AMONG GOOD PEOPLE

SAVA INSURANCE GROUP

SOLVENCY AND FINANCIAL CONDITION REPORT
of the Sava Insurance Group and Sava Re d.d. for
2022

Management board of Sava Re d.d.

Ljubljana, May 2023

Peter Skvarča
Member of the Management Board

Marko Jazbec
Chairman of the Management Board

David Benedek
Member of the Management Board

Polona Pirš Zupančič
Member of the Management Board

Contents

Summary

General information

The figures in the tables of this report are stated in thousands of euros. The report has been reviewed and approved by the parent company's management and supervisory boards. The Group's solvency and financial condition report has been reviewed by the audit firm Deloitte Revizija d.o.o., which has issued an independent auditor's assurance report.

Introduction

The year 2022 was marked by a tense geopolitical situation. In February 2022, Russia launched a war of aggression against Ukraine, which continued throughout the year. The Sava Insurance Group, specifically Sava Re, had written reinsurance contracts with Russian and Ukrainian partners, the annual premium volume of which was negligible. All contracts contain a sanctions clause, which, in the event of sanctions imposed by the European Union and the United Nations, limits the parent company's obligations under any contract that violates the applicable sanctions. In addition, the reinsurance contracts written exclude coverage related to war. The Group's credit and currency exposure to Russia, Ukraine and Belarus arising from financial investments was negligible as at 31 December 2022.

The war impacted capital markets and caused energy prices and inflation to rise. Higher risk-free interest rates, wider credit spreads and falling equity markets have led to a significant decline in the value of the Group's investment portfolio. In 2022, the risk of a decline in the profitability of the (re)insurance business also increased significantly due to claims inflation. As a result, technical provisions were strengthened, and insurance underwriting focused on appropriate pricing.

The Covid-19 situation gradually eased in 2022. In the first half of 2022, the measures taken to contain the Covid-19 pandemic had some impact on the Group's operations, but the situation largely returned to normal in the second half of the year. Covid-19 did not have a material adverse impact on the 2022 business results.

Despite the challenging environment, the Sava Insurance Group ended the year in a strong financial and solvency position. The Group will continue to closely monitor risks, especially those related to the macroeconomic and geopolitical situation.

Profile of the Sava Insurance Group

The Sava Insurance Group is one of the largest insurance groups in southeastern Europe. As at 31 December 2022, the insurance part of the Group was composed of one reinsurer and eight insurers based in Slovenia and in the countries of the Adriatic region. In addition to the (re)insurance companies, the Group consists of eight non-insurance companies.

The Group employs approximately 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,
- professionalism,
- 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 since 1998 through its former subsidiary Zavarovalnica Tilia. 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 pension markets, and in 2018 it entered the Slovenian assistance services market. 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 represent increased scale and more opportunities for synergy.

The Sava Insurance Group's core strengths are regional knowledge, reliability, responsiveness, flexibility and financial strength. We exceed customer expectations by striving for continuous improvement, by building relationships in a responsible, frank and respectful manner, and by playing an active role in our environment.

Our guiding principle is to build long-term relationships with our customers and partners that enable us to achieve our common goals through all economic cycles.

Business and performance[1]

The Sava Insurance Group generated a net profit of EUR 68.2 million in 2022, exceeding the annual target by 13.7%. This translates into a return on equity of 14.9%, which is almost a quarter above the target set in the 2020–2022 strategy.

In 2022, the Sava Insurance Group completed the 2020–2022 strategy period, during which it successfully achieved its strategic goals. Through organic growth and the acquisition of Vita, the Group strengthened its revenue by 28% over the last three years and achieved an average return on equity of 14.7%. The Group's outstanding performance during the strategic period was driven by improvement of the customer experience through digital transformation, putting the customer at the centre and tailoring services to customers' needs. With the strategy for 2023–2027, adopted at the end of 2022, the Sava Insurance Group remains more committed than ever to its mission and vision.

The year 2022 was marked by rising geopolitical tensions and tightening global economic conditions. This presented the Sava Insurance Group with new challenges. An advanced risk governance framework, timely action, capital strength and customer focus enabled the Sava Insurance Group to achieve almost all the objectives planned for 2022, despite the challenging environment. Sava Re's capital strength and solid performance were once again confirmed in the past year by the "A" credit ratings awarded by S&P Global Ratings and AM Best.

The Group recorded profits in all operating segments and, importantly, continued to improve its results in foreign markets. However, the higher non-life claims in Slovenia are the main reason for the Group's weaker profit compared to the previous year. This decrease of 10.4% from the previous year's record result was expected given the rising claims frequency as the effects of the pandemic subsided and drivers returned to the road, with some additional negative impact from claims inflation and major weather-related claims.

In 2022, the Group increased operating revenue to EUR 753.6 million, 7.7% above target. Gross premiums written rose by 6.1% to EUR 774.1 million. Premium growth was even higher in the non-life and reinsurance segments, partly as a result of inflation-adjusted price increases. In the international non-life segment, premiums grew by a full 19.2%. The life segment also exceeded its planned premiums, but did not reach the previous year's volume, because of the unusually high sales in Slovenia in the previous year. In addition, the Group experienced strong premium growth of 17.5% in the international life segment, driven by stronger bancassurance sales and sales through the Group's own network.

Net non-life claims incurred in Slovenia increased mainly due to the expected normalisation of claims frequency and claims inflation. The impact of these rising expenses was partially offset by the favourable development of prior year claims provisions in the Slovenian portfolio and also in the freedom of services business. The rise in international non-life claims incurred was mainly driven by higher premium volume.

The combined ratio rose as expected because of the increase in claims, but at 90.7% it is still much better than planned. Greater cost efficiency, with expenses growing at a slower rate than premiums, was a major contributor to this. The relatively small overall increase in claims incurred of 2.7% at the Group level mainly reflects developments in the life segment, which saw fewer policy maturities and policy surrenders in Slovenia.

The value of the investment portfolio decreased from EUR 1,581.4 million to EUR 1,420.0 million, chiefly due to the adverse financial market conditions and the resulting decline in the fair value reserve within equity. Despite this accounting revaluation, we do not expect to incur any losses on the bond portfolio at maturity. The return on the investment portfolio was 1.3%, below both the previous year and the target, as a result of fair value losses on investments measured at fair value through the profit and loss statement (impact of EUR 8.0 million). However, the share of investment-grade assets in total debt investments remained virtually unchanged from the previous year at 86.5%, reflecting a continued fundamental conservatism.

In 2022, the Group continued to make solid progress in its strategy to develop digital transformation and customer-centred business processes. Its key development activities were focused on the consolidation of customer support processes at contact centres and the introduction of centralised multi-channel solutions across several Sava Insurance Group companies. Digital and self-care solutions for customers were also further developed to improve the user experience.

Sustainability has become an integral part of how the Group operates and makes decisions. At the end of the year, the Group therefore adopted a sustainable development policy, which governs the sustainability management system and underlines the principles of responsible management in all areas of the business. In addition to developing products with a sustainability component, in 2022 the Group developed guidelines for the responsible underwriting of environmental, social and governance risks in non-life insurance.

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

Strategic priorities of the Sava Insurance Group

The strategy of the Sava Insurance Group sets out strategic goals in two ways, based on its three key focus areas for the 2023–2027 strategy period and based on the key pillars of its business operations.

Key pillars of the Group

Integral risk management

Insurance
- Non-life, Slovenia
- Life, Slovenia
- Non-life, international
- Life, international

Reinsurance
- Non-Group
- Group

Asset management and pensions
- Mutual funds
- Managed accounts
- Pensions

Other
- Healthcare
- Assistance

Corporate support functions

Key Group priorities

For the 2023–2027 period, the Group has adopted a new strategy that will drive the Group forward on three key priorities:

- The Group will take the **customer-at-the-centre** approach to the next level by always ensuring that customers, their wishes and their needs are central to the way business is done. To this end, the Group has set itself three goals. The integration of all communication channels through a centralised customer relationship management system will help the Group achieve its goal of personalised communication. The second goal is to establish a hybrid sales model that will allow the sales network to focus on more complex types of insurance and customer advice. The third goal is to set up self-care platforms, such as customer portals, websites and mobile applications, which will improve customer service in sales, claims and other services.

- The Group has two key objectives in **optimising its business processes**: to speed up and simplify customer service and internal processes. This will also contribute to cost efficiency, which will play a more important role in the next strategy period than in the past, given the changed macroeconomic environment. To achieve this strategic priority, the Group will undertake a comprehensive review of its processes to identify opportunities for improvement. Processes will then be redesigned and any other necessary changes made to align the organisation with these new processes.

- The Group will **pursue sustainability** in all key areas: environmental, social and governance. It will continue to support global sustainability trends and focus on goals related to climate change and caring for the health and well-being of its customers, employees and the wider community.

Long-term strategic targets:

- Over a 5-year period, the Group will achieve a return on equity (excluding the fair value reserve) of between 9.5% and 10.5%.
- For the 2023–2027 period, the solvency ratio at the Group level will be between 170% and 210% (within the optimal capital range).
- Non-life (re)insurance operations will achieve an underwriting combined ratio not exceeding 95%.
- The return on the Group's investment portfolio, net of subordinated debt expenses, will increase to reach 2.2% in 2027.

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 at 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 consists of 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.

Risk profile

The Group calculates its capital requirement in accordance with the Solvency II Standard Formula as defined in Delegated Regulation (EU) 2015/35 (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 risk categories: life underwriting risk, health underwriting risk, counterparty default risk and operational risk. In addition to the above risks 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's solvency capital requirement (SCR) in accordance with the Standard Formula by risk module.

Group solvency capital requirement by risk module[2]

EUR thousand	31 December 2022	31 December 2021
Group SCR (= (4) + (5) + (6))	**310,079**	**304,405**
(6) Capital requirement for other financial sectors	7,648	7,797
(5) Capital requirement for residual undertakings	6,390	6,142
(4) SCR calculated on the basis of the consolidated data of the Group companies that are consolidated under Solvency II[3] (= (1) + (2) + (3))	296,041	290,466
(3) Adjustment for TP and DT[4]	-9,159	-17,709
(2) Operational risk	22,702	21,816
(1) Basic solvency capital requirement (BSCR)	282,499	286,360
Diversification effect	-135,748	-132,071
Sum of risk components	418,246	418,431
Market risk	119,530	147,025
Counterparty default risk	23,242	20,596
Life underwriting risk	49,739	38,255
Health underwriting risk	32,500	32,460
Non-life underwriting risk	193,235	180,095

2 The capital requirement for other financial sectors relates to the companies Sava Pokojninska and Sava Infond, and the capital requirement for residual undertakings covers G2I, DCB and Sava Penzisko.
3 Under Solvency II, the consolidation includes insurance companies and ancillary services undertakings.
4 Adjustment for loss-absorbing capacity of technical provisions and deferred taxes.

Valuation for solvency purposes

The Group uses the full consolidation method in accordance with the International Financial Reporting Standards (IFRS) to prepare its IFRS consolidated financial statements, with the exception of the associates DCB and G2I, which are consolidated using the equity method.

However, for the purpose of valuation of the Solvency II balance sheet, all (re)insurance undertakings of the Group and all ancillary services undertakings are consolidated in accordance with Article 335(1), point (a), of Commission Delegated Regulation (EU) (2015/35) (the Delegated Regulation). Sava Pokojninska and Sava Infond are consolidated in accordance with Article 335(1), point (e), of the Delegated Regulation, whereas Sava Penzisko Društvo and the associates DCB and G2I are consolidated in accordance with Article 335(1), point (f), of the Delegated Regulation.

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

The table shows that the Solvency II eligible own funds are significantly higher than the IFRS equity, but lower than the eligible own funds as at 31 December 2021, mainly due to the adverse financial market conditions, which had a significant impact on the value of investments.

Adjustments to IFRS equity for Solvency II balance sheet valuation purposes

EUR thousand	31 December 2022	31 December 2021
IFRS equity[5]	410,756	500,997
Difference in the valuation of assets	-106,681	-95,308
Difference in the valuation of technical provisions	254,492	160,060
Difference in the valuation of other liabilities	-23,835	-19,183
Foreseeable dividends, distributions and charges	-24,796	-23,247
Adjustment for minority interests	-206	-107
Deduction for participations in other financial undertakings	-12,641	-12,562
Subordinated liabilities in basic own funds	56,290	78,065
Total basic own funds after deductions	553,379	588,715
Total own funds in other financial sectors	12,641	12,562
Eligible own funds to meet the Group SCR	566,020	601,277

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

Capital management

The Group manages its capital to ensure that it always has 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. It ensures that business and strategic plans are in line with the risk appetite and makes adjustments where necessary. At the same time, it seeks an efficient allocation of capital.

The following table shows the Group's capital adequacy. In addition to the SCR, the minimum capital requirement (MCR) is also shown.

As at 31 December 2022, the majority of eligible own funds to cover the Group SCR were tier 1 funds. In addition, eligible own funds included subordinated liabilities classified as tier 2 eligible own funds.

As at 31 December 2022, the Group complied with the regulatory requirements regarding the level and quality of capital to cover the Group SCR and the Group MCR, as its solvency ratio of 183% was well above the regulatory requirement of 100%, and the MCR ratio was 369%. The Group's risk strategy for 2020–2022 set the target solvency ratio in the range of 180–220%. This demonstrates that the Group is well capitalised, also according to its own criteria.

Capital adequacy of the Group

EUR thousand	31 December 2022	31 December 2021
Group SCR	310,079	304,405
Eligible own funds to meet the Group SCR	566,020	601,277
Of which tier 1	509,730	523,212
Of which tier 2	56,290	78,065
Of which tier 3	0	0
Group solvency ratio	183%	198%
Minimum capital requirement (MCR) of Group	142,515	140,651
Eligible own funds to meet the Group MCR	525,592	538,780
Of which tier 1	497,089	510,650
Of which tier 2	28,503	28,130
Of which tier 3	-	-
Group MCR	369%	383%

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 (the Group), conducts reinsurance business. In addition to Sava Re, the Group consists of one composite insurance company in Slovenia and one 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)).

In addition to the listed (re)insurance companies, the Group also includes the following companies:

- Sava Pokojninska (SVN): a Slovenian pension company;
- Sava Penzisko Društvo (MKD): a pension fund manager based in North Macedonia that manages second- and third-pillar pension funds;
- Sava Infond (SVN): a subsidiary that manages investment funds;
- TBS Team 24 (SVN): a company that provides assistance services for motor, health and homeowners insurance;
- DCB (SVN): an associate company that carries out hospital activities;
- G2I (GBR): an associate company that markets online motor insurance policies;
- indirect subsidiaries.

The following diagram shows the Group's composition.

Composition of the Group as at 31 December 2022[6]

6 The percentages in the diagram refer to shareholdings. The shareholdings shown for G2I, Sava Infond and DCB differ from the voting rights held by these companies. The Group's annual report provides information on all companies, including shareholdings and voting rights.

Appendix B "Quantitative reporting templates", form S.32.01.22 "Undertakings in the scope of the Group", contains details of all companies in the Sava Insurance Group. The following tables provide details of all Group companies in which Sava Re has a direct equity interest.

Subsidiaries and associates as at 31 December 2022

	Zavarovalnica Sava (SVN)	Sava Neživotno Osiguranje (Serbia)	Illyria (RKS)	Sava Osiguruvanje (North Macedonia)	Sava Osiguranje (Montenegro)	Illyria Life (RKS)	Sava Životno Osiguranje (Serbia)
Registered office	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Zagrebska br. 28A, 1000 Skopje, North Macedonia	Ulica Svetlane Kane Radević br. 1, 81000 Podgorica, Montenegro	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia
Main activity	insurance	non-life insurance	non-life insurance	non-life insurance	non-life insurance	life insurance	life insurance
Share capital (EUR)	68,417,377	6,314,464	7,228,040	3,820,077	4,033,303	3,285,893	4,326,664
Nominal value of combined shareholdings of all Group companies (EUR)	68,417,377	6,314,464	7,228,040	3,585,524	4,033,303	3,285,893	4,326,664
Share of equity / voting rights of Group companies	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 93.86%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2022 (EUR)	46,525,330	1,216,985	1,054,391	1,636,953	2,100,234	610,116	31,262
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company

	Sava Pokojninska (SVN)	TBS Team 24 (SVN)	Sava Penzisko Društvo (MKD)	DCB (SVN)	G2I (GBR)	Sava Infond (SVN)	Vita (SVN)
Registered office	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Ljubljanska ulica 42, 2000 Maribor, Slovenia	Majka Tereza 1, 1000 Skopje, North Macedonia	Pod Skalo 4, 4260 Bled, Slovenia	First Floor Ridgeland House 15 Carfax, Horsham, West Sussex, RH12 1DY, United Kingdom	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Trg republike 3, 1000 Ljubljana, Slovenia
Main activity	pension fund	provision of assistance services	fund management activities	hospital activities	insurance agency	fund management activities	life insurance
Share capital (EUR)	6,301,109	8,902	2,110,791	379,123	152,958	1,460,524	7,043,900
Nominal value of combined shareholdings of all Group companies (EUR)	6,301,109	7,789	2,110,791	189,562	26,768	1,460,524	7,043,900
Share of equity / voting rights of Group companies	Sava Re: 100.0%	Sava Re: 87.5%	Sava Re: 100.0%	Sava Re: 40.1%/50.0%	Sava Re: 17.5%/25.0%	Sava Re: 84.00%/84.85% Zavarovalnica Sava: 15.00%/15.15%	Sava Re: 100.0%
Profit or loss for 2022 (EUR)	-538,699	960,992	1,962,201	2,752,760	-517,993	3,290,258	9,260,677
Position in the Group	subsidiary pension company	subsidiary	subsidiary pension company	associate company	associate company	subsidiary	subsidiary insurance company

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

Name and contact details of the authority responsible for supervising 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

Deloitte Revizija d.o.o.
Dunajska cesta 165
SI-1000 Ljubljana
Slovenia
Telephone: +386 1 307 28 00
Telefax: +386 1 307 29 00

The financial statements of the Group are audited by Deloitte Revizija d.o.o., who also audited the 2022 financial statements of Sava Re and the Sava Insurance Group. In 2022, the subsidiaries were audited by the local auditors of the same auditing firm. In 2022, a contract was signed with Deloitte Revizija d.o.o. for the audit of the financial statements for 2022–2024. Sava Re complies with the provisions on auditor rotation in accordance with the Slovenian Auditing Act (Article 47(5)) and the Slovenian Insurance Act (Article 258(4)).

Holders of qualifying holdings in the Company as at 31 December 2022

Shareholder	Number of shares	Holding	% of voting rights
SDH d.d.	3,043,883	17.7%	19.6%
Intercapital Securities Ltd., fiduciary account	2,538,773	14.7%	16.4%
Republic of Slovenia	2,392,436	13.9%	15.4%
European Bank for Reconstruction and Development (EBRD)	1,071,429	6.2%	6.9%
Raiffeisen Bank Austria d.d. – fiduciary account	795,206	4.6%	5.1%

Source: Central securities register KDD d.d.
Note: Pursuant to Article 235a of the Slovenian Companies Act (ZGD-1), in April 2022 Sava Re started the process of identifying shareholders who are registered with intermediaries as holders of shares and who are not themselves intermediaries (ultimate shareholders). According to the information received, Adris Grupa d.d. held 3,278,049 POSR shares on 26 April 2022.

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

In 2022, the Group's main lines of business were:

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

These lines of business accounted for 75.8% of the total gross premiums written (2021: 76.7%).

The Group operates in the Slovenian market and globally. The following table shows the main markets of the Group in terms of premiums written in 2022. Listed are countries in which 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 the majority of its premium income from Slovenia, other countries in the Adriatic region and South Korea.

Main countries in which the Group operates[9]

EUR thousand	Gross premiums written in 2022	Gross premiums written in 2021	Index
Slovenia	561,587	540,348	103.9
Serbia	36,097	29,842	121.0
Kosovo	21,784	17,007	128.1
North Macedonia	17,433	15,281	114.1
Montenegro	17,393	14,410	120.7
South Korea	12,324	14,034	87.8
China	11,908	8,749	136.1

7 This subsection presents consolidated data based on Solvency II valuations, excluding Sava Pokojninska and Sava Penzisko Društvo; therefore, the figures do not equal with IFRS calculations.
8 The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and the Group's SCR. As at 31 December 2022, the Group's materiality threshold was EUR 11 million.
9 The premium for reinsurance business outside the group includes the premium estimates. The Slovenian premium also includes the premium of the Zavarovalnica Sava branch in Croatia.

Significant events in 2022

- The year 2022 was marked by a tense geopolitical situation. In February 2022, Russia launched a war of aggression against Ukraine, which has now lasted a year. In early 2022, the Sava Insurance Group assessed the impact of the war in Ukraine on its operations and estimated that the changed circumstances would not have a material impact on its business result due to the small volume of business with and low investment exposure to Russia and Ukraine.
- Russia's military aggression against Ukraine affected capital markets and caused energy prices and inflation to rise. In response to inflation, central banks promptly adjusted monetary policy by raising key interest rates to levels last seen 15 years ago. Increased risk-free interest rates led to a decline in the value of the Group companies' investment portfolios. In addition, the risk of a decline in the profitability of the non-life (re)insurance business was significantly higher, reflecting the increase in average claims, which was mainly seen in motor and property insurance. Zavarovalnica Sava responded by increasing premium rates and adjusting products that showed signs of claims inflation. Technical provisions also increased in line with the estimated impact. Inflationary pressures were also felt in the other markets in which the Group operates and in the reinsurance segment.
- Uncertainty was added by the heightened tensions over Taiwan and the challenges faced by the economy in China, where it appears increasingly likely that the property bubble will burst, while the economy is also affected by the country's zero-tolerance approach to Covid-19. For details, see section C. "Group risk profile" and the Annual Report of the Sava Insurance Group and Sava Re d.d. for 2022 (hereinafter: the Group's annual report, section 17.7 "Risk management", for a detailed discussion of the risks arising from adverse macroeconomic and geopolitical conditions.
- In the first half of 2022, the measures to mitigate the pandemic had some impact on the operations of the Group companies, but the situation returned to normal in the second half of the year. Hybrid working is already well established in the Group companies. Covid-19 did not have a material adverse effect on the business results of the companies in 2022, and we do not expect any significant impact on performance or operations in the future. Risks are monitored through regular risk monitoring and reporting. We understand the risks much better than we did at the beginning of the pandemic, and we believe that they are well managed.
- Jošt Dolničar, who was appointed chairman of the management board of Zavarovalnica Sava on 30 December 2021, received a licence to perform this function from the Insurance Supervision Agency on 3 May 2022. His term as a member of the management board of Sava Re ended on 4 May 2022, and he assumed the chairmanship of the management board of Zavarovalnica Sava on 5 May 2022 for a five-year term of office.
- In May 2022, the 38th general meeting of shareholders was held.
- In May 2022, the High Court in Dublin ruled in favour of Zavarovalnica Sava, confirming that the wording of its business interruption and loss of licence policy did not provide cover for losses arising from the Covid-19 pandemic.
- In September 2022, the rating agencies S&P Global Ratings and AM Best affirmed the "A" ratings of Sava Re and Zavarovalnica Sava. The outlook was stable.
- In December 2022, the Sava Insurance Group's new strategy for the 2023–2027 period and the business plan for the financial year 2023 were released.

