non-life insurer. Accordingly, net premiums earned also grew, by 8.1% in total. The movement in gross premiums in most other markets was negatively impacted by developments related to Covid-19. As a result of Covid-19, gross non-life premiums written by the non-Slovenian insurers declined and were left without assistance business because of closed borders, and with less motor business because of a lower number of registered vehicles as a result of a decline in economic activity.

Slovenia-sourced gross non-life premiums grew by 7.8%, or EUR 26.4 million. An amount of EUR 13.5 million of growth in Zavarovalnica Sava was contributed by growth in the gross premiums of FoS business, which the company generated in cooperation with various EU partners. The highest increase in FoS premiums was recorded in property, ships hull and general liability, whereas the majority of motor insurance was terminated due to market changes (deteriorating conditions) and the company's greater selectivity.

The increase in gross premiums written was driven by the EUR 10.6 million rise in non-life premiums at the Slovenian part of Zavarovalnica Sava, excluding FoS business, and the EUR 2.3 million increase in non-life premiums at the insurer Vita. In the aforementioned period, the Slovenian insurance market achieved 2.9% growth in non-life gross premiums, excluding FoS business and accepted co-insurance, and the Slovenian part of Zavarovalnica Sava achieved 3.4% premium growth.

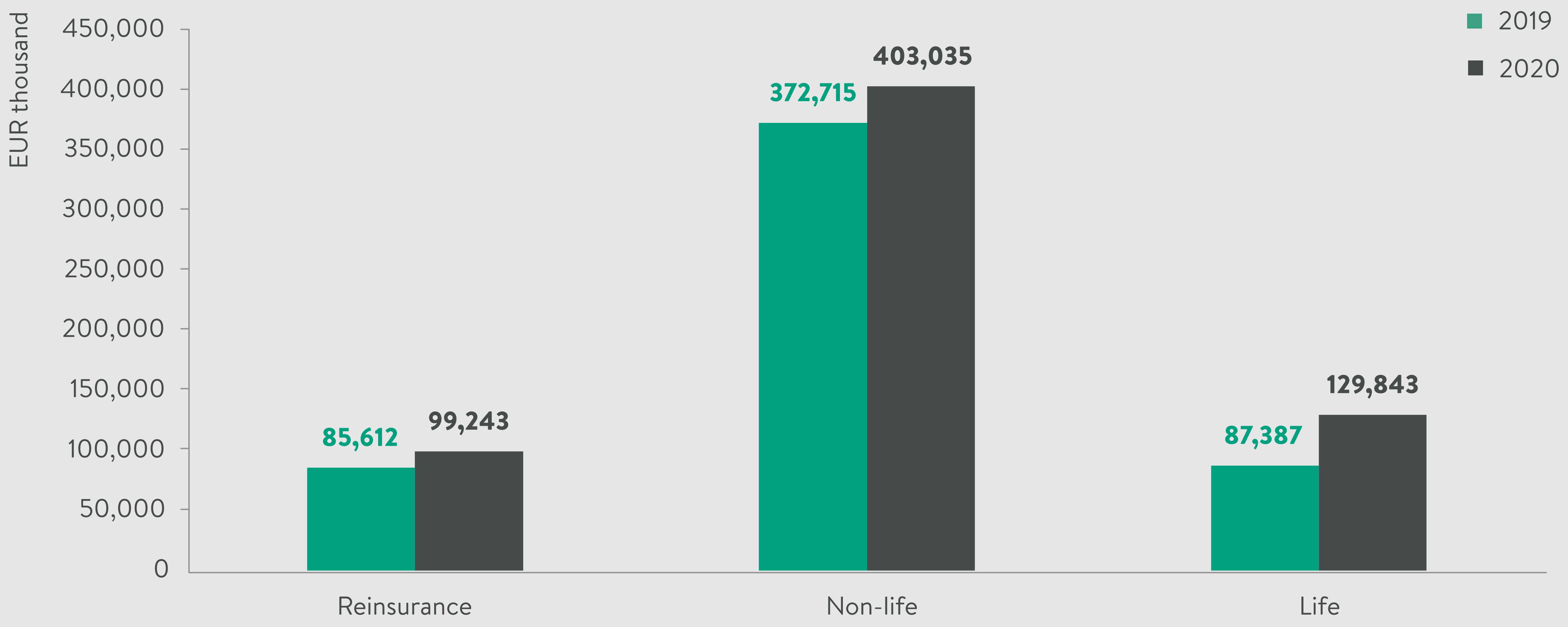
Most of the growth in gross non-life premiums at the Slovenian part of Zavarovalnica Sava, excluding FoS business, was achieved in private motor business as a result of an increase in the number of policies and higher average premiums. In March and April 2020, insurance sales were impeded by Covid-19 restrictions; however, Zavarovalnica Sava managed to offset lost gross premiums after restrictions were lifted in May and June. The circumstances relating to Covid-19 restrictions deteriorated again in the last two and a half months of 2020, which again affected the company's results. Nevertheless, in 2020, Zavarovalnica Sava recorded 5.0% growth in gross motor own damage premiums, as well as an increase in gross property premiums, in particular because of strong sales of the new "DOM" homeowner's policies, an increase in the average premium and an increase in the number of policyholders.

Gross **life** premiums written in Slovenia grew by 53.1% in 2020, as the result of Vita's inclusion in the Group (on 31 May 2020). In 2020, gross premiums written by the life insurance part of Zavarovalnica Sava in Slovenia dropped by 5.6% compared to 2019. The company did not manage to write sufficient new business to fully offset premiums lost due to policy maturities, surrenders and deaths. Since joining the Group, Vita generated EUR 46.1 million in gross premiums written. In 2020, gross premiums written by the non-Slovenian life insurers grew by 9.3% year on year, with the largest growth recorded in Serbia, reflecting greater efficiency of the own sales network, as was also the case 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 and surrenders) that the company, under the current circumstances, did not manage to compensate for with new business.

Consolidated net premiums earned by material line of business

EUR thousand	Net premiums earned, 2020	Net premiums earned, 2019	Index
Motor vehicle liability insurance and proportional reinsurance	134,325	125,909	106.7
Other motor insurance and proportional reinsurance	122,320	112,447	108.8
Fire and other damage to property insurance and proportional reinsurance	107,458	97,286	110.5
Life insurance	110,625	68,059	162.5
Income protection insurance and proportional reinsurance	51,995	48,628	106.9
Other lines of business	105,396	93,385	112.9
Total	**632,121**	**545,714**	**115.8**

Consolidated net premiums earned by operating segment



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

Claims

Consolidated gross claims paid and net claims incurred

EUR thousand	2020	2019	Index
Gross claims paid	399,532	392,032	101.9
Net claims incurred	426,558	396,377	107.6

Consolidated gross claims paid by region

EUR thousand	2020	2019	Index
Slovenia	276,468	285,772	96.7
International	123,064	106,260	115.8
Total	**399,532**	**392,032**	**101.9**

Consolidated gross claims paid and net claims incurred rose in 2020 compared to 2019. Below we set out the movements in gross claims paid and claims incurred by operating segment as analysed by the Sava Insurance Group.

In 2020, exchange differences had a positive impact on net claims incurred of the **reinsurance** segment in the amount of EUR 6.9 million (a negative impact of EUR 1.6 million in 2019). In 2020, net claims incurred, excluding the effect of exchange differences, rose by 30.9% compared to 2019, mainly due to higher claims (primarily due to Covid-19; EUR 10.8 million cumulatively) and a weaker development of old underwriting years in 2020 compared to 2019. The growth in net claims incurred was also driven by organic growth of business (net premiums earned rose by 15.9%). The incurred loss ratio relating to the reinsurance segment (excluding the effect of exchange differences) was 8.5 p.p. weaker compared to 2019, at 83.3% (2019: 74.8%).

The consolidated gross **non-life** claims paid in 2020 declined by 1.6% to EUR 217.1 million as the result of lower gross non-life claims of the Group's non-Slovenian non-life insurers. In 2020, consolidated gross non-life claims paid in Slovenia remained at a similar level to 2019. There was a EUR 9.6 million increase in FoS business (due to portfolio growth), whereas gross claims incurred on policies written in Slovenia declined by EUR 9.2 million as the result of a lower loss frequency in motor insurance during the Covid-19 lockdown, when there were fewer traffic accidents because of reduced motor traffic. Consolidated gross claims paid relating to the non-Slovenian insurers dropped by 9.3%. Fire claims declined, mainly because the Group was hit by a major fire loss in 2019, whereas in 2020 fewer claims were reported. Gross claims also dropped in motor, assistance, accident and health insurance. The decline is mainly the result of fewer claims due to Covid-19.

In 2020, gross **life** insurance claims grew by 6.4% to EUR 124.9 million year on year due to Vita's inclusion in the Group. In the life insurance part of Zavarovalnica Sava in Slovenia, the bulk of the maturity benefits incurred in the period related to traditional life policies, specifically EUR 54.7 million, a decline of EUR 10.7 million compared to 2019. Unit-linked life business, where policyholders bear the investment risk, paid out EUR 14.6 million in maturity benefits, down EUR 1.5 million compared to 2019. Net claims incurred, including the change in mathematical provisions and the change in the provision for unit-linked business, are higher due to Vita's inclusion in the Group. Of the non-Slovenian insurers, Sava Životno Osiguranje recorded the largest increase in gross claims paid, at 108.9%, which was due to fast portfolio growth, maturities and somewhat higher mortality in 2020. Despite the rise in gross claims paid, net claims incurred in 2020, including the change in other provisions and the change in the provision for unit-linked business of insurers abroad, declined because of the drop in the mathematical provision of Zavarovalnica Sava in Croatia as the result of the run-off of credit life policies and larger amounts paid for surrenders.

Consolidated net claims incurred by material line of business

EUR thousand	Net claims incurred, 2020	Net claims incurred, 2019	Index
Life insurance	119,316	108,484	110.0
Motor vehicle liability insurance and proportional reinsurance	82,332	80,141	102.7
Other motor insurance and proportional reinsurance	73,764	79,774	92.5
Fire and other damage to property insurance and proportional reinsurance	71,789	56,774	126.4
Non-proportional property reinsurance	24,932	26,681	93.4
Other lines of business	54,425	44,523	122.2
Total	**426,558**	**396,377**	**107.6**

Expenses

Consolidated net operating expenses by material line of business

EUR thousand	Net expenses, 2020	Net expenses, 2019	Index
Fire and other damage to property insurance and proportional reinsurance	43,001	46,287	92.9
Motor vehicle liability insurance and proportional reinsurance	40,978	37,825	108.3
Other motor insurance and proportional reinsurance	32,330	29,738	108.7
Life insurance	22,534	17,354	129.8
Income protection insurance and proportional reinsurance	17,252	16,249	106.2
Other lines of business	34,935	30,459	114.7
Total	**191,029**	**177,912**	**107.4**

Net operating expenses rose by 7.4% in 2020. In absolute terms, the largest increase was in expenses for life business, and in motor vehicle liability insurance and proportional reinsurance. The 2020 split of net operating expenses by line of business did not change materially compared to 2019. 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 and other operating expenses).

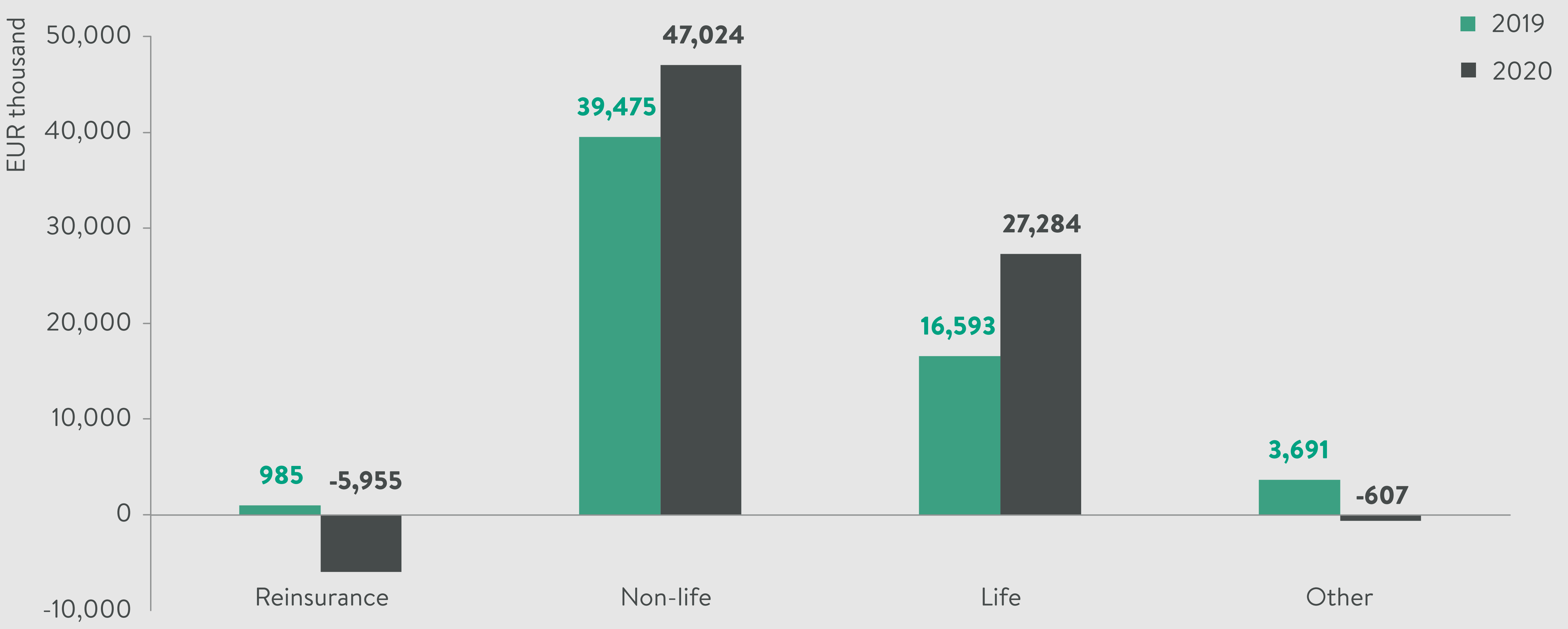
In 2020, acquisition expenses (commissions) of the **reinsurance** segment rose by 10.9% to EUR 22.1 million (compared to an 18.3% increase in gross premiums written). The share of acquisition costs as a percentage of gross premiums written was 13.4% in 2020 (2019: 22.1%). The change in deferred acquisition costs (an increase in 2020 and a decrease in 2019) is the result of stronger growth in gross premiums written for new business in line with the movement in unearned premiums. In 2020, other operating expenses declined by 5.6% compared with 2019, reflecting cost optimisation due to adjustments to Covid-19 business conditions (reduced business travel, lower commuting expenses and other adjustments). In 2020, the net expense ratio improved by 2.6 p.p. over 2019 to 25.6% as the result of faster growth in net premiums earned compared to net operating expenses.

Consolidated gross **non-life** insurance premiums increased by 10.8% to EUR 43.5 million in 2020. Growth in acquisition costs is mainly related to growth in FoS and less to growth in other business of the non-life part of Zavarovalnica Sava in Slovenia in the agency's sales channel. Consolidated other operating expenses increased by 2.0% mainly due to the increase in operating expenses in FoS business of the Slovenian part of Zavarovalnica Sava, and partly due to Vita's inclusion in the Group. All non-Slovenian Group companies saw a drop in other operating expenses, except the Croatian part of Zavarovalnica Sava because of the previous year's only partial consolidation of ERGO (in 2019, the insurance company ERGO was included in the consolidated accounts from April, whereas in 2020 it was part of the Croatian part of Zavarovalnica Sava for the full year). The change in deferred acquisition costs is smaller in 2020, primarily due to the smaller change in the deferred cost of acquiring FoS contracts.

In 2020, acquisition costs of the **life** segment rose by 33.5% compared with 2019 to EUR 8.8 million because of the inclusion of Vita in the consolidated statements. The difference in the change in deferred acquisition costs between the years chiefly relates to the Slovenian part of Zavarovalnica Sava. Other operating expenses increased by 16.1% in 2020 year on year due to Vita's inclusion in the Group.

Consolidated gross profit or loss

Composition of the consolidated gross profit or loss by operating segment[11,12]

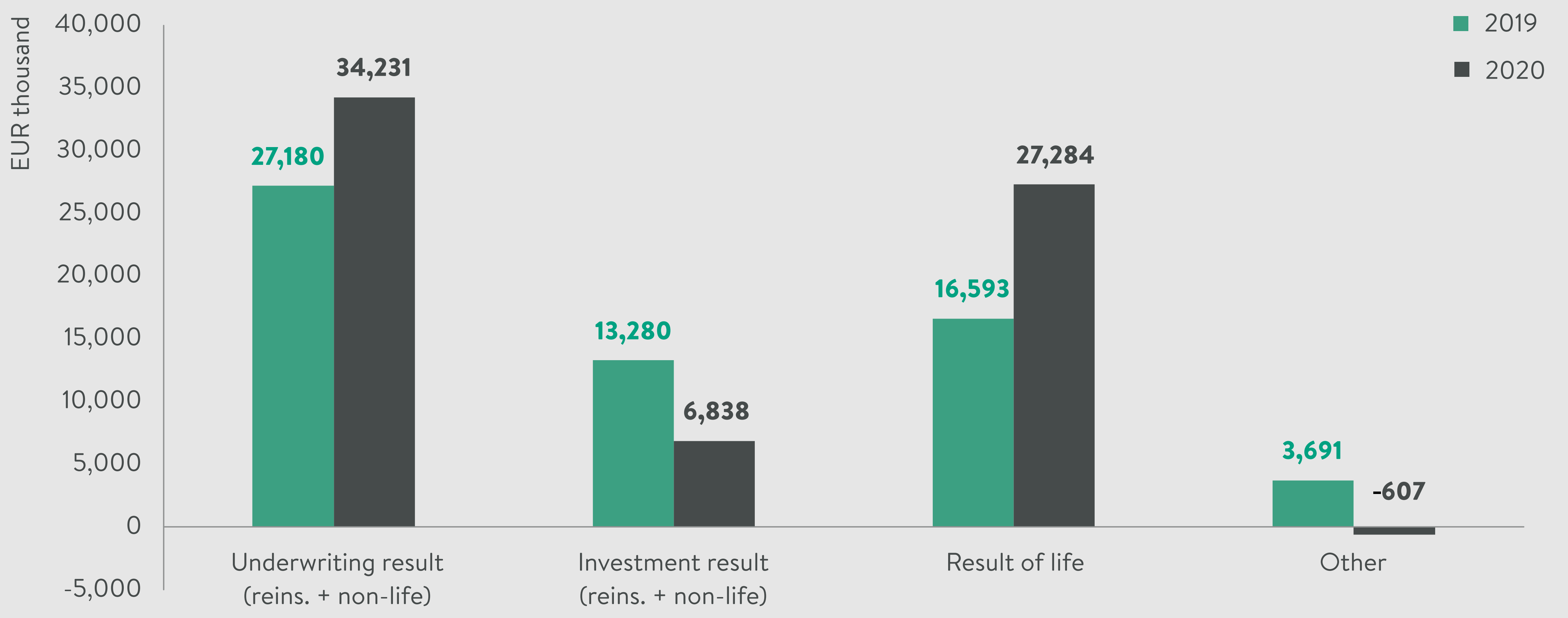


Note: The 2019 amount for the "other" segment differs from the one reported in the 2019 SFCR because the graph in the 2019 SFCR does not include Sava Pokojninska and Sava Penzisko Društvo.

11 The "other" segment includes the profit or loss of the companies Sava Pokojninska, Sava Penzisko Društvo, TBS Team24, Save Infond and S Estate.

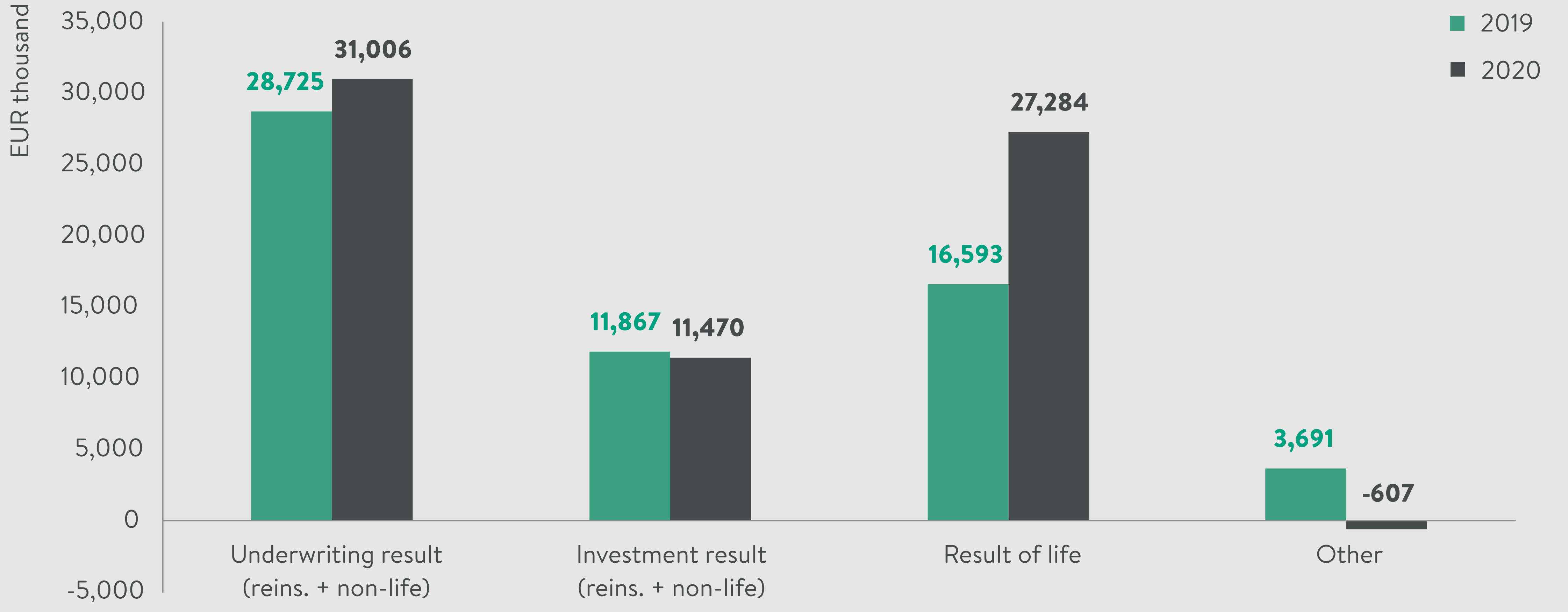
12 The result of the life segment also includes the net investment income of the life insurance portfolio.

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



Note: The 2019 amount for the "other" segment differs from the one reported in the 2019 SFCR because the graph in the 2019 SFCR does not include Sava Pokojninska and Sava Penzisko Društvo.

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



Note: The 2019 amount for the "other" segment differs from the one reported in the 2019 SFCR because the graph in the 2019 SFCR does not include Sava Pokojninska and Sava Penzisko Društvo.

In 2020, the gross result of the Group (excluding Sava Pokojninska, Sava Penzisko Društvo, TBS Team 24, Sava Infond and S Estate) increased by 19.8% compared to 2019 to EUR 68.4 million. The life and non-life segments improved the gross result in 2020 compared to 2019, whereas the reinsurance and "other" segments showed weaker performance. The underwriting result in 2020 was better than in 2019 due to the non-life segment, whereas the reinsurance segment saw a deterioration. The investment result deteriorated in both the reinsurance and non-life segments. The result of the life segment improved in 2020 because Vita joined the Group. The "other" segment includes the profit or loss of the companies Sava Pokojninska, Sava Penzisko Društvo, TBS Team 24, Sava Infond[13] and S Estate. This segment also includes interest expense on subordinate debt (2020: EUR 2.9 million, 2019: EUR 0.5 million) and the amortisation of contractual customer relationships with Sava Pokojninska and Sava Infond (2020: EUR 1.0 million, 2019: EUR 0.3 million).

In 2020, the **reinsurance** segment performed more poorly in terms of underwriting result than in 2019, chiefly because of major claims (mainly due to Covid-19; EUR 10.8 million cumulatively) and a weaker development of old underwriting years in 2020 compared to 2019. The increase in net claims incurred was also a result of organic business growth. The weaker investment result was mainly due to lower interest income and lower dividends from financial investments.

The **non-life** segment improved, largely as the result of improved technical performance. The net investment income of the investment portfolio remained at a comparable level to 2019. The investment return was 1.4% in 2020.

In 2020, the **life** segment performed better, mainly because Vita joined the Group. The net investment income of the investment portfolio of life insurance business increased by EUR 3.9 million compared to 2019. Despite the unfavourable trends in financial markets, the return on the life insurance investment portfolio remained at the 2019 level of 1.9%, largely supported by the inclusion of Vita's portfolio.

11 The "other" segment includes the profit or loss of the companies Sava Pokojninska, Sava Penzisko Društvo, TBS Team24, Save Infond and S Estate.

12 The result of the life segment also includes the net investment income of the life insurance portfolio.

13 Sava Infond was first included in the consolidated accounts of the Sava Insurance Group on 30 June 2019.

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.

Investment income and expenses by type

EUR thousand	1 January – 31 December	
Type of income	**2020**	**2019**
Interest income	16,151	14,016
Change in fair value and gains on disposal of FVTPL assets	2,539	1,719
Gains on disposal of other IFRS asset categories	4,907	787
Income from associate company	142	2,718
Income from dividends and shares – other investments	1,174	1,623
Exchange gains	0	1,340
Diverse other income	1,970	1,567
Other income from alternative funds	1,014	569
Income relating to the investment portfolio	**27,897**	**24,340**
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	23,044	23,279
	1 January – 31 December	
Type of expense	**2020**	**2019**
Interest expenses	2,978	510
Change in fair value and losses on disposal of FVTPL assets	2,300	626
Losses on disposal of other IFRS asset categories	1,440	243
Impairment losses on associates	567	55
Impairment losses on other investments	1,100	0
Exchange losses	4,794	0
Other	828	605
Other expenses for alternative funds	0	0
Expenses relating to the investment portfolio	**14,007**	**2,040**

In 2020, investment income totalled EUR 27.9 million, up EUR 3.6 million year on year; excluding exchange differences, investment income increased by EUR 4.9 million. In 2020, the largest part of investment portfolio income was interest income of EUR 16.2 million (accounting for 57.9% of total finance income), down EUR 2.1 million year on year.

In 2020, expenses relating to the investment portfolio increased by EUR 12.0 million compared with 2019, but were up EUR 7.1 million if the effect of exchange differences is excluded. The largest part of investment expenses, excluding the effect of exchange differences, arose from interest expenses relating to the issued subordinated bond of Sava Re.

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

Consolidated net inv. income of the investment portfolio

EUR thousand	2020	2019	Absolute change
Net investment income of the investment portfolio	13,890	22,300	-8,410
Net investment income of the investment portfolio, excluding the effect of exchange differences	18,684	20,960	-2,276

In 2020, net investment income relating to the Group's portfolio amounted to EUR 13.9 million, or EUR 18.7 million excluding the effect of exchange differences.

Net investment income by class of asset[14]

EUR thousand 2020	Interest income/ expenses	Change in fair value and gains or losses on disposal of FVTPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains/losses	Other income/ expenses	Total	Net unrealised gains or losses on investments of life insurance that bears the investment risk	Income/ expenses relating to associates and impairment losses on goodwill[15]
Held to maturity	1,370	0	36	0	0	14	10	1,430	177	0
Debt instruments	1,370	0	36	0	0	14	10	1,430	177	0
At fair value through P/L	873	239	0	35	0	6	-18	1,135	22,347	0
Designated to this category	873	239	0	35	0	6	-18	1,135	22,347	0
Debt instruments	873	206	0	0	0	6	-65	1,020	56	0
Equity instruments	0	33	0	35	0	0	14	83	22,290	0
Other investments	0	0	0	0	0	0	33	33	0	0
Available for sale	13,413	0	3,431	1,138	-1,100	-4,753	1,355	13,484	521	-425
Debt instruments	13,413	0	3,456	0	-109	-4,754	-9	11,998	501	0
Equity instruments	0	0	-26	1,138	-991	1	350	473	20	-425
Investments in infrastructure funds	0	0	0	0	0	0	881	881	0	0
Investments in property funds	0	0	0	0	0	0	133	133	0	0
Loans and receivables	191	0	0	0	0	-61	-4	125	-1	0
Debt instruments	379	0	0	0	0	-1	-4	374	-1	0
Other investments	-189	0	0	0	0	-60	0	-248	0	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	24	0	0	0	0	0	0	24	0	0
Subordinated liabilities	-2,871	0	0	0	0	0	0	-2,871	0	0
Total	**12,999**	**239**	**3,467**	**1,174**	**-1,100**	**-4,794**	**1,343**	**13,327**	**23,044**	**-425**

14 Interest income and expenses in this table differ from those presented in the table "Investment income and expenses by type", because this table includes expenses for right-of-use assets (31 December 2020: EUR 174.9 thousand).

15 Impairment losses on goodwill of Sava Pokojninska in 2020 are not shown in the table.

Group net investment income totalled EUR 13.3 million in 2020. The largest items of the Group's net investment income are interest income of EUR 12.9 million and gains on disposal of investments of EUR 3.5 million. The large share of interest income is consistent with the composition of the Group's investment portfolio, which is dominated by debt instruments.

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

Fair value reserve

EUR thousand	2020	2019
As at 1 January	**20,719**	**11,613**
Change in fair value	26,263	11,354
Transfer of the negative fair value reserve to the IS due to impairment	0	0
Transfer from fair value reserve to the IS due to disposal	-2,247	-479
Deferred tax	-4,562	-1,769
Total fair value reserve	**40,173**	**20,719**

In 2020, the fair value reserve increased significantly compared to 2019. The main reason for this is Vita's inclusion in the Group in 2020.

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 2020, the Group generated income of EUR 1.2 million by leasing out its investment property (2019: EUR 1.3 million). Maintenance costs associated with investment property are either included in the rent or charged to the lessee. Costs covered by the Group in 2020 totalled EUR 123 thousand (2019: EUR 88 thousand).

Material intra-Group transactions

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

Income and expenses relating to Group companies

EUR thousand	2020	2019
Gross premiums written	84,890	76,278
Gross claims payments	-34,802	-34,001
Acquisition costs	-18,349	-15,754
Dividend income	2,590	36,948
Total	**34,329**	**63,471**

Investments in and amounts due from Group companies

EUR thousand	31 December 2020	31 December 2019
Debt securities and loans granted to Group companies	3,412	3,638
Receivables for premiums arising from accepted reinsurance	18,988	21,228
Total	**22,400**	**24,866**

Payables to Group companies

EUR thousand	31 December 2020	31 December 2019
Payables for shares in reinsurance claims due to Group companies	9,030	8,659
Other payables from co-insurance and reinsurance	4,880	4,483
Total (excl. provisions)	**13,911**	**13,142**

Dividends received from subsidiaries in 2020 were significantly lower than in 2019 due to regulators' recommendation to insurers, reinsurers and pension companies to postpone dividend payouts because of Covid-19-related impacts on business.

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 Group as a whole and of its members.

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

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

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

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

Supervision of individual Sava Insurance Group members

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

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

Communication between Sava Insurance Group members

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

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

B.1.2 Governing bodies

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

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

General meeting of shareholders

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

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

- personnel decisions (appointment and removal of members of the supervisory board, board of directors, supervisory board, granting of discharge to members of the management and supervisory bodies, vote of no confidence, appointment of the external auditor);
- business decisions (adoption of the annual report unless approved by the management or supervisory bodies, appropriation of distributable profit, consenting business decisions if specifically required by the management);
- fundamental decisions concerning the company (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 Group members are generally convened at least once a year, at the latest within the time limit provided by local law. The general meeting may also be convened in other cases, as provided by local law, the Group member's articles of association, and whenever this is in the Group member's interest. As a rule, the general meeting is convened by the company's chief executive body. Local law stipulates the circumstances in which the general meeting may also be convened by other bodies of the company or the shareholders themselves.

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

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

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

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

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

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

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

When composing the supervisory board, each Group company seeks to take account of diversity in terms of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent oversight of the company's affairs.

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

The supervisory board of Sava Re in 2020

The following table shows the composition of the supervisory board of the Group's parent company in 2020.

Composition of the supervisory board of Sava Re in 2020

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	16 July 2017	16 July 2021
Keith William Morris	deputy chair	16 July 2017	16 July 2021
Davor Ivan Gjivoje*	member	7 March 2017	8 March 2025
Andrej Kren	member	16 July 2017	16 July 2021
Andrej Gorazd Kunstek	member, employee representative	12 June 2019	12 June 2023
Mateja Živec	member, employee representative	12 June 2019	12 June 2023

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

Supervisory board committees

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

Sava Re has established the following supervisory board committees:

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

The chief tasks of the individual committees of the supervisory board are set out in detail in the “Solvency and financial condition report of Sava Re d.d. for 2020” (hereinafter: the Sava Re 2020 SFCR) in section B.1.1 Governing bodies.

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

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

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

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

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

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

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

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

The 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.

The Sava Re management board in 2020

In 2020, the management board of the Group’s parent comprised the following members: Marko Jazbec (chair), Srečko Čebron (until 31 May 2020), Jošt Dolničar, Polona Pirš Zupančič and Peter Skvarča (since 19 June 2020).

In 2020, the composition of the Sava Re management board changed: Srečko Čebron retired on 31 May 2020 so that from 1 June 2020 the board operated temporarily with only three members. The Sava Re management board resumed as a four-member body on 19 June 2020 when Peter Skvarča started his five-year term of office.

The average age of the members of the management board is 47. All management board members are citizens of the Republic of Slovenia.

Composition of the Sava Re management board in 2020

Full name	Marko Jazbec	Srečko Čebron	Jošt Dolničar	Polona Pirš Zupančič	Peter Skvarča
Function	chair	member	member	member	member
Area of responsibility at management board level	• coordination of work of the management board • finance • general, HR, organisational and legal affairs • public relations • compliance • internal audit • management of mutual funds • health business • projects • modelling	• reinsurance operations • actuarial affairs	• management of strategic investments in direct insurance subsidiaries carrying on non-life, life and pension business • information technology • innovation	• corporate finance • controlling • accounting • investor relations • risk management • actuarial department (since 1 June 2020)	• development of reinsurance and reinsurance underwriting, Group & non-Group • reinsurance protection • retrocession, Group & non-Group • development of reinsurance processes and technology • reinsurance technical accounting
First appointed	12 May 2017	9 February 2009	31 December 2008	14 January 2018	19 June 2020
End of term of office	12 May 2022	31 May 2020	1 June 2023	14 January 2023	19 June 2025

B.1.3 Risk management

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

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

B.1.4 Key functions of the risk management system

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

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

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

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

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

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

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

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

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

Role of individual key functions

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

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

Reporting by key function holders

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

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

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

Cooperation among key function holders

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

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

B.1.5 Committees in the governance system

The management board of the parent company may, by its decision, set up committees that cover both the Group level and the parent company. In addition, the management board of any Group subsidiary may, if necessary, establish a committee by passing a resolution. Committees have an advisory role. They consider issues from specific areas, draft management board resolutions and oversee their implementation, and perform other tasks requiring specific expertise, thus providing professional support to the management board.

Committees are an integral part of the system of governance of the Group and individual Group companies. They deal with issues from areas, such as: risk management, asset and liability management, actuarial affairs, data quality management, information security, internal audit and remuneration.

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

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

- the risk management committee and
- the actuarial committee.

The chief tasks of the individual committees are set out in detail in the Sava Re 2020 SFCR, section B.1.5 Committees of the governance system.

B.1.6 Information about the remuneration policy

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

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

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

The chief principles of the remuneration policy are:
- clear and transparent management,
- reliable and efficient risk management,
- compliance with regulatory requirements and principles of sound management,
- monitoring of and adapting to market trends and practices,
- sustainable pay for sustainable performance,
- employee motivation and retention.

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

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

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

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

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

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

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

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

As a rule, Group companies grant loans to neither their employees nor members of the management or supervisory boards; accordingly, there were no such transactions in 2020.

The Group companies run no share option schemes.

The Group companies run no additional pension schemes.

B.1.7 Related-party transactions

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

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

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

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

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

Material related-party transactions

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

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

In 2020, 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 8.0 million (2019: EUR 7.0 million),
- loans granted to subsidiaries of EUR 3.4 million as at 31 December 2020 (2019: EUR 3.6 million),
- intra-Group transactions that include reinsurance business between the parent and its subsidiaries and dividend payments to the parent. transactions are presented in detail in section *A.4 Performance of other activities*.

Because of the regulator's call for temporary suspension of dividend payments and due to potential risk, the parent company did not pay out dividends in 2020 (2019 dividend payments totalled EUR 14.7 million).

B.2 Fit and proper requirements

In accordance with the law, Group companies ensure that persons who effectively run and oversee the business are properly qualified (fit) and suitable (proper) for doing so in a professional manner. To this end, the companies conduct fit and proper assessments of their personnel: management and supervisory board members, members of the supervisory board's committees, key managers, key function holders and personnel overseeing individual outsourced activities. The assessment is carried out before the appointment to the role and periodically thereafter whenever circumstances arise that require a reassessment of whether such persons are still fit and proper.

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

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

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

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

In 2020, the EU-based Group companies carried out full fit and proper assessment procedures for their new relevant personnel as well as an annual review based on annual statements for persons already assessed.

B.2.1 Fitness requirements for relevant personnel

Supervisory body and its committees

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

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

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

The management body

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

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

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

Key function holders of the risk management system

In assessing the fitness of the key function holders of the risk management system, it is necessary to consider the knowledge acquired through education and work experience. The assessment is then made based on assigned responsibilities for each key function. These requirements are considered in fitness assessments:

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

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

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

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

B.2.2 Suitability requirements for relevant personnel

Personal reliability and reputation

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

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

Independence of relevant personnel

Relevant persons may experience conflicts of interest due to the nature of the business relations. Any relevant person who experiences a conflict of interest in their work must disclose such conflict of interest and continue acting in the interests of the company or the Group. Unless possible, such a person must inform the company's management or the supervisory body, if a conflict of interest is experienced by a member of either the management or supervisory body.

Time input

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

B.2.3 Procedure for fit and proper assessment

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

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

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 the individual company and Group levels.

The Sava Insurance Group has in place a risk strategy that defines the Group's risk appetite and policies covering the entire framework of risk management, own risk and solvency assessments (hereinafter: "ORSA") and risk management for each individual risk category. Based on the Group's risk strategy and policies, individual Group companies set up their own risk strategies and policies, taking into account their specificities and the local legislation. The adequacy of the risk strategy and policies is examined on a regular basis.

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

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

B.3.1 Risk management organisation

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

The efficient functioning of the risk management system is primarily the responsibility of the Sava Re management board and the management board of each individual subsidiary. To ensure efficient risk management, the Group uses a three-lines-of-defence model, which clearly segregates responsibilities and tasks among the following lines:

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

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

The **supervisory board** of each individual company approves the risk strategy, risk management policy and grants consent to the appointment of key function holders of the risk management system. In addition, the supervisory board reviews periodic risk management reports. A risk committee has been set up within the supervisory board of the parent company to provide relevant expertise and support in the risk management process in the Company and in the Group.

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

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

The **first line of defence** of each individual Group company involves all company employees responsible for ensuring that operational tasks are performed in a manner that reduces or eliminates risks. Additionally, risk owners are responsible for monitoring and assessing individual risks listed in the risk register. Line managers are responsible for ensuring that processes for which they are responsible are performed while minimising risks appropriately, and that the framework laid down in the risk strategy is observed. The first line of defence is also responsible for monitoring and measuring risks, preparing data for periodic risk reports for individual areas of risk and identifying new risks.

The Group's and each individual company's **second line of defence** comprises three key functions: the actuarial function, risk management function and compliance function. In addition, the Group's large members have in place a risk management committee. The members of the risk management committee and key function holders are appointed by the management board; the appointment of a key function holder requires the consent of the supervisory board. Each individual company ensures the independence of the key functions, which are organised as services of the risk management system and report directly to the management board. Their roles and responsibilities are defined in the policy of each key function or in the risk management policy that defines the risk management function. The responsibilities of the risk management function are summarised later in this section; those of the other key functions constituting the risk management system are set out in sections *B.4.2 Compliance function*, *B.5 Internal audit function* and *B.6 Actuarial function* of this report.

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

Apart from the key functions, some companies' second line of defence includes a **risk management committee**. The Sava Re risk management committee is also responsible for the Group level. The committee includes the key representatives of the first line of defence with regard to the company's risk profile. The holders of other key functions of the risk management system are also invited to 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, Sava Infond and, since 22 January 2021, Vita has been outsourced to Sava Re, whereas the other companies have their own internal audit functions. The internal audit function operates at the individual company and Group levels completely independently of business operations and other functions. In the risk management system, the internal audit function is responsible for the independent analysis and verification of the effectiveness of risk management processes and internal controls in place.

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

B.3.2 Components of the risk management system

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

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

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

Risk strategy				
First line of defence | Risk management processes				
Pricing	Underwriting process	Underwriting limits	Investment policy and limits	Information and management reports
Second line of defence | Risk management processes			**Second line of defence | ORSA processes**	
Risk management function			Analysis of risk profile	
Risk management committee			Own assesment of solvency needs	
Risk reports			Continuous compliance	
Risk register			Projections	
Register of incidents			Stress test and scenario analysis	
Third line of defence				
Internal audit				

Risk strategy

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

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

The key areas that risk appetite is based on are:

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

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

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

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

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

Risk management processes

Risk management processes are inherently connected with and incorporated into the basic processes conducted at the individual company and Group levels. All organisational units are involved in risk management processes.

The main risk management processes are:

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

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

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

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

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

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

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

The Group thus measures risk by:

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

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

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

For the purpose of capital adequacy, Group companies and the Group examine, as early as in the business planning process, the impact of the business strategy on its capital position, both with regard to the regulator as well as with regard to the ORSA. If, during a financial year, decisions are taken that have a significant impact on the risk profile but have not been assessed in terms of risk during the business planning process, the company assesses the impact of such decisions on its risk profile and capital adequacy, and verifies compliance with the risk appetite.

If a business decision could have a significant impact also on the Group's risk profile, such impact on the Group's risk profile and capital adequacy is also assessed. If any business decision fails to comply with the risk appetite or any risk tolerance limit is exceeded, the company is required to document such deviation and take relevant action to resolve the situation.

Risk monitoring

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

Risk reporting

Regular risk reporting has been set up by most Group companies and at the Group level. Risk owners report on each category of risk to the risk management function, including a predetermined set of significant risk measures and qualitative information. Based on this, the risk management function in cooperation with risk managers prepares a risk report covering the risk profile of the Group or an individual company. The report is first discussed by the company's risk management committee (if the company has one), followed by the management and supervisory boards. The report is sent by the company's risk management function to the Group's risk management function.