Significant events after the reporting date

- On 15 January 2023, a new five-year term of office for Polona Pirš Zupančič, a member of the management board of Sava Re, was entered in the register of companies.
- At the beginning of 2023, Zavarovalnica Sava and Sava Infond sold two properties in Maribor, which were classified as available for sale at the reporting date. The total sales value of the properties was EUR 4.2 million. This sale will have no impact on the consolidated income statement of the Sava Insurance Group for 2023.
- In March 2023, an agreement was signed for the sale of G2I (GBR). Sava Re's ownership of the company will cease after the transfer of the shareholding becomes effective in the English register of companies.
- In December 2022, the supervisory board of Sava Re appointed David Benedek as an additional member of the management board. He took up his duties as a member of the management board on 22 March 2023.
- On 7 April 2023, the Company's 39th annual general meeting of shareholders was convened for Monday, 5 June 2023.

Difference in scope of consolidated IFRS and Solvency II balance sheets

The Group uses the full consolidation method for preparing the IFRS consolidated financial statements of all its companies, except for the associates DCB and G2I, which are consolidated using the equity method. However, for the purpose of valuation of the Solvency II balance sheet, all (re)insurance undertakings of the Group and all ancillary services undertakings are consolidated in accordance with Article 335(1), point (a), of the Delegated Regulation. Sava Pokojninska and Sava Infond are consolidated in accordance with Article 335(1), point (e), of the Delegated Regulation, whereas Sava Penzisko Društvo and the associates DCB and G2I are consolidated in accordance with Article 335(1), point (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	2022	2021	Index
Gross premiums written	770,678	725,634	106.2
Net premiums earned	697,921	682,310	102.3

Consolidated gross premiums written by region

EUR thousand	2022	2021	Index
Slovenia	561,587	540,348	103.9
International	209,091	185,286	112.8
Total	770,678	725,634	106.2

Consolidated gross premiums written by material line of business

EUR thousand	2022	2021	Index
Life (re)insurance	152,680	159,732	95.6
Other motor insurance and proportional reinsurance	151,431	134,131	112.9
Fire insurance and proportional reinsurance and other damage to property insurance and proportional reinsurance	143,163	135,592	105.6
Motor vehicle liability insurance and proportional reinsurance	136,700	126,774	107.8
Income protection insurance and proportional reinsurance	56,658	54,429	104.1
Other lines of business	130,046	114,976	113.1
Total	770,678	725,634	106.2

In 2022, gross premiums written grew by 6.2% with no significant change in the breakdown by line of business compared to 2021. Non-life (re)insurance premiums account for 80.2% (2021: 78.0%) of total premiums, and life (re)insurance premiums account for 19.8% (2021: 22.0%). Gross non-life (re)insurance premiums written are dominated by other motor insurance and proportional reinsurance together with fire insurance and proportional reinsurance and other damage to property insurance and proportional reinsurance, which account for 38.2% of total gross premiums written (2021: 37.2%). Other motor insurance and proportional reinsurance together with motor vehicle liability insurance and proportional reinsurance account for 37,4% (2021: 36,0%) of total gross premiums written.

Movements in gross premiums written by operating segment, as analysed by the Group, are as follows.

Gross premiums written in the **reinsurance** segment in 2022 increased by 7.8% from the previous year to EUR 120.8 million. The growth in gross premiums written was mainly driven by a 16.9% increase in premiums in non-proportional reinsurance, the aforementioned positive price developments in global reinsurance markets and the capture of new business opportunities. Net premiums earned grew in line with gross premiums written.

Gross **non-life** insurance premiums increased by 9.5% to EUR 497.2 million in 2022. While FoS-related gross premiums written dropped by EUR 4.2 million, this premium loss was offset by other non-life premiums both in Slovenia and abroad. In non-life insurance, the largest increase in gross premiums was in motor insurance, up by EUR 28.2 million. In Slovenia, this growth was mainly in the private motor segment, as a result of an increase in average premiums and an increase in the number of policies sold. The increase in the average premium was driven by claims inflation, higher claims frequency and higher service costs. Motor insurance also grew in all the Group's foreign markets, mainly due to a more stable third-party motor liability market in Serbia, more policies sold and higher premiums from existing policyholders in the remaining markets. Gross premiums written also grew significantly in the assistance business, as the Covid-19 situation normalised, and in the property business, due to an increase in the number of policies sold and a rise in the average premium.

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, and therefore the figures do not equal those based on the IFRS valuation.

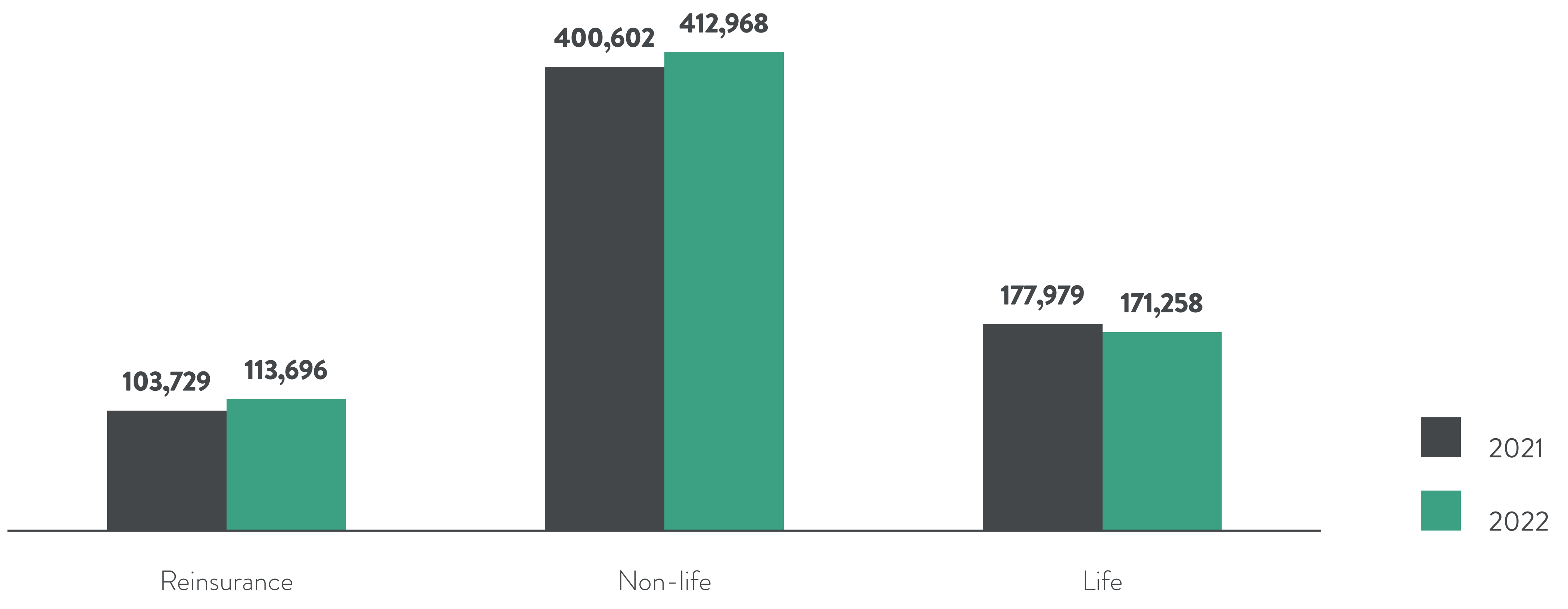
Gross **life** (re)insurance premiums in Slovenia grew by 4.4% to EUR 152.7 million in 2022. Gross premiums written by the Slovenian life insurers decreased by 5.8% compared to the previous year, mainly due to lower single-premium payments at Vita compared to 2021, when they were above average due to the announced introduction of demurrage on assets in private bank accounts, which encouraged bank customers to take out life insurance policies or make single premium payments on existing policies. Gross premiums written at Zavarovalnica Sava in Slovenia remained roughly at the same level as last year, despite lost premiums due to maturities, mortality and surrenders, as these were offset by new sales.

The non-Slovenian life insurers managed to increase their gross premiums written by a remarkable 24.7%. Premium growth was strongest in the Kosovo company, which started selling through a bank in mid-2021, while steadily increasing sales through its own distribution network. The Serbian insurer's gross premiums written also strengthened, driven by its own and external sales channels.

Consolidated net premiums earned by material line of business

EUR thousand	2022	2021	Index
Life insurance	151,268	158,552	95.4
Other motor insurance and proportional reinsurance	139,348	127,232	109.5
Motor vehicle liability insurance and proportional reinsurance	125,460	123,099	101.9
Fire and other damage to property insurance and proportional reinsurance	117,917	117,780	100.1
Income protection insurance and proportional reinsurance	56,128	54,382	103.2
Other lines of business	107,800	101,265	106.5
Total	697,921	682,310	102.3

Consolidated net premiums earned by operating segment (EUR thousand)



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	2022	2021	Index
Gross claims paid	453,352	406,909	111.4
Net claims incurred	414,786	390,499	106.2

Consolidated gross claims paid by region

EUR thousand	2022	2021	Index
Slovenia	285,878	254,873	112.2
International	167,473	152,036	110.2
Total	453,352	406,909	111.4

Consolidated gross claims paid for 2022 were a little higher than net claims incurred. The movements in gross claims paid and net claims incurred by operating segment, as analysed by the Sava Insurance Group, are as follows.

In 2022, exchange differences had a positive impact of EUR 0.1 million on net claims incurred in the **reinsurance** segment (2021: a negative impact of EUR 4.4 million). In 2022, net claims incurred, excluding the effect of exchange differences, increased by 9.7% compared to 2021. Gross claims paid were higher due to claims payments from previous underwriting years. As these were paid out of established claims provisions, they did not have a significant impact on the final result. Net claims incurred increased at a slower rate than gross claims paid thanks to the structure of our reinsurance protection for major loss events; therefore, these claims did not have a material impact on the result. The net incurred loss ratio for the reinsurance segment improved by 1.3 p.p. to 70.3% year on year (2021: 69.0%).

Consolidated gross **non-life** insurance claims paid increased by 18.1% to EUR 265.0 million in 2022. In the Slovenian non-life segment, net claims incurred rose by EUR 10.9 million. Net claims incurred related to the FoS business decreased, mainly reflecting a reduction in gross claims provisions as a result of the settlement of claims and the closure of some files related to business with partners with whom cooperation ceased. The release of IBNR provisions set aside to cover business interruption claims related to Covid-19 further contributed to the reduction, following the favourable outcome of a court judgement in Ireland in June 2022. Net claims incurred in other property business increased, reflecting claims inflation and higher claims frequency in the motor business, also as the result of the waning impact of the epidemic; claims in motor and property business also rose as the result of weather-related losses, and in property business additionally due to major loss events. The increase of EUR 4.5 million in net claims incurred in the international non-life segment mainly reflects the decline in the gross claims provision of the Croatian branch of Zavarovalnica Sava in 2021 as the result of the streamlining and the reduction of the portfolio (in 2022, the provision increased slightly) and the increase in the gross claims provisions of the non-life insurers in Kosovo and North Macedonia.

Gross claims paid in the Slovenian **life** segment decreased by 5.9% compared to the previous year, owing to lower claims at Zavarovalnica Sava as a result of fewer traditional life policy maturities, surrenders and deaths. At Vita, gross claims paid increased due to portfolio maturities. The change in technical provisions for the benefit of policyholders who bear the investment risk is mainly due to the change in the value of the investments supporting these liabilities, since the investment risk is borne by the policyholders. The change in the value of the provisions and of the associated investments is recognised in profit or loss, ensuring that the effects of these valuations are shown in a neutral way in the financial statements. The overall change in technical provisions for the benefit of life policyholders is not, as a rule, exactly the same as the change in the value of the related investments, since the level of provisions is affected by factors other than the change in the value of the investments during the period (an increase due to new contributions, a decrease due to claims payments, a decrease due to a deduction of booked expenses). Because of the losses in the Slovenian unit-linked life business, net claims incurred, including the change in other and the unit-linked business, were also significantly lower this year. Gross claims paid by the non-Slovenian insurers increased by 7.9%, mainly because of higher mortality and surrenders in Kosovo and Serbia, as expected given the portfolio growth.

Consolidated net claims incurred by material line of business

EUR thousand	2022	2021	Index
Life insurance	112,960	94,250	119.9
Other motor insurance and proportional reinsurance	91,783	78,510	116.9
Motor vehicle liability insurance and proportional reinsurance	78,865	63,152	124.9
Fire and other damage to property insurance and proportional reinsurance	70,310	64,875	108.4
Non-proportional property reinsurance	24,160	29,056	83.1
Other lines of business	36,708	60,656	60.5
Total	414,786	390,499	106.2

Expenses

Consolidated net operating expenses by material line of business

EUR thousand	2022	2021	Index
Fire and other damage to property insurance and proportional reinsurance	47,474	47,002	101.0
Motor vehicle liability insurance and proportional reinsurance	36,680	35,027	104.7
Other motor insurance and proportional reinsurance	36,674	32,894	111.5
Life insurance	30,005	28,723	104.5
Income protection insurance and proportional reinsurance	17,947	20,014	89.7
Other lines of business	37,878	36,873	102.7
Total	206,659	200,534	103.1

Net operating expenses rose by 3.1% in 2022. In absolute terms, the largest increases were in expenses for other motor insurance and proportional reinsurance, as well as assistance insurance. The breakdown of net operating expenses by line of business in 2022 was not materially different from that in 2021. The movements in operating expenses by operating segment, as analysed by the Group, are described in the following text. The commentary covers all elements used in the calculation of net operating expenses (acquisition costs, change in deferred acquisition costs and other operating expenses).

Acquisition costs (commissions) in the **reinsurance** segment increased due to higher growth in gross premiums written. Acquisition costs as a percentage of gross premiums written were 20.7% in 2022 (2021: 22.1%), driven by the growth in the non-proportional business, which has lower acquisition costs. Other operating expenses were higher due to the cost of services related to the implementation of new IT solutions. The net expense ratio improved by 1.7 p.p. to 26.0% in 2022 compared to 2021, as expenses grew more slowly than premiums.

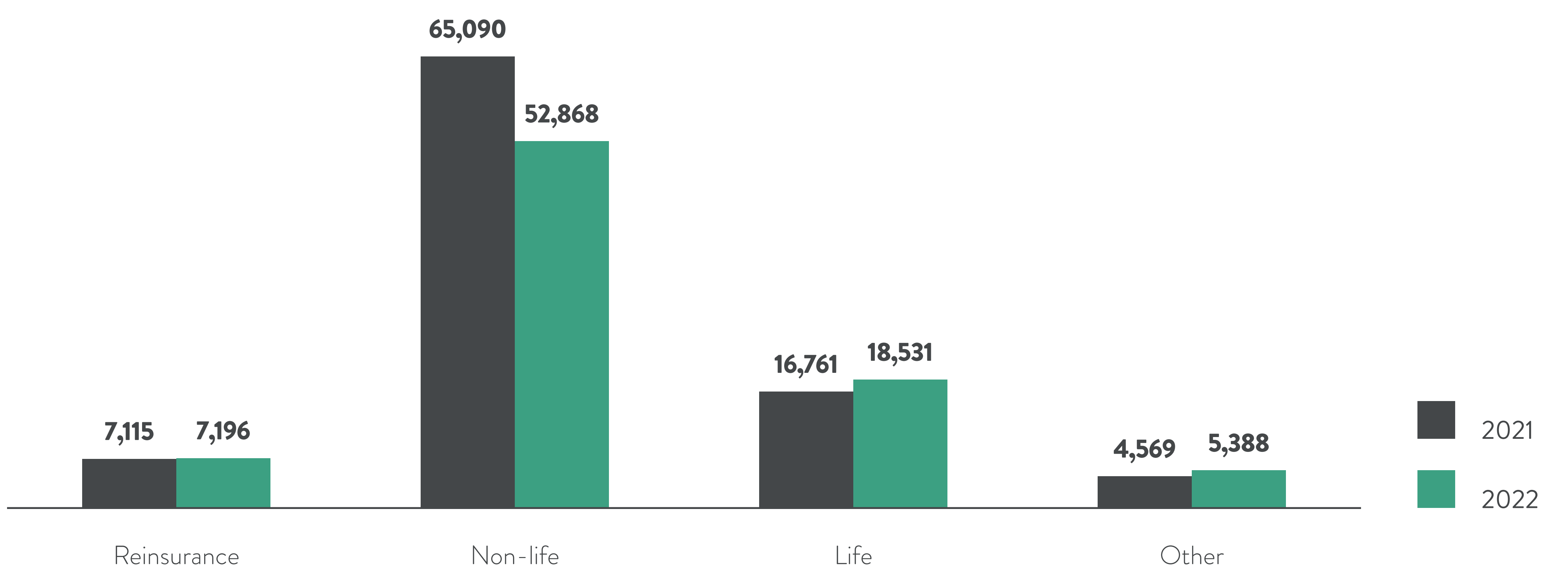
Consolidated **non-life** acquisition costs increased by 6.2% in 2022, mainly at the foreign non-life insurers, as a result of the increase in gross premiums written and the strengthening of external sales channels. Other operating expenses rose by 9.0% in 2022, driven by the payment of a cost-of-living bonus and increased other personnel costs, slightly higher IT, advertising, professional and personal services, and electricity costs as a result of price increases.

In 2022, policy acquisition expenses in the **life** segment rose by 9.8% year on year, in line with stronger sales in most of the companies. The gross expense ratio increased by 1.3 p.p. compared to the previous year, due to a decrease in premiums in the Slovenian segment, while acquisition costs increased slightly. The gross expense ratio of the international life insurers remained largely unchanged compared to 2021.

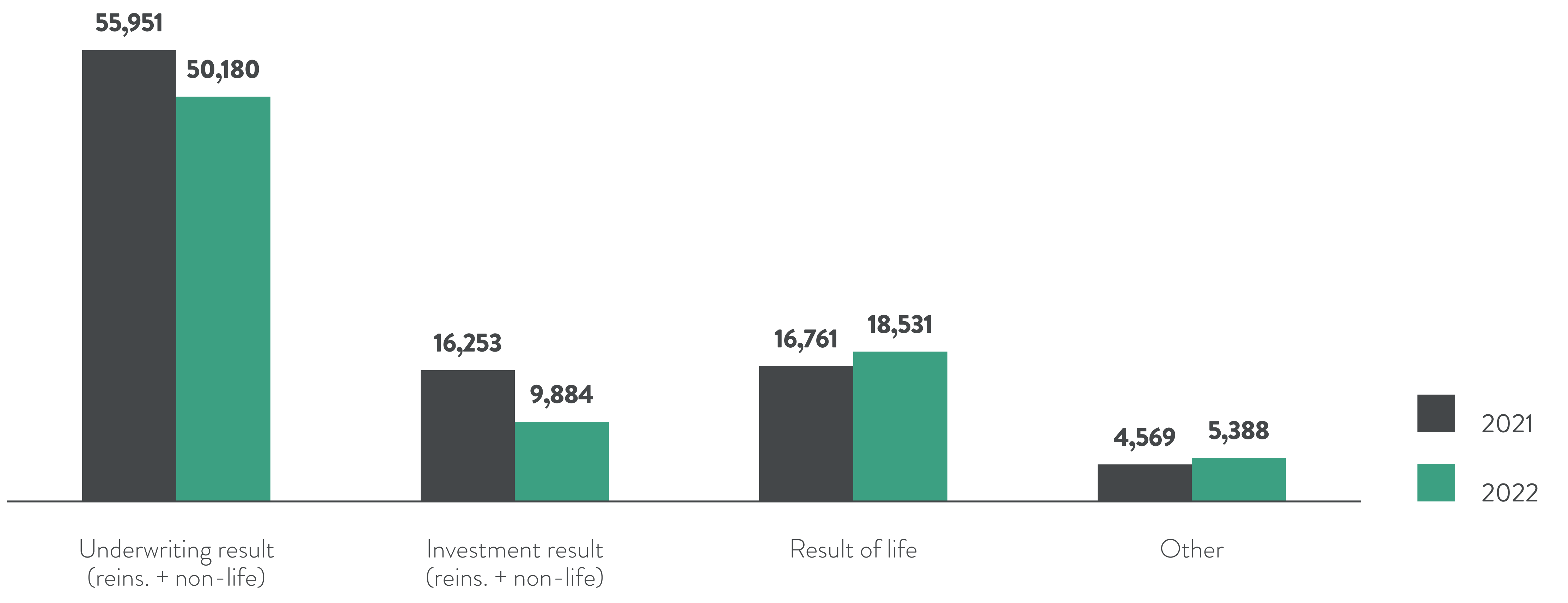
Consolidated gross result

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

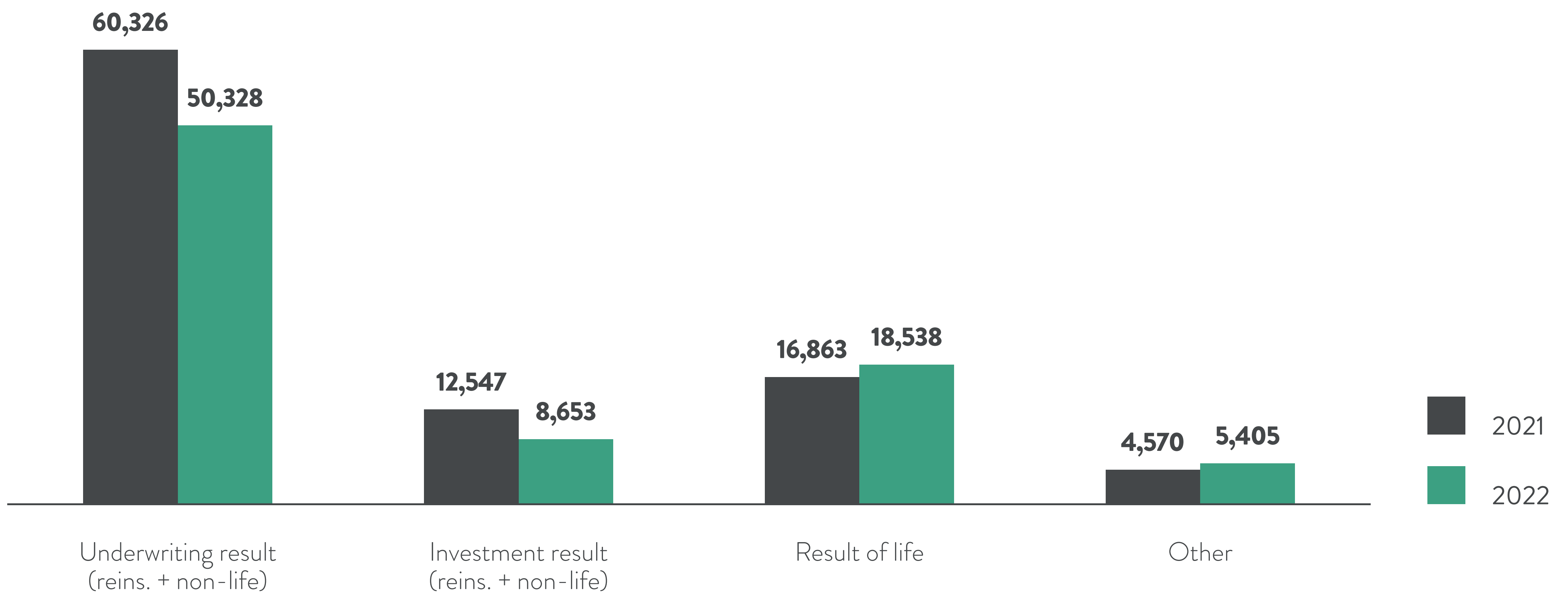
Composition of the consolidated gross profit or loss by operating segment **(EUR thousand)**



Composition of the consolidated gross profit or loss **(EUR thousand)**



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



In 2022, the gross result of the Group (excluding Sava Pokojninska, Sava Penzisko Društvo, TBS Team 24, Sava Infond and S Estate) increased by 11.7% to EUR 78.6 million compared to 2021. The reinsurance, life and "other" segments improved their gross business result in 2022 compared to 2021, whereas the non-life segment recorded a weaker result. The underwriting result in 2022 was lower than in 2021 because of the weaker result in the non-life segment. The investment result in the reinsurance and non-life segments declined because of higher fair value losses on FVTPL (fair value through profit or loss) financial instruments.

The result of the life segment improved in 2022, driven by better performance of the life insurance companies. The "other" segment includes the results of Sava Pokojninska, Sava Penzisko Društvo, Sava Infond, TBS Team 24 and S Estate. This segment also includes interest expense on subordinate debt (2022: EUR 2.9 million; 2021: EUR 2.9 million) and the amortisation of contractual customer relationships with Sava Pokojninska and Sava Infond (2022: EUR 1.0 million; 2021: EUR 1.0 million).

In 2022, the **reinsurance** segment's underwriting performance was better than in 2021, reflecting higher net premiums earned due to favourable price developments in global reinsurance markets. The investment result was lower in 2022 owing to the change in the fair value of FVTPL assets as a result of the financial market situation.

The performance of the **non-life** segment declined because of its weaker underwriting and investment performance. The underwriting result was mainly impacted by higher net claims incurred in the Slovenian segment due to claims inflation and higher claims frequency in the motor business as the impact of the epidemic subsided. Motor and property claims also increased due to weather-related claims, and property claims increased additionally due to major claims. Net investment income was impacted by the new financial market conditions, which, in the Slovenian segment, resulted in an increase of EUR 1.6 million in expenses due to fair value losses on FVTPL assets. On the other hand, gains on the disposal of investments rose by EUR 1.2 million. However, the net investment income of the non-Slovenian non-life insurers remained flat compared to the previous year, as their portfolios mainly consist of bond investments that are valued through other comprehensive income.

The **life** segment performed better in 2022, driven by the improved performance of most of the Group's life insurers.

Other technical income and other technical expenses

The Group's other technical income comprises commission income (reinsurance commissions less the change in deferred acquisition costs relating to reinsurers) and is recognised based on approved reinsurance accounts and estimated commission income taking into account straight-line amortisation. This includes other technical income, such as income from the recovery of impaired receivables, revenue from other insurance business (green card sales, claims handling as accommodation business), exchange gains and revenue from other services. This income is recognised in the income statement when the services are rendered or the invoices are issued. In 2022, the Group realised EUR 21.8 million (2021: EUR 19.1 million) of other technical income.

The Group's other technical expenses comprise expenses for loss prevention activities and fire brigade charges, contributions towards claims of uninsured and unidentified vehicles and vessels, regulatory fees and exchange losses, operating expenses from revaluation, and other expenses. In 2022, the Group realised EUR 17.5 million (2021: EUR 14.3 million) of other technical expenses.

A.3 Investment performance

The Group monitors its investment result by operating segment. Net investment income and investment return are monitored by asset class and type of income and expense. The following tables show income, expenses and net investment income by asset class and type of income and expense.

In 2022, investment income totalled EUR 31.8 million, down by EUR 4.6 million on the previous year and down by EUR 5.8 million excluding exchange differences. In 2022, the largest part of the income from the investment portfolio was interest income of EUR 16.4 million (representing 51.6% of total finance income), down EUR 0.4 million year on year.

The Group's investment portfolio expenses (including and excluding exchange differences) increased by EUR 8.3 million in 2022 compared to 2021. The majority of these expenses, excluding the impact of exchange differences, relate to fair value changes of FVTPL assets.

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 denominated in that currency. Exchange differences mainly relate to the assets and liabilities of Sava Re.

In 2022, net investment income relating to the Group's portfolio was EUR 17.5 million, or EUR 16.3 million excluding the effect of exchange differences. The Group generated lower net investment income in 2022 than in 2021. Despite realised gains on the sale of investments, net investment income decreased because of the lower market value of FVTPL assets as a result of higher required yields in the financial markets.

Consolidated net investment income of the investment portfolio

EUR thousand	2022	2021	Absolute change
Net investment income relating to financial investments	14,284	28,487	-14,203
Net investment income on investments in associates	2,280	773	1,507
Net investment income relating to investment property	971	1,142	-170
Net investment income relating to the investment portfolio	17,535	30,401	-12,866
Net investment income relating to the investment portfolio, excluding the effect of exchange differences	16,303	25,985	-9,683

Investment income and expenses by type

EUR thousand	1 January – 31 December	
Type of income	2022	2021
Interest income	16,400	16,843
Gains on change in fair value of FVTPL assets	678	1,302
Gains on disposal of FVTPL assets	159	2
Gains on disposal of other IFRS asset categories	6,837	7,784
Income from associate company	1,286	773
Income from dividends and shares – other investments	1,369	1,848
Exchange gains	1,232	4,416
Diverse other income	1,738	1,648
Other income from alternative funds	2,107	1,757
Investment portfolio income	31,807	36,372
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	0	68,719
Type of expense	2022	2021
Interest expenses	3,074	2,989
Losses on change in fair value of FVTPL assets	6,252	914
Losses on disposal of FVTPL assets	105	4
Losses on disposal of other IFRS asset categories	1,248	326
Impairment losses on subsidiaries and associates	0	0
Impairment losses on other investments	532	162
Exchange losses	0	0
Other expenses	3,061	1,575
Other expenses for alternative funds	0	0
Expenses relating to the investment portfolio	14,272	5,971
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	60,682	0
Net investment income relating to the investment portfolio	17,535	30,401
Net investment income relating to the investment portfolio, excluding the effect of exchange differences	16,303	25,985

Income/expenses include income/expenses related to investment property.

Net investment income by asset class[11]

EUR thousand 2022	Interest income or expenses	Change in fair value and gains or losses on disposal of FVTPL assets	Gains or losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains or losses	Other income or expenses	Total	Net unrealised gains or losses on investments of life policies that bear the investment risk	Income or expenses relating to associates and impairment losses on goodwill
Held to maturity	1,524	0	0	0	0	-10	-2,354	-839	76	
Debt instruments	1,524	0	0	0	0	-10	-2,354	-839	76	
At fair value through P/L	783	-5,519	0	11	0	2	162	-4,561	-61,030	
Designated to this category	783	-5,519	0	11	0	2	162	-4,561	-61,030	
Debt instruments	783	-4,856	0	0	0	2	0	-4,071	-134	
Equity instruments	0	-663	0	11	0	0	0	-652	-60,895	
Other investments	0	0	0	0	0	0	163	163	0	
Available for sale	13,663	0	5,589	1,358	-532	1,674	2,006	23,758	293	1,286
Debt instruments	13,663	0	-892	0	0	1,672	-36	14,406	293	
Equity instruments	0	0	6,482	1,347	-532	2	-65	7,233	0	1,286
Investments in infrastructure funds	0	0	0	0	0	0	1,926	1,926	0	
Investments in property funds	0	0	0	11	0	0	181	193	0	
Loans and receivables	58	0	0	0	0	-434	-2	-378	-22	
Debt instruments	237	0	0	0	0	-6	-2	228	-22	
Other investments	-179	0	0	0	0	-428	0	-607	0	
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	26	0	0	0	0	0	0	26	0	
Subordinated liabilities	-2,873	0	0	0	0	0	0	-2,873	0	
Total	13,180	-5,519	5,589	1,369	-532	1,232	-187	15,132	-60,682	1,286

11 Interest income and expenses in this table differ from those shown in the table "Investment income and expenses by type" because this table includes expenses for right-of-use assets (31 December 2022: EUR 145.9 thousand).

The Group's net investment income totalled EUR 15.1 million in 2022. The most important item of net investment income is the interest income of EUR 13.1 million. The high proportion of interest income is in line with the composition of the Group's investment portfolio, which is heavily weighted towards debt instruments.

The Group recognises unrealised gains and losses on available-for-sale investments in the fair value reserve in the balance sheet. The following table shows movements in the fair value reserve.

In 2022, the fair value reserve decreased significantly compared to 2021. The main reason for this is the fall in debt securities prices.

The Group does not hold any securitised assets.

Fair value reserve

EUR	2022	2021
Balance as at 1 January	21,247	40,173
Change in fair value	-165,004	-18,093
Transfer from fair value reserve to the income statement due to disposal	-3,615	-5,105
Deferred tax	30,823	-4,213
Other reclassifications	0	60
Balance as at 31 December	-116,549	21,247

A.4 Performance of other activities

Other income and expenses

Other income comprises income from investment property, income from property, plant and equipment assets, other income not directly attributable to insurance business, and sales revenue from non-insurance companies (including asset management revenue, such as entry and exit fees and management fees). In 2022, the Group realised other income of EUR 30.5 million (2021: EUR 27.0 million). A large part (EUR 18.0 million) relates to asset management fees for pension and mutual funds (2021: EUR 17.0 million).

Other expenses include non-technical items: allowances for other receivables, direct operating expenses arising from investment property, impairment losses on intangible assets and other extraordinary expenses. In 2022, the Group realised other expenses of EUR 2.3 million (2021: EUR 2.5 million).

Lease contracts

The Group earns a small part of its income from leases. It has operating lease arrangements for its real property. The leases are included in the Group's balance sheet as an investment property asset item, and rental income is recognised over the lease term in accordance with the lease agreements.

The Group generated EUR 1.4 million of income from the lease of its investment property in 2022 (2021: EUR 1.3 million). Maintenance costs associated with investment property are either included in the rent or charged to the lessee. The costs borne by the Group totalled EUR 203 thousand in 2022 (2021: EUR 85 thousand).

Material intra-Group business

The following tables show material intra-Group transactions. These include reinsurance business between the parent and its subsidiaries and dividend payments to the parent company. 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	2022	2021
Gross premiums written	78,529	77,960
Gross claims payments	-59,459	-41,840
Acquisition costs	-23,035	-20,466
Dividend income	51,923	50,418
Total	47,958	66,072

Investments in and amounts due from Group companies

EUR thousand	31 December 2022	31 December 2021
Loans granted to Group companies	1,031	1,360
Receivables for premiums arising from accepted reinsurance	13,952	13,595
Short-term deferred acquisition costs	2,866	1,144
Total	17,848	16,099

Payables to Group companies

EUR thousand	31 December 2022	31 December 2021
Technical provisions	108,031	105,797
- Unearned premiums	26,802	25,605
- Provision for outstanding claims	80,867	79,919
- Other technical provisions	361	273
Payables for shares in reinsurance claims due to Group companies	12,446	12,577
Other payables from co-insurance and reinsurance	3,114	3,129
Other short-term liabilities	157	20
Total	123,747	121,523

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 individual companies.

The system of governance in each company of the Sava Insurance Group is proportionate to the nature, scale and complexity of its business operations. Each Group company establishes its own system of governance that is optimal for both the company and the Group. As a rule, Group companies adopt a one-tier board system, provided this is in accordance with local legislation and appropriate to the nature, scale and complexity of each company's operations. The Group parent company, Zavarovalnica Sava, Vita, Sava Pokojninska, Sava Infond and DCB operate on a two-tier board system.

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

The Group has set up a systematic risk management framework that includes risk management at the level of individual companies, appropriate monitoring of the risks of individual companies by the parent company, 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 individual company level.

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

Supervision of individual Sava Insurance Group companies

In order to ensure transparent and effective governance and supervision 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 companies

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

The Group organises professional training in different 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

In addition to the general meeting of shareholders, the governing bodies of individual Group companies include a management body (management board, managing director or executive director) and a supervisory body (supervisory board, supervisory committee or board of directors), depending on the legislation and the choice of a one- or two-tier board system.

The governing bodies carry out their duties in accordance with the legislation of each country, the internal rules of each company and 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 each company's general meeting are determined in accordance with the legislation of each country and the company's articles of association. The terms of reference of the general meeting cover three areas:

- personnel decisions (appointment and removal of members of the supervisory board, board of directors, supervisory committee, discharge of members of the management or 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 senior management);
- fundamental decisions concerning the company (adopting and amending articles of association, increasing and decreasing share capital, winding up and transforming in terms of status).

General meetings of shareholders of Group companies are generally convened at least once a year, at the latest within the time limit provided by the legislation of each country. The general meeting may also be convened in other cases, as provided by national legislation, the Group company's articles of association, and whenever this is in the Group company's interest. As a rule, the general meeting is convened by the company's chief executive body. National legislation 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 company, shareholder rights regarding the general meeting, conditions for attending the general meeting and the exercising of voting rights are set out in each country's legislation and the Group company'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 supervisory committee or board of directors 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 national legislation 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 schedule of sessions for its own use and for its committees, specifying the dates and content of each session, including in particular those sessions that are obligatory due to the required publication of business results or that have become standard practice in the past.

The number of supervisory board members must meet the minimum requirements of the legislation of each country in which the company is registered. 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 into account the diversity in terms of technical knowledge, experience and skills, and the way in which 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 2022

The composition of the supervisory board of the Group's parent company changed in 2022. Mateja Živec concluded her term of office on 31 December 2021 after resigning as a supervisory board member. In her place, the Sava Re works council appointed Edita Rituper for a term of office from 1 January 2022 to 12 June 2023.

The following table shows the composition of the supervisory board of the Group's parent company in 2022.

Composition of the supervisory board of Sava Re in 2022

Member	Role	Beginning of term of office	Duration of term of office
Davor Ivan Gjivoje Jr	chair	8 March 2021	8 March 2025
Keith William Morris	deputy chair	17 July 2021	17 July 2025
Klemen Babnik	member	17 July 2021	17 July 2025
Matej Gomboši	member	17 July 2021	17 July 2025
Andrej Gorazd Kunstek	member, employee representative	12 June 2019	12 June 2023
Edita Rituper	member, employee representative	1 January 2022	12 June 2023

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 boards, tasking them with specific areas, the analysis of specific questions, the preparation of draft resolutions of the supervisory board and their implementation, as well as other tasks requiring specific expertise, 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 four supervisory board committees:

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

The main tasks and the composition of the individual committees of the supervisory board are set out in detail in the Solvency and Financial Condition Report of Sava Re d.d. for 2022[12] (Sava Re 2022 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 legislation, 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 accordingly to any questions regarding the quorum, decision-making and other points of procedure.

Management body (senior management, 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 director or 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 national 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 are made in the best interest 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 for 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 composing the management board, each company seeks to take into account the diversity in terms of technical knowledge, experience and skills, and the way in which 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 policy 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.

12 Sava Re’s SFCR report for 2022 was published on the Sava Insurance Group’s website on 6 April 2023.

The management board of Sava Re in 2022

In 2022, the management board consisted of the following members: Marko Jazbec (chairman), Polona Pirš Zupančič, Peter Skvarča and Jošt Dolničar (the latter until 4 May 2022).

The average age of the management board members is 49 years. All management board members are citizens of the Republic of Slovenia.

Composition of the management board in 2022

Full name	Marko Jazbec	Polona Pirš Zupančič	Peter Skvarča	Jošt Dolničar
Function	chair	member	member	member (until 4 May 2022)
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 strategic investments in Slovenia-based subsidiaries (from 5 May 2022) • information technology (from 5 May 2022) • sustainable development (from 2 August 2022)	• corporate finance • controlling • accounting • investor relations • risk management • actuarial affairs • modelling (from 5 May 2022)	• development of reinsurance and reinsurance underwriting, Group and non-Group • reinsurance protection (retrocession), Group and non-Group • development of reinsurance processes and technology • reinsurance technical accounting • management of strategic investments in the non-Slovenia-based subsidiaries (from 5 May 2022)	• management of strategic investments in direct insurance subsidiaries carrying on non-life, life and pension business • information technology • innovation
First appointed	12 May 2017	14 January 2018	19 June 2020	31 December 2008
End of term of office	13 May 2027	15 January 2028	19 June 2025	4 May 2022

At its session on 25 April 2022, the supervisory board of Sava Re reappointed Polona Pirš Zupančič, whose five-year term of office expired on 14 January 2023, as a member of the management board of Sava Re. The new five-year term started on 15 January 2023.

On 4 May 2022, Jošt Dolničar ceased to be a member of the management board of Sava Re as he assumed the position of chairman of the management board of the subsidiary Zavarovalnica Sava.

On 15 December 2022, the supervisory board of Sava Re unanimously approved the proposal of the nominations and remuneration committee and appointed David Benedek as the fourth member of the management board. David Benedek started his five-year term of office as a management board member on 22 March 2023, following receipt of the Insurance Supervision Agency's decision to grant him a licence to act as a member of the management board.

B.1.3 Risk management

risk management system is one of the key building blocks of the system of governance. The management of the Group's parent company and each Group company must ensure that both the Group as a whole and each 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 B.3 "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 company has established four functions defined by applicable law as key functions of the risk management system (key functions): the actuarial function, risk management function, compliance function and internal audit function. Key functions are integrated into the Group's system of governance and generally also perform the role of the parent company's key function, in addition to their key function role on the Group level. Accordingly, they have access to all information, data and reports required for the smooth performance of their duties.

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

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

- coordinating the development of a Group-wide uniform methodology for key functions of Group companies;
- ensuring the development of appropriate framework policies for individual key functions and professional guidelines for the adoption of area-specific operational rules in Group companies;
- ensuring strict Group-wide application of uniform standards by the relevant key function;
- coordinating and implementing joint tasks and projects;
- providing guidance and overseeing the operations of the relevant key function in 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 at 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 perform their duties independently from each other and from other organisational units of the company. The key functions report directly 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 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, appropriate internal measures and mechanisms must be in place to manage any potential conflict 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 act governing the operation of individual key functions.

Notwithstanding the organisational position of any key function within a company, these must be directly integrated into the Group's framework of key functions. This establishes a direct link between the key function of a subsidiary and the Group, providing a direct flow of information between the second and third lines of defence, ensuring comprehensive and consistent 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's internal acts;
- the relevant key function holder at the Group level.

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

Cooperation among key function holders

Key function holders at the Group and parent company level meet regularly, as a general rule once a month, to exchange opinions and 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 level issue a joint statement that they have, with due care and in accordance with professional standards, undertaken 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 system of governance

The management board of the parent company may, by its resolution, 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 its companies. They deal with issues in 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 acts adopted by the management board of the company that established the committee.

Sava Re has established the following committees at the Group level:

- the risk management committee,
- the actuarial committee,
- the insurance business process development committee,
- the innovation management committee,
- the information systems architecture committee.

The chief tasks of the individual committees of the supervisory board are set out in detail in the Sava Re 2022 SFCR, section B.1.4 “Committees in the system of governance”.

B.1.6 Information on the remuneration policy

The Remuneration Policy of the Sava Insurance Group 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.

In accordance with the Remuneration Policy of the Sava Insurance Group, all EU (re)insurance companies and the Group’s asset management company have adopted and implemented a remuneration policy. In other companies, remuneration is governed by internal acts in line with the Group’s remuneration policy.

The remuneration policy aims to establish 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 main 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 observe the following guidelines when designing remuneration systems and schemes:

- designing 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 consistent with its mechanisms, organisational processes and the activities and behaviours being rewarded.