Own Risk and Solvency Assessment (ORSA)

In addition to the mentioned risk management processes, the Group also conducts ORSA as defined in its own risk and solvency assessment policy. ORSA is a process that includes identification of the differences between the Group's risk profile and the assumptions of the Standard Formula, the own assessment of solvency needs, capital adequacy projections, stress tests and scenarios, and the establishment of the link between the risk profile and capital management. We conduct the ORSA to assess all material risks, whether quantifiable or not, that may have an impact on the operations of the Group or a Group company from either an economic or a regulatory perspective. ORSA is conducted by all Group companies subject to Solvency II and, to a limited extent, by some other insurance companies.

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

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

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

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

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

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

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 2020, the parent company carried out the regular annual review of its register of internal controls, whereas internal controls for risk mitigation as part of the risk register are assessed quarterly or annually (depending on individual risks) at the individual company and Group levels. In addition, a register of incidents is used for improving the internal control system. In 2020, the parent company conducted a review of certain key processes, including internal controls in place, laying down plans for further improvement in these internal controls.

B.4.2 Compliance function

The compliance function at the Group and individual company levels is one of the four key functions constituting the risk management system. The compliance function, being an internal control function, is part of the second line of defence in the risk management system consisting of three lines of defence. Its main duty is to manage the risks arising from non-compliance with the law. As a rule, it is an independent organisational unit, functionally and organisationally separate from other business functions of the company and reports directly to the management board. The Group's compliance function is organised as part of the parent's "Office of the management board and compliance" department. Although the compliance function is not organised as an independent organisational unit, it is ensured that the compliance function holder has direct access to the management board at all times. The compliance function holder also has other responsibilities; therefore, relevant internal measures have been taken by the company to avoid potential conflicts of interest for the function holder when acting as compliance function holder.

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

The chief duties of the compliance function holder are to:

- monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in compliance with regulations and other commitments;
- advise and assist in the coordination of the company's operations with the obligations imposed by regulations and other commitments;
- assess potential impacts of changes in the legal environment on the operations of the Company in terms of compliance with its regulations and other commitments, and report on them to the company's management, individual organisational units, and business and key functions;
- identify and assesses risks to the company's compliance with regulations and other commitments, and, if necessary, propose recommendations and guidelines for the management of compliance risk;
- inform the management and the supervisory boards of the company's compliance with regulations and other commitments, and the risk assessment regarding compliance with regulations and other commitments;
- coordinate with top management regarding compliance matters and offer consulting services to them;
- cooperate in exchanging compliance-related questions, best practices and experiences on the controlling company level with other control and supervision functions;
- participate in setting up and updating compliance programmes in certain separate areas, including internal controls for compliance of operations, taking into account the requirements and capacities of processes and resources available, according to the requirements of specific legislation or regulations, and factors of the broader business and professional environment (e.g. commitments assumed through contracts, declarations and other collective activities aimed at raising the standards of fair business in the broader environment);
- draft an annual compliance monitoring plan covering the identification and assessment of the main compliance risks that the company faces, coordinate it with the compliance function holder at the Group level, and submit it to the management and supervisory bodies;
- prepare periodic reports for submission to the company's

management and supervisory bodies, as well as to the compliance function holder at the Group level;

- draw up reports on findings related to individual compliance audits, submitting them to the company's management body;
- monitor 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 internal audit units, which report to the management board and are functionally and organisationally separate from other organisational units. Their organisational position ensures autonomy and independence of operation.

Pursuant to the Insurance Act and based on outsourcing agreements Sava Re d.d. has been performing, since 1 February 2018 and for an indefinite duration, the key functions of the internal audit of Zavarovalnica Sava and Sava Pokojninska. In 2019, Sava Re signed a contract – in compliance with the Investment Funds and Management Companies Act (ZISDU-3[16]) – with Sava Infond, under which the latter transferred the performance of the internal audit key function to Sava Re as of 1 January 2020, for an indefinite period. Pursuant to the Insurance Act, in January 2021, Sava Re concluded an outsourcing agreement with Vita, under which, on 22 January 2021, the latter transferred the performance of the key function of its internal audit to Sava Re for an indefinite period.

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

The chief responsibilities of the internal audit are to:

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

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

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

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

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

The internal audit department of the parent company provides guidance for a unified methodology for all the Group's internal audit functions, coordinates their work and drives the development of a unified methodology of work, supervising the quality of work of internal audit functions across the Group. Internal audit in the Group follows uniform procedures as laid down by the standards set out in the internal methodologic instructions on the operation of internal audit departments. In 2020, Group Internal Audit was introduced for the Slovenian part of the Group; in 2021, it was introduced for the entire Group. This will improve periodic monitoring of the development and quality of internal audit functions at subsidiaries, providing also the basis for issuing overall opinions of the effectiveness and efficiency of internal controls and risk management at the company and Group levels.

In accordance with the Group's corporate governance policy, the internal audit function of the parent company also ensures the inclusion of subsidiary companies in the scope of

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

operations in order to ensure the coverage of key risks at the Group level (also if internal auditing is set up in the subsidiary).

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

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

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

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

B.6 Actuarial function

The actuarial function is an administrative concept comprising all the persons performing actuarial tasks of the second line of defence as detailed later in this section. Actuarial function performers are employed in 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 Group's actuarial function holder for non-life business.

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

The chief tasks of the actuarial function of each individual Group company are to:

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

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

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

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

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 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 2020, individual Group companies outsourced some functions to non-Group providers, e.g. Zavarovalnica Sava outsourced its claims handling function. In 2020, the IT function outsourced cyber security to two external providers setting up a SOC[17] (24/7). Group companies use their own infrastructure and, for certain functions, such as security and secondary location, rent services with one Group company operating a central infrastructure.

Outsourcing of business or functions to Group contractors

Implementation of the internal audit function

Pursuant to the Insurance Act and based on outsourcing agreements Sava Re d.d. has been performing, since 1 February 2018 and for an indefinite duration, the key functions of the internal audit of Zavarovalnica Sava and Sava Pokojninska. In 2019, Sava Re signed a contract – in compliance with the Investment Funds and Management Companies Act (ZISDU-3[18]) – with Sava Infond, under which the latter transferred the performance of the internal audit key function to Sava Re as of 1 January 2020, for an indefinite period. Pursuant to the Insurance Act, in January 2021, Sava Re concluded an outsourcing agreement with Vita, under which, on 22 January 2021, the latter transferred the performance of the key function of its internal audit to Sava Re for an indefinite period.

Implementation of the information technology function

As of 1 February 2019, the performance of IT system and telecommunication services of Sava Pokojninska Družba has been outsourced to Zavarovalnica Sava for an indefinite period.

As of 18 February 2020, the performance of the IT system, telecommunication and information management services of Sava Infond were also transferred to Sava Re, for an indefinite time.

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

Outsourcing of business or functions to non-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.

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

As of 31 August 2020, Sava Infond outsourced its IT system

17 Security Operations Centre.

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

support and computer equipment maintenance services to LANcom d.o.o., Tržaška 63, Maribor, Slovenia, for an indefinite time.

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

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

As of 30 March 2020, Vita outsourced its insurance product distribution function to NLB d.d., Trg Republike 2, 1000 Ljubljana, Slovenia, for an indefinite time.

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

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

B.8 Any other information

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

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

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

The report of the internal audit department on the audit review of corporate governance carried out in January 2018 also 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. All large subsidiaries completed corporate governance audits within a three-year cycle. The internal audit department is planning a corporate governance audit at the Group level in 2022.

C
Group risk profile

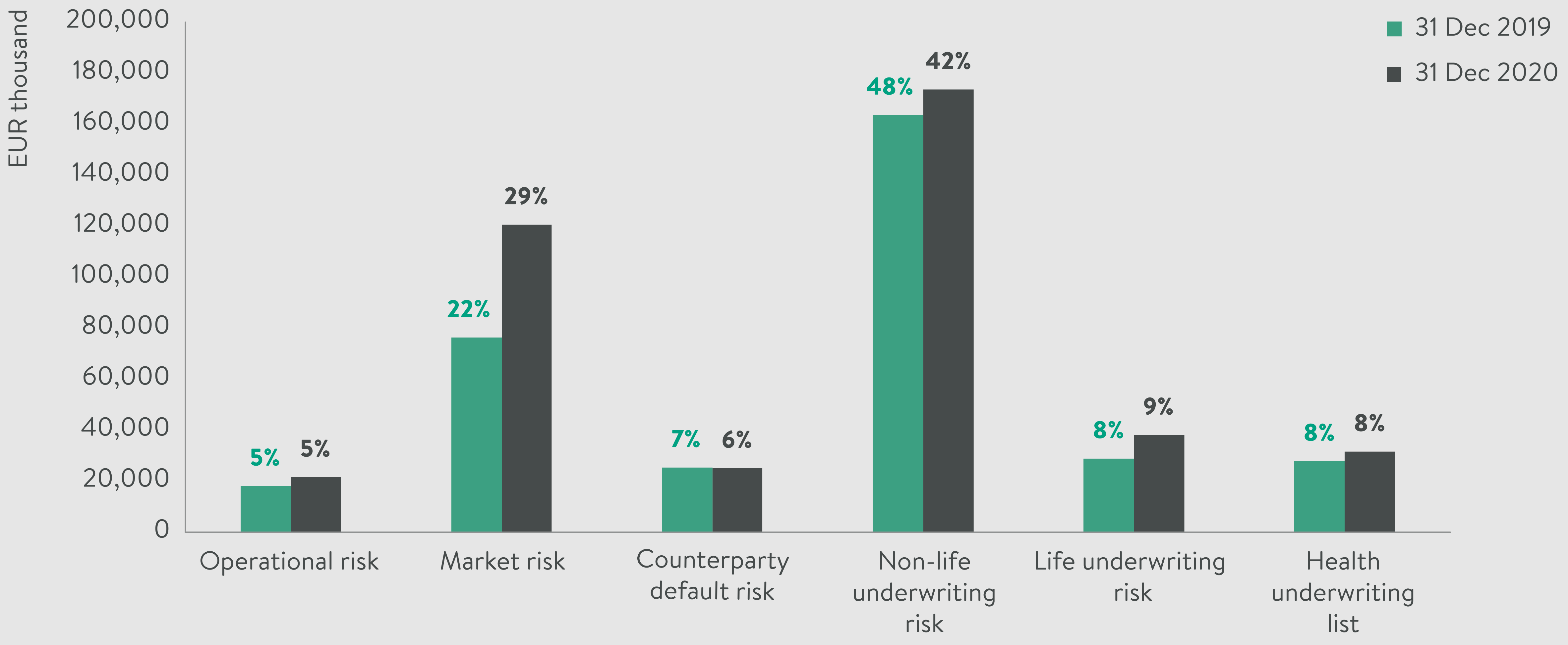
In the course of its operation, the Group is exposed to various risks. These are identified, measured, managed, monitored, and reported on in accordance with the processes described in section *B.3 Risk management system* including the own risk and solvency assessment. The main risk categories that the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

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

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

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

Undiversified SCR by risk module[19]



** The percentages given for 2019 differ from those provided in the 2019 Group SFCR. In the 2019 Group SFCR, we calculated the share of each module as a percentage of all risks excluding operational risk; in contrast, in this graph operational risk is included in the sum of all risks.*

The Group's main risks in line with the Standard Formula are non-life underwriting and market risks; other risk categories are small. In 2020, non-life underwriting risk chiefly increased on account of portfolio growth and strengthened technical provisions; market risk grew as the result of Vita's inclusion in the Group and a somewhat changed asset allocation in the investment portfolio. Life and health underwriting risks, too, increased in 2020, chiefly as the result of Vita's inclusion in the Group.

In line with the Standard Formula, the Group SCR by risk module also includes the capital requirement for financial institutions treated in accordance with relevant sectoral regulations (Sava Pokojninska Družba and Sava Infond) and the capital requirement for other Group companies (Sava Penzisko Društvo and the associates ZTSR and G2I). The capital requirement for residual undertakings increased by EUR 3.7 million as at 31 December 2020 compared to 31 December 2019, as the result of the recapitalisation of the company ZTSR.

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

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

There has been an increase in certain risks due to Covid-19. We have been operating in exceptional circumstances for almost a year and have obtained a better understanding of the risk than at the onset of the pandemic. We identify, monitor, analyse and manage risks on a regular basis. We believe that these risks are well managed by the Group. Below, we set out potential Covid-19-related risks:

- We do not expect that Covid-19 will have a significant negative impact on non-life insurance risks, whereas in some cases, as is evident from section *A.1 Business*, Covid-19 even had a positive impact on the exposure to such risks. We estimate there may be an increase of insurance claims, primarily on business interruption (re)insurance policies. Exposure to the risk of such claims has increased primarily due to case law in certain countries.
- As far as life underwriting risk is concerned, we do not expect Covid-19 to materially increase mortality risk. There is a risk of modestly elevated lapse/surrender rates and higher costs per policy if the new sales plan is not achieved. The risk of underwriting fewer new policies has increased because life insurance is more sensitive to changes in macroeconomic conditions and the population's purchasing power.
- Regarding counterparty risk, certain counterparties may have their credit ratings downgraded or may default on payments due.
- Market risk remains high, despite prompt reactions from central banks across the world. In 2021, we expect increased credit and interest rate risk. We expect these increased credit risks will result in lower credit ratings for commercial issuers, especially in industries that were significantly hurt by lockdowns (e.g. tourism, services). We see the increased interest risk primarily as a risk that the recession will delay the expected normalisation of market interest rates. Should the current optimistic investor view on the outcome of the Covid-19 crisis change, we could see another widening of credit spreads on corporate bonds and downgrading of debt securities. There was also an increased volatility in securities markets due to Covid-19.
- Liquidity risks remain slightly elevated due to the situation, but are still low and well managed.
- Strategic risks remain slightly elevated due to the uncertain situation.
- The Group's operational risks resulting from Covid-19 are well managed.

Cyber risks increased; however, they are well managed due to increased cyber security. A number of measures have already been introduced in this area that will enable us to detect attacks on and malicious activities against the Group's IT systems.

Covid-19 related uncertainty persists in 2021, as it is impossible to assess how long measures for the containment of the spread in Europe will last, and how much of an adverse impact they will have on the economy. We expect that the slower economic growth and ongoing measures restricting movement will impact the Group's business. However, based on the above-listed risks, we do not expect that they will in any way compromise the Group's solvency because risks are well managed and the solvency ratio is high.

C.1 Underwriting risk

Underwriting risk arises from the Group's (re)insurance activities, i.e. the underwriting of (re)insurance contracts, and execution of (re)insurance contracts and transactions directly related to (re)insurance activities. It relates to the risks covered under (re)insurance contracts and associated processes, and arises from the uncertainty related to the occurrence, scope and timing of obligations.

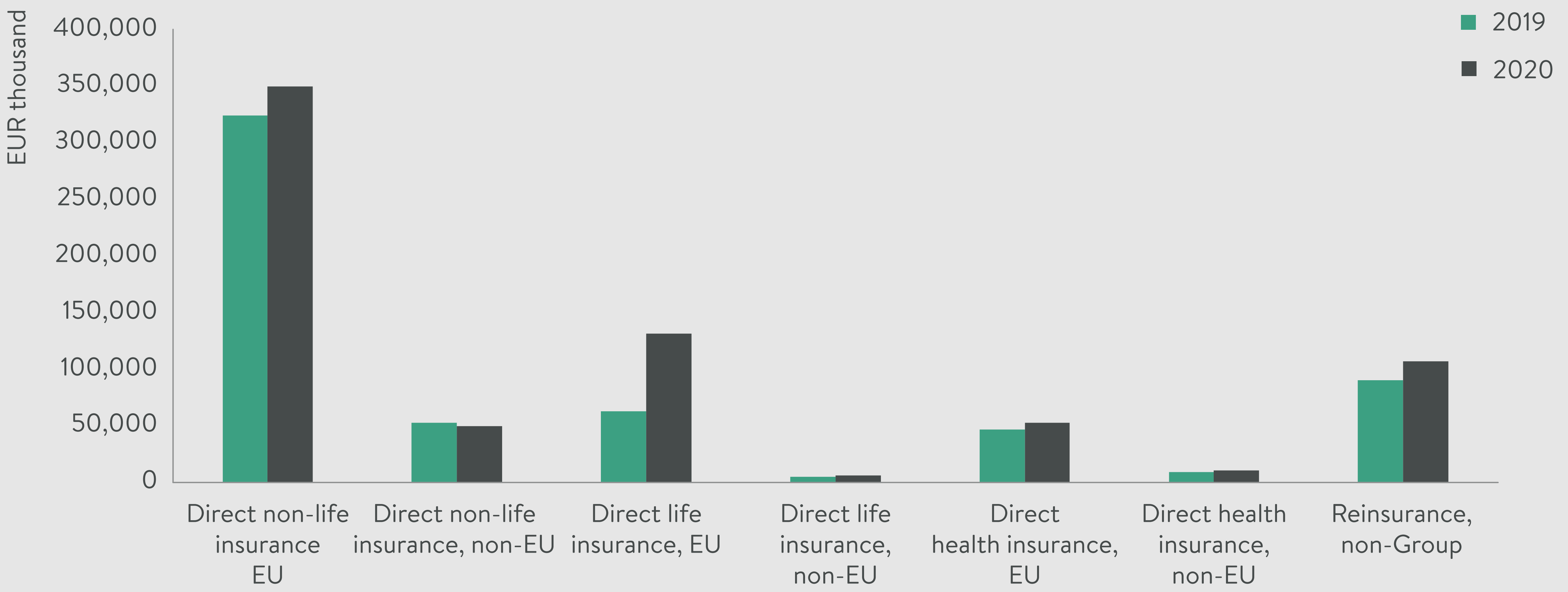
Underwriting risk is generally divided into:

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

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

The following chart shows gross premiums written by line of business, separately for EU-based and non-EU based Group companies. The volume of life and health business written in the EU increased after Vita was included in the Group, which resulted in some change in the breakdown of gross premiums written in 2020.

Breakdown of Group gross premiums written

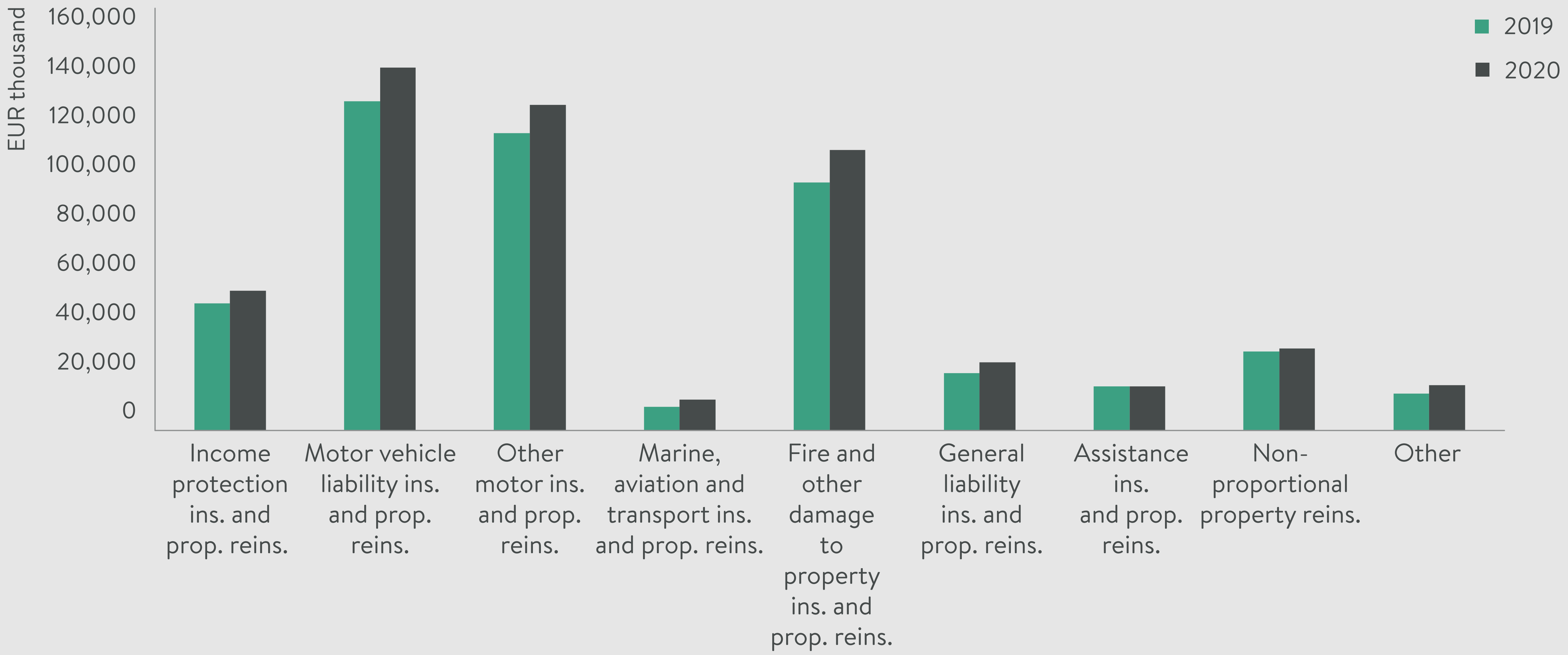


C.1.1 Non-life underwriting risk

Risk exposure

The following graph shows net non-life insurance premiums earned by material line of business. The breakdown of the Group's net non-life premiums earned in 2020 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,
  - pricing risk, and
  - risk of unexpected increase in claims.

  Given the Group's portfolio composition, the largest contributors to premium risk include motor vehicle and property (re)insurance (fire and other damage to property, including associated business interruption insurance).
- **Reserve risk** is the risk that either technical provisions are insufficient to meet the obligations arising from (re)insurance contracts due to inadequate methods, inappropriate, incomplete and inaccurate data, inefficient procedures and controls or inadequate expert judgement, or misreporting, resulting in unreliable information about a company's financial position. These include:
  - the risk of data availability and accuracy,
  - the risk of adequacy of methods and assumptions used,
  - the risk of a calculation error,
  - the risk of complex tools used in processes yielding misleading results.