Group companies have adopted the following remuneration structure for their salary and remuneration systems:

- a base salary,
- performance-based pay,
- other benefits and incentives,
- remuneration upon termination of the employment contract.

The **base salary** is determined based on the employee’s role and position, taking into account professional experience, responsibilities, complexity of the job and the local labour market situation. The range of base salaries for individual positions is laid down in the internal acts 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 goals, strengthen long-term relationships with clients and generate income. Individual performance-based pay depends on the achievement 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 acts.

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.

Group companies grant no loans to their employees or to members of the management or supervisory boards; accordingly, there were no such transactions in 2022.

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 and, to a very small extent, by refunding expenses incurred in rendering services. Group companies take turns in taking the roles of service provider and service user within the Group in order to increase 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 purpose of subsidiary governance. Functions implemented by the parent company mainly include strategy setting, coordination, monitoring or controlling, and analysis, which are normally provided free of charge.

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

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 and, 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 transfer pricing, the Slovenian Tax Procedure Act, the Slovenian Corporate Income Tax Act and the internal transfer pricing rules, each Group company subject to reporting annually prepares a transfer pricing report (general documentation) and a transfer pricing report (special documentation), presenting in detail all transactions with related parties, the transfer pricing methodology, 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 board, including the members of its committees, and employees not subject to the tariff section of the collective agreement,
- subsidiaries and associates.

In 2022, significant transactions included:

- total remuneration of the members of the management board and the supervisory board, including the members of its committees, and employees not subject to the tariff part of the collective agreement of EUR 3.7 million (2021: EUR 4.4 million)[13], and
- loans granted to subsidiaries of EUR 1.5 million as at 31 December 2022 (2021: EUR 1.4 million).

In 2022, the parent company paid out EUR 23.2 million in dividends (2021: EUR 13.2 million). All related-party transactions are set out in detail in the Group's annual report, in section 17.10 "Related party disclosures".

13 This disclosure relates to the parent, Sava Re.

B.2 Fit and proper requirements

In accordance with the law, Group companies ensure that persons who effectively conduct and oversee the business are properly qualified (fit) and suitable (proper) to do 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 directors, 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 having the appropriate qualifications, experience and expertise (fitness), the relevant personnel is also required to be of 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 have an obligation to report any new facts and circumstances or changes to information submitted in the initial suitability assessment. The body responsible for the fit and proper assessment (fit and proper committee of relevant composition) assesses whether the new facts and circumstances or changed 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 that the relevant personnel complies with current fit and proper standards and that they undertake to notify the human resources function immediately of any circumstances that may affect their fit and proper status.

In 2022, 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 when assessing the fitness of members of a Group company's supervisory body and its committees. The fitness assessment takes into account the following requirements:

- 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 expertise, experience and skills complement those of the other members of the supervisory body. The supervisory body, viewed as a whole, must have sufficient expertise. Individual members of the supervisory body with in-depth expertise may, in particular based on the allocation of responsibilities for certain areas, compensate for any less profound expertise of other members of the supervisory body in these areas.

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: knowledge of the market, knowledge of the business strategy and business model, knowledge of the system of governance for insurers or other companies, understanding of financial and actuarial analysis, as well as understanding of 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 in-depth expertise may, in particular based on the allocation of responsibilities for certain areas, compensate for any less profound expertise of other members in these areas.

Key function holders of the risk management system

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

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

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

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

- 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 high standards of integrity in their actions (proper). A relevant person is deemed to be proper unless there is reason to believe 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 gathered 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 their business relationships. Any relevant person who experiences a conflict of interest in their work must disclose such conflict of interest and continue to act in the interests of the company or the Group. If this is not possible, such a person must inform the company's management or supervisory body whenever a member of either the management or supervisory body experiences a conflict of interest.

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 the time resources available during the period in which they are performing the function.

B.2.3 Procedure for fit and proper assessment

The fit and 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 in the performance of operational tasks, such as obtaining, sending, processing and storing documents and 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 also determine the additional measures necessary to ensure that the relevant personnel are adequately qualified. 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 parent company's management is aware that risk management is key to achieving its operational and strategic goals and ensuring its long-term solvency. Therefore, the Group is continuously improving its risk management system, both at the company and Group level.

The Group companies' strong risk culture and their awareness of the risks to which they are exposed are 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 level.

The Sava Insurance Group has implemented a risk strategy that defines the Group's risk appetite and policies that cover the entire framework of risk management, own risk and solvency assessment (ORSA) and risk management for each risk category. Based on the Group's risk strategy and policies, each Group company establishes its own risk strategy and policies, taking into account its specificities and the local legislation. The adequacy of the risk strategy and policies is examined on a regular basis.

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

- clearly-expressed risk appetite in the framework of the risk strategy and, based on this, operational limits;
- the development of risk assessment models and the improvement of ORSA;
- integration of the ORSA and risk strategy into the framework of business planning and shaping of 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 adequate organisational structure and a clear segregation of responsibilities.

The efficient functioning of the risk management system is primarily the responsibility of the management board of Sava Re and the management board of each 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 of defence:

- The first line of defence consists of 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, the actuarial function and the compliance function) and the risk management committee, if one exists 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 a top-down principle, taking into account the specificities of each company.

The **supervisory board** of each company approves the risk strategy and risk management policy, and consents to appoint 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 within the company and the Group.

The **management board** of each company plays a key role and bears ultimate responsibility for the effectiveness of the risk management processes in place and their compliance with the Group's standards and the applicable legislation. In this regard, the management board is primarily responsible for:

- designing a risk strategy and approving risk tolerance limits and operational limits,
- adopting policies within 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** in each 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 the operational performance of the processes for which they are responsible is conducted in a manner that adequately reduces risks, and that the frameworks laid down in the risk strategy are observed. The first line of defence is also responsible for monitoring and measuring risks, preparing data for periodic risk reports in each risk area and identifying new risks.

The Group's and each 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 committee and key function holders are appointed by the management board, and the appointment of the key function holders is approved by the supervisory board. Each 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 company is mainly responsible for setting up effective risk management processes and coordinating existing risk management processes at the company or Group level. 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 any), the management and supervisory boards, the risk committee (at Sava Re) and to the Group's risk management function. It works in cooperation with the latter on an ongoing basis. Furthermore, it offers support to the management board in decision-making (including in relation to strategic decisions, such as corporate strategy, mergers and acquisitions, and major projects and investments). The duties, terms of reference, responsibilities and powers of the company's or Group's risk management function holder, foreseen operational procedures, obligations, reporting period and reporting distribution lists are set out in the risk management policy of the company or the Group.

In addition to the key functions, some companies have a **risk management committee** as a second line of defence. Sava Re's risk management committee addresses risks at both company and Group level. The committee includes the key representatives of the first and second lines of defence with regard to the company's risk profile and, in the case of Sava Re, the company's management board. Individual members of the risk management committee are responsible for risk ownership within their area of responsibility in the company and, in view of the line of business, in the Group. The holders of other key functions of the risk management system are also invited to the committee sessions. 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 level of individual companies and the Group 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.

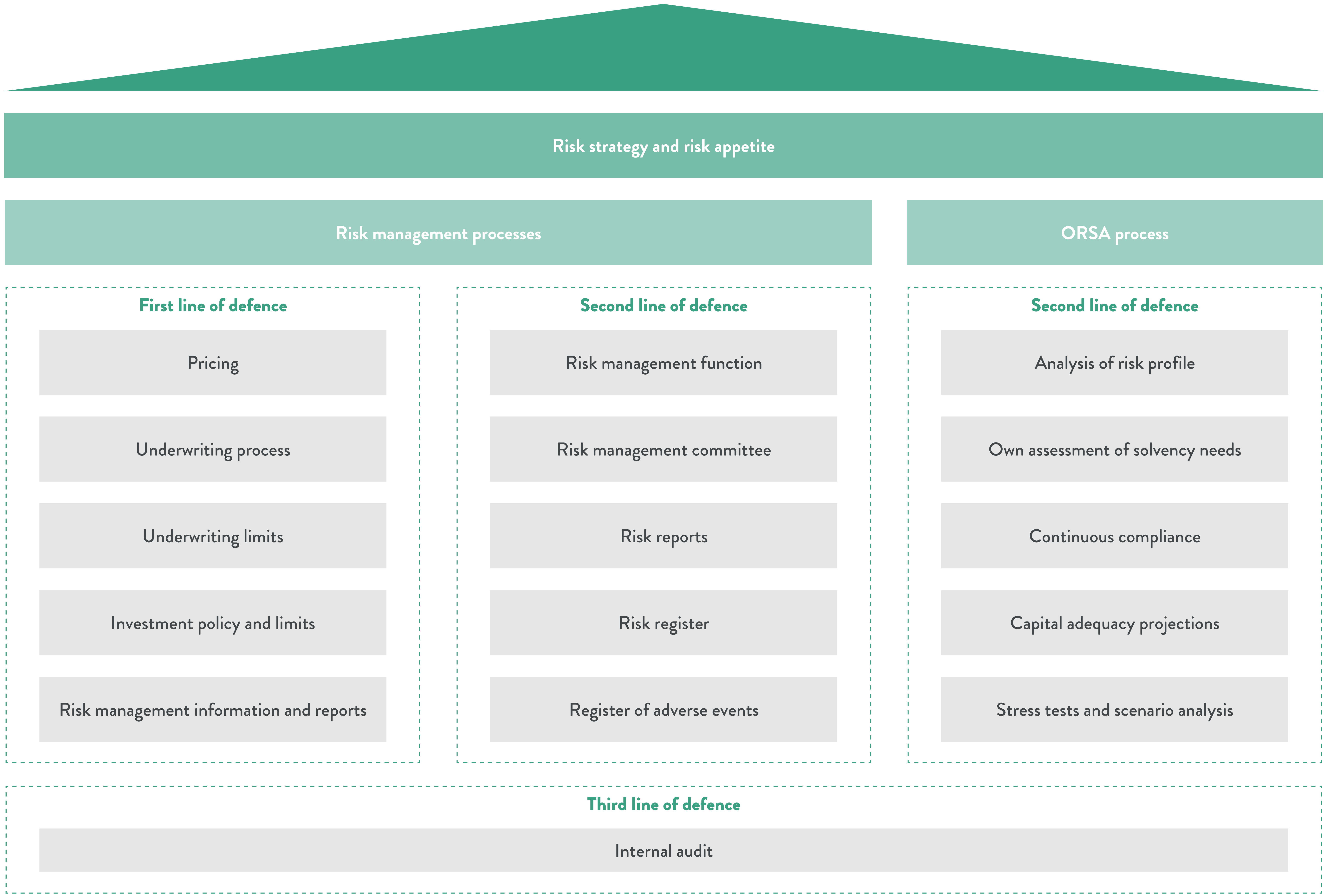
Good practices from Sava Re's risk management model and the risk management organisation are also transferred to other Group companies.

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:

- the 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

The Group seeks to operate in compliance with its business strategy and meet its key strategic goals while maintaining an adequate capital level. With this in mind, the management board, with the consent of the supervisory board of Sava Re, approved the Sava Insurance Group's risk strategy for 2020–2022 in 2020, taking into account its risk-bearing capacity. Each Group company drafts its own risk strategy by taking into account the Group's risk strategy. In 2022, the new risk strategy of the Sava Insurance Group for the next strategy period 2023–2027 was approved. The Group document sets out:

- a risk appetite by operating segment,
- a set of key indicators along with their limits and tolerances, and
- a set of operational indicators used for operating segments to monitor risks on an ongoing basis.

The key areas that underpin the risk appetite are:

- the solvency ratio,
- the profitability of the operating segments with acceptable volatility (tolerance),
- liquidity indicators.

Each 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, as well as 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 taking into account the risk appetite perspective. 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.

In order to monitor compliance with the risk strategy on a regular basis, each Group company defines a minimum set of risk measures for each risk category to monitor the current risk profile and capital position of the Group and each Group company. These risk measures are regularly monitored at the Group and individual company level.

Risk management processes

Risk management processes are inherently connected with and incorporated into the basic processes conducted at the individual company and Group level. 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 of the risk management process. 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

As part of the risk identification process, each Group company identifies the risks to which it is exposed. The key risks, which are compiled in each company's risk register and form the company's risk profile, are periodically reviewed and amended with consideration of new risks as required. Risk identification at the Group level is conducted in the same way.

Risk identification in individual Group companies and at the Group level 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 and the management board of each Group company. Such identification of new and emerging risks is based on monitoring the legal and business environment, market developments and trends, and expert knowledge. This approach is mainly used for 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, measurement, management and reporting processes. Group companies maintain registers of incidents to identify emerging risks, especially operational risks.

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 regular risk assessment (measurement) processes in place for all the risks to which individual companies or the Group are exposed. Risks are measured using both qualitative and quantitative methods, which are constantly being refined. A modelling department has been set up at the Sava Insurance Group level to develop its own quantitative models for Group-wide risk assessment.

The Group thus measures risk by:

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

Risk monitoring

Risk monitoring is conducted at several levels: at the level of individual organisational units and risk owners, risk management departments, the risk management committee (if any), the management board, the supervisory board's risk committee (at Sava Re) and at the supervisory board level of each Group company. In addition, the risk profile of each Group company 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 introduction of corrective measures to prevent the recurrence of an individual event are also monitored.

Risk management

The management board of each Group company is responsible for risk management and the use of various risk management techniques and measures. In making its decisions, the management board takes into account the cost-benefit aspect of each measure, as well as any recommendations from 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. Eliminating or mitigating individual risks must be more cost-effective than mitigating the potential impact should the risk materialise, taking full account of the likelihood of such an event and all of its financial consequences.

In practice, as part of the business planning process, Group companies and the Group already examine the impact of the business strategy on their capital position, both with regard to the regulator and 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 also have a significant impact 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 measures to resolve the situation.

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 any), followed by the management board, risk committee (at Sava Re) and the company's supervisory board. Finally, a company's risk management function submits the report to the Group's risk management function.

Own risk and solvency assessment (ORSA)

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

ORSA is conducted by all Group companies subject to Solvency II and, to a limited extent, by some other insurance companies. A comprehensive ORSA process is carried out at the Group level, together with uniform reporting to the Insurance Supervision Agency as part of the joint report of Zavarovalnica Sava, Sava Re and the Sava Insurance Group. Vita reports its ORSA separately.

The Group's ORSA is prepared based on the Group's business and strategic plans, also taking into account the current risk profile and any changes planned therein. The main purpose of the ORSA is to understand one's 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 process, the parent company's management board is actively involved, confirming the technical bases, reviewing and challenging the Group ORSA before giving its formal approval.

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 SCR is calculated and Solvency II valuations are made for balance sheet items and the Group's eligible own funds for the next three-year period. Projections are used to review ongoing compliance with the regulatory requirements regarding capital and technical provisions. 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 calculates its own assessment of solvency needs for a further three-year period and makes a qualitative or quantitative assessment of the risks that are not captured by the Standard Formula. The ORSA process also includes sensitivity and scenario analyses relevant to the Group given its current and planned risk profile.

The ORSA results are taken into account in other processes, especially the capital management and risk management processes. The ORSA is an integral part of the decision-making process conducted to ensure that the key decisions and the business strategy are adopted with due consideration of risks and associated capital requirements. Based on the 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 these risks and capital management.

Based on the calculations, we prepare a joint ORSA report, which, in addition to the ORSA of Sava Re and the Sava Insurance Group, also includes the ORSA of Zavarovalnica Sava. The part of the ORSA report relating to Sava Re and the Group is considered by the risk management committee and approved by the management board of the parent company; the risk committee of the supervisory board and the supervisory board of Sava Re also take note of it. The joint ORSA report is submitted to the Insurance Supervision Authority after approval by the management board of the parent company.

The Group generally conducts the full ORSA annually. However, in the event of a significant change in the risk profile or eligible own funds that was not anticipated in the business or strategic plans, the Group conducts an ad hoc ORSA based on defined criteria.

The ORSA is subject to continuous improvement, both in terms of risk assessment and the integration of the ORSA 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, including the reporting on risks to which the Group or any individual Group company is or may be exposed in its operations. In addition, the system ensures compliance with internal rules and meets the requirements of other laws and regulations relating 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 company's code of ethics 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 of the Sava Insurance Group aimed at setting up an effective and reliable system of internal controls. The policy sets out the basic principles, framework and roles of the Group's internal control system as part of the Group's system of corporate governance.

In 2022, 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). Subsidiaries also carry out an annual review of the register of internal control, and internal controls are assessed quarterly or annually, in addition to company risks. At the Group level, a register of incidents is used for improving the internal control system. As part of improving the internal control system, the register of incidents has also been introduced in the parent company and subsidiaries. Companies report adverse events in their risk reports and in other ways, and a process is in place to monitor and address such events in the future.

B.4.2 Compliance function

The compliance function at the Group and individual company level is one of the four key functions constituting the risk management system. As an internal control function, the compliance function is part of the second line of defence in the risk management system, which consists 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 that is 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 company's office of the management board and of compliance. Although the compliance function is not organised as an independent organisational unit, it is ensured that the compliance function holder has direct access to the management board at all times. The compliance function holder also has other duties and responsibilities; therefore, the company has taken relevant internal measures to avoid potential conflicts of interest for the function holder when acting as a 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 taken to address any deficiencies in the compliance with regulations and other commitments;
- advise and assist in the coordination of the company's operations with the obligations imposed by regulations and other commitments;
- assess potential impacts of changes in the legal environment on the operations of the company in terms of compliance with its regulations and other commitments, and report on them to the company's management board, individual organisational units, and business and key functions;
- identify and assesses risks to the company's compliance with regulations and other commitments, and, if necessary, propose recommendations and guidelines for the management of compliance risk;
- inform the management and supervisory boards of the company's compliance with regulations and other commitments, and of the risk assessment regarding compliance with regulations and other commitments;
- coordinate with and advise senior management on compliance-related issues;
- cooperate with other control and supervision functions to exchange compliance-related issues, best practices and experiences at the parent company level;
- participate in designing and updating compliance programmes in specific separate areas, including internal controls for compliance. This should take into account the requirements and capacities of the processes and resources available, the requirements of specific laws or regulations, as well as factors in the wider business and professional environment (e.g. commitments made through contracts, statements and other collective activities aimed at raising the standards of fair business in the wider environment);
- draft an annual compliance monitoring plan that identifies and assesses the main compliance risks faced by the company, coordinating it with the compliance function holder at the Group level, and submitting it to the management and supervisory bodies;
- prepare periodic reports and submit them 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 reviews, submitting them to the company's management body;
- monitor the implementation of the compliance policy, review it periodically and propose 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. They report administratively to the management board and functionally to the supervisory board and the audit committee (if any). Their organisational position ensures autonomy and independence of operation.

In accordance with the Slovenian Insurance Act and under outsourcing agreements, Sava Re d.d. performs the internal audit key function for Zavarovalnica Sava, Vita, Sava Pokojninska and Sava Infond for an indefinite period. In companies where the internal audit is outsourced, an internal audit key function holder is appointed from among the employees of Sava Re's internal audit department.

As an internal control function, the internal audit function is part of the third line of defence of the company's risk management system.

The main 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 as to ensure the achievement of the following major goals of the company or Group:
  - effective and efficient operation of the company or 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 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 any other tasks imposed by 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 submits the annual work plan and the annual report of the internal audit department 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 management board of Sava Re with the consent of the supervisory board, following the preliminary 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 department must confirm the organisational independence of internal audit to the supervisory body at least annually as part of the annual reporting on the internal audit activities.

The internal audit department of the parent company provides guidance on a unified methodology of work for all the internal audit functions in subsidiaries, coordinates their work, drives the development of a unified methodology of work and supervises 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. The Group Internal Audit was introduced at the level of the entire Group in 2021. This represents a high level of periodic monitoring of the development and quality of internal audit functions in subsidiaries, and also provides the basis for issuing overall opinions on the effectiveness and efficiency of internal controls and risk management at the company and Group level.

In accordance with the Group's corporate governance policy, the internal audit function of the parent company also ensures that subsidiaries are included in the scope of operations in order to ensure the coverage of key risks at the Group level (even 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 audit;
- 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 the Group's key risk assessment;
- 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 internal audit functions in subsidiaries.

Internal auditors of the parent company may perform independent audits in 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 for audit engagements, based on the assessment of the Group's key risks, to be performed by the parent company'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 annual internal audit report of the parent company provides an overview of the findings of the internal audit functions of each 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 actuarial function areas as part of the actuarial departments of Group companies. They also perform actuarial tasks of the first line of defence. 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 companies serve on the Group's actuarial committee. Among other things, this committee adopts decisions in the form of proposals and recommendations to 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 to individual companies for communicating information on relevant arrangements to relevant bodies of the company.

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

- coordinate the calculation of technical provisions and ensure their consistency with applicable regulations;
- ensure the appropriateness of the underlying methodologies, models and assumptions used in the calculation of technical provisions so that they reflect key risks and are sufficiently stable;
- assess the adequacy 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 the adequacy of the underlying models used in the calculation of capital requirements for underwriting risk and the conduct of the ORSA;
- prepare, at least annually, a written report to be submitted to the management and supervisory bodies, and the local supervisory authority; the report documents the implementation of the above tasks and their results, clearly identifying any deficiencies and providing recommendations for their elimination.

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

- carry out the tasks listed above 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, at least annually, a written report to be submitted to the management and supervisory boards of the parent company; the report documents the implementation of the above tasks and their results, clearly identifying any deficiencies and providing recommendations for their elimination;
- coordinate the activities of individual companies' actuarial functions to allow 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

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

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

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

Outsourcing of business or functions to Group contractors

Conducting the internal audit function

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

Conducting the key functions of compliance and risk management

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

Conducting an outsourcing arrangement of asset management

Since 1 July 2021, Sava Pokojninska has outsourced its asset management to Sava Infond, and Sava Re and Zavarovalnica Sava have done the same as of 1 January 2022.

Implementation of the information technology function

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

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

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

Since 31 January 2022, Sava Infond has outsourced business continuity operations for the software and hardware of the IN2 application to Sava Pokojninska for an indefinite period.