  Similar to premium risk, the bulk of reserve risk arises from motor and property business (fire and other damage to property, including associated business interruption insurance), with the largest best estimate provisions owing to the Group's traditional focus on such business.
- **Catastrophe risk** includes the risk of occurrence of a catastrophic event; such events are rare but their financial impact is too high to simply be covered by otherwise

appropriate premiums and provisions. Catastrophe risk may materialise as an extreme event or a large number of catastrophic events in a short period. The risk also includes an excessive geographical accumulation of risks. The Group's portfolio is geographically relatively well diversified, with risks being slightly more concentrated in Slovenia, which is further addressed by means of the retrocession programme. The capital requirement is relatively high for non-life catastrophe risk because of the aggregation of a large number of such requirements for various smaller natural perils and regions and various man-made catastrophic events.

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

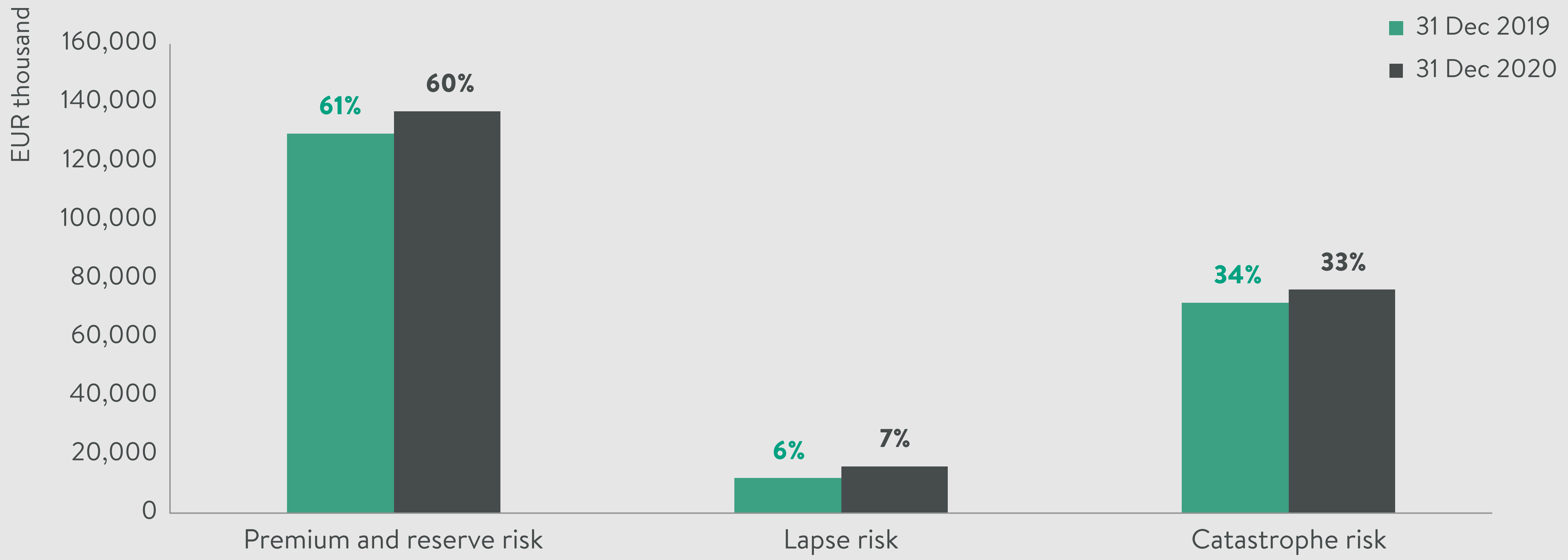
Other underwriting risks, such as economic environment risk and policyholder behaviour risk, may be relevant, but their effect is already indirectly accounted for in the above non-life underwriting risk.

Risk measurement

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

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

Undiversified non-life underwriting risk by risk sub-module[20]



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

According to the Standard Formula, the Group was exposed to non-life underwriting risk in the amount of EUR 173.6 million as at 31 December 2020 (31 December 2019: EUR 163.6 million). The capital requirement for non-life underwriting risk accounted for 42.3% of the total SCR of all risk modules (31 December 2019: 48.1%). Premium and reserve risks, followed by catastrophe risk, represented the largest portion of the undiversified non-life underwriting risk. Lapse risk for non-life business was relatively low.

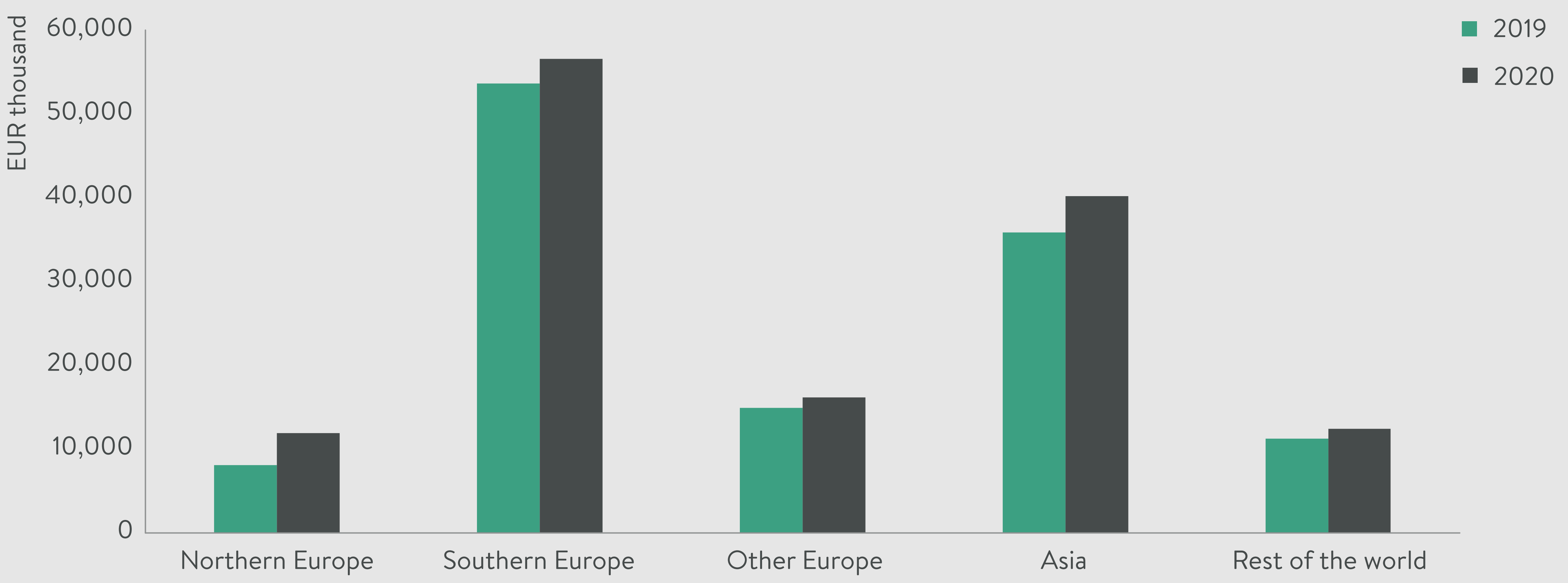
As at 31 December 2020, the non-life underwriting risk module increased, chiefly because of the increase in the premium and reserve risk sub-module as the result of a rise in best estimate provisions set aside for FoS claims and Covid-19-related claims in Anglo-Saxon markets as well as due to premium growth. There was also an increase in the catastrophe risk sub-module, chiefly due to a larger volume of business. There was also a minor increase in the lapse risk sub-module owing to larger future expected profits.

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

Risk concentration

The following graph shows a breakdown of net premiums earned relating to fire and other damage to property insurance and proportional reinsurance, and to proportional and non-proportional property reinsurance business by region. Most of this income is sourced from South Europe, where the Group's direct insurance companies operate; exposure to Slovenia is predominant. The diversification remains at a similar level to 2019.

Net premiums earned relating to property (re)insurance



Risk management

The Group manages underwriting risk through:

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

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

In addition to the above, the Group analyses the impact of various stress tests on the level of risk. In the calculation as at 31 December 2020, we tested the impact of **an increase in the volume measure for the premium risk** of non-life and not-similar-to-life-technique health insurance business (hereinafter: NSLT health insurance) **of 10%** on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 4.4 p.p. decrease in the solvency ratio (31 December 2019: 6.3 p.p.).

We also analysed the impact of a **10% increase in the volume measure for the reserving risk of non-life and NSLT health insurance** on the level of premium and reserving risk, and on the overall SCR. A 10% increase in the reserving volume measure would result in a 2.9 p.p. decrease in the solvency ratio (31 December 2019: 3.6 p.p.).

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 December 2019	**521,975**		**237,652**		**220%**	
Increase in volume measure for premium risk of non-life and NSLT health insurance	521,975	0	244,642	6,989	213%	-6 p.p.
Increase in volume measure for 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 December 2020	**567,780**		**287,432**		**198%**	
Increase in volume measure for premium risk of non-life and NSLT health insurance	567,780	0	293,962	6,530	193%	-4 p.p.
Increase in volume measure for reserving risk of non-life and NSLT health insurance	567,780	0	291,771	4,339	195%	-3 p.p.

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

The Group monitors claims risk through in-depth assessments of underwriting process risk, by restricting the authorisations in the underwriting process, and by developing IT support that allows an accurate overview of claims accumulation. For accepted reinsurance, this risk, too, can be managed by means of special clauses in proportional reinsurance contracts, which limit the reinsurer's share of unexpected claims, and by not accepting unlimited layers under non-proportional contracts. Also central to reducing this risk is the annual testing of the appropriateness of reinsurance protection by using a variety of stress tests and scenarios, and setting appropriate retentions.

Reserve risk

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

By documenting and understanding such a process, the Group can identify and describe potential risks, such as 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 Group and non-Group accepted reinsurance. Before the non-proportional protection is triggered, the Slovenian portfolio is protected by proportional covers: a surplus cover providing protection at the level of individual risks (including PML error), and an earthquake quota share cover. This means that if a major event occurs, the Group will suffer a loss equal, at most, to the amount of the priority of the catastrophe excess-of-loss cover plus a reinstatement premium. If the Group makes additional use of the coverage, it is subject to provisions concerning reinstatements, meaning that it would purchase protection for the remaining period of cover. This is a common instrument available in the international reinsurance market at a price that is usually lower than the original cover due to the shorter coverage period. The portfolio is further protected against the risk of a larger frequency of natural catastrophes in Slovenia by an aggregate excess-of-loss cover; therefore, if several events exceed the Group's priority in a year, the Group will suffer a loss lower than the sum of all priorities. The non-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 1000 years (including default of lead retrocessionaire), a Kyrill-type hurricane (2007), an Andrew-type hurricane (1990), an earthquake in China, an earthquake in Turkey, the scenario of three catastrophic events in Slovenia in one year (two hail storms and one flood), the impact of two hurricane events in the Caribbean as in 2017 and a scenario of two major Japanese typhoons occurring in one year. As part of man-made disasters, we tested a scenario of terrorist attacks in France. In each of these cases, Group eligible own funds would be impacted by the amount of the claim payment, which would also have an effect on the profit or loss for the year (in which the event happened); nevertheless, the Group would maintain a large surplus of eligible own funds over the SCR. The Group's solvency ratio would remain within the optimal range thanks to reinsurance coverage in place to protect against such events. We are aware that some of these events (e.g. an earthquake in Ljubljana) can have a number of other direct effects on the business, which is why the Group also manages such risks through designing business continuity plans, which include modes and measures for operating in emergency situations.

C.1.2 Life underwriting risk

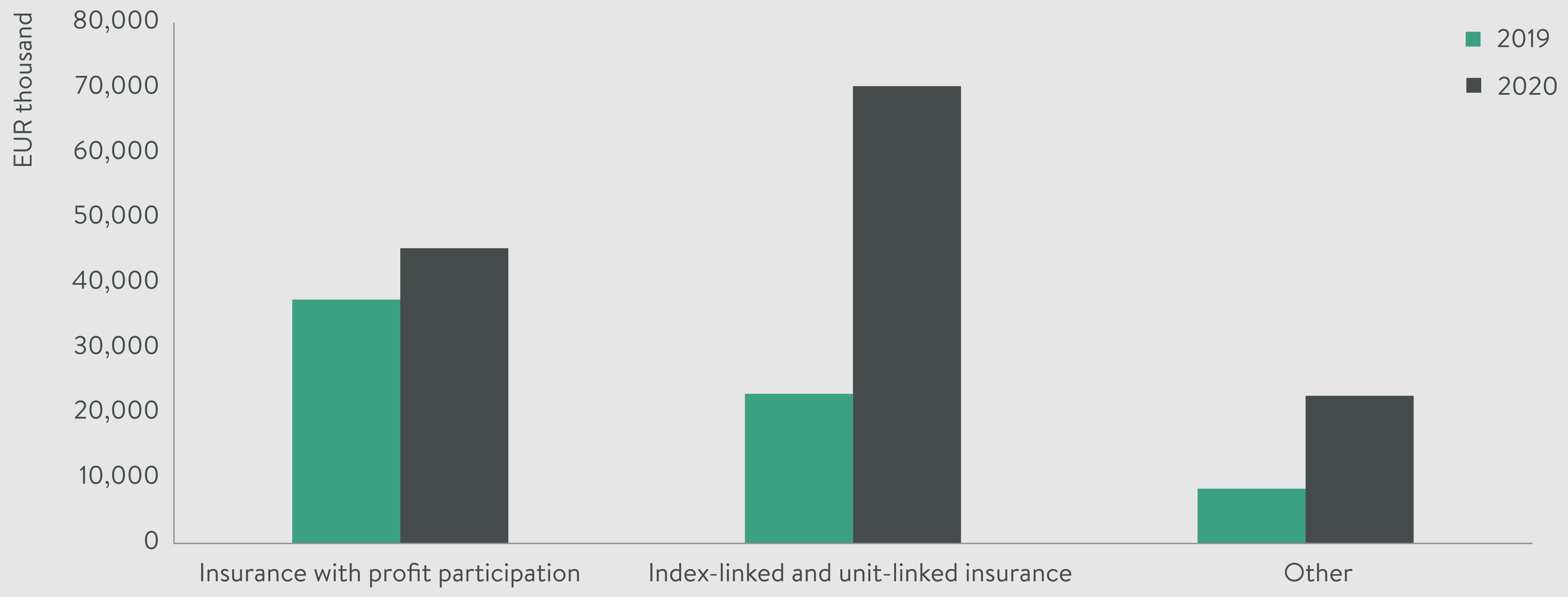
The main life underwriting risks are:

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

Risk exposure

The Group is moderately exposed to life underwriting risk. The Group's main exposure to life underwriting risk is in the European Union. Vita's inclusion in the Group resulted in an increased volume of life business, especially index- and unit-linked business, which significantly changed the composition of the Group's net life insurance premiums earned in 2020. The largest share of 2020 consolidated net life insurance premiums earned no longer relates to business with profit participation but to index- and unit-linked business.

Consolidated net premiums earned by material line of business



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

Lapse risk is the risk of an increase or decrease in lapse rates (rate of early termination of contracts) due to surrenders, conversions to paid-up status or premium default. Risk levels depend on the use of adequate statistics, 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.

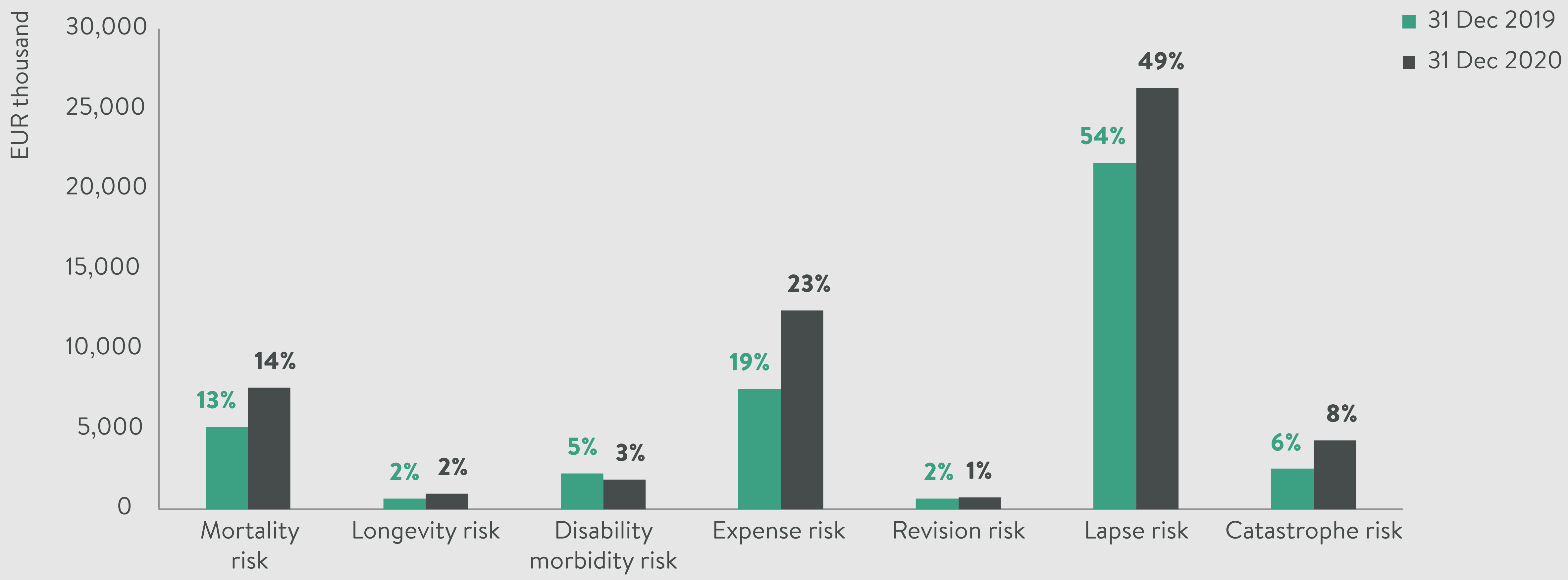
Mortality risk is the risk that the actual mortality of insured persons will turn out to be greater than projected in mortality tables used during premium pricing. Risk levels depend on the use of adequate statistics and identification of insured persons with an increased mortality risk due to health 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 Standard Formula. According to the Standard Formula, the exposure to life underwriting risk totalled EUR 38.2 million as at 31 December 2020 (31 December 2019: EUR 28.8 million). The capital requirement for life underwriting risk represented 9.3% (31 December 2019: 8.5%) of the total SCR of all risk modules. As at 31 December 2020, life underwriting risk rose compared to 31 December 2019, chiefly because of Vita's inclusion in the Group. Lapse risk, specifically mass lapse risk, represented the largest proportion of the Group's undiversified life underwriting risk. Mortality risk and expense risk are also important risk categories, which, similar to lapse risk, increased as at 31 December 2020 compared to 31 December 2019, chiefly because of Vita's inclusion in the Group, whereas the updating of other valuation assumptions also had an upward effect. Other life underwriting risks of the Group are rather small. A comparison of risks is provided in the following breakdown of undiversified risk by life underwriting risk sub-module. The share of each risk sub-module is expressed as a percentage of the total of all life underwriting risk sub-modules.

Undiversified life underwriting risk by risk sub-module[21]



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

Risk concentration

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

Risk management

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

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

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

Life underwriting risks are also managed by 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

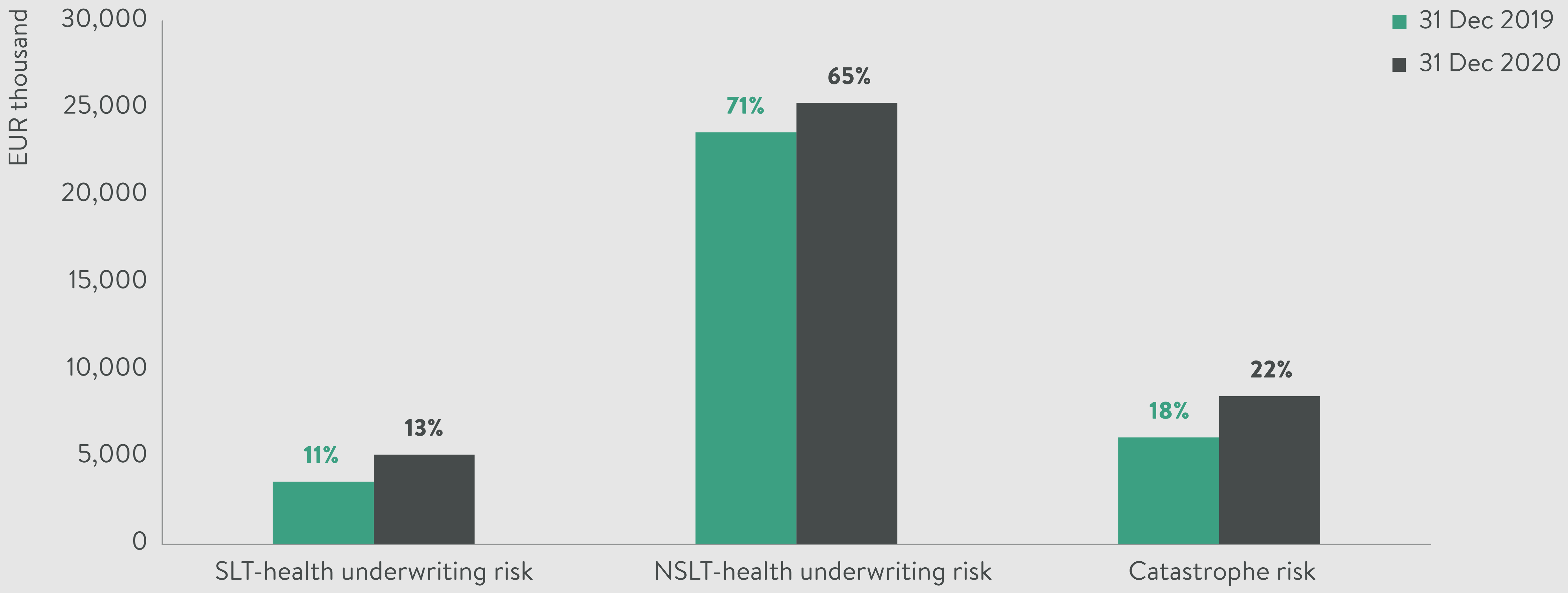
21 The proportion of each risk sub-module is calculated as a percentage of the total of all risk sub-modules.

report, and are as such managed by the Group using similar techniques, i.e. by means of a well-designed underwriting process, the control of risk concentration for accident and health insurance products, and an adequate reinsurance protection.