Outsourcing of business or functions to non-Group service providers

Since 28 December 2012, the IT services of Vita have been outsourced to NLB d.d., Trg Republike 2, 1000 Ljubljana, Slovenia, for an indefinite period.

Since 28 December 2012, the document archiving function of Vita has been outsourced to Mikrocop, Informacijski Inženiring in Storitve, d.o.o., Industrijska 1, 1000 Ljubljana, Slovenia.

Since 10 March 2014, the management of financial instruments of Vita has been outsourced to NLB Skladi, Upravljanje Premoženja, d.o.o., Tivolska 48, 1000 Ljubljana, Slovenia.

Since 30 March 2020, Vita has outsourced its insurance product distribution function to NLB d.d., Trg Republike 2, 1000 Ljubljana, Slovenia. The implementation of the contract started on 1 June 2020 after all suspensive conditions were met.

Since 1 April 2019, Zavarovalnica Sava has outsourced its claims handling activities for the permitted direct writing of insurance business in the United Kingdom to WNS Assistance Limited, Acre House, 11/15 William Road, London, NW1 3ER, United Kingdom. The contract has expired but remains in force until all obligations to policyholders have been met.

Since 18 November 2019, Zavarovalnica Sava has outsourced its claims handling activities for ship insurance for the permitted direct writing of insurance business in Norway or other countries to Risk Point, Hammerensgade 4, DK-1267, Copenhagen, Denmark. The contract has expired but remains in force until all obligations to policyholders have been met.

Since 5 June 2019, Sava Infond has outsourced internal controls regarding the accuracy of the implementation of sales procedures at the entry point to NKBM d.d., Ulica Vita Kraigherja 4, 2000 Maribor, Slovenia, for an indefinite period.

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

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

The two companies based in Serbia (Sava Osiguranje and Sava Životno Osiguranje) had a total of 11 outsourcing engagements in 2022, all in IT and assistance services.

B.8 Any other information

Assessing the adequacy of the Group's system of governance in relation to the nature, scale and complexity of the risks

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

The Group's governance policy sets out the main guidelines for the governance of individual Group companies, as well as the control and supervision of Group companies, taking into account the Group's goals, mission, vision and values. The purpose of the policy is to define the foundations of the Group's system of governance, the basic management rules, rules of corporate governance and a transparent organisational structure with defined, transparent and consistent allocation and segregation of roles and responsibilities within the system of governance. 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's system of governance 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 system of governance 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 adequacy of the Group's system of governance was also confirmed by an internal corporate governance audit carried out in 2022. The internal audit department assessed the adequacy, effectiveness and efficiency of the risk management and internal control system in the area of corporate governance as good.

C. Group risk profile

The Group is exposed to various risks in the course of its operations. 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.

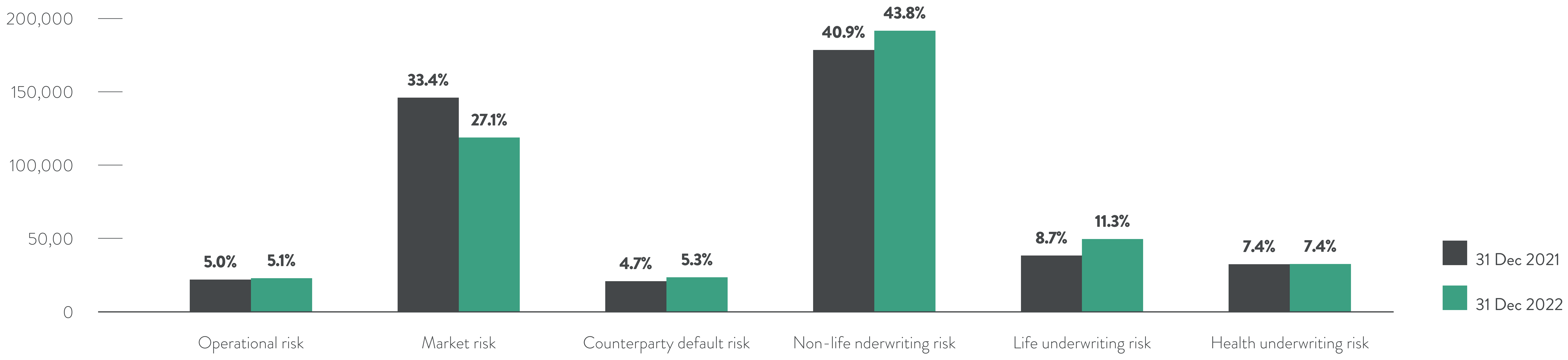
The following subsections discuss individual risk categories one by one. All risks identified during the preparation of the document are discussed. The Group regularly measures underwriting, market, credit and operational risks using the Standard Formula, whereas other risks (including operational risk) that are not readily quantifiable are measured by using the methods described under each risk category.

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

The Group's main risks in line with the Standard Formula are non-life underwriting and market risks; other risk categories are of minor importance. In 2022, non-life underwriting risk increased mainly on account of portfolio growth and an increase in provisions due to claims inflation. Market risks, however, decreased slightly, mainly due to a decline in the value of assets as a result of adverse developments in financial markets.

In line with the Standard Formula, the Group's SCR by risk module also includes the capital requirement for financial institutions treated in accordance with relevant sectoral regulations (Sava Pokojninska and Sava Infond) and the capital requirement for other Group companies (Sava Penzisko Društvo and the associates DCB and G2I).

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



14 The share of an individual risk module is calculated as a percentage of the sum of all risk modules (including operational risk).

Key findings of ORSA for 2023

The Group carries out an ORSA each year and submits the report to the Insurance Supervision Agency in the first quarter. The ORSA includes an analysis of the impact of the business plan and projections on the risk profile, a review of the adequacy of the Standard Formula risk measurement, the preparation of capital adequacy projections in line with Standard Formula, and of calculation projections of the own assessment of solvency needs, an impact analysis of various scenarios, and the identification of potential management actions. Risks that are difficult to quantify are assessed qualitatively in the ORSA.

The 2023 ORSA (submitted to the regulator in March 2023) was based on the Group's business and strategic plans approved in December 2022. The results of the 2023 ORSA showed a robust solvency position and strong capital adequacy of the Group. Based on the financial plan and business projections, the Group's solvency ratio will be within or acceptably above the range of optimal capitalisation defined by the risk strategy, both according to the Standard Formula and as calculated using the own assessment of solvency needs. The methodology used for the own assessment of solvency needs is described below for each risk.

As part of the 2023 ORSA, several relevant scenarios were also implemented for the Group. The Group analysed the impact of increased macroeconomic and geopolitical risks on its business and solvency through an inflation scenario and an Asian military conflict scenario. These two scenarios have the largest impact on the business and solvency position of the Group among the scenarios selected, but the Group's solvency position is sufficiently robust, and its solvency remains well above the regulatory requirements if the scenarios materialise (taking into account the assumptions used in each scenario). The results of these scenarios are described in more detail in section C.2.4 "Risk management" of this report. The 2023 ORSA also included a CAT event scenario, the results of which are described in section C.1.1 "Non-life underwriting risk". In addition to the above scenarios, we also included two scenarios for transition and physical risks arising from climate change, the results of which are mentioned in section C.6.1.2 "Sustainability risk and climate change risk". Individual scenarios can have a significant impact on the Group's solvency position, but none of the scenarios implemented were found to be severe enough to cause the Group's solvency ratio to drop below its range of optimal capitalisation.

Impact of changing macroeconomic and geopolitical conditions on the Group's risk profile

The year 2022 was marked by unpredictable macroeconomic and geopolitical conditions. The war in Ukraine, which started at the beginning of the year, had a significant impact on the relations between countries and, in particular, increased the uncertainty in the euro area and Europe as a whole. In early 2022, the Sava Insurance Group considered the direct impact of the war situation in Ukraine on its business and concluded that the changed circumstances would not have a significant impact on its performance due to the very low investment exposure to war-affected countries and the limited exposure from the (re)insurance business written. However, the indirect impact of the war was more significant, with rising raw material prices (in particular energy), high inflation and rising interest rates having a significant impact on the business operations of the Sava Insurance Group in 2022. Uncertainty was added by the heightened tensions over Taiwan and the challenges faced by the economy in China, where it appears increasingly likely that the property bubble will burst, while the economy is also affected by the country's zero-tolerance approach to Covid-19. These factors substantially increased the likelihood of an economic slowdown or even recession. Taken together, they were reflected in the upshift of the risk-free interest rate curve, the widening of credit spreads and negative stock market trends.

Macroeconomic volatility resulting from rapidly rising interest rates was reflected above all in the valuation of debt-based assets, which recorded their historically highest fall in value in 2022. The precarious economic situation and the growing likelihood of a recession also had a negative impact on the valuation of equity investments, which recorded negative value development in 2022. The result of these factors was a significant reduction in the value of the Group's investment portfolio in 2022. The decrease in the value of assets was largely due to the reduced value of debt securities, mainly as a result of inflationary pressures and the related rise in risk-free interest rates.

Movements in capital markets will continue to be strongly influenced by central bank actions to control inflation and the increasing likelihood of an economic downturn. In 2022, the Sava Insurance Group adopted measures to reduce the investment portfolio risk and will continue to monitor the situation closely and take appropriate measures.

In terms of inflation, 2022 saw a significantly higher risk of declining profitability in non-life insurance, which reflected the increase in average claims that was primarily seen in motor and property insurance. In the first stage, the most significant effects were seen in the Slovenian market, which reacted relatively quickly by raising premiums accordingly. Zavarovalnica Sava followed suit by adapting its insurance products for which claims inflation was perceived. Technical provisions also increased in line with the estimated impact. We established a system for monitoring claims inflation and reporting through regular risk reports. Inflationary pressures have also been perceived in other markets in which the Group operates and in the reinsurance segment, which therefore remains one of the main challenges in the future. The reinsurance markets reacted by raising rates, which had a positive impact on Sava Re's inwards reinsurance underwriting. However, this makes it more difficult to obtain adequate reinsurance cover for the transfer of risks or results in significantly higher prices for such cover.

Despite the adverse macroeconomic and geopolitical situation, the Group experienced no liquidity problems. The Group companies have adequate liquidity positions. In addition to their own sources of liquidity, they keep credit lines with Sava Re as a secondary source of liquidity. Despite the changed circumstances, the Group's solvency ratio remained high and in line with the internal criteria throughout 2022, and the Group also recorded an adequate solvency ratio as at 31 December 2022 (a more detailed description of capital adequacy is given in section E. "Capital management").

Climate change and related risks

Climate change is a serious risk for society, the economy and the business of insurance and reinsurance companies. Monitoring of climate change risks is essential for the Group, especially in the long term, as the specific nature of its business (natural catastrophe coverage, investment in financial assets) inevitably exposes it to these risks.

The Group monitors climate risks, including physical and transition risks. Physical risks are risks resulting from the physical effects of climate change. Transition risks are risks arising from the transition to a low-carbon and climate-resilient economy. These risks are discussed in more detail in section C.6.1.2 "Sustainability risk and climate change risk".

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

In the first half of 2022, the pandemic had some impact on the operations of the Group companies due to the measures taken, but the situation largely returned to normal in the second half of the year. Hybrid working is already well established in Group companies. In line with the new working model, we also made certain technical adjustments to ensure better protection of the operation of information systems, which have become more vulnerable under the new work regime. Our customer service also saw certain adaptations during the pandemic and, consequently, most underwriting and claims settlement services can now be conducted remotely.

Covid-19 did not have a material adverse impact on the 2022 business results. We do not expect Covid-19 to have a major impact on the business and operations of Group companies in the future. Risks are monitored through regular risk monitoring and reporting. We now understand the risks much better than at the onset of the pandemic, and we estimate that the risks faced by the Group are well managed.

With regard to business interruption caused by Covid-19 in the Irish market, Zavarovalnica Sava took legal action in the first half of 2021. The Court considered the action as a "test case" as part of the Central Bank of Ireland's special supervision of Covid-19 and business interruption insurance. The high court upheld the insurer's position that the Zavarovalnica Sava insurance policy for business interruption and/or loss of licence does not cover Covid-19-related claims, which significantly affects further Covid-19-related business interruption claims against Zavarovalnica Sava. Zavarovalnica Sava sent the information on the court judgement to the affected policyholders.

C.1 Underwriting risk

Underwriting risk arises from the Group's underwriting activities: 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 related processes, and arises from the uncertainty regarding the occurrence, scope and timing of obligations. Hereinafter, the term "insurance" is also used to refer to accepted reinsurance.

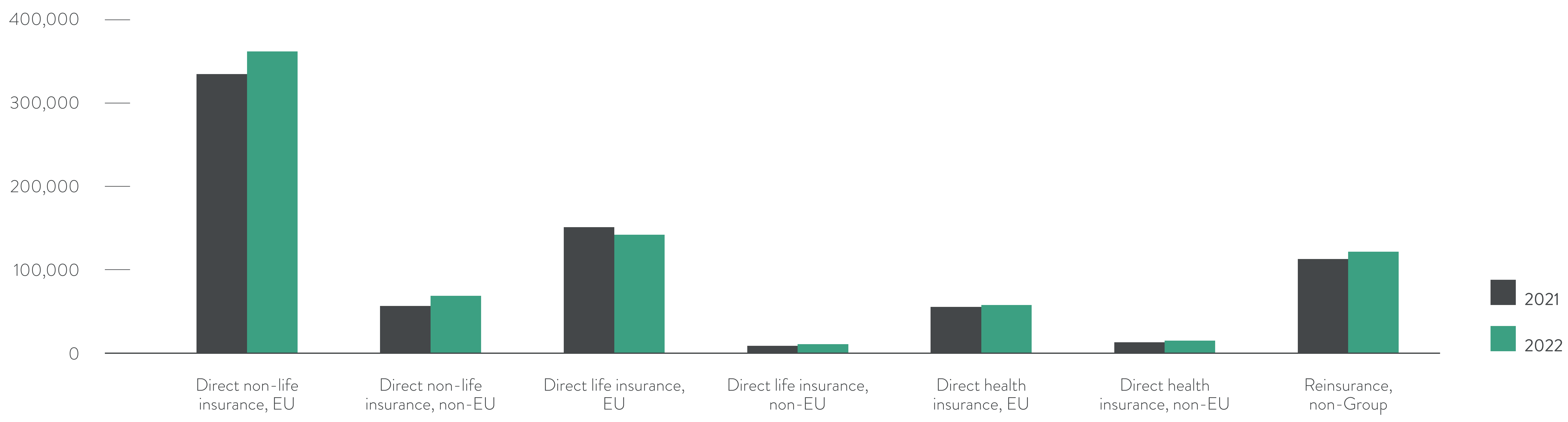
Underwriting risk is generally divided into:

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

The Group markets all three types of insurance and is therefore exposed to all three types of risk. Accepted life reinsurance business of non-Group cedants, including accident reinsurance business (Group and non-Group), is discussed under health underwriting risk. Due to its one-year duration and according to the nature of its coverage, this life reinsurance business is comparable to accepted accident reinsurance business (the portfolio of accepted life reinsurance business of non-Group cedants is negligible and in runoff).

The following chart shows gross premiums written by line of business, separately for EU-based and non-EU based Group companies. The movement in gross premiums written by line of business is discussed in greater detail in section A.2 "Underwriting performance".

Breakdown of Group gross premiums written **(EUR thousand)**

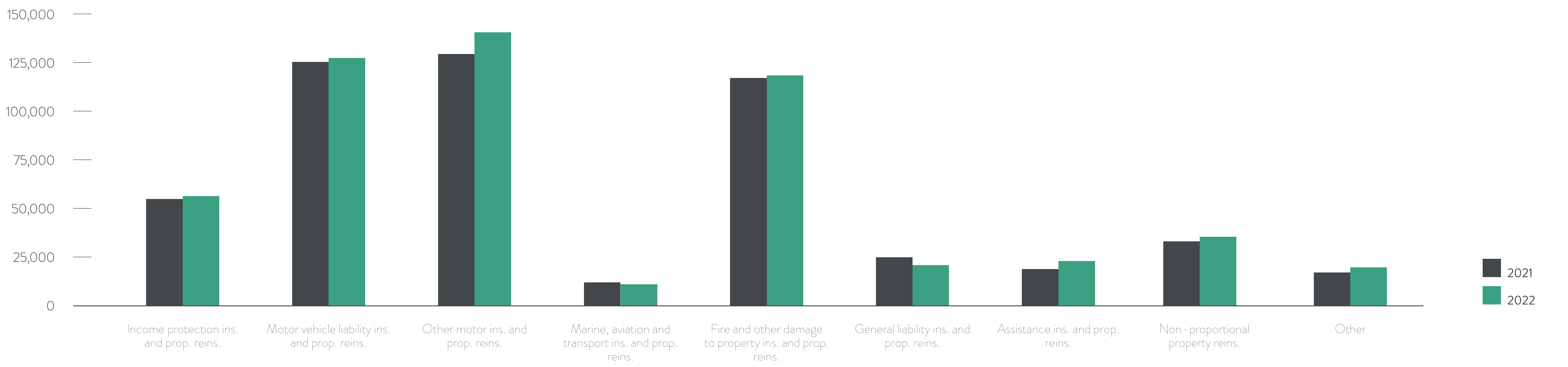


C.1.1 Non-life underwriting risk

Risk exposure

The following graph shows consolidated net non-life insurance premiums earned by material line of business. The breakdown of the Group's net non-life insurance premiums earned did not change significantly in 2022 (for more details see section [A.2 "Underwriting performance"]).

The Group's consolidated net premiums earned by major line of non-life insurance business **(EUR thousand)**



Non-life underwriting risk is divided into the following:

- **Premium risk** is the risk that premiums written are insufficient to meet the obligations arising from 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 insurance (fire and other damage to property, including related business interruption insurance).
- **Reserve risk** is the risk that either technical provisions are insufficient to meet the obligations arising from insurance contracts due to inadequate methods, inappropriate, incomplete and inaccurate data, inefficient procedures and controls or inadequate expert judgement, or that misreporting occurs, resulting in unreliable information about the Group'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 vehicle and property insurance (fire and other damage to property, including related 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 great to be covered simply 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 a slightly higher concentration of risks in Slovenia, which is further addressed through the retrocession programme. The capital requirement for non-life catastrophe risk is relatively high 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 obligations resulting from changes in the level or volatility of lapse rates. The Group is not materially exposed to this type of risk.

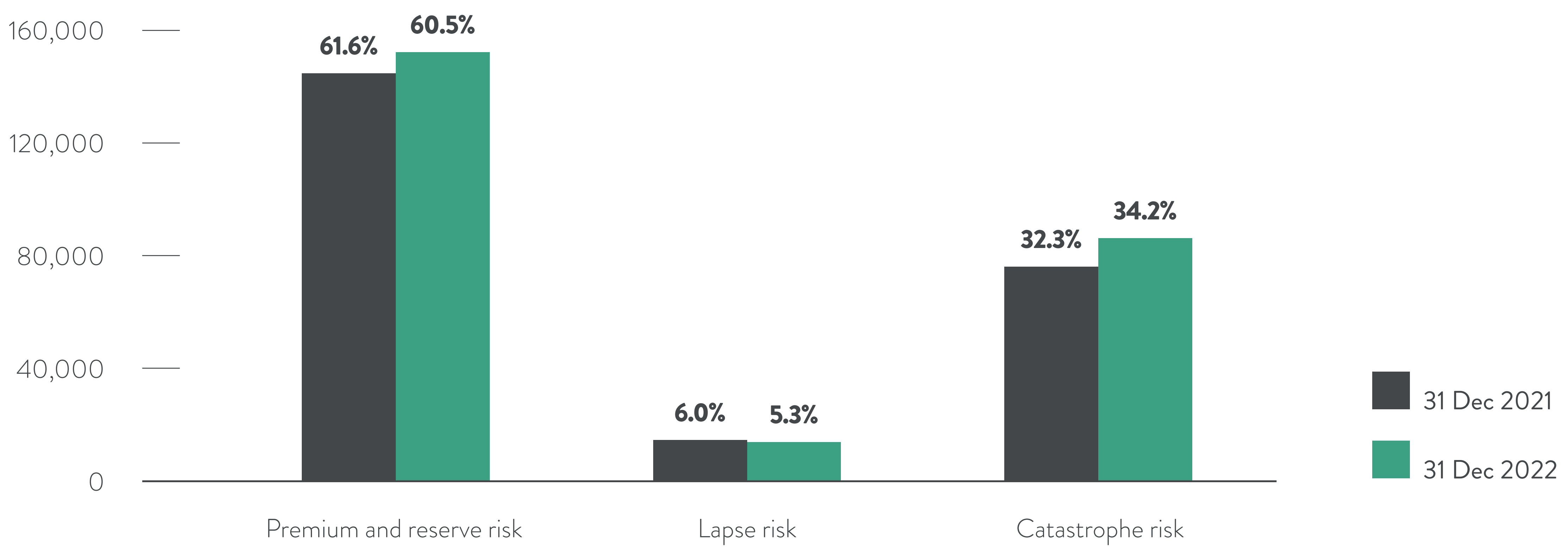
Other underwriting risks, such as economic environment risk and policyholder behaviour risk, may be relevant, but their effect is already indirectly accounted for in the above non-life underwriting risk.

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 following graph shows the Group's non-life underwriting risk 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 non-life underwriting risk sub-modules.

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



According to the Standard Formula, the Group was exposed to non-life underwriting risk in the amount of EUR 193.2 million as at 31 December 2022 (31 December 2021: EUR 180.1 million). The capital requirement for non-life underwriting risk represented 43.8% (31 December 2021: 40.9%) of the total SCR of all risk modules[16]. Premium and reserve risks, followed by catastrophe risk, accounted for the largest share of the undiversified non-life underwriting risk. Lapse risk in non-life business was relatively low.

As at 31 December 2022, the non-life underwriting risk module increased partly due to higher premium and reserve risk and partly due to higher catastrophe risk. The increase in the premium and reserve risk sub-module mainly reflects the portfolio and premium rate growth, some major claims in 2022 and inflation. The catastrophe risk sub-module also increased, mainly as a result of portfolio growth. The increase in catastrophe risk was partially offset by the stronger reinsurance programme (reduced retention on the catastrophe programme for the non-Group portfolio and increased capacity for Slovenia). The lapse risk sub-module remains relatively small and has decreased slightly due to higher expected loss ratios as a result of high claims inflation.

The Group also uses the calculation of its own assessment of solvency needs (within the ORSA) to quantify underwriting risks, through which it assesses the premium and reserve risk using undertaking-specific parameters (USP). The calculation for the Group applies weighted USP averages of individual Group companies. The calculation of the own assessment of solvency needs for the premium and reserve risk is significantly lower than the result calculated using the Standard Formula; consequently, the own assessment of solvency needs for non-life underwriting risk is lower than the calculation using the Standard Formula.

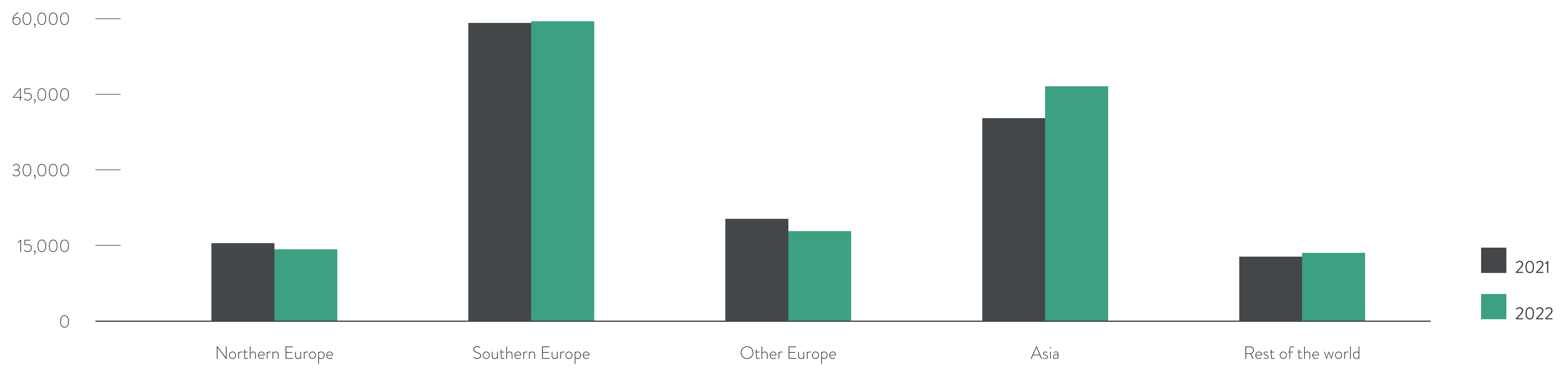
In addition to this quantitative measurement of non-life underwriting risk exposure, individual Group companies monitor their non-life underwriting risk exposure on a quarterly basis using various risk indicators. Certain indicators are also monitored at the Group level. This information allows Group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

Risk concentration

The following graph shows the breakdown by region of net premiums earned relating to fire and other damage to property insurance and proportional reinsurance, and non-proportional property reinsurance business. Most of this income is sourced from southern Europe, where the Group's direct insurance companies operate, with most of the exposure in Slovenia. Compared to 2021, non-life insurance income in South and Southeast Asia has increased slightly, but otherwise, the diversification remains comparable to 2021.

15 The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.
16 The sum of all SCRs of all risk modules, including operational risk, was taken into account.

Net premiums earned relating to property insurance (EUR thousand)



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

Gross aggregate exposures in Slovenia by peril

EUR thousand[17]	2022	2021
Flood	12,891,510	12,469,313
Earthquake	15,159,157	13,298,175
Storm and hail	53,163,175	51,152,165

The Group's primary insurance business and separately accepted non-Group reinsurance business is protected against natural catastrophes under non-proportional catastrophe excess-of-loss coverages for own account. Even prior to the operation of the non-proportional protection, the portfolio of earthquake insurance business of the Group's cedants is protected by a quota share retrocession treaty. This means that in the event of a major catastrophe, the Group would suffer a loss equal, at most, to the amount of the priority of the catastrophe excess-of-loss cover plus a reinstatement premium. The priority of the CAT programme for Group business is EUR 7.5 million for the first claim and EUR 5 million for each subsequent claim, whereas the priority of the CAT programme for non-Group accepted reinsurance was reduced to EUR 3 million in 2022.

Compared to the previous year, the reinsurance programme has been adapted to reflect the changes in accepted business. The increased portfolio size and higher premium rates resulted in the need to increase the capacity for some covers, while this, together with higher reinsurance premium rates, also led to an increase in some retentions. However, the reinsurance programme is not significantly different from the previous year.
In this way, the Group maintains catastrophe risk at a level comparable to that of 2021.

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

Risk management

The Group manages underwriting risk through:

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

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

In addition to the above, the Group monitors the impact of sensitivity analyses on risk levels. In the calculation as at 31 December 2022, we tested the impact of a **10% increase in the volume measure for the premium risk** of non-life and NSLT health insurance on the level of premium and reserve risk and on the overall SCR. A 10% increase in the premium volume measure would result in a 4.1 p.p. decrease in the solvency ratio (31 December 2021: 4.1 p.p.).

We also analysed the impact of a **10% increase in the volume measure for the reserve risk** of non-life and NSLT health insurance on the level of premium and reserve risk and on the overall SCR. A 10% increase in the reserve volume measure would result in a 2.9 p.p. decrease in the solvency ratio (31 December 2021: 3.1 p.p.).

Results of sensitivity analyses

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2022	566,020		310,079		183%	
Increase in volume measure for premium risk of non-life and NSLT health insurance	566,020	0	317,143	7,064	178%	-5 p.p.
Increase in volume measure for reserve risk of non-life and NSLT health insurance	566,020	0	315,158	5,079	180%	-3 p.p.
Base values as at 31 December 2021	601,277		304,405		198%	
Increase in volume measure for premium risk of non-life and NSLT health insurance	601,277	0	310,830	6,425	193%	-5 p.p.
Increase in volume measure for reserve risk of non-life and NSLT health insurance	601,277	0	309,187	4,782	195%	-3 p.p.

The following sections explain risk management in more detail for each of the non-life underwriting risks.

Premium risk

Most accepted non-life (re)insurance contracts are renewed annually. This allows insurers to amend the conditions and rates in a timely manner to reflect any deterioration in loss ratios across all classes of insurance and for major policyholders. In response to rising inflation, the Group raised the premium rates for motor and property insurance. Due to deteriorating macroeconomic conditions and the increased intensity of natural catastrophes in recent years, reinsurance premium rates increased substantially in 2022, which was very beneficial for the management of premium risk in reinsurance underwriting.

The Group seeks to mitigate price risk before launching a product by conducting in-depth market analyses, staying informed (media, competitors, clients), monitoring applicable regulations and related requirements, and monitoring historical claim trends (across the insurance market) and forecasts. In the case of obligatory proportional reinsurance treaties, Sava Re follows the fortune of its ceding companies, whereas in the case of non-proportional and facultative contracts, the decision to assume risk is made by Sava Re. It follows that, in order to manage this risk, it is essential to review the practices of existing and future ceding companies and to analyse developments in the relevant markets and classes of insurance. Consequently, coverage may only be granted by following internal underwriting guidelines, and the results must be consistent with the target combined ratios, based on available information, prices set and other relevant contractual provisions. The suitability of prices is verified through modelling and other detailed profitability reviews.

Another (re)insurance underwriting risk is PML error, the inaccurate assessment of the probable maximum loss (PML). In order to mitigate this risk, the Group has in place PML assessment guidelines, requires PML assessments to be a team exercise, and ensures that the reinsurance programme covers PML errors.

The Group mitigates claims risk through in-depth assessments of underwriting process risk, by restricting the authorisations in the (re)insurance 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 using 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. Another key element in mitigating this risk is the annual testing of the adequacy of reinsurance protection by using a variety of stress tests and scenarios, and the setting of appropriate retentions. Retention levels and per-risk reinsurance protection in 2022 remain similar to the previous year.

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 adequacy of technical provisions, analysing any major reasons for their inadequacy. All experience so gained is then used in the calculation of future technical provisions.

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

- data availability and accuracy,
- the adequacy of methods and assumptions used,
- calculation errors,
- process support in the IT system and tools.

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

Such controls include:

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

The process by which technical provisions are calculated is subject to periodic approval. Where significant changes have been made to the process, the methodology or models used to calculate 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 are 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 catastrophes and fire, by geographical diversification, and by adequate retrocession protection against natural and man-made catastrophes.

For natural catastrophes, the Group has in place a non-proportional 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 retrocession: a surplus cover providing protection at the level of individual risks (including PML error), and an earthquake quota share cover. This means that in the event of a major catastrophe, the Group would 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 reinstatement provisions, 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 exposure period. The portfolio is further protected against the risk of a higher frequency of natural catastrophes in Slovenia by an aggregate excess-of-loss cover; therefore, if several events exceed the Group's priority in a year, the Group will suffer a loss lower than the sum of all priorities. It ensures that the Group remains solvent even if several catastrophic events occur in a 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 significant impact on the operations and capital adequacy, and taking into account the likelihood of their occurrence.

Catastrophe risk is a very important risk for the Group. As part of the ORSA process, we therefore test natural catastrophe scenarios in terms of their impact on solvency. We also included a CAT scenario in the 2023 ORSA, assuming a major earthquake in Indonesia, followed by tsunamis in Thailand and Sri Lanka. The estimated impact of the scenario was the sum of the claims of the two events (less the share covered by reinsurance), the amount by which we reduced our own funds. In this scenario, the Group would still have a high surplus of eligible own funds over the SCR. If the scenario were to materialise, the solvency ratio would remain within the range of optimal capitalisation under the risk strategy[18].

The Group also included a climate scenario in the ORSA in relation to physical risks, which is described in subsection C.6.1.2 "Sustainability risk and climate change risk".

18 The lower end of the solvency ratio range for 2020–2022 is above 180%.

C.1.2 Life underwriting risk

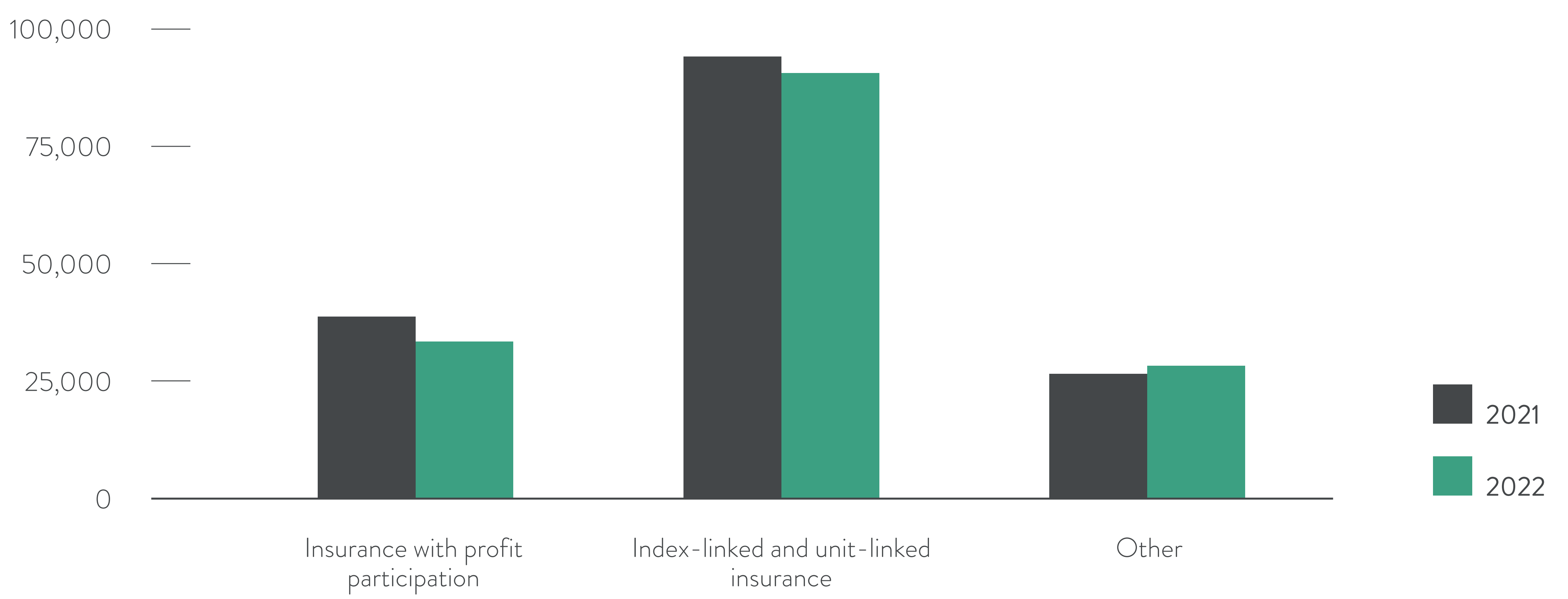
The main life underwriting risks are:

- 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, which includes terminations due to surrenders, conversion to paid-up status, and premium default,
- life catastrophe risk.

Risk exposure

The Group is moderately exposed to life underwriting risk. The Group's main exposure to life underwriting risk is in the European Union. Similar to 2021, the largest share of 2022 consolidated net life insurance premiums earned comprised index- and unit-linked insurance business, which slightly decreased compared to 2021 due to the new single-premium business (for more details see section A.2 "Underwriting performance").

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



Key risk exposures are lapse risk, life-expense risk and mortality risk. Other risks are minor and therefore not discussed in detail.

Lapse risk is the risk that life insurance contracts will be terminated earlier than expected to a greater or lesser extent due to surrenders, conversions to paid-up status or premium default. Risk levels depend on the use of adequate statistics, the identification of terminations for various reasons in an underwriting year and the economic situation, which may also affect the behaviour of policyholders. Risk levels also depend on competitive insurance products available in the market, and advice provided by insurance intermediaries and financial advisers.

Mortality risk is the risk that the actual mortality of insured persons will be higher than that projected in the mortality tables used for 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 will be higher than those projected in premium pricing. Risk levels depend on the use of appropriate statistics, and an increase in the actual expenses incurred in servicing life insurance contracts.

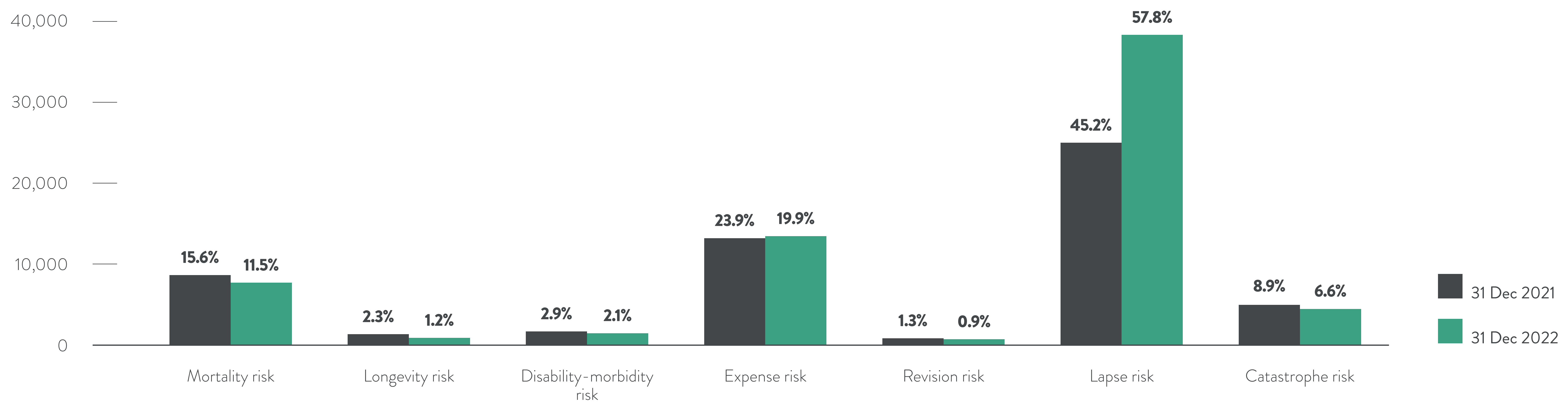
Risk measurement

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 49.7 million as at 31 December 2022 (31 December 2021: EUR 38.3 million). The capital requirement for life underwriting risk represented 11.3% (31 December 2021: 8.7%) of the total SCR of all risk modules[19]. The change in the capital requirement compared to the previous year was mainly driven by the increase in the risk-free interest rate curve. Lapse risk, specifically mass lapse risk, represents the largest share of the Group's undiversified life underwriting risk. This risk increased compared to the previous period, mainly as a result of the increase in the risk-free interest rate curve and portfolio development. Other significant risks are the expense risk, which has remained at a similar level to the previous period, and the mortality risk, which has decreased slightly due to changes in mortality assumptions and changes in the risk-free interest rate. Other life underwriting risks of the Group are relatively minor.

A comparison of risks is provided in the following breakdown of each undiversified risk (amount and percentage of total) 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.

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

Undiversified life underwriting risk by risk sub-module[20] (EUR thousand)



As we believe that our own risk profile for life insurance does not deviate significantly from the underlying assumptions in the Standard Formula, life underwriting risks are treated in the ORSA in the same way 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, exposure (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 systematically preventing intermediaries from rearranging policies.

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 the adequacy of the mortality tables used, and appropriate reinsurance protection.

The Group manages the **life-expense risk** by periodically monitoring the expenses incurred in the servicing of life insurance contracts, monitoring the macroeconomic situation (e.g. inflation), and appropriately planning the servicing of expenses for the coming years.

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

20 The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.

We have also conducted individual risk sensitivity analyses for life insurance, increasing expected mortality rates by 15%, expenses (other than commissions) by 10%, the inflation rate by 1 p.p. and the lapse rate by 50%. The impact on the eligible own funds and the solvency ratio is shown in the table below; the SCR was not restated. The negative impact of the sensitivity analysis is higher than the impact as at 31 December 2021. In particular, eligible own funds decrease more when lapse rates rise by 50%, which is due to the higher profitability of insurance as a result of the higher risk-free interest rate curve.

(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 2022	566,020		310,079		183%	
Increase in expected mortality rates of 15%	559,829	-6,191	310,079	0	181%	-2 p.p.
Increase in expenses (other than commissions) of 10% and inflation rate of 1 p.p.	555,278	-10,742	310,079	0	179%	-3 p.p.
Increase in lapse rate of 50%	534,909	-31,111	310,079	0	173%	-10 p.p.
Base values as at 31 December 2021	601,277		304,405		198%	
Increase in expected mortality rates of 15%	594,313	-6,964	304,405	0	195%	-2 p.p.
Increase in expenses (other than commissions) of 10% and inflation rate of 1 p.p.	590,593	-10,684	304,405	0	194%	-4 p.p.
Increase in lapse rate of 50%	581,025	-20,252	304,405	0	191%	-7 p.p.

C.1.3 Health underwriting risk

Health underwriting risk includes:

- health insurance risks pursued on a similar basis as non-life insurance (NSLT health insurance);
- health insurance risks pursued on a similar basis as life insurance (SLT health insurance).

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, whereas the exposure to SLT health insurance is low.

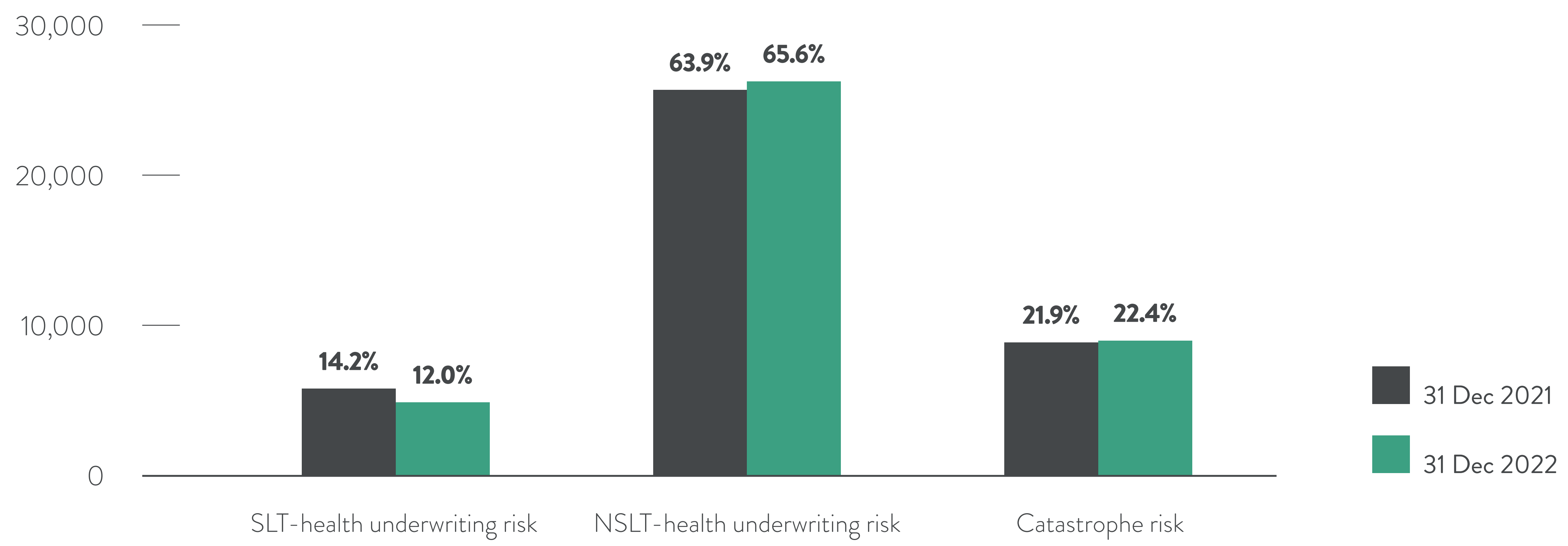
NSLT health underwriting risks are very similar in nature to non-life underwriting risks, which are discussed in greater detail in section C.1.1 "Non-life underwriting risk" of this report and, as such, are managed by the Group using similar techniques, i.e. by means of a well-designed underwriting process,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

SLT health underwriting risks are very similar in nature 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" of this report.