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

The Group makes quantitative assessments of health underwriting risk using the Standard Formula. According to the Standard Formula, the exposure to life underwriting risk totalled EUR 31.6 million as at 31 December 2020 (31 December 2019: EUR 27.9 million) or 7.7% (31 December 2019: 8.2%) of the total SCR of all risk modules. The level of risk under the Standard Formula increased modestly compared to 31 December 2019, chiefly because of Vita's inclusion in the Group. This resulted in increases in the NSLT health and catastrophe risk sub-modules. SLT health underwriting risk increased in 2020 because of a change in morbidity assumptions as insurance contracts are assessed as more profitable, resulting in a higher capital requirement for lapse risk. As at 31 December 2020, the majority of this requirement was also associated with NSLT health underwriting risk, notably premium and reserve risk. The following graph shows the Group's health underwriting risk under the Standard Formula. The share of each risk sub-module is expressed as a percentage of the total of all health underwriting risk sub-modules.

Undiversified health underwriting risk by risk sub-module[22]



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

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

C.2 Market risk

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

Market risks include the following:

- **Interest rate risk** is the risk of a change in market interest rates adversely affecting the value of interest-rate-sensitive assets and liabilities. Interest-rate-sensitive investments include bonds, deposits, loans, and bond and mixed mutual funds. Interest-rate-sensitive liabilities mainly include technical provisions and subordinated debt. When calculating capital requirements for interest rate risk, the amount of interest-rate-sensitive assets is considered on the assets side, whereas the best estimate technical provisions, 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 results 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. This risk affects own-use property, investment property and real-estate funds.
- **Currency risk** is the risk of a drop in the value of assets or increase in the level of liabilities due to changes in the level of foreign currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. This risk affects bonds, deposits, loans, and bond and mixed mutual funds.
- **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)[23]

EUR thousand	31 December 2020	As % of total at 31 December 2020	31 December 2019	As % of total at 31 December 2019
Asset class				
Bonds	**1,337,777**	**71%**	**998,796**	**75%**
Government bonds	699,487	37%	574,072	43%
Corporate bonds	638,290	34%	424,723	32%
Structured notes	0	0%	0	0%
Investment funds	**83,358**	**4%**	**59,186**	**4%**
Deposits	**29,544**	**2%**	**48,771**	**4%**
Equity investments	**37,070**	**2%**	**17,504**	**1%**
Shares – listed	35,241	2%	15,355	1%
Shares – unlisted	1,828	0%	2,149	0%
Property	**74,394**	**4%**	**76,216**	**6%**
Own-use property	57,088	3%	58,656	4%
Other property	17,306	1%	17,560	1%
Loans and mortgages	**2,120**	**0%**	**1,203**	**0%**
Investments of policyholders who bear the investment risk	**325,417**	**17%**	**126,438**	**10%**
Total	**1,889,679**	**100%**	**1,328,113**	**100%**

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

The value of assets included in the calculation of market risk was EUR 1,889.7 million as at 31 December 2020 (31 December 2019: EUR 1,328.1 million). The increase in portfolio investments in 2020 mainly reflects Vita's inclusion in the Group and the parent's non-payment of dividends. Their composition shows that the bulk of the Group's financial investments consists of fixed-rate financial instruments. In addition to portfolio investments, the calculation involves investments of policyholders who bear the investment risk and the related obligations arising from these contracts. The increase as at 31 December 2020 mainly reflects Vita's inclusion in the Group.

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

Undiversified market risk by risk sub-module[24]

The solvency capital requirement for the Group's market risk calculated using the Standard Formula amounted to EUR 120.6 million as at 31 December 2020 (31 December 2019: EUR 76.4 million, representing 29.4% of the total SCR of all risk modules (31 December 2019: 22.5%). In 2020, the increase in the SCR for market risk was primarily impacted by Vita's inclusion in the Group. The increase in property risk also reflects a larger exposure to real-estate funds. The composition of market risk as at 31 December 2020 changed modestly compared to 31 December 2019: there was an increase in spread risk and equity risk, with spread risk still contributing the largest proportion of the risk.

Interest rate risk accounted for 3% of the total undiversified capital requirement for market risk. Interest rate remained at the same level as at 31 December 2019.

Equity risk accounted for 22% of the total undiversified market risk and remained largely unchanged compared to 31 December 2019. 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, a shock has a different impact on the level of assets and liabilities, resulting in a mismatch between assets and liabilities in the calculation of equity risk, which leads to an additional capital requirement. The increase in equity risk in 2020 chiefly reflects the inclusion of Vita in the Group (an increase in the value of the Group's direct equity investments and an increase in the value of assets of policyholders who bear the investment risk) and larger 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 at the Group

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

level. The risk mainly relates to property held for own use. Due to the high capital add-on for property risk under the Standard Formula, this risk represents 16% of total undiversified market risk. Most of the increase in risk between 31 December 2020 and 31 December 2019 derives from larger investments in real-estate funds.

Spread risk is the largest market risk, accounting for 47% 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 2019, the risk increased primarily because of Vita's inclusion in the Group and growth in the fixed-rate portfolios of other Group companies.

Currency risk represents 13% 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, Group companies established outside the euro area and the look-through approach. Despite the considerable currency match between IFRS assets and liabilities, there is a minor currency mismatch under Solvency II due to differences in the valuation of technical provisions under IFRS and Solvency II, and capital of Group companies not denominated in euros. Most of the increase in this risk at 31 December 2020 compared to 31 December 2019 derives from assets of policyholders who bear the investment risk.

Market risk concentration is nil as at both 31 December 2019 and 31 December 2020.

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

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

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

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

In addition to the Standard Formula, the Group uses its own solvency model to monitor and assess market risk. The own model only considers financial investments, excluding assets of policyholders who bear the investment risk. These are taken into account like in the Standard Formula. In our own calculation of risk, we assess the following financial risks: equity risk, interest rate risk and credit risk of financial investments. The valuation of equities is conducted by using the capital asset pricing model (CAPM), where, for each equity instrument, a stock index is determined representing market return in the model (relevant economic scenario generators are used as a basis). The own model takes into account all marketable equity securities sufficiently liquid to allow a sufficiently accurate estimation of model parameters using historic data. For other investments, the stresses prescribed by the Standard Formula are used. The own assessment considers interest rate risk of all assets and liabilities. To this end, each currency representing a relatively small proportion of the portfolio is translated into a modelled currency with which it had the most stable exchange rate over the past five-year period.[25] The own model also supports the assessment of credit risk of financial investments, which also captures 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 largest regional concentration is in the EU Member States. The Group's highest single issuer concentration arises from the Republic of Slovenia. Aware of this concentration risk, the Group actively manages it by lowering the maximum exposure limit set in the internal limit system.

C.2.4 Risk management

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

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

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

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

The Group manages and monitors market risk taking into account:

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

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

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

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

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

Individual Group companies manage currency mismatches through currency overlay and based on IFRS liabilities. The monitoring and management of currency risk is presented in greater detail in the Group's annual report, section 17.6.4.2.1.3 "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, region and credit rating. Thus, the Group prevents large concentrations within the investment portfolio, and limits any related risk. The Group's portfolio, broken down by these parameters and by rating, is shown in the 2020 annual report of the Sava Insurance Group and Sava Re d.d. in section 17.6.4.2.3 "Credit risk".

In addition, the Group carried out three stress tests on market risk, applying various parameters that affect the level of the solvency capital requirement for market risk and the level of the Group's eligible own funds, and consequently its solvency position. The following table 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 December 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 December 2020	**567,780**		**287,432**		**198%**	
Increase in interest rates of 100 basis points	562,640	-5,140	284,596	-2,835	198%	0 p.p.
Decrease in interest rates of 100 basis points	564,872	-2,908	291,995	4,563	193%	-4 p.p.
Fall in value of equity securities of 20%	556,917	-10,864	284,817	-2,615	196%	-2 p.p.
Decrease in value of property of 25%	548,645	-19,135	284,444	-2,988	193%	-5 p.p.

The first sensitivity 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 SCR for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points resulted in a decrease in the Group's eligible own funds, 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 2019. 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 impact on the Group's solvency ratio increased modestly compared to 2019, but remained small.

We also tested the sensitivity to a **fall in the value of the Group's equity securities**. The test involved a 20% drop in the value of equities at the reporting date. We also evaluated the impact of this change on best estimate provisions, which depends on the level of investments. We calculated the impact of the stress test on the Group's eligible own funds and the SCR. The stress test resulted in a decline in both the Group eligible own funds and the Group SCR, whereas the impact on the Group's solvency ratio remained very small despite the increase compared to 2019.

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 was a drop in the capital requirements of the property risk and currency risk sub-modules. Because eligible own funds decline in line with the Group SCR, the impact of the stress test on the Group's solvency ratio is minor and similar to that at 31 December 2019.

In addition to stress tests, the Group considered a number of scenarios and their impact on its operations and solvency position in the ORSA. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, and taking into account their probability of occurrence. As part of the assessment of market risk, we tested a **financial crisis** scenario that involved a strong deterioration in economic conditions, assuming a change in interest rates, credit 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.[26] 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. We also tested an **inflation scenario**, simulating an inflation shock (a 4 p.p. increase in inflation rate, approaching inflation targets over the next years). We calculated the impact on eligible own funds and the Group SCR. The scenario would result in a material fall in the Group's eligible own funds and a marginal drop in the Group SCR. Such a scenario would consequently have a material impact on the Group's solvency ratio, but it would not compromise the Group's solvency owing to the Group's high solvency ratio.

Prudent person principle

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

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

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

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

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

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

26 The materiality threshold is an internal measure linked to the level of the Group's eligible own funds and SCR. The Group's materiality threshold is EUR 11 million based on a calculation as at 31 December 2020.

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 section *C.2 Market risk*, in accordance with the risk classification and measurement under the Standard Formula. Later in this section, we provide details regarding counterparty default risk.

Counterparty default risk includes losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the next twelve months. This risk covers risk-mitigating contracts, such as reinsurance contracts, receivables, as well as other credit exposures not covered in the spread risk sub-module of the Standard Formula (cash and cash equivalents and deposits to cedants). Receivables-related credit risk arises from delays in the payment of receivables arising from the Group's primary insurance and accepted reinsurance business, and in the payment of recourse receivables. To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue receivables. Therefore, the Group's exposure to counterparty default risk is low.

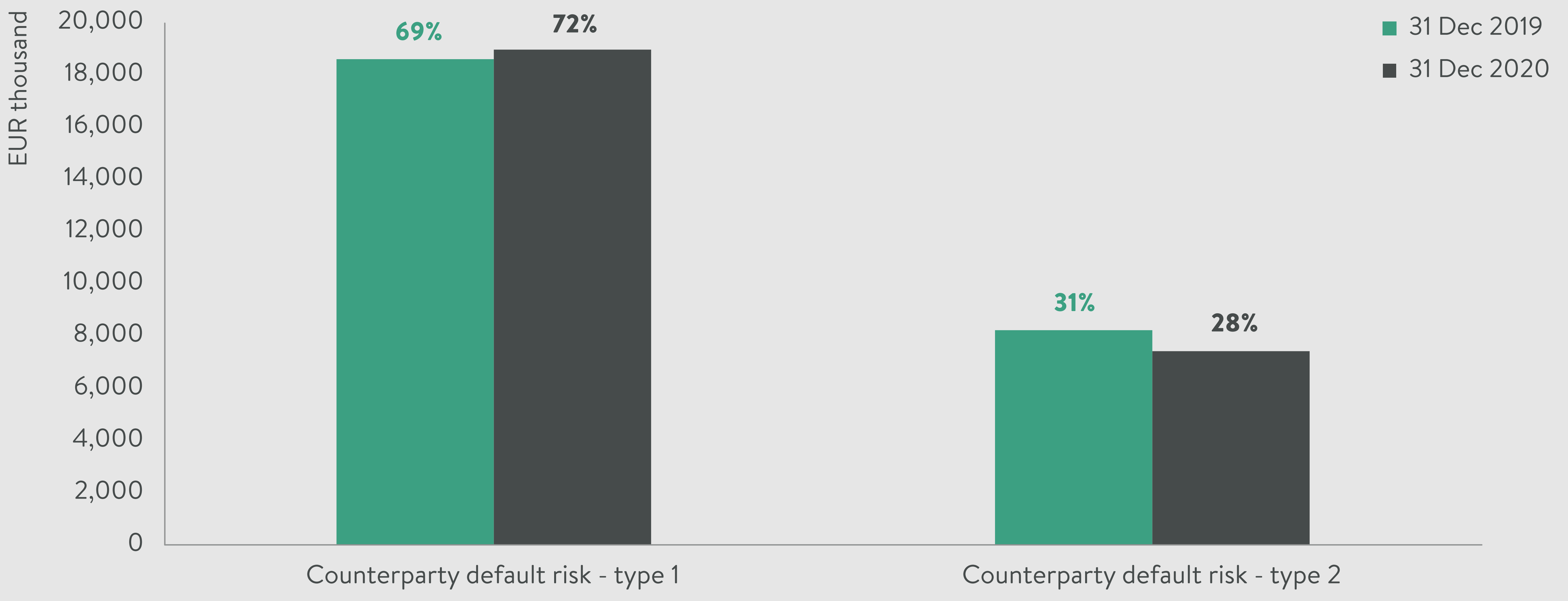
C.3.2 Risk measurement

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

The Group's solvency capital requirement in accordance with the Standard Formula for counterparty default risk amounted to EUR 25.0 million as at 31 December 2020 (31 December 2019: EUR 25.4 million) or 6.1% (31 December 2019: 7.5%) of the total SCR of all risk modules. The risk as at 31 December 2020 has remained at a similar level to 31 December 2019.

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

Undiversified counterparty default risk by risk sub-module[27]



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

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 of the Solvency II balance sheet not included under type 1 exposure other than 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 and discussed as part of market risk. As regards counterparty default risk related to reinsurers and co-insurers, and deposits to cedants, we believe that the Standard Formula appropriately evaluates the risk and, therefore, made no own calculations for this part. We believe that counterparty default risk related to cash and cash equivalents is manageable, which is why we use a zero capital requirement for them in the ORSA. In our own credit risk calculation, we also consider the diversification effect.

C.3.3 Risk concentration

The Group has no significant concentration with counterparty default risk.

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 parent company. Exceptionally, if so required by local regulations, they buy reinsurance from providers of assistance services and local reinsurers. In such cases, local reinsurers transfer the risk to Sava Re, so that the actual exposure to counterparty default risk arising from assets under reinsurance contracts is low.

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

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

In its review of reinsurer credit ratings as part of the capital adequacy calculation, the Group tested the impact of a one-notch **deterioration in reinsurer credit standing**. Calculations were made using reinsurers' credit ratings and exposures to them on the reporting date. The stress test results in increased capital requirements for the counterparty default risk sub-module and, via minority interests, it increases the Group's eligible own funds. The following table 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 December 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 December 2020	**567,780**		**287,432**		**198%**	
Downgrade in reinsurers' credit ratings	567,781	1	288,363	931	197%	-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 at a similar level to 31 December 2019.

C.4 Liquidity risk

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

C.4.1 Risk exposure

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

C.4.2 Risk measurement

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

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

- cash in bank accounts,
- highly liquid assets as a percentage of total financial investments (the non-EU based companies monitor a similar ratio),
- liquidity buffer,
- the difference between the projected cash outflows and inflows for the next quarter, and the percentage of the liquidity buffer represented by this difference,
- any other legally required measures.

C.4.3 Risk concentration

The Group is not exposed to a concentration of liquidity risk, but may, due to the nature of the business, in certain cases still face certain emergency liquidity needs.

C.4.4 Risk management

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

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

Group companies conduct assessments of normal current liquidity requirements within a period of up to one year based on projected three-month and weekly cash flows, which take account of the planned investment maturity dynamics and of other inflows and outflows from operations by using historical data from previous monthly and weekly liquidity plans and expectations regarding future performance.

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, the Group's EU-based insurers maintain liquidity buffers of highly liquid assets accounting for at least 20% of their investment portfolios (category L1A under the ECB methodology, investments in US government bonds, government and supranational issuers rated AAA and AA+, cash and cash equivalents, and money market funds to manage UCITS).[28] Other Group companies use cash in bank accounts and short-term deposits as short-term assets for ensuring liquidity. As at 31 December 2020, the EU-based Group insurers held a level of highly liquid assets significantly exceeding the 20% requirement set in the risk strategy: Zavarovalnica Sava 41%, Vita 35% and Sava Re 46%. Extreme liquidity requirements of Group companies not based in Slovenia are attended to by the parent company, since these represent less than 5% of the Group's liquidity.

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

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

C.4.5 Expected profits included in future premiums

Expected profits included in future premiums (hereinafter: EPIFP) that the Group, in accordance with article 260(2) of the Delegated Regulation, calculated as the difference between technical provisions without a risk margin calculated in accordance with Solvency II and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance

28 Undertaking for collective investment in transferable securities.

and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. In the latter calculation, a 100% policy lapse rate is assumed, and for life insurance, all policies are treated as paid-up.

The table below shows EPIFP for the Group's non-life and life business. The EPIFP increased compared to 31 December 2019.

EPIFP – life and non-life business

EUR thousand	31 December 2019	31 December 2020
Non-life business	16,969	25,922
Life business	41,738	103,786
Total	**58,707**	**129,708**

C.5 Operational risk

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

C.5.1 Risk exposure

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

- risk associated with the computer and communication system,
- 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,
- risk of inadequate communication,
- risks associated with clients, products and business practices,
- 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.

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

C.5.2 Risk measurement

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

As at 31 December 2020, the solvency capital requirement for operational risk under the Standard Formula amounted to EUR 21.6 million (31 December 2019: EUR 18.1 million, representing 5.3% of the total SCR of all risk modules (31 December 2019: 5.3%). The capital requirement for operational risk increased in 2020, chiefly because Vita's inclusion in the Group.

Group companies and the Group assess 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, the Group companies and the Group obtain insight into the actual level of their exposure to these risks. In addition to risk registers maintained by individual Group companies, a register is also maintained at the Group level for risks arising at that level. Risks are assessed in the same way as at the individual Group company level.

C.5.3 Risk concentration

The Group is not exposed to significant concentrations of operational risk; there is, however, an increase in risks related to ongoing development projects (e.g. IT risk, risk associated with the new accounting standards and new legal requirements).

C.5.4 Risk management

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

The internal control system plays a key role in operational risk management, ensuring appropriate control activities and appropriate internal controls integrated into business processes and activities of individual Group companies 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:

- maintaining an effective business processes management system and internal control system;
- awareness-raising and training of all employees on their role in the implementation of the internal control system and management of operational risks;
- assessing the adequacy and effectiveness of internal controls;
- maintaining a register of incidents to identify deficiencies in processes and internal controls;
- maintaining a positive organisation climate, good business culture and continuous employee training;
- implementing appropriate policies as regards information security and developing IT to reduce cyber risk;

- having in place a business continuity plan for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption);
- awareness-raising of all employees involved in processing of personal data regarding the benefits and necessity of conducting impact assessments for efficient risk management of personal data protection;
- development of IT-supported processes and controls in the key areas of business of every Group company.

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

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

C.6 Other material risks

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

C.6.1 Strategic risk

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

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. In 2020, the Group was exposed to the following key strategic risks:

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

Risk measurement

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

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

Risk concentration

In 2020, the Group was not materially exposed to concentrations of strategic risk; however, these risks were elevated as a result of Covid-19.

Risk management

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

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

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

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

The Group manages and mitigates **regulatory risk** by continually monitoring the anticipated legislative changes in all countries where Group companies are established or operate, and by assessing their potential impact on the operations of the Group in the short and long term. All Group insurers have established compliance functions to monitor and assess the adequacy and effectiveness of periodic procedures and measures taken to remedy any deficiencies in compliance with the law and other commitments.

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

The Group is paying increasing attention to **risks associated with sustainable development**. Sustainable development is among our top priorities in the 2020–2022 strategy period.

Therefore, we have prepared and adopted a sustainable development strategy in cooperation with all Group companies. It provides for the disclosure of non-financial information relating to the environment, social issues, human resources, protection of human rights and anti-corruption policies. The Group adheres to the guidance provided by GRI (Global Initiative Reporting) standards, which cover sustainable development in a comprehensive way, looking at the Company's operations from all perspectives and taking account of all impacts – economic performance, impact on the environment and society at large. In connection with sustainable development, monitoring of sustainability risks and new legislation in the field of sustainability, a sustainability risk working group was set up at the Sava Insurance Group level in 2020 to monitor legislation relating to sustainability risk and developments in this field. The forthcoming amendments to the Solvency II delegated regulation and IDD[29] already foresee the integration of sustainability risk into the risk management system. In the coming years, we will continue our efforts to contribute to sustainable development; however, it will be a challenge to monitor risks associated with sustainable development and social responsibility. In addition, we will focus on the effective implementation of SFDR[30] regulations. For more information on sustainable development, see the Group's annual report, section 13 "Sustainable development in the Sava Insurance Group".