The Group makes quantitative assessments of health underwriting risk using the Standard Formula. According to the Standard Formula, the exposure to life underwriting risk totalled EUR 32.5 million as at 31 December 2022 (31 December 2021: EUR 32.5 million) or 7.4% (31 December 2021: 7.4%) of the total SCR of all risk modules[21]. The level of health underwriting risk under the Standard Formula as at 31 December 2022 remained at the same level as in the previous year. SLT health underwriting risk slightly decreased in 2022, mainly due to a lower lapse risk, which is a consequence of the lower expected profitability of contracts due to an increase in expected morbidity assumptions. However, the NSLT health underwriting risk and the catastrophe risk in health insurance have slightly increased, driven by the growth of the accident insurance portfolio.

A comparison of risks is provided in the following breakdown of each undiversified risk by health underwriting risk sub-module. 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] **(EUR thousand)**



Similar to the non-life underwriting risk, this risk is not optimally evaluated by the Standard Formula, which is why in the ORSA we used USPs to assess the premium and reserve risk of NSLT health insurance.

21 The sum of all SCRs of all risk modules, including operational risk, was taken into account.
22 The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.

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 risk includes the following types of risk:

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

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.

The value of assets included in the calculation of market risk was EUR 1,842.0 million as at 31 December 2022 (31 December 2021: EUR 2,037.5 million). The decrease in investment in 2022 is largely due to adverse financial market conditions. Compared to the previous period, the share of investments in government securities increased, mainly at the expense of a decrease in the share of investments in corporate bonds. The increase in property values was mainly driven by the investment in the new office building of Zavarovalnica Sava.

In addition to portfolio investments, the calculation includes assets of policyholders who bear the investment risk and the related obligations arising from these contracts, which decreased slightly in 2022 due to adverse financial market conditions.

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.

Composition of investments included in the calculation of market risk (Solvency II valuation)[23]

EUR thousand	31 December 2022	As % of total as at 31 December 2022	31 December 2021	As % of total as at 31 December 2021
Asset class				
Bonds	**1,168,935**	**63.5%**	**1,353,173**	**66.4%**
Government bonds	743,655	40.4%	743,470	36.5%
Corporate bonds	425,279	23.1%	609,702	29.9%
Investment funds	**90,952**	**4.9%**	**95,185**	**4.7%**
Deposits	**26,898**	**1.5%**	**25,971**	**1.3%**
Equity investments	**23,110**	**1.3%**	**34,171**	**1.7%**
Shares – listed	21,281	1.2%	32,342	1.6%
Shares – unlisted	1,828	0.1%	1,828	0.1%
Property	**98,284**	**5.3%**	**80,126**	**3.9%**
Own-use property	71,861	3.9%	64,141	3.1%
Other property	26,423	1.4%	15,985	0.8%
Loans and mortgages	**2,420**	**0.1%**	**1,675**	**0.1%**
Investments of policyholders who bear the investment risk	**431,400**	**23.4%**	**447,155**	**21.9%**
Total	**1,841,998**	**100%**	**2,037,454**	**100%**

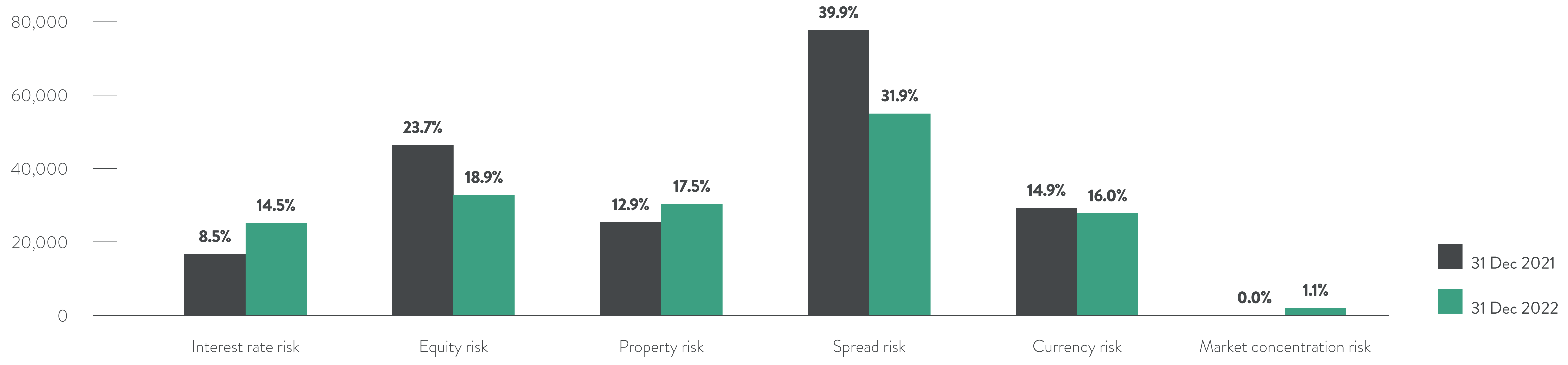
23 Overview of the basic investment portfolio (the look-through approach is not considered).

C.2.2 Risk measurement

The Group conducts the quantitative assessment of market risk by using the Standard Formula as well as the calculation of its own assessment of solvency needs for market risk. For investment fund assets, the Group uses the look-through approach to calculate market risk.

The following graph shows the Group's market risk 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 market risk sub-modules.

Undiversified market risk by risk sub-module[24] **(EUR thousand)**



24 The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.

Under the Standard Formula, the Group was exposed to market risk in the amount of EUR 119.5 million as at 31 December 2022 (31 December 2021: EUR 147.0 million), representing 27.1% (31 December 2021: 33.4%) of the total SCR of all risk modules[25]. The lower capital requirement for market risk in 2022 is mainly due to a fall in the value of investments as a result of adverse financial market conditions.

Interest rate risk is relatively low at 14.5% (31 December 2021: 8.5%) of the undiversified capital requirement of market risk. In 2022, the risk increased due to the higher risk-free interest rate curve.

Equity risk is the second-largest market risk, accounting for 19% (31 December 2021: 23.7%) of the undiversified capital requirement of market risk. Equity risk decreased in 2022, mainly due to the lower value of equity securities as a result of financial market conditions and a lower symmetric adjustment.

Property risk relates mainly to property held by the Group for own use and, to a lesser extent, investment property and assets invested in real-estate funds. The allocation to investment property within the investment portfolios of Group companies is limited by the limit system and is therefore relatively small at the Group level. The risk increased in 2022 mainly because of the investment in the new office building of Zavarovalnica Sava.

Spread risk is the largest market risk, accounting for 31.9% (31 December 2021: 39.9%) of the undiversified capital requirement of market risk. The risk is high, reflecting the Group's relatively high exposure to debt securities and deposits. In 2022, the risk decreased, mainly due to the fall in the value of bonds as a result of adverse financial market conditions and partly due to the slightly shorter maturity of the investments. The Group companies have a limit system in place to manage credit risk, which defines maximum exposures to a single issuer, region, sector and credit rating, thereby preventing the assumption of risks that are inconsistent with the risk appetite of each company.

Currency risk represents 16.0% (31 December 2021: 14.9%) of the undiversified capital requirement of market risk. Both assets and liabilities are exposed to this risk. The Group's exposure to currency risk arises mainly from the reinsurance business of Sava Re, the FoS business of Zavarovalnica Sava, Group companies established outside the EU and financial investments (direct investments and investment funds). Despite the considerable currency match between IFRS assets and liabilities, there is a minor currency mismatch under Solvency II due to differences in the valuation of technical provisions under IFRS and Solvency II, and capital of Group companies not denominated in euros. The risk is slightly reduced in 2022, resulting from a lower currency mismatch of assets and liabilities.

Market risk concentration of the Group as at 31 December 2022 was 1.1% (31 December 2021: 0.0%) of the undiversified capital requirement of market risk. Market risk concentration arises from the exposure to Kosovo government bonds, which exceeded the exposure threshold under Solvency II in 2022.

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

- duration,
- book return and net investment income,
- portfolio structure.

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 market return and net investment income,
- income volatility,
- the change in fair value,
- the currency composition of assets and liabilities.

In addition to the Standard Formula, the Group calculates its own assessment of solvency needs to monitor and assess market risk. The calculation of the own assessment of solvency needs considers only financial investments, excluding the assets of policyholders who bear the investment risk. These are taken into account in the calculation of the own assessment of solvency needs in the same way as in the Standard Formula. In the calculation of our own assessment of solvency needs, we assess the following financial risks: equity risk, interest rate risk and credit risk of financial investments. The valuation of equities is conducted using the capital asset pricing model (CAPM), where a stock index is determined for each equity instrument to represent the market return in the model (relevant economic scenario generators are used as a basis). In the calculation of our own assessment of solvency needs, we include all marketable equity securities sufficiently liquid to allow the parameters of the model to be estimated with sufficient accuracy using historical data. For other investments, we use stresses prescribed by the Standard Formula. In the calculation of the own assessment of solvency needs, interest rate risk is assessed for all interest-sensitive assets and liabilities. To this end, each currency representing a relatively small share of the portfolio is translated into a modelled currency against which it had the most stable exchange rate over the past five-year period[26]. Furthermore, in the calculation of its own assessment of solvency needs, we also assess the credit risk of financial investments, which also captures market risk concentration and spread risk. In accordance with Article 180 of the Delegated Regulation, the Standard Formula assigns a risk factor stress of 0% to certain government bonds. Given past market behaviour, however, these actually bear a certain level of risk. Accordingly, they are treated together with other debt instruments in the calculation of the own assessment of solvency needs.

25 The sum of all SCRs of all risk modules, including operational risk, was taken into account.
26 The currencies modelled are the euro, US dollar, Chinese yuan, Indian rupee, Korean won and Russian rouble.

The capital requirement for market and credit risk is higher in the calculation of the own assessment of solvency needs than in the Standard Formula, mainly due to the calculation of the spread risk on EU government bonds – which are treated as risk-free in the Standard Formula, but in the calculation of the own assessment of solvency needs, we also assess the risk of these investments – and the restatement of the interest rate risk, where the economic scenarios assume a higher variability of interest rates than in the Standard Formula calculation.

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 risk is monitored at the level of individual Group companies and at the Group level.

To systematically manages 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 used to monitor investment performance,
- measures used to monitor investment risks,
- persons responsible in the investment process.

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

The Group manages and monitors market risk taking into account:

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

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

The Group companies address asset and liability mismatch primarily through matching. Where possible and cost efficient, mismatches are reduced by matching assets to liability cash flows. Group companies do not use derivative financial instruments to manage assets and liabilities.

The Group manages equity risk by diversifying this investment portfolio segment to various capital markets and by using a limit system that caps the overexposure to the equity portfolio.

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 in section 17.7.4.1.4 "Currency risk".

In order to avoid concentration of investments by investment type, issuer, industry, and other similar concentrations, Group companies ensure that their investment portfolios are diversified within the possibilities of their respective capital markets and legal frameworks, in accordance with local insurance regulations and their own internal rules. To avoid risk concentration at the Group level, additional limits are set by issuer, industry, region and credit rating. Thus, the Group prevents large concentrations within its investment portfolio and limits the level of risk. The Group's portfolio, broken down by these parameters and by rating, is shown in its annual report in section 17.7.4.3 "Credit risk".

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

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

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2022	566,020		310,079		183%	
Increase in interest rates of 100 basis points	552,289	-13,731	311,189	1,110	177%	-6 p.p.
Decrease in interest rates of 100 basis points	573,528	7,508	309,149	-930	186%	3 p.p.
Fall in value of equity securities of 20%	551,770	-14,250	306,059	-4,020	180%	-3 p.p.
Decrease in value of property of 25%	541,012	-25,008	306,166	-3,913	177%	-6 p.p.
Base values as at 31 December 2021	601,277		304,405		198%	
Increase in interest rates of 100 basis points	587,213	-14,065	302,133	-2,272	194%	-4 p.p.
Decrease in interest rates of 100 basis points	608,098	6,821	309,069	4,664	197%	-1 p.p.
Fall in value of equity securities of 20%	584,435	-16,842	298,361	-6,044	196%	-2 p.p.
Decrease in value of property of 25%	579,762	-21,516	301,006	-3,399	194%	-5 p.p.

The first sensitivity analysis was an **increase and decrease in interest rates**. We conducted the analysis by increasing or decreasing the risk-free interest rate base curve for all maturities by 100 basis points. We then recalculated eligible own funds and the SCR for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points resulted in a decrease in the Group's eligible own funds by more than the Group's materiality threshold and in a decline in its SCR. The impact of the sensitivity analysis on the solvency ratio is minor and comparable to the calculation as at 31 December 2021. In the sensitivity analysis, a decrease in interest rates of 100 basis points resulted in an increase in the Group's eligible own funds and a decrease in the Group's SCR. The Group's solvency ratio increased slightly due to the positive impact on both the Group's own funds and the Group's SCR.

The second sensitivity analysis, involving a **drop in equity prices of the Group's equity portfolio**, was conducted by reducing equity prices by 20% as at the reporting date. In addition, we evaluated the impact of the change on best estimate provisions, which depends on the level of investments. We calculated the impact of the sensitivity analysis on the Group's eligible own funds and the level of the Group's SCR. There was a drop in both the Group's eligible own funds and the Group's SCR. The impact on the Group's solvency ratio was minor and similar to the one as at 31 December 2021.

The third sensitivity analysis assumed a fall **in property prices** of 25%. The calculation was made using the amount of property as at the reporting date. The sensitivity analysis mainly caused a reduction in the Group's eligible own funds. In addition, there was a drop in the capital requirements of the property risk and currency risk sub-modules. Because eligible own funds decline in line with the Group's SCR, the impact of the stress test on the Group's solvency ratio is minor and similar to that as at 31 December 2021.

Scenario analysis in ORSA

In the ORSA, the Group analysed the impact of increased macroeconomic and geopolitical risks on its business and solvency position with an inflation scenario and an Asian military conflict scenario.

The **inflation scenario** assumes an inflation shock and elevated inflation rates for a prolonged period. The scenario assumes a widening of credit spreads on debt securities and a decline in the value of other asset classes. Based on the scenario, we calculated the impacts on the investment portfolio as well as on insurance obligations, both as at 31 December 2023. Such a scenario would have a major impact on the Group's eligible own funds (the impact being well above the Group's materiality threshold). Such a decline in the value of investments would also result in a lower capital requirement for market risk and, consequently, a lower SCR for the Group. If an inflation scenario were to materialise, the Group's solvency ratio would drop significantly, but it would not compromise the Group's solvency owing to the Group's high baseline solvency ratio (the solvency ratio would remain within the suboptimal capitalisation range in accordance with the risk strategy[27] and well above the regulatory level of 100%). The impact of this scenario on the solvency ratio is lower than in the extreme scenario of a military conflict in Asia.

The **Asian military conflict scenario** predicts both Chinese aggression against Taiwan and North Korean aggression against South Korea. The scenario assumes a significant increase in the risk-free interest rate, an increase in risk premia and a decline in the value of other asset classes. Based on the scenario, we calculated impacts on the investment portfolio as well as on insurance obligations, both as at 31 December 2023. Such a scenario would have an extremely large negative impact on the Group's eligible own funds (the impact being well above the Group's materiality threshold). Such a decline in the value of investments would also result in a lower capital requirement for market risk and, consequently, a lower SCR for the Group. Taking into account the assumptions of the scenario, the Group's solvency ratio would decrease significantly, but it would not compromise the Group's solvency owing to the Group's high baseline solvency ratio (the solvency ratio would be slightly below the suboptimal capitalisation range in line with the risk strategy, but still well above the regulatory level of 100%). It should be stressed that this is a very extreme scenario, which was designed to test the robustness of the Group's capital adequacy.

Prudent person principle

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

The persons responsible for 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 insurance obligations. These assets are invested in the best interests 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 asset classes and commercial issuers. Exposure to individual commercial and government issuers is monitored both at the level of individual Group companies and at the Group level.

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

27 In line with the risk strategy, the solvency ratio is within the suboptimal capitalisation range of 150% to 180%.

C.3 Credit risk

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

C.3.1 Risk exposure

Credit risk is composed of:

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

Spread and market concentration risks are discussed and presented in section C.2 "Market risk" in accordance with the risk classification and measurement under the Standard Formula. Details regarding counterparty default risk are provided later in this section.

Counterparty default risk includes losses resulting from 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 and 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 inward reinsurance business, and in the payment of recourse receivables. To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue and outstanding receivables. Therefore, the Group's exposure to counterparty default risk is low.

C.3.2 Risk measurement

The Group makes a quantitative assessment of credit risk using the Standard Formula. As mentioned above, spread risk and market risk concentration are assessed within the market risk module, whereas counterparty default risk is assessed in a separate counterparty default risk module. The results for counterparty default risk are presented below, 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 23.2 million as at 31 December 2022 (31 December 2021: EUR 20.6 million) or 5.3% (31 December 2021: 4.7%) of the total SCR of all risk modules[28]. As at 31 December 2022, the risk was slightly higher than as at 31 December 2021, with an increase in both type 1 and type 2 risk.

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.

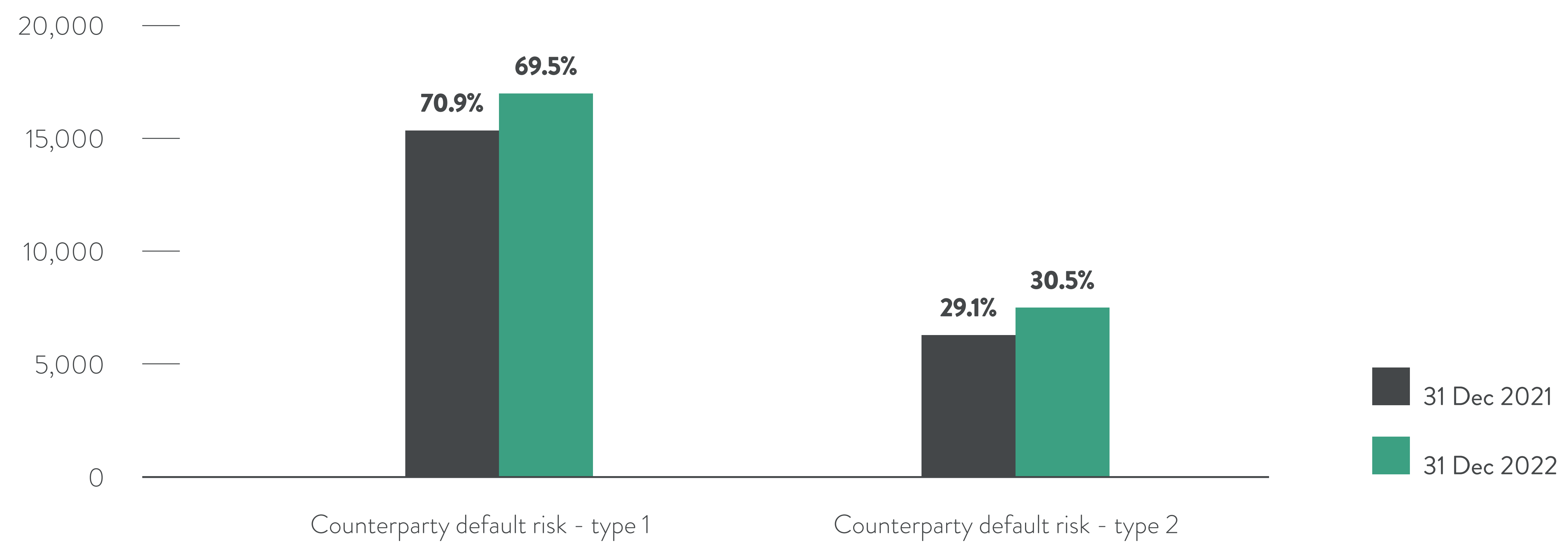
Type 1 risk includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. All exposures have increased compared to the previous period, resulting in an increase in type 1 risk.

Type 2 risk includes all receivables of the Solvency II balance sheet not included under type 1 risk other than tax assets and deferred tax assets. The risk increased moderately in 2022 due to a moderately higher level of receivables in the SII balance sheet.

In addition to calculating the solvency capital requirement in accordance with the Standard Formula, the Group calculates its own assessment of solvency needs (in the ORSA) to assess the credit risk relating to financial investments. This calculation takes into account spread, migration and default risks for all investments in debt instruments. As these risks are closely interrelated, they are addressed within a single model in the ORSA. For more information on the calculation of the own assessment of solvency needs for evaluating the market and credit risk, see section C.2.2 "Risk measurement". As regards counterparty default risk related to reinsurers and co-insurers, and deposits to cedants, we believe that the Standard Formula adequately evaluates the risk and, therefore, made no calculations of the own assessment of solvency needs for this part, whereas cash and cash equivalents are treated as risk-free investments. When calculating our own assessment of solvency needs for credit risk, we also consider the diversification effect.

28 The sum of all SCRs of all risk modules, including operational risk, is taken into account.

Undiversified counterparty default risk by risk sub-module[29] **(EUR thousand)**



C.3.3 Risk concentration

The Group has no significant concentration with counterparty default risk.

C.3.4 Risk management

To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue and outstanding receivables.

Group companies manage the risk associated with reinsurance and co-insurance contract assets by limiting the exposure to any one reinsurer/co-insurer and by entering into contracts with highly-rated partners.

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

The Group manages the credit risk arising from cash and cash equivalents by diversifying across a number of banks, with each individual Group company setting its exposure limits to individual issuers.