C.6.2 Investment contract risks

The Group's investment contracts include assets from annuity-certain contracts, which under accounting standards are classified as investment contracts, and life cycle fund assets relating to supplementary pension insurance of Sava Pokojninska in the accumulation phase. Investment contract assets as at 31 December 2020 totalled EUR 158.8 million (31 December 2019: EUR 151.2 million). For the purpose of calculating capital adequacy, the company Sava Pokojninska is consolidated in accordance with the rules applicable to other financial sectors, and is not considered in the modules of the Standard Formula. The risks associated with the company are therefore not discussed as part of underwriting or market risks. The capital requirement for the company Sava Pokojninska was calculated in accordance with sectoral regulations and amounted to EUR 6.3 million as at 31 December 2020 (31 December 2019: EUR 6.0 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 under (members of) the supplementary pension insurance business therefore bear the entire investment risk arising out of the two funds, MDS and MUS, and the investment risk above the guaranteed return of the MZS fund. The guaranteed return on MGF is 60% of the average annual interest rate on government securities with a maturity of over one year.

The risk of failing to realise guaranteed returns is managed primarily through an appropriate management of policyholders' assets and liabilities, an appropriate investment strategy, an adequate capital level and provisioning. The Group tests its risk exposure arising out of guaranteed return through 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 2019.

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

29 Insurance Distribution Directive.

30 Sustainable Finance Disclosure Regulation (SFDR).

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 in accordance with Solvency II (hereinafter: Solvency II balance sheet), 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 (hereinafter: IFRS balance sheet).

The Group uses the full consolidation method for all its companies in the preparation of the IFRS consolidated financial statements, except for the associates ZTSR and G2I, which have been consolidated using the equity method. For the purpose of the 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), whereas 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 EU. If the IFRSs allow for several valuation methods, a method has to be chosen that is consistent with Solvency II principles as set out in the Delegated Regulation and other Solvency II implementing regulations. 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 Solvency II balance sheet items is based on the IFRS balance sheet. This section describes the implementation of such reclassifications and revaluations for items where the Solvency II value differs from the IFRS value. For more details on the IFRS valuation, refer to the Group's annual report, section 17.4 "Significant accounting policies".

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

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

In accordance with article 267 of the Delegated Regulation, the Group set up a control procedure to ensure that the estimates used in the valuation of assets and liabilities are reliable and appropriate to ensure compliance with article 174, paragraph 2 of ZZavar-1, and a periodic review procedure to verify that market 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 2020 and 31 December 2019. This includes the values of assets and liabilities under the IFRSs (before and after adjustments for the company Sava Pokojninska, Sava Penzisko Društvo and Sava Infond) as well as assets and liabilities in accordance with the valuation principles set out in articles 174–190 of ZZavar-1 (Solvency II balance sheet), taking into account the revaluations and reclassifications of asset and liability items.

IFRS and Solvency II balance sheets as at 31 December 2020[31]

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

31 The note in parentheses indicates the report section with details on valuation.

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

IFRS and Solvency II balance sheets as at 31 December 2019

EUR thousand		IFRS value	Adjustment in accordance with article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	Solvency II 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.	Reinsurers' share of technical provisions (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.	Other 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**

EUR thousand		IFRS value	Adjustment in accordance with article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	Solvency II value
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**

D.1 Assets

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

D.1.1 Goodwill

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

D.1.2 Deferred acquisition costs

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

D.1.3 Intangible assets

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

D.1.4 Deferred tax assets and liabilities

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

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

Deferred tax liabilities are income taxes payable in future periods depending on taxable temporary differences. In periods of recognition, they increase income tax expenses and decrease net profit.

Deferred tax assets are the amounts of income taxes recoverable in future periods depending on:
- deductible temporary differences,
- the carryforward of unused tax losses to future periods, 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 IFRS balance sheet, deferred tax assets and liabilities are accounted for at tax rates at which the management estimates differences will actually be taxed.

In the Solvency II balance sheet, deferred tax assets and liabilities are recognised based on the IFRS value of deferred tax assets and liabilities plus additional deferred tax assets and liabilities relating to revaluations for the Solvency II balance sheet.

In the Solvency II balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:
- the revaluation of the "participations in subsidiaries and associates" item if considered strategic investments, based on which revaluation differences cases are treated as permanent; thus, 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;
- revaluation of the subordinated liabilities item as it does not represent a taxable temporary difference.

Deferred tax relating to revaluation for the Solvency II balance sheet is accounted for at tax rates applicable in the Republic of Slovenia (19%), where the parent is based which draws up the consolidated accounts.

Pursuant to Solvency II principles, the Group reports a net deferred tax liability resulting from revaluations in the amount of EUR 19.6 million (2019: EUR 28.2 million). The following table provides a detailed overview by item.

Deferred tax assets and liabilities

EUR thousand	31 December 2020			31 December 2019		
	IFRS value	Revaluation	Solvency II value	IFRS value	Revaluation	Solvency II value
Deferred tax assets	**4,902**	**10,518**	**15,420**	**2,026**	**8,347**	**10,373**
Deferred acquisition costs	0	5,547	5,547	0	5,255	5,255
Intangible assets	0	2,060	2,060	0	1,082	1,082
Financial investments	1,335	0	1,335	1,030	0	1,030
Reinsurers' share of technical provisions	0	2,218	2,218	0	1,546	1,546
Other items of deferred tax assets	3,567	692	4,259	996	465	1,462
Deferred tax liabilities	**13,953**	**30,070**	**44,023**	**5,305**	**36,582**	**41,887**
Property, plant and equipment held for own use	0	148	148	0	358	358
Property, plant and equipment other than for own use	0	264	264	0	202	202
Financial investments	13,950	344	14,294	5,305	463	5,768
Gross TPs	0	27,613	27,613	0	34,030	34,030
Other items of deferred tax liabilities	3	1,702	1,705	0	1,529	1,529

In 2020, net deferred tax liabilities in the Solvency II balance sheet fell by EUR 2.9 million. The main impact arises from the revaluation of technical provisions.

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. 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 makes use of the market approach and the income approach.

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

D.1.6 Investments

Property, plant and equipment other than for own use

The methodology is consistent with the methodology used for property, plant and equipment held for own use, which is described in detail in section D.1.5 Property, plant and equipment held for own use. The proprietary holiday facilities constitute a non-material part of assets; therefore, we do not have them appraised by external independent appraisers.

Investments in subsidiaries and associates

In accordance with article 335(1)(e) of the Delegated Regulation, the data of the EU-based pension and fund management companies (Sava Pokojninska and Sava Infond) was not fully consolidated. Thus, these two companies remained part of the investments in subsidiaries and associates item of the adjusted IFRS balance sheet, valued at their carrying amounts. In the Solvency II 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 Group's non-EU-based pension companies (Sava Penzisko Društvo). These companies are included in the investments in subsidiaries and associates item of the adjusted IFRS balance sheet, stated at their carrying amount. On the other hand, they are valued using the IFRS equity method in the Solvency II balance sheet, in accordance with article 13(5) of the Delegated Regulation.

In accordance with article 335(1)(f), the Group values interests in associate companies (ZTSR and G2I) in the Solvency II 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 nil under the asset valuation methodology is deducted from the obtained value of the companies.

Shares

Shares – listed

The item includes equity securities (shares) listed on a stock exchange. These financial instruments are classified as either available for sale or carried at fair value through profit or loss, in accordance with IAS 39. In the IFRS balance sheet they are valued at fair value (market value).

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

Shares – unlisted

Equities not listed on a stock exchange are initially recognised at cost. As at the balance sheet date, their value is determined using a model. 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 Solvency II 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.

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

Into this item, the Group reclassifies bonds from registers of assets supporting obligations to policyholders who bear the investment risk where the Group provides a guarantee (guaranteed NAVPS) if the investment items for the benefit of life policyholders who bear the investment risk are presented in accordance with IFRSs. If these bonds have been classified as HTM in the IFRS balance sheet and valued at amortised cost, a revaluation to market value is conducted for the purpose of the Solvency II balance sheet.

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

Structured notes

In 2020, the Group held no structured notes.

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 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.

Details on NAVPS amounts are obtained from asset managers.

The valuation methodology under Solvency II 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 Solvency II balance sheet redundant.

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

Alternative funds

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

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

Deposits other than cash equivalents

These deposits are measured at amortised cost or acquisition cost plus accrued interest.

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

Deposits with an original maturity of up to three months are reclassified in the Solvency II 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 Solvency II balance sheet under the item “investments for the benefit of life-insurance policyholders who bear the investment risk”. If assets relating to insurance contracts where policyholders bear the investment risk with the Group guaranteeing a defined level of return (guaranteed NAVPS) are recorded, in line with IFRS, in the item “investments for the benefit of life-insurance policyholders who bear the investment risk”, these are reclassified in the Solvency II balance sheet to other financial investments covering life insurance obligations.

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

HTM bond investments for the benefit of policyholders who bear the investment risk that are reclassified to other financial investments in the Solvency II balance sheet are revalued to market value.

D.1.7 Loans and mortgages

Loans and mortgages are initially recognised at their contract value. As at the balance sheet 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 Solvency II balance sheet and the IFRS balance sheet valuations are the same.

D.1.8 Reinsurers’ share of technical provisions

Hereinafter, we will use the term “Solvency II provisions” for technical provisions calculated in line with Solvency II regulations and “IFRS provisions” for technical provisions calculated in line with the International Financial Reporting Standards. The main principles used in calculating IFRS provisions are described in the notes to the Group’s financial statements in the annual report section 17.4.24 “Technical provisions”.

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

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

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

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

D.1.10 Insurance and intermediaries receivables

Insurance and intermediaries receivables comprise receivables arising out of primary insurance operations (insurance premium receivables), receivables for premiums arising out of assumed co-insurance and reinsurance, recourse receivables and intermediaries receivables.

Receivables are initially recognised based on policies issued, invoices or other authentic documents. At every balance sheet date, the fair value of receivables in the IFRS balance sheet is determined by assessing whether it is doubtful that receivables will be repaid or whether there is objective evidence of their impairment. Allowances are made in line with the adopted methodology (taking into account the age, the phase of the collection procedure, historical data on the percentage of write-offs made and the ratio of collectability) and individual judgement.

Recourse receivables are recognised as assets only if, on the basis of a recourse claim, an appropriate legal basis exists. Even if subrogation is applicable, recourse receivables are recognised only after the debtor's existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid. Group companies recognise impairment losses on recourse receivables based on past experience.

The Group eliminates the items of not-past-due insurance receivables and not-past-due receivables for premiums arising out of assumed reinsurance and co-insurance from the item insurance and intermediaries receivables of the Solvency II balance sheet. 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 Solvency II balance sheet.

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

D.1.11 Reinsurance and co-insurance receivables

This item comprises receivables for claims and commission of ceded reinsurance and co-insurance business.

Reinsurance and co-insurance receivables are recognised when claims and commission relating to ceded reinsurance and co-insurance are charged to reinsurers (retrocessionaires) or co-insurers. The Group individually assesses receivables in terms of their recoverability or impairment. Allowances for receivables are set based on payment history of individual retrocessionaires. Receivables have a contractual maturity of less than one year.

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

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

D.1.12 Other receivables

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

The valuation of other receivables in the IFRS balance sheet is the same as the valuation of insurance and intermediaries receivables described in section *D.1.10 Insurance and intermediaries receivables*.

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

D.1.13 Own shares

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 are listed on a regulated securities market.

The Solvency II 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 Solvency II balance sheet as at the balance sheet date.

D.1.14 Cash and cash equivalents

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

Deposits with an original maturity of up to three months are treated in the Solvency II 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.

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

D.2 Technical provisions

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

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

In the calculation of Solvency II provisions, the Group does not apply the matching adjustment referred to in article 182 of ZZavar-1 (or article 77(b) of Directive 2009/138/EC), the volatility adjustment referred to in article 184 of ZZavar-1 (or article 77(d) of Directive 2009/138/EC), the transitional adjustment of the risk-free interest rate term structure referred to in article 639 (or article 308(c) of Directive 2009/138/EC), or 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.

Solvency II 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 later in this section.

Best estimate claims provisions relating to direct insurance

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

Provisions for claims incurred but not yet paid are established based on 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, whereas 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 percentage of future claim payments: the proportion of recourse receivables in future claim payments is determined based on historical data on paid recourses and, if necessary, adjusted based on expectations for the future and trends;
- discounting: to calculate best estimate claims provisions, all cash flows are discounted using the relevant risk-free interest rate term structures;
- annuities: the reported motor and general liability claims may include claims that are scheduled to be paid out in the form of life annuities, 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 (2020), the total average expected ultimate loss ratio is somewhat lower than in the calculation as at 31 December 2019 for the 2019 accident year. This improvement mostly reflects a better loss experience (especially in motor business) due to Covid-19-related measures.

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 (bullet points),
- the amount of future expected bonuses and rebates dependent on the level of the loss ratio of certain contracts.

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

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 percentage of future claim payments: this proportion is determined based on historical data on recourse payments;
- expected claims development by year: this claims development is determined based on historical patterns of claim payments;
- expected development of recourse receivables by year: this development of recourse receivables is determined based on historical data of recourse payments;
- expected lapse rate: the expected lapsed or refunded

premiums due to early termination of contracts are determined based on the data of the previous year, which, if necessary, is adjusted in accordance with expectations.

The total expected ultimate loss ratio used in the calculation of the best estimate premium provision as at 31 December 2020 is somewhat lower than the one used in the calculation of the best estimate premium provision as at 31 December 2019, which agrees with the expected ultimate loss ratio from the best estimate claims provision calculation as the result of a lower loss frequency primarily in motor business during the Covid-19 pandemic.

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

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

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

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

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

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

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

The expected average subsequently reported annuity for the calculation at the end of 2020 was almost at the same level as in 2019.

Best estimate provisions for direct life insurance

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

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

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

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

The expected contractual cash flows include:

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

For individual contracts, the following needs to be considered:

- annual premiums, payment frequency, death benefits, critical illness and maturity benefits;
- product technical bases: technical interest rate, mortality and morbidity tables, expenses,
- assumptions: the proportion of unrealised mortality and morbidity, lapse rate, future profitability, realised expenses, 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 or an approximation method. The future dynamic behaviour of policyholders has not been modelled, while future management actions have only been modelled for the calculation of the present value of options and guarantees 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 interest guarantees in traditional life policies.

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

Best estimate claims provisions for life business are calculated using the method of average claims, making separate estimates for the provision for incurred reported claims and for the provision for incurred but not reported claims (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.

In 2020, all assumptions used were re-evaluated and certain minor changes were made. In some segments, expenses as a percentage of insurance rose as the result of smaller portfolios, and there were minor changes in expected lapse ratios and expected mortality. There have been no significant changes in assumptions in 2020 compared to 2019. Compared to 2019, unit-linked life insurance contracts with interest guarantees were transferred from the line of business "index-linked and unit-linked insurance" to the line of business "other life insurance".

Best estimate provisions for accepted reinsurance

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

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

The calculation of best estimate provisions comprises the following steps:

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

"Technical" gross provisions are calculated using the chain-ladder method applied to cumulative paid claims triangles, taking into account the Bornhuetter-Ferguson (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, whereas for more recent years, the naive loss ratio is assigned greater weight. For payment development or cash flow, the pattern is applied that is obtained from the triangle development. The joint view summarises the results of all methods, based on which best estimate ultimate losses are selected, which is then used to calculate technical gross provisions.

Future loss adjustment and administrative expenses relating to contracts written are taken into account through expense ratios.

The basis for the split of cash inflows by currency is the currency composition for the IFRS valuation of the balance sheet. Future cash flows broken down by currency are discounted using the relevant risk-free interest rate term structures.

The most important assumptions underlying the calculation are the selection of an appropriate method for each line of business, which did not change in most lines of business in 2020, and the applied ultimate ratios, especially for the last underwriting year, which is subject to the greatest uncertainty due to unknown losses and unexpired coverage. For non-Group accepted reinsurance business of the most recent underwriting year, the ratio of expected ultimate claims and commissions as a percentage of expected ultimate premiums is somewhat higher year on year, largely due to Covid-19-related claims.

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 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 Solvency II technical provisions

The following tables set out the values of gross best estimate provisions, the reinsurers’ share of best estimate provisions and the risk margin as at 31 December 2020 and 31 December 2019 by line of business. There are separate tables for the best estimate claims provision, the best estimate premium provision, and the best estimate provision for life lines of business and the risk margin.

Best estimate claims provision (BE CP)

EUR thousand	Gross BE CP		Reinsurers' share of BE CP	
Line of business	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Medical expense insurance and proportional reinsurance	1,690	1,386	590	383
Income protection insurance and proportional reinsurance	23,832	23,826	446	262
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	112,921	107,091	618	888
Other motor insurance and proportional reinsurance	21,168	24,014	228	208
Marine, aviation and transport insurance and proportional reinsurance	13,083	8,491	1,397	305
Fire and other damage to property insurance and proportional reinsurance	90,402	69,900	6,608	4,525
General liability insurance and proportional reinsurance	39,007	33,847	1,218	974
Credit and suretyship insurance and proportional reinsurance	1,364	1,132	0	0
Legal expenses insurance and proportional reinsurance	65	49	24	18
Assistance insurance and proportional reinsurance	1,284	1,275	9	7
Miscellaneous financial loss	9,120	498	878	57
Non-proportional health reinsurance	719	571	1	2
Non-proportional casualty reinsurance	13,493	12,568	7,423	8,362
Non-proportional marine, aviation and transport reinsurance	5,966	5,403	209	353
Non-proportional property reinsurance	53,535	47,304	1,560	2,556
Total	**387,647**	**337,355**	**21,211**	**18,899**

Movements are largely in line with portfolio volume, loss events and claims settlements. Thus, in the motor lines of business, gross best estimate claims provisions remained at roughly the prior-year level despite portfolio growth, due to a favourable loss experience. On the other hand, as the result of an unfavourable loss experience, especially in FoS business, and owing to Covid-19, there was a considerable increase in gross best estimate claims provisions in the lines of business "fire and other damage to property insurance and proportional reinsurance", miscellaneous financial loss and non-proportional property reinsurance.

Best estimate premium provision (BE PP)

EUR thousand	Gross BE PP		Reinsurance BE PP	
Line of business	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Medical expense insurance and proportional reinsurance	222	254	-2	-30
Income protection insurance and proportional reinsurance	-11,032	-9,605	-13	-7
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	36,557	39,492	-89	-79
Other motor insurance and proportional reinsurance	31,782	35,466	466	359
Marine, aviation and transport insurance and proportional reinsurance	-14	137	141	-949
Fire and other damage to property insurance and proportional reinsurance	7,349	3,613	285	512
General liability insurance and proportional reinsurance	954	777	58	-15
Credit and suretyship insurance and proportional reinsurance	1,795	3,079	-78	0
Legal expenses insurance and proportional reinsurance	-133	-110	-33	-67
Assistance insurance and proportional reinsurance	4,164	4,451	-15	-18
Miscellaneous financial loss	880	29	43	-87
Non-proportional health reinsurance	-33	-24	0	0
Non-proportional casualty reinsurance	-150	-346	64	369
Non-proportional marine, aviation and transport reinsurance	-421	-554	-300	-206
Non-proportional property reinsurance	-12,167	-8,020	-627	-504
Total	**59,755**	**68,639**	**-101**	**-722**

In 2020, the gross best estimate premium provision was lower year on year, largely reflecting more favourable assumptions for future motor loss ratios in motor business due to Covid-19.

Best estimate provisions for life lines of business

EUR thousand	TP calculated as a whole		Gross BE	
Line of business	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Health insurance	0	0	-12,523	-8,547
Insurance with profit participation	0	0	407,696	291,381
Index-linked and unit-linked insurance	70,334	71,274	221,009	35,613
Other life insurance	0	0	141,835	-16,403
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	33,519	31,179
Total	**70,334**	**71,274**	**791,537**	**333,223**

The increase in best estimate technical provisions is chiefly due to Vita's inclusion in the Group, with further effects from portfolio movements, reclassifications and changes in valuation. The best estimate provision relating to health insurance declined as the result of writing new profitable business.

The increase in technical provisions in the "insurance with profit participation" line of business is largely due to Vita's inclusion in the Group but also a result of portfolio movements because of policy maturities at Zavarovalnica Sava.

The increase in technical provisions in the "index-linked and unit-linked insurance" line of business was mainly driven by Vita's inclusion in the Group, with additional effects from policy maturities and lapses. In this regard, the technical provision for policies that satisfied certain criteria was calculated as a whole. The increase in technical provisions was also partly the result of the reclassification of unit-linked policies with interest guarantees to the "other life insurance" line of business.

Technical provisions in the "other life insurance" line of business increased because of Vita's inclusion in the Group and the mentioned reclassification of unit-linked policies with interest guarantees.

In 2020, the provision for annuities stemming from non-life insurance increased compared to 2019 because of additions to the list of annuities and annuity provisions newly reported in 2020.

Risk margin

EUR thousand	Risk margin	
Line of business	**31 December 2020**	**31 December 2019**
Medical expense insurance and proportional reinsurance	307	179
Income protection insurance and proportional reinsurance	10,989	9,051
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	8,419	7,789
Other motor insurance and proportional reinsurance	6,374	5,483
Marine, aviation and transport insurance and proportional reinsurance	1,918	3,557
Fire and other damage to property insurance and proportional reinsurance	11,011	10,424
General liability insurance and proportional reinsurance	4,043	3,398
Credit and suretyship insurance and proportional reinsurance	954	775
Legal expenses insurance and proportional reinsurance	12	16
Assistance insurance and proportional reinsurance	668	705
Miscellaneous financial loss	851	299
Non-proportional health reinsurance	92	84
Non-proportional casualty reinsurance	1,236	1,234
Non-proportional marine, aviation and transport reinsurance	1,370	1,213
Non-proportional property reinsurance	9,741	8,867
Total non-life	**57,983**	**53,073**
Health insurance	3,411	2,146
Insurance with profit participation	10,909	7,647
Index-linked and unit-linked insurance	7,920	5,228
Other life insurance	9,988	6,808
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	200	147
Life reinsurance	134	132
Total life	**32,562**	**22,108**
Total	**90,545**	**75,180**

The risk margin increased compared to 31 December 2019, largely as the result of the Group's expansion and the increased solvency capital requirement of individual companies, which is the basis for calculating the risk margin.

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

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

- 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 2020, the expected future profits from the active portfolio accounted for 11% (31 December 2019: 7%) of the difference between IFRS and Solvency II 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 36% (31 December 2019: 33%) of the difference between IFRS and Solvency II provisions of non-life lines of business.
- Furthermore, a comparison of the values of the provisions under the two standards (IFRS and Solvency II) 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, whereas IFRS provisions must be sufficient in the vast majority of cases. Accordingly, assumptions for IFRS provisions are more prudent. When comparing the most material assumption about the expected ultimate loss ratio for non-life lines of business for the most recent year (where the uncertainty is largest), it stood at 66% for IFRS claims provisions (31 December 2019: 71%) and 58% for Solvency II best estimate claims provisions (31 December 2019: 60%).
- Solvency II provisions for non-life insurance take into account the time value of money, whereas 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 Solvency II provisions for this business.

The total value of Solvency II 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 Solvency II provisions are higher, for others IFRS provisions. The presentation is also affected by the change in the mapping of homogeneous risk groups onto lines of business that came into force in 2020. IFRS provisions for life lines of business take into account the expected present value of future cash flows via the LAT test, but only if it exceeds the current mathematical provision established, which means that, at the time of conducting the LAT test, the present value of potential future life insurance losses is recognised on the liabilities side. By contrast, Solvency II best estimates for life business take into account both expected losses as well as expected profits of life business. Solvency II provisions for life insurance with a savings component, including an interest guarantee and/or profit participation feature, are higher than IFRS provisions because the risk-free interest rate term structure is lower than the interest guarantee. In contrast, Solvency II provisions for risk and unit-linked life insurance are lower than IFRS provisions as the former takes into account the expected future gains based on mortality, morbidity and expenses.

D.2.3 Description of the level of uncertainty

The level of uncertainty associated with Solvency II provisions has been tested by observing the sensitivity of the provision to key parameters of the calculation. We conducted an analysis on the portfolios of the Group's EU-based companies, separately for best estimate premium and claims provisions for direct business and for best estimate provisions for accepted reinsurance and best estimate provisions for life insurance. The 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 December 2020	31 December 2019
Increase in ultimate loss ratios for most recent accident year of 5%	11.0%	10.8%
Increase in loss adjustment expenses of 10%	2.3%	2.6%
Reduction in proportion of recourse receivables of 10%	0.3%	0.7%

Sensitivity testing of direct insurance claims provisions

Scenario	Stress impact (%)	
	31 December 2020	31 December 2019
Increase in ultimate loss ratios for most recent accident year of 5%	5.0%	5.8%
Increase in loss adjustment expenses of 10%	0.4%	0.5%
Reduction in proportion of recourse receivables of 10%	0.1%	0.1%

Sensitivity testing of the provision for accepted reinsurance

Scenario	Stress impact (%)	
	31 December 2020	31 December 2019
Increase in expected loss ratios of the most recent underwriting year of 5%	6.0%	5.8%
Decline in not-past-due items (premiums less commissions) of 10%	2.7%	3.6%
Increase in expenses (other than commissions) of 50%	0.5%	0.5%

Sensitivity testing of the provision for life insurance

Scenario	Stress impact (%)	
	31 December 2020	31 December 2019
Increase in expected mortality rates of 15%	0.9%	1.3%
Increase in expenses (other than commissions) of 10% and inflation rate of 1%	1.4%	1.9%
Increase in lapse rate of 50%	1.8%	2.3%

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

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

D.3 Other liabilities

Comparison of IFRS and Solvency II values of other liabilities

EUR thousand	31 December 2020		31 December 2019	
	IFRS value	Solvency II value	IFRS value	Solvency II value
Provisions other than technical provisions	8,927	8,927	8,353	8,353
Financial liabilities other than debts owed to credit institutions	1,143	1,143	374	374
Insurance and intermediaries payables	51,213	41,218	55,949	43,162
Reinsurance and co-insurance payables	6,837	1,409	9,300	1,914
Other payables (trade, not insurance)	11,670	11,670	11,313	11,313
Subordinated liabilities	74,805	75,681	74,823	73,847
Any other liabilities, not elsewhere shown	33,612	24,981	28,374	20,800

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 in the Solvency II balance sheet is the same as in the IFRS balance sheet.

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 co-insurance business. In the IFRS balance sheet, these are recognised on the accrual basis.

From this item, the Group eliminates not-past-due commission payables relating to accepted (inward) reinsurance business at the Solvency II balance sheet date. 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.

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

D.3.3 Liabilities from reinsurance and co-insurance business

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.

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

The Solvency II balance sheet valuation does not differ from the IFRS balance sheet valuation.

D.3.4 Other payables (trade, not insurance)

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

The Solvency II balance sheet valuation does not differ from the IFRS balance sheet valuation.

D.3.5 Subordinated liabilities

Subordinated liabilities include the bond issued by the parent company. 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 Solvency II balance sheet, liabilities arising from the subordinated bond issue are valued at fair value based on prices quoted by Bloomberg.

D.3.6 Any other liabilities, not elsewhere shown

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

In this Solvency II balance sheet item, the Group's deferred commissions relating to accepted co-insurance and reinsurance, and deferred technical income arising from policies of the non-life insurance segment are valued at nil. The valuation of other liabilities included in this item in the Solvency II 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 the valuation at IFRS balance sheet values, the valuation of subsidiaries and associates that are not consolidated under Solvency II and the valuation of real property obtained from independent external property appraisers.

In 2020, the Group held the following financial investments in its portfolio, which were stated at IFRS balance sheet values:

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

Subsidiaries and associates that are not consolidated under Solvency II include EU-based pension companies and asset management companies (Sava Pokojninska and Sava Infond), non-EU based Group pension companies (Sava Penzisko Društvo) and associates (ZTSR and G2I). The Group recognises EU-based pension companies and asset management companies in the Solvency II balance sheet at the proportionate amount of available capital calculated under sectoral regulations applicable in Slovenia to pension companies and asset management companies. Non-EU based Group pension companies and interests in associates are valued in the Solvency II 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 nil under the asset valuation methodology is deducted from the obtained value of the companies.

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

D.5 Any other information

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

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 therein. The Group's 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 Group has sufficient excess capital to cover any potential additional capital needs of subsidiaries in the event of a major stress scenario materialising in any of them. To this end, an excess of eligible own funds is determined over the statutory requirement.

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

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

The first phase of the annual verification of the potential for capital optimisation and additional allocation of capital includes a review of the results of the most recent calculation of the amount and structure of eligible own funds, and the SCR. A financial plan for the following three-year period and a capital management plan are prepared based on this, including measures required to achieve the target capital allocation.

Eligible own funds, the SCR and consequently the solvency ratio of the Company 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.

When allocating capital to business segments, it must be ensured that an adequate return on equity is achieved. 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 the capital allocated to the segment (efficient return-to-risk ratio).

E.1 Own funds

As at 31 December 2020, the Group reported an excess of assets over liabilities of EUR 537.3 million (31 December 2019: EUR 495.5 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 31.9 million (31 December 2019: EUR 31.0 million);
- foreseeable dividends[32] in the amount of EUR 13.2 million (31 December 2019: EUR 16.2 million); their amount is determined based on the proposed resolution of the parent company's management and supervisory boards for the general meeting;
- EUR 203 thousand of minority interests not available at the Group level (31 December 2019: EUR 154 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 11.2 million (31 December 2019: EUR 9.1 million), i.e. an amount equal to the amount of own funds of Sava Pokojninska and Sava Infond;
- other items in accordance with the provisions of ZZavar-1.

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

For the purpose of determining basic own funds, the Group's 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 the 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 2020, the Group did not have any such exclusions from own funds, the same as at 31 December 2019.

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 2020, the Group had no adjustments for other items in accordance with ZZavar-1, the same as at 31 December 2019.

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 2020, the Group held no ancillary own funds, the same as at 31 December 2019.

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

32 The Group did not pay any dividends in 2020 because of the regulator's call for temporary suspension of dividend payouts and to assess potential risks.

Composition of the Group's own funds

EUR thousand	31 December 2020	31 December 2019
Ordinary share capital (gross of own shares)	71,856	71,856
Non-available called but not paid in ordinary Group share capital	0	0
Share premium account related to ordinary share capital	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 Group surplus funds	0	0
Preference shares	0	0
Non-available Group preference shares	0	0
Share premium account related to preference shares	0	0
Non-available share premium account related to Group preference shares	0	0
Reconciliation reserve (= (1) - (2) - (3) - (4) - (5) - (6))	376,918	332,888
(1) Excess of assets over liabilities	537,332	495,474
(2) Own shares (held directly and indirectly)	31,856	30,995
(3) Adjustment for own-fund restricted items with respect to matching adjustment portfolios and ring-fenced funds	0	0
(4) Foreseeable dividends, distributions and charges	13,173	16,195
(5) Other basic own fund items	115,385	115,396
(6) Other non-available own funds	0	0
Subordinated liabilities	75,681	73,847
Non-available Group subordinated liabilities	0	0
Amount equal to the value of net deferred tax assets	0	0
Amount equal to the value of net deferred tax assets not available at Group level	0	0
Minority interests (if not reported as part of a specific own funds item)	493	503
Unavailable Group minority interests	-203	-154
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-11,201	-9,130
Total basic own funds after deductions	**556,579**	**512,845**
Total own funds in other financial sectors	**11,201**	**9,130**
Eligible own funds to meet the Group SCR	**567,780**	**521,975**

Total basic own funds after deductions increased by EUR 43.7 million in 2020, which is chiefly the result of Vita's inclusion in the Group, the increase in the value of basic own funds of Zavarovalnica Sava and the parent's suspension of dividend payouts for 2019.

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

Adjustments to IFRS equity for the Solvency II valuation of the balance sheet

EUR thousand	31 December 2020	31 December 2019
IFRS equity[33]	**459,320**	**382,981**
Difference in the valuation of assets	-179,001	-170,943
Difference in the valuation of technical provisions	232,047	260,298
Difference in the valuation of other liabilities	-6,890	-7,858
Foreseeable dividends, distributions and charges	-13,173	-16,195
Adjustment for minority interests	-203	-154
Deduction for participations in other financial undertakings	-11,201	-9,130
Subordinated liabilities in basic own funds	75,681	73,847
Total basic own funds after deductions	**556,579**	**512,845**
Total own funds in other financial sectors	11,201	9,130
Eligible own funds to meet the Group SCR	**567,780**	**521,975**

As can be seen from the table, the majority of differences in figures as at 31 December 2020 originate from differences in the valuation of Solvency II technical provisions in (re) insurance undertakings in and outside the European Union, similar to 31 December 2019. The methodology used is detailed in section *D.2 Technical provisions*.

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

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.

The Group's tier 1 eligible own funds do not include eligible own fund items that are dated or with the subordination feature or subject to early redemption.

Tier 2 funds include own fund items that mostly exhibit the features referred to in article 196(1)(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 or paid. Considered are features, such as permanence, confirmed absence of redemption incentives and encumbrances. The Group classifies its subordinated liabilities, subordinated debt with a duration of 20 years and a contractual opportunity to redeem after 10 years, as tier 2 eligible own funds. Subordinated liabilities have the feature of subordination.

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

Tier 3 funds are own fund items classified as neither tier 1 nor tier 2. They include letters of credit and guarantees that are held in trust for the benefit of insurance creditors by an independent trustee and are provided to the Group by credit institutions. Tier 3 also includes own funds from net deferred tax assets. The Group holds no tier 3 own funds.

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

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

	Tier 1	Tier 2	Tier 3
Group SCR coverage	min. 50%	plus tier 3 max. 50%	max. 15%
Group MCR coverage	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 following two tables show the amounts of the Group's eligible own funds designated to meet the Group SCR and the Group MCR as at 31 December 2020 and compared to figures as at 31 December 2019. They are classified into the statutory tiers described above.

Eligible own funds to meet the Group SCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2020	567,780	492,099	75,681	0
As at 31 December 2019	521,975	448,129	73,847	0

Eligible own funds to meet the Group MCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2020	508,170	480,899	27,271	-
As at 31 December 2019	461,582	438,999	22,584	-

As at 31 December 2020, the major part of the Group's eligible own funds to cover its SCR and MCR is classified as tier 1 funds and included no ancillary own funds.[34] 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

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

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 203 thousand as at 31 December 2020 (31 December 2019: EUR 154 thousand).

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

The solvency ratio is the ratio of Group eligible own funds to Group SCR.

Compared to the calculation as at 31 December 2019, the calculation as at 31 December 2020 takes into account the amendment to Delegated Regulation 2015/35, which sets out the method of calculating capital adequacy using the Standard Formula, specifically the amendments set out in Delegated Regulation 2019/981 applicable as from 1 January 2020. New parameters have been applied in the calculation of the level of premium and reserve risk for non-life and NSLT health business. The impact of this change on SCR does not exceed the Group's materiality threshold. Nor do other methodological changes exceed the Group's materiality threshold.

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

Group solvency capital requirement (Group SCR)

EUR thousand	31 December 2020	31 December 2019
(7) Group solvency capital requirement (Group SCR) (= (4) + (5) + (6))	**287,432**	**237,652**
(6) Capital requirement for other financial sectors	7,383	7,165
(5) Capital requirement for residual undertakings	12,588	8,846
(4) SCR as calculated based on consolidated figures of Group insurance companies that are consolidated under Solvency II[35] (= (1) + (2) + (3))	**267,460**	**221,641**
(3) Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-18,313	-19,021
(2) Operational risk	21,585	18,135
(1) Basic solvency capital requirement	**264,189**	**222,527**
Diversification effect	-124,900	-99,544
Total of risk components	389,089	322,071
Market risk	120,583	76,396
Counterparty default risk	25,045	25,373
Life underwriting risk	38,208	28,785
Health underwriting risk	31,604	27,885
Non-life underwriting risk	173,649	163,632
(A) Eligible own funds (excluding other financial sectors)	**556,579**	**512,845**
(B) Eligible own funds in other financial sectors	**11,201**	**9,130**
(C) Eligible own funds to meet Group SCR	**567,780**	**521,975**
Group solvency ratio (%) (= (C) / (7))	**198%**	**220%**

Similar to 31 December 2019, as at 31 December 2020, the largest proportion of the Group SCR arose from risks associated with non-life business, which increased mainly because of portfolio growth and the increase in best estimate provisions compared to 31 December 2019. The Group's second-largest risk is market risk, which significantly increased in 2020 as the result of Vita's inclusion in the Group. Other risks, which represent a minor share of the Group SCR, also increased as at 31 December 2020 compared to 31 December 2019, chiefly because of Vita's inclusion in the Group, especially life underwriting risk, health underwriting risk and operational risk. The capital requirement for residual undertakings increased by EUR 3.7 million as at 31 December 2020 compared to 31 December 2019, as the result of the recapitalisation of the company ZTSR. For details regarding changes in individual risk modules, see section *C Risk profile*.

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

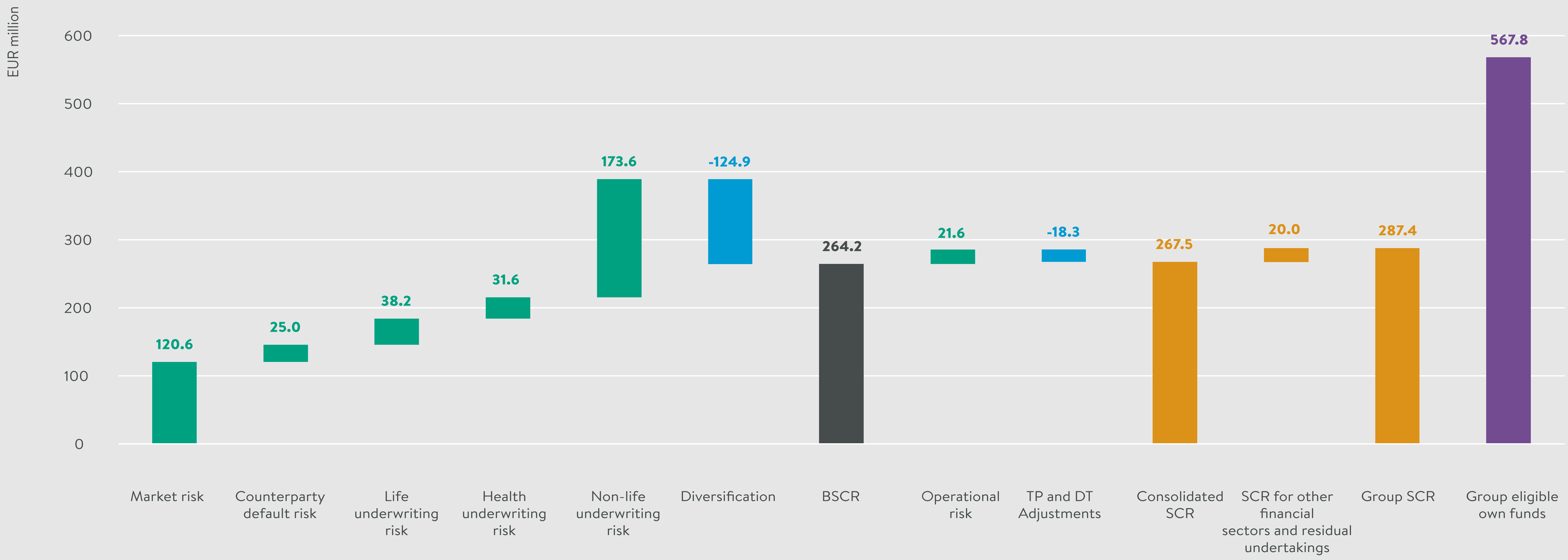
As at 31 December 2020, the Group adjusted the SCR for deferred taxes in the amount of EUR 17.3 million (31 December 2019: EUR 18.3 million). The adjustment for the loss-absorbing capacity of deferred taxes is calculated in accordance with the Delegated Regulation and article 23 of the "Decision on the terms and method of covering losses by reducing technical provisions and deferred taxes". At the individual company and Group levels, adjustments have been made in the amount of the maximum adjustment for loss absorbency of deferred taxes that may be taken into account without requiring any evidence, i.e. up to the amount of net liabilities for deferred taxes in the Solvency II balance sheet.

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

The following chart shows the individual risk modules of the Standard Formula, the Group SCR and Group eligible own funds as at 31 December 2020.

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

Solvency capital requirement by risk module as at 31 December 2020



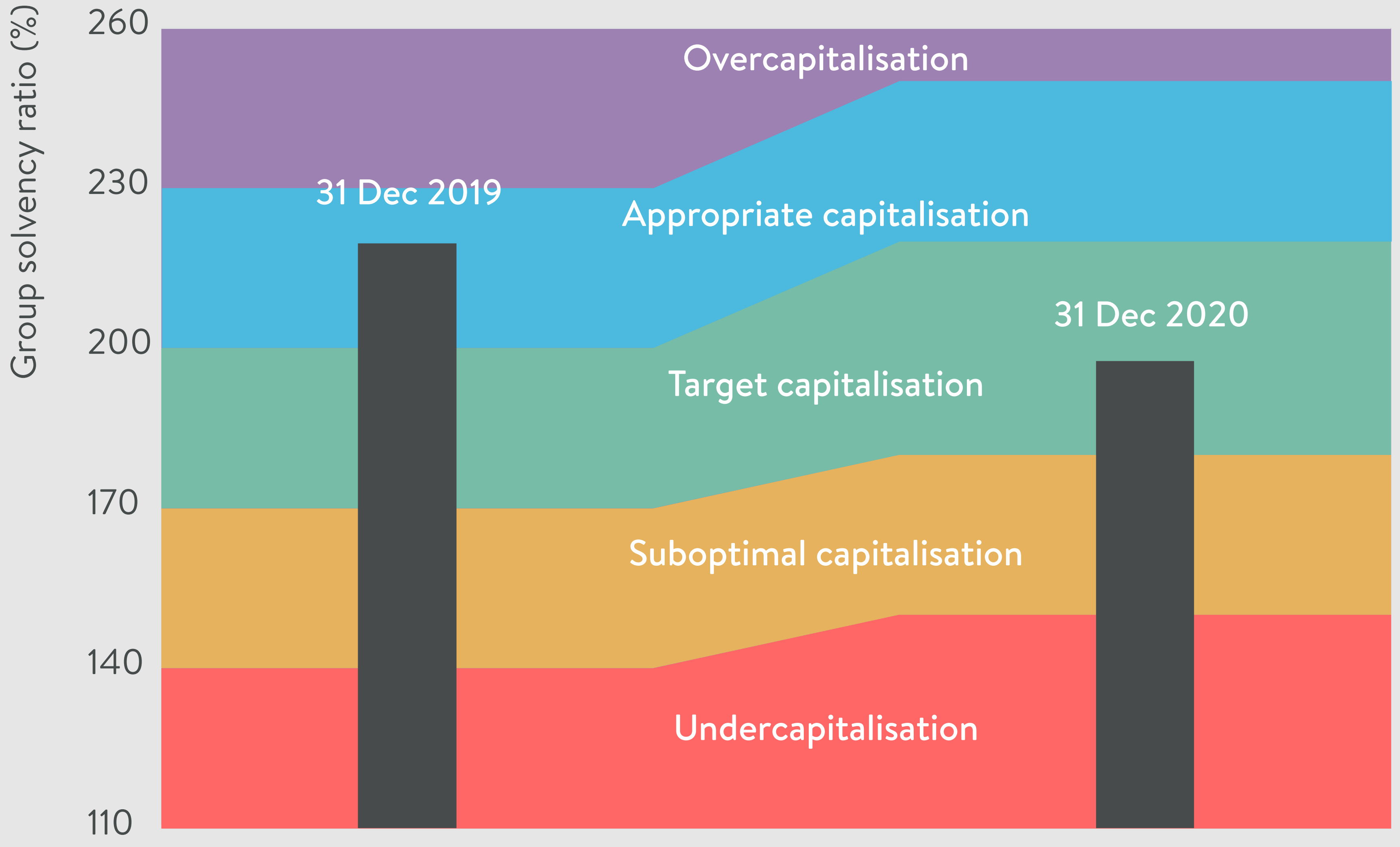
As illustrated by the graph, Group eligible own funds markedly exceed the Group SCR, as reflected in the Group's high solvency ratio of 198% as at 31 December 2020 (31 December 2019: 220%).

A major criterion for determining the risk appetite in the Sava Insurance Group's risk strategy is the solvency ratio. In accordance with its capital management policy, the Group is striving – in the long term – to attain its target capital adequacy as set out in its risk strategy. In addition, to maintain its desired credit rating in line with its risk strategy, it maintains a level of capital not lower than the one required for an "A"-range credit rating. It must also have available a sufficient level of eligible own funds to meet potential capital requirements of its subsidiaries if a major scenario were to materialise in any of them. To this end, an excess of eligible own funds is determined over the statutory requirement.

As from 2020 and in line with the risk strategy for 2020–2022, the internal criteria for the level of the solvency ratio were raised, as illustrated in the following chart. Thus, the acceptable solvency ratio limit is 150%, and the optimum level of capitalisation is in the 218–220% range. Based on this, as at 31 December 2020, the Group is also well capitalised by internal criteria.

In December 2020, the financial projections and the calculation of the Group eligible own funds, the Group SCR and the Group solvency ratio for 2020–2023 were also confirmed. For the period 2020–2023, the Group's solvency ratio is planned at a level in line with the risk strategy.

Alignment of the Group solvency ratio with the risk strategy[36]



E.2.2 Minimum capital requirement (MCR)

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

36 At 31 December 2019, the target range of the solvency ratio in accordance with the applicable risk strategy was 170–200%; at 31 December 2020, the target range changed to 180–220% in line with the amended risk strategy.

Input data for calculating Group MCR

EUR thousand	31 December 2020	31 December 2019
Sava Re	54,850	46,252
Zavarovalnica Sava	52,265	47,775
Sava Neživotno Osiguranje (Serbia)	3,414	3,284
Sava Životno Osiguranje (Serbia)	3,201	3,206
Sava Osiguruvanje (North Macedonia)	3,007	3,003
Sava Osiguranje (Montenegro)	3,000	3,000
Illyria	3,200	3,200
Illyria Life	3,200	3,200
Vita	10,219	-
Group MCR	**136,355**	**112,920**

Group MCR

EUR thousand	31 December 2020	31 December 2019
Minimum capital requirement (MCR) of Group	**136,355**	**112,920**
Eligible own funds to meet the Group MCR	**508,170**	**461,582**
Of which tier 1	480,899	438,999
Of which tier 2	27,271	22,584
Of which tier 3	-	-
Group MCR	**373%**	**409%**

The Group's eligible own funds designated to meet the MCR of EUR 508.2 million (31 December 2019: EUR 461.6 million) substantially exceed the Group MCR of EUR 136.4 million (31 December 2019: EUR 112.9 million).

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

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

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

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

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

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

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 absorpcijske zmožnosti zavarovalno-tehničnih rezervacij in odloženih davkov – TP in DT**	The capital requirement structure of the standard formula also includes the adjustment for the loss absorbing capacity of technical provisions and deferred taxes. The adjustment reflects the potential compensation of unexpected losses by reducing technical provisions or deferred taxes or a combination of both. The adjustment takes into account the effect of reduced risk arising from future discretionary benefits on (re)insurance contracts, as (re)insurance companies may take into account that the reduction in these entitlements may be used to cover potential unexpected losses.
Basic solvency capital requirement – BSCR	**Osnovni zahtevani solventnostni kapital – BSCR**	The basic solvency capital requirement within the framework of the standard formula is an amount based on the statutory calculation of the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk and counterparty default risk.
Business continuity plan	**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.
Market value	**Tržna vrednost**	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The amounts are based on prices in active and liquid markets that a company has access to and are commonly used.
Minimum capital requirement – MCR	**Zahtevani minimalni kapital – MCR**	The minimum capital requirement is equal to the amount of own funds below which policyholders, insured persons and other beneficiaries of insurance contracts would be exposed to an unacceptable level of risk if the insurer were allowed to continue operating.
Modified duration	**Modificirano trajanje**	Modified duration measures the portfolio's sensitivity to parallel shifts in the interest rate curve. A change in interest rates of +/-1% has an impact of approximately -/+MD% on the portfolio.
Operational limits	**Operativni limiti**	Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by first-line-of-defence staff in the day-to-day risk management process to keep a company or group within its set risk appetite range.
Own funds	**Primerni lastni viri sredstev**	Own funds eligible to cover the solvency capital requirement.
Own risk and solvency assessment – ORSA	**Lastna ocena tveganj in solventnosti – ORSA**	Own assessment of the risks associated with a company's or group's business and strategic plans and assessment of the adequacy of own funds to cover risks.
Present value	**Sedanja vrednost**	The value of future cash flows recalculated to present-day values. This is done by discounting.
Probable maximum loss – PML	**Največja verjetna škoda – PML**	This is the maximum loss for a risk an insurer assesses could occur in one loss event. Normally, it is expressed as a percentage of the sum insured; in extreme cases, it equals the sum insured (PML is 100% of the sum insured).
Risk appetite	**Pripravljenost za prevzem tveganj**	Risk level that a company or group is willing to take in order to meet its strategic goals.
Risk management system	**Sistem upravljanja tveganj**	The risk management system is a set of measures taken by a company or group to manage (i.e. to identify, monitor, measure, manage, report) material risks arising from both the operations of a company or group and the external environment in order to enhance the implementation of strategic objectives and minimise any loss of own funds.
Risk profile	**Profil tveganj**	All of the risks that a company or group is exposed to and the quantification of these exposures for all risk categories.

Risk register	**Register tveganj**	List of all identified risks maintained and regularly updated by a company or group.
Risk tolerance limits	**Meje dovoljenega tveganja**	Limits for risk categories included in a company's or group's risk profile and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite as stated in the risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenario test	**Scenarij**	Scenarios seek to determine the impact of multiple changes in parameters, such as concurrent changes in different risks types affecting the insurance business, the value of financial assets and a change in interest rates.
Solvency capital requirement – SCR	**Zahtevani solventnostni kapital – SCR**	The SCR is an amount based on the regulatory calculation of all quantifiable risk, including non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.
Solvency ratio	**Solventnostni količnik**	Ratio of eligible own funds to the solvency capital requirement. It represents a company's or group's capital adequacy in accordance with the Solvency II principles. A solvency ratio in excess of 100% indicates that a company or group has more than sufficient resources to meet the solvency capital requirement.
Standard formula	**Standardna formula**	Set of calculations prescribed by Solvency II regulations used for generating the solvency capital requirement.
Stress test	**Stresni test**	In a stress test, a single parameter is changed to observe the effect on the value of a company's or group's assets, liabilities and/or own funds as well as any effects on the value of the parameter itself.
Tiers	**Kakovostni razredi kapitala**	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether basic or ancillary).
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/02467143	SC	SO poslovno savjetovanje	10	PLLC	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/5946948000	SC	TBS TEAM 24 d.o.o.	10	PLLC	2		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/810483769	SC	Illyria s.h.a., Pristina	2	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
MK	SC/4778529	SC	Sava osiguruvanje a.d., Skopje	2	PLC	2	North Macedonian Insurance Supervision Agency	92.57%	100.0%	92.57%		dominant	100.0%	YES		M1: full consolidation
ME	SC/02303388	SC	Sava osiguranje a.d., Podgorica	2	PLC	2	Montenegro Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
XK	SC/810793837	SC	Illyria Life s.h.a., Pristina	1	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation

								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/48510000OG X4W2DFYV52	LEI	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	4	PLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/213800K2LJ 7JKL6CU689	LEI	Sava Pokojninska Družba, d.d.	9	PLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: industry regulations
XK	SC/810797912	SC	S Estate L.L.C.	10	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/2154170000	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/02699893	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	92.57%	100.0%	92.57%		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
SI	LEI/485100004 VOFFO18DD84	LEI	Življenjska Zavarovalnica Vita d.d. Ljubljana	1	PLC	2	Slovenian Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/549300P6F1 BDSFSW5T72	LEI	Pozavarovalnica Sava d.d., Ljubljana	3	PLC	2	Slovenian Insurance Supervision Agency						100.0%	YES		M1: full consolidation

Legend

Cell	Abbreviated	Long name
C0030	SC	special code
	LEI	Legal Entity Identifier
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**	15,420
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	57,088
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	1,554,640
Property (other than for own use)	**R0080**	17,306
Holdings in related undertakings, including participations	**R0090**	49,585
Equities	**R0100**	37,070
Equities – listed	**R0110**	35,241
Equities – unlisted	**R0120**	1,828
Bonds	**R0130**	1,337,777
Government Bonds	**R0140**	699,487
Corporate Bonds	**R0150**	638,290
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	83,358
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	29,544
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	325,417
Loans and mortgages	**R0230**	2,120
Loans on policies	**R0240**	108
Loans and mortgages to individuals	**R0250**	7
Other loans and mortgages	**R0260**	2,005

		Solvency II value
Assets		**C0010**
Reinsurance recoverables from:	**R0270**	26,202
Non-life and health similar to non-life	**R0280**	21,110
Non-life excluding health	**R0290**	20,088
Health similar to non-life	**R0300**	1,023
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	5,104
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	5,104
Life index-linked and unit-linked	**R0340**	-12
Deposits to cedants	**R0350**	7,261
Insurance and intermediaries receivables	**R0360**	40,931
Reinsurance receivables	**R0370**	5,357
Receivables (trade, not insurance)	**R0380**	9,042
Own shares (held directly)	**R0390**	31,856
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**	68,863
Any other assets, not elsewhere shown	**R0420**	2,004
Total assets	**R0500**	**2,146,200**

Liabilities		Solvency II value C0010
Technical provisions – non-life	R0510	505,385
Technical provisions – non-life (excluding health)	R0520	478,600
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	432,005
Risk margin	R0550	46,595
Technical provisions – health (similar to non-life)	R0560	26,785
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	15,397
Risk margin	R0590	11,388
Technical provisions – life (excluding index-linked and unit-linked)	R0600	595,169
Technical provisions – health (similar to life)	R0610	-9,112
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	-12,523
Risk margin	R0640	3,411
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	604,281
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	583,050
Risk margin	R0680	21,231
Technical provisions – index-linked and unit-linked	R0690	299,264
Technical provisions calculated as a whole	R0700	70,334
Best Estimate	R0710	221,009
Risk margin	R0720	7,920
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	8,927
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	44,023
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	1,143
Insurance & intermediaries payables	R0820	41,218
Reinsurance payables	R0830	1,409

Liabilities		Solvency II value C0010
Payables (trade, not insurance)	R0840	11,670
Subordinated liabilities	R0850	75,681
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	75,681
Any other liabilities, not elsewhere shown	R0880	24,981
Total liabilities	**R0900**	**1,608,868**
Excess of assets over liabilities	**R1000**	**537,332**

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	8,358	49,999	0	132,888	124,942	10,258	84,593	25,389	1,174	774	16,722	3,076
gross – accepted proportional reinsurance	R0120	296	1,528	0	244	895	6,759	44,707	4,061	490	9	0	556
gross – accepted non-proportional reinsurance	R0130												
Reinsurers' share	R0140	645	68	0	739	2,003	5,551	17,341	1,483	244	644	51	894
Net	R0200	8,009	51,459	0	132,394	123,834	11,466	111,959	27,966	1,420	138	16,671	2,739
Premiums earned													
Gross – Direct Business	R0210	8,347	50,524	0	137,690	123,565	10,532	79,540	23,497	3,833	784	16,843	2,934
gross – accepted proportional reinsurance	R0220	296	1,524	0	314	807	7,053	43,857	3,847	386	9	0	541
gross – accepted non-proportional reinsurance	R0230												
Reinsurers' share	R0240	651	53	0	3,679	2,051	5,806	15,938	-1,573	226	650	55	837
Net	R0300	7,993	51,995	0	134,325	122,320	11,779	107,458	28,918	3,992	143	16,788	2,638
Claims incurred													
Gross – Direct Business	R0310	4,359	12,722	0	80,055	74,496	7,491	46,368	5,463	1,734	30	7,863	9,177
gross – accepted proportional reinsurance	R0320	838	230	0	225	218	5,314	36,331	2,039	150	1	0	248
gross – accepted non-proportional reinsurance	R0330												
Reinsurers' share	R0340	233	379	0	-2,053	950	4,526	10,910	1,383	3	15	16	1,874
Net	R0400	4,965	12,573	0	82,332	73,764	8,279	71,789	6,119	1,881	15	7,847	7,551

		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
Change in other technical provisions													
Gross – Direct Business	**R0410**	37	-27	0	-103	1,335	-99	750	-212	0	6	104	-4
gross – accepted proportional reinsurance	**R0420**	0	0	0	0	3	156	0	0	50	0	0	0
gross – accepted non-proportional reinsurance	**R0430**												
Reinsurers' share	**R0440**	0	0	0	-3	2	9	4	-3	0	0	0	-4
Net	**R0500**	36	-26	0	-100	1,336	48	746	-209	50	6	104	0
Expenses incurred	**R0550**	3,353	17,252	0	40,978	32,330	4,422	43,001	7,922	860	269	7,876	1,554
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					458,173
Gross – Proportional reinsurance accepted	R0120					59,545
Gross – Non-proportional reinsurance accepted	R0130	523	2,536	3,975	40,189	47,223
Reinsurers' share	R0140	0	2,071	649	7,964	40,347
Net	R0200	523	466	3,326	32,224	524,594
Premiums earned						
Gross – Direct Business	R0210					458,089
Gross – Proportional reinsurance accepted	R0220					58,633
Gross – Non-proportional reinsurance accepted	R0230	504	2,512	3,994	38,904	45,913
Reinsurers' share	R0240	0	4,378	603	7,787	41,140
Net	R0300	504	-1,866	3,390	31,116	521,496
Claims incurred						
Gross – Direct Business	R0310					249,758
Gross – Proportional reinsurance accepted	R0320					45,595
Gross – Non-proportional reinsurance accepted	R0330	327	1,377	3,808	24,286	29,798
Reinsurers' share	R0340	0	470	-152	-646	17,909
Net	R0400	327	907	3,960	24,932	307,242
Changes in other technical provisions						
Gross – Direct Business	R0410					1,787
Gross – Proportional reinsurance accepted	R0420					209
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	4
Net	R0500	0	0	0	0	1,991
Expenses incurred	R0550	108	715	674	7,183	168,495
Other expenses	R1200					0
Total expenses	R1300					168,495

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
Premiums written		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Gross	R1410	1,656	30,813	57,490	21,608	0	0	0	0	111,567
Reinsurers' share	R1420	27	100	52	525	0	0	0	0	704
Net	R1500	1,629	30,713	57,438	21,083	0	0	0	0	110,864
Premiums earned										
Gross	R1510	1,655	30,898	57,493	21,610	0	0	0	0	111,657
Reinsurers' share	R1520	26	100	52	853	0	0	0	0	1,031
Net	R1600	1,629	30,799	57,441	20,757	0	0	0	0	110,625
Claims incurred										
Gross	R1610	31	83,521	25,736	6,196	0	7,468	0	0	122,951
Reinsurers' share	R1620	0	86	44	448	0	3,057	0	0	3,634
Net	R1700	31	83,435	25,692	5,748	0	4,410	0	0	119,316
Changes in other technical provisions										
Gross	R1710	-9	55,248	-44,850	-5,025	0	0	0	0	5,364
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	-9	55,248	-44,850	-5,025	0	0	0	0	5,364
Expenses incurred	R1900	601	5,048	8,633	8,160	0	33	0	59	22,534
Other expenses	R2500									0
Total expenses	R2600									22,534

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	399,323	0	0	13,761	12,837	20,675	446,596
Gross – Proportional reinsurance accepted	R0120	753	6,558	10,343	0	0	1,354	19,008
Gross – Non-proportional reinsurance accepted	R0130	52	4,040	3,624	0	15	646	8,377
Reinsurers' share	R0140	110,529	0	1	1,772	2,047	3,846	118,194
Net	R0200	289,599	10,599	13,966	11,989	10,806	18,828	355,787
Premiums earned								
Gross – Direct Business	R0210	398,776	0	0	13,867	12,840	21,475	446,959
Gross – Proportional reinsurance accepted	R0220	742	5,520	10,484	0	0	1,436	18,182
Gross – Non-proportional reinsurance accepted	R0230	51	4,125	3,543	0	15	606	8,340
Reinsurers' share	R0240	112,013	0	0	1,730	1,968	3,524	119,236
Net	R0300	287,556	9,645	14,027	12,138	10,888	19,992	354,245
Claims incurred								
Gross – Direct Business	R0310	221,932	0	0	6,586	5,199	9,737	243,454
Gross – Proportional reinsurance accepted	R0320	-57	2,739	9,861	0	0	68	12,611
Gross – Non-proportional reinsurance accepted	R0330	186	2,315	7,681	13	0	347	10,542
Reinsurers' share	R0340	55,572	0	0	682	550	1,989	58,794
Net	R0400	166,489	5,054	17,542	5,917	4,648	8,163	207,813
Changes in other technical provisions								
Gross – Direct Business	R0410	-1,724	0	0	-38	36	65	-1,662
Gross – Proportional reinsurance accepted	R0420	0	-11	-18	0	0	0	-29
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	4	0	0	0	0	0	4
Net	R0500	-1,728	-11	-18	-38	36	65	-1,695
Expenses incurred	R0550	90,172	2,239	4,079	5,578	4,953	9,541	116,561
Other expenses	R1200							
Total expenses	R1300							

		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	105,605						105,605
Reinsurers' share	R1420	690						690
Net	R1500	104,915						104,915
Premiums earned								
Gross	R1510	105,680						105,680
Reinsurers' share	R1520	666						666
Net	R1600	105,014						105,014
Claims incurred								
Gross	R1610	121,253						121,253
Reinsurers' share	R1620	3,559						3,559
Net	R1700	117,693						117,693
Changes in other technical provisions								
Gross	R1710	97,402						97,402
Reinsurers' share	R1720	0						0
Net	R1800	97,402						97,402
Expenses incurred	R1900	19,939						19,939
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	376,918	376,918			
Subordinated liabilities	R0140	75,681		0	75,681	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	493	493	0	0	0
Non-available minority interests at group level	R0210	203	203	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	11,201	11,201	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	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total of non-available own fund items	R0270	203	203	0	0	0
Total deductions	**R0280**	11,404	11,404	0	0	0
Total basic own funds after deductions	**R0290**	556,579	480,899	0	75,681	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310	0			0	0
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	0
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Non available ancillary own funds at group level	R0380	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	**R0400**	0			0	0
Own funds of other financial sectors						
Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	R0410	3,344	3,344	0	0	
Institutions for occupational retirement provision	R0420	7,856	7,856	0	0	0
Non-regulated entities carrying out financial activities	R0430	0	0	0	0	0
Total own funds of other financial sectors	R0440	11,201	11,201	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	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	556,579	480,899	0	75,681	0
Total available own funds to meet the minimum consolidated group SCR	R0530	556,579	480,899	0	75,681	
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	556,579	480,899	0	75,681	0
Total eligible own funds to meet the minimum consolidated group SCR	R0570	508,170	480,899	0	27,271	
Minimum consolidated Group SCR	**R0610**	136,355				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	**373%**				
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**	567,780	492,099	0	75,681	0
Group SCR	**R0680**	287,432				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	**198%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	537,332
Own shares (held directly and indirectly)	R0710	31,856
Foreseeable dividends, distributions and charges	R0720	13,173
Other basic own fund items	R0730	115,385
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**	**376,918**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	103,786
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	25,922
Total Expected profits included in future premiums (EPIFP)	**R0790**	**129,708**

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	120,583		
Counterparty default risk	R0020	25,045		
Life underwriting risk	R0030	38,208	none	
Health underwriting risk	R0040	31,604	none	
Non-life underwriting risk	R0050	173,649	none	
Diversification	R0060	-124,900		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	264,189		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	21,585
Loss-absorbing capacity of technical provisions	**R0140**	-1,043
Loss-absorbing capacity of deferred taxes	**R0150**	-17,271
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**	267,460
Capital add-on already set	**R0210**	0
Solvency capital requirement	**R0220**	287,432
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**	136,355
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	**R0500**	7,383
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**	1,088
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	**R0520**	6,295
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**	12,588
Overall SCR		
SCR for undertakings included via D&A	**R0560**	0
Solvency capital requirement	**R0570**	**287,432**

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