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

As part of its review of reinsurer credit ratings in the capital adequacy calculation, the Group also carried out a sensitivity analysis of the deterioration in the credit rating of reinsurers, retrocessionaires and cedants, where the Group has exposures in the form of deposits to cedants. We assumed a one-notch rating downgrade for all partners, based on which we calculated the impact on the SCR and the solvency ratio. Calculations were made using credit ratings and exposures at the reporting date. The sensitivity analysis has an impact on the increase in the capital requirement for the counterparty default risk sub-module and, through minority interests, also has an impact on the level of the Group's eligible own funds. The table below shows the results of the sensitivity analyses conducted.

A sensitivity analysis of a one-notch ratings downgrade results in a slight increase in the Group's eligible own funds with an increase in the Group's SCR, leading to a decline in the Group's solvency ratio. This decline is very small, leaving the ratio at a similar level as at 31 December 2021.

Results of sensitivity analyses

EUR thousand	Group eligible own funds	Difference from base value	Group SCR	Difference from base value	Group solvency ratio	Difference from base value
Base values as at 31 December 2022	566,020		310,079		183%	
Reinsurer credit rating downgrade	566,022	2	311,866	1,787	181%	-2 p.p.
Base values as at 31 December 2021	601,277		304,405		198%	
Reinsurer credit rating downgrade	601,279	2	305,858	1,453	197%	-1 p.p.

29 The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.

C.4 Liquidity risk

Liquidity risk is the risk that, at some point, 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 the risk arising from short-term cash flows rather than the 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 therefore needs to manage its cash flows adequately, ensuring an appropriate level of liquidity. Group companies carefully plan and monitor realised cash flows (inflows and outflows). Furthermore, they regularly monitor the receivables ageing analysis and consider the impact of receivables settlement on their current liquidity position.

C.4.2 Risk measurement

Liquidity risk is difficult to quantify and is thus not covered by the Standard Formula. Therefore, the Group does not manage liquidity risk by holding additional capital, but rather focuses on regular monitoring and managing of the risk.

In accordance with their capabilities, Group companies determine their exposure to liquidity risk by implementing, analysing and monitoring the following 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 this difference in the liquidity buffer,
- any other legally required measures.

C.4.3 Risk concentration

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

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 Group 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 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 of the portfolio) 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 monthly 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 at a 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[30]). Other Group companies use cash in bank accounts and short-term deposits as short-term assets for ensuring liquidity. As at 31 December 2022, the EU-based Group insurers held a level of highly liquid assets significantly exceeding the 20% requirement set in the risk strategy: Zavarovalnica Sava 49%, Vita 31% and Sava Re 51%. Extreme liquidity requirements of Group companies based outside 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.

30 Undertaking for collective investment in transferable securities.

C.4.5 Expected profits included in future premiums

Expected profits included in future premiums (EPIFP), calculated by the Group in accordance with Article 260(2) of the Delegated Regulation as the difference between the 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 in-force insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the occurrence of the insured event, regardless of the legal or contractual rights of the policyholder to cancel the policy. The latter calculation assumes a 100% policy lapse rate, 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. EPIFP decreased compared to 31 December 2021 due to the decrease in life business volume.

EPIFP – life and non-life business

EUR thousand	31 December 2022	31 December 2021
Non-life business	25,021	24,912
Life business	84,894	90,180
Total	109,915	115,092

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 to the Group. The key operational risks of the Sava Insurance Group in 2022, ranked according to their rating in the risk register (from highest to lowest), are:

- personal data breaches in EU companies (increased due to the high fines imposed by the regulator);
- the risk of a cyber-attack (increased due to the war in Ukraine and the related increase in cyber threats);
- the risk associated with the reporting of subsidiaries to the parent company;
- inadequate outsourcing of IT services – internal or commercial cloud services (the risk increased due to the introduction of cloud services in the Sava Re core IT system has not yet been fully completed and due to the increased likelihood of a cyber-attack and stricter regulatory requirements);
- failure to address a significant risk in the Group's ORSA (increased due to the unpredictable external environment and the consequent difficulty in identifying and forecasting risks in the coming years);
- partial or total failure of the IT system due to natural catastrophe or fire;
- partial or total failure of the IT system due to failure of computer or communication system;
- impaired or total failure of the IT system (in relation to transactions, implementation and maintenance);
- loss of data as a result of a compromised or non-functioning IT system;
- risks related to the control of the Group's subsidiaries.

C.5.2 Risk measurement

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

The capital requirement for the operational risk calculated according to the Standard Formula was EUR 22.7 million as at 31 December 2022 (31 December 2021: EUR 21.8 million), representing 5.1% (31 December 2021: 5.0%) of the total SCR of all risk modules[31].

The Group companies and the Group assess operational risk mainly by qualitatively assessing the related likelihood and financial impact (severity) within the risk register. The companies also monitor operational risk indicators. Regular risk assessments provide Group companies and the Group with an insight into the actual level of their exposure to these risks. In addition to the risk registers maintained by the 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 level of the individual Group companies.

C.5.3 Risk concentration

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

31 The sum of all SCRs of all risk modules, including operational risk, is taken into account.

C.5.4 Risk management

In order to manage operational risk effectively, Group companies have established processes for identifying, measuring, monitoring, managing and reporting on such risks. Such operational risk management processes 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 by ensuring that appropriate control activities and internal controls are integrated into the business processes and activities of individual Group companies to mitigate and monitor risk. The appropriate implementation of internal controls is the responsibility of the individual organisational units in which internal controls are to be carried out.

The main operational risk management measures at the level of individual Group companies and at the Group level include:

- maintaining an effective business processes management system and an adequate and effective internal control system;
- awareness-raising and training of all employees on their role in implementing the internal control system and managing operational risks;
- maintaining records of and monitoring incidents;
- implementing information security policies;
- developing IT to mitigate cyber risk;
- having in place business continuity procedures for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption);
- having in place IT-supported processes and controls in the key areas of business of each Group company;
- maintaining a good corporate culture and continuous training of employees;
- awareness-raising of all employees involved in the processing of personal data to ensure efficient risk management with regard to the protection of personal data;
- continuous training and awareness-raising of all employees.

All major internal controls are related to risks and are included in the risk registers of individual Group companies and the Group. The companies monitor deficiencies and new 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 any), the company's management board, the risk committee (if any) and the supervisory board.

The risk management function and the risk management committee may put forward recommendations to the management board for further steps and improvements in operational risk management.

The growing importance of cyber risks also makes their management critical, as the realisation of these risks could lead to complete business disruption and high financial losses, as well as damage to the company's reputation. The Group therefore regularly refines its activities to prevent and manage these risks, such as the integration of a multi-level user authentication system and the definition of a cyber incident response plan. Security threats and incidents are regularly monitored by the security operations centre (SOC). Social engineering is also a key cyber risk, and employee training was provided in 2022 to raise employee awareness. The Group also plans to implement some additional systems with more control mechanisms for data protection, integrity and availability, to develop more anomaly detection methods and to conduct independent security testing on an ongoing basis.

C.6 Other material risks

Other material risks to the Group are strategic risks and investment contract risks.

C.6.1 Strategic risk

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

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. The key strategic risks of the Sava Insurance Group in 2022, ranked according to their rating in the risk register (from highest to lowest), are:

- the deterioration in macroeconomic conditions and the resulting decrease in the Group's profitability (increased as a result of the situation);
- significant changes in sectoral accounting and tax policies and standards (increased due to the introduction of the new accounting standards);
- macroeconomic and capital market developments that could result in the investment portfolio not achieving its target returns (increased as a result of the situation);
- the risk of changes in legislation or its interpretation in connection with the level of SCR and own funds;
- the risk associated with the IT development strategy of the Sava Insurance Group and the risk associated with digitalisation and innovations (increased);
- the risk of insufficient human and financial resources to implement the IT strategy;
- the risk of increased competition in the markets in which the Group operates;
- the risk of IT support for a particular business area not being harmonised with other Group processes (increased);
- the risk associated with the growth of subsidiaries in certain segments;
- changes in legal and regulatory practices.

The year 2022 was marked not only by increased volatility in the macroeconomic and geopolitical environment but also by inflation, which remains the most significant economic risk. Central banks responded to the changed circumstances by raising key interest rates, credit spreads went up, and this led to a significant decline in the value of the Group's investment portfolio. The price rise also fuelled claims inflation, which increases the risk of declining profitability in non-life insurance, in particular in motor and property insurance. We expect uncertainty to continue in the future.

In 2022, the Group was also preparing for the transition to the new accounting standards (IFRS 17 and IFRS 9) and developed a plan for the new strategy period, which will also focus on the IT development strategy.

Among strategic risks, the Group monitors the impact of corporate reputation risks, regulatory risks and project risks. Sustainability risks and emerging risks are also very important in terms of their impact on the achievement of business strategy goals.

Risk measurement

Strategic risks are inherently very diverse, difficult to quantify and heavily dependent on various factors (including external). Such risks are not included in the calculation of the solvency capital requirement in accordance with the Standard Formula.

For this reason, strategic risks are qualitatively assessed in the risk register by each Group company and the Group as a whole in terms of likelihood and potential financial impact. In addition, key strategic risks are evaluated by using qualitative analysis of various scenarios. The combination of these two analyses provides an overview of the extent of and changes in the exposure to this type of risk.

Risk concentration

In 2022, the Group was not materially exposed to concentrations of strategic risk; however, certain risks increased (discussed under risk exposure).

Risk management

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

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 managed by continuously monitoring the achievement of short- and long-term goals of Group companies and the Group, by monitoring regulatory changes in the pipeline and market developments and by ensuring that the Group responds appropriately and in a timely manner when necessary.

The Group has taken the necessary measures to limit the impact of the uncertain macroeconomic environment and inflation in 2022 and will continue to monitor the situation and take appropriate action in the future. The Group will, as far as possible, limit regulatory risks and the risks associated with new accounting regulations; however, both will remain high. The Group also adopted measures to mitigate these IT risks (examination of alternative offers between different IT service providers, establishment of the business process committee and harmonisation of IT and processes, active advertising and recruitment and centralised digital platform administration).

The Group recognises that its reputation is important for achieving its business goals and long-term strategic plans. 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 significant 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 efforts 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. In 2022, the Group was preparing for the transition to the new accounting standards (IFRS 17 and IFRS 9), and the risks related to the implementation of the new standards will remain significant in the future.

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.

C.6.1.1 Emerging risks

For the Sava Insurance Group, it is extremely important to anticipate and identify new risks in order to ensure successful long-term business operations. It is a challenge to accurately predict such risks, so we source information externally and seek to define what could significantly affect our business operations in the future.

VIn 2022, we conducted a Group-wide survey to assess emerging risks and, based on the responses received from the Group companies, prepared a weighted Group-wide risk assessment. The highest-rated risks through 2027 are the geopolitical risk, economic risk[32] and risk related to new regulatory requirements. The key risks identified for the period after 2027 were the climate change risk, the risk of digitalisation and health-related risks[33].

The Group has addressed key emerging risks in its strategic plan for 2023–2027. The Group also examines the risks in terms of their potential impact on its business operations and analyses possible responses and actions. Identifying new risks and assessing their impact on business operations is one of the key activities of systematic risk management, and the Group will continue to focus on this.

32 Financial instability risk, macroeconomic risks, risk of over-indebtedness, risk of bursting the asset bubble.
33 Risk of changes in health systems, risk of changing lifestyle and medical advances, risk of deteriorating mental health, risk of genetic testing.

C.6.1.2 Sustainability risk and climate change risk

The Group is paying increasing attention to sustainability risks. Sustainable development is among our top priorities for the 2023–2027 strategy period. We have therefore prepared and adopted a sustainable development strategy in cooperation with all Group companies. It provides a basis for the Group's development in the area of sustainable business and the disclosure of non-financial information relating to the environment, social issues, human resources, protection of human rights, and anti-corruption and anti-bribery matters. The Group adheres to the guidance provided by GRI (Global Initiative Reporting) standards, which cover sustainable development in a comprehensive way, looking at a Group company's operations from all perspectives and considering all impacts – economic performance, impact on the environment and society at large.

Group companies are exposed to transition risk as they move towards more sustainable business operations. The Group is adapting its business accordingly, including offering more sustainable products and keeping pace with new customer needs. The Sava Insurance Group has implemented its guidelines for responsible underwriting of environmental, social, and governance risks in non-life insurance, which guide Group companies in their underwriting. The Group-wide Sustainability Investment Policy of the Sava Insurance Group defines, among other things, the activities in which the Group will no longer invest (industries identified as non-sustainable). In this way, the Group manages the risks associated with the transition to sustainable business on the investment side. The Group implemented changes based on the requirements of the Solvency II Delegated Regulation and the IDD[34], which provide for the integration of sustainability risk into the risk management system.

Climate change risks

The Group monitors both physical and transition risks relating to climate change risk.

In the insurers' business model, physical risks are those most clearly manifested in the increased risk of natural catastrophes and weather-related losses. For the Sava Insurance Group, 2022 was less turbulent than the previous year in terms of natural catastrophes, although international reinsurance markets were exposed to a number of major loss events. During 2022, Sava Re recorded four loss events for which the Company's share of the claims exceeded EUR 1 million. In terms of natural catastrophes, Zavarovalnica Sava was affected by 3 losses exceeding EUR 1 million, i.e. one more than in 2021. Other subsidiaries did not record major differences in loss events due to natural catastrophes in 2022.

The risks of the transition to a net zero society are also very important for the group. The high value of the Group companies' investment portfolios also means that there is above all significant exposure to transition risks that may arise as we move towards sustainable business. An inappropriate transition can have a negative impact on the value of investments, and the Group manages the risks through the Sustainable Investment Policy of the Sava Insurance Group and by monitoring market developments. The policy also includes an exclusion list, which identifies problematic sectors from a sustainability perspective, in which the Sava Insurance Group makes no investments.

The key climate risks included in the Group's risk register are:

- the risk of an increase in weather-related events and climate change-related natural catastrophes (higher frequency and severity of losses);
- the risk of loss of income/premiums and poor portfolio diversification due to (re)insurance underwriting restrictions;
- the risk of reduced availability and less affordable reinsurance/retrocession due to the increased frequency of causation and the strength of natural catastrophes;
- the risk of negative effects on the value of investments in companies that have an adverse impact on climate change.

The Group included in the ORSA the materiality assessments of exposures for the Group's investment portfolio and the insurance portfolio of Zavarovalnica Sava. The Group's investment portfolio was assessed for exposure to transition and physical risks. According to the assessment of exposure, the Group's investment portfolio is not materially exposed to physical risks. For transition risks, the methodology identified the sectors affected and derived the impact on the value of investments in each sector. The exposure of the Group's portfolio to the most vulnerable economic sectors was assessed as low, but despite the low exposure, the impact on the valuation of the debt investment portfolio could be significant due to the large volume of assets. For the non-life insurance portfolio, we focused our ORSA exposure assessment on the portfolio of Zavarovalnica Sava in Slovenia, where the Group has the highest concentration of underwriting risk. The portfolio's exposure to flood risk was estimated at the cut-off date. In geographical terms, the portfolio is most exposed to the Sava river basin area, whereas the property and motor insurance portfolio is significantly exposed to flood damage in the event of a realised flood peril.

In its ORSA, the Group also conducted two quantitative climate scenarios: The first analysed the transition risks in the investment portfolio in the medium term, and the second the impact of physical risks on the non-life insurance portfolio in the long term. The Group's strong solvency position means that it would remain solvent even if such scenarios were to materialise. Importantly, the Group has put in place a system to monitor the developments related to transition and physical risks in order to respond promptly and take appropriate action.

34 Insurance Distribution Directive.

Other sustainability risks

In addition to climate change, the Group monitors other sustainability risks. These are also regularly assessed in the risk register. The Group's key sustainability risks in 2022, ranked according to their rating in the risk register (from highest to lowest), are:

- the risk of changes in legislation related to sustainability and their impact on business operations;
- the risk associated with the Group's reputation (including the risk of being accused of greenwashing);
- the risk of opportunity losses for Group companies due to compliance with the restrictions imposed by sustainability policies and other regulations;
- the risk of increased costs as a result of adapting policies or operations to become more environmentally friendly (in line with SFDR, CSRD and other regulations);
- the risk of inadequate or untimely implementation of sustainability regulations; and
- the risk of inadequate or untimely reporting under sustainability regulations.

At the Group level, we expect some of the above risks to increase over the strategy period, mainly due to the increased volume and complexity of new legislation. In addition to the above risks, we also monitor the risk of social and/or financial inequality between genders in the Sava Insurance Group, the risk of non-compliant or inadequate internal regulations and policies regarding the principles for responsible investment (PRI), the risk of non-existing or inappropriate whistleblowing protocols and the risk of changes in sustainability-related legislation affecting the business operations of Group companies and reinsurance underwriting. Individual companies also monitor other risks relevant to their particular business.

In the coming years, we will continue our efforts to contribute to sustainable development, as well as to the monitoring and analysis of risks related to sustainability and social responsibility. In addition, we will focus on the effective implementation of SFDR[35] regulations. For more information on sustainable development, see the Group's annual report, section 14 "Sustainability report".

C.6.2 Investment contract risks

The Group's investment contracts include assets from annuity-certain contracts, which are classified as investment contracts in accordance with accounting standards, and assets from life-cycle funds relating to supplementary pension insurance of Sava Pokojninska in the accumulation phase. As a result, we consider the risks of such contracts separately from underwriting and market risks. For the purpose of calculating capital adequacy, Sava Pokojninska is also consolidated in accordance with the rules applicable to other financial sectors, and is not considered in the modules of the Standard Formula. Investment contract assets as at 31 December 2022 totalled EUR 172.9 million (31 December 2021: EUR 172.8 million). The capital requirement for Sava Pokojninska was calculated in accordance with sectoral regulations and amounted to EUR 6.7 million as at 31 December 2022 (31 December 2021: EUR 6.7 million).

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

The risk of failing to realise the guaranteed return is managed primarily through the appropriate management of policyholders' assets and liabilities, an appropriate investment strategy, adequate capital levels and provisioning. As part of its own risk and solvency assessment, the Group tests its risk exposure to the guaranteed return through sensitivity analysis and scenarios. We estimate that the risk of failure to achieve the guaranteed return in 2022 is slightly higher than in the previous year due to financial market volatility.

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 achieve the guaranteed return.

35 Sustainable Finance Disclosure Regulation (SFDR).

C.7 Any other information

The Group has no other material information regarding its risk profile.

D. Valuation for solvency purposes

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

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

For the purpose of determining the Group's solvency position, in accordance with Article 174 of the Slovenian Insurance Act (ZZavar-1), assets are valued at the amount for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Liabilities are valued at the amount for which they could be transferred or settled between knowledgeable, willing parties in an arm's length transaction. The value of liabilities is not adjusted for to the Group's creditworthiness.

Assets and liabilities are valued in accordance with IFRSs as adopted by the EU, to the extent that the valuation methods are consistent with the principles of Solvency II, unless the Delegated Regulation or implementing regulations provide for a different valuation method. For most other cases of assets and liabilities (other than technical provisions, TP), the IFRSs provide for valuation consistent with Solvency II principles.

The IFRS balance sheet is the basis for reclassifications and revaluations to arrive at the SII balance sheet. This section describes the implementation of such reclassifications and revaluations for items for which 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 bases, methods and main assumptions used at the Group level in the valuation of the Group's assets, technical provisions and other liabilities for solvency purposes, are no different from those used by the Group companies in their own valuation of assets, technical provisions and other liabilities for Solvency II purposes.

The Group does not have any material liabilities that it would be required to recognise as contingent liabilities in the SII balance sheet; however, it does have contingent liabilities arising from commitments to make payments to alternative funds.

In accordance with Article 267 of the Delegated Regulation, the Group has set up a control procedure to ensure that the estimates used in the valuation of assets and liabilities are reliable and appropriate to ensure compliance with Article 174(2) of ZZavar-1, and a periodic review procedure to verify that market prices 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 the information, data and assumptions underlying the valuation approach, the results and the appropriateness of the valuation approach.

The following tables show the Group's balance sheet as at 31 December 2022 and 31 December 2021. This includes the values of assets and liabilities under the IFRSs (before and after adjustments for the companies Sava Pokojninska, Sava Penzisko Društvo and Sava Infond) and assets and liabilities in accordance with the valuation principles set out in Articles 174–190 of ZZavar-1 (SII balance sheet), taking into account the revaluations and reclassifications of asset and liability items.

IFRS and Solvency II balance sheets as at 31 December 2022[36]

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Assets							
1	Goodwill (D.1.1)	32,433	-16,667	15,766	-15,766	0	0
2	Deferred acquisition costs (D.1.2)	33,667	0	33,667	-33,667	0	0
3	Intangible assets (D.1.3)	33,462	-13,212	20,249	-20,249	0	0
4	Deferred tax assets (D.1.4)	27,944	-58	27,885	14,475	0	42,361
5	Property and equipment held for own use (D.1.5)	69,532	-462	69,070	2,791	0	71,861
6	Property and equipment other than for own use (D.1.6)	23,125	0	23,125	3,298	0	26,423
7	Investments in subsidiaries and associates (D.1.6)	21,856	55,088	76,944	-35,668	0	41,276
8	Shares (D.1.6)	23,110	0	23,110	0	0	23,110
9	Bonds (D.1.6)	1,150,391	-30,148	1,120,243	-2,003	50,694	1,168,935
10	Investment funds (D.1.6)	92,511	-3,265	89,246	0	1,706	90,952
11	Deposits other than cash equivalents (D.1.6)	19,276	-3,100	16,176	0	10,722	26,898
12	Investments for the benefit of life insurance policyholders who bear the investment risk (D.1.6)	483,894	0	483,894	-94	-52,400	431,400
13	Loans and mortgages (D.1.7)	1,389	1,031	2,420	0	0	2,420
14	Reinsurers' share of technical provisions (D.1.8)	65,601	0	65,601	-16,811	-7,522	41,268
15	Deposits to cedants (D.1.9)	10,335	0	10,335	0	0	10,335
16	Insurance and intermediaries receivables (D.1.10)	146,520	42	146,562	0	-106,653	39,909
17	Reinsurance and co-insurance receivables (D.1.11)	12,761	0	12,761	0	-655	12,106
18	Other receivables (D.1.12)	14,880	-934	13,946	0	0	13,946
19	Own shares (D.1.13)	24,939	0	24,939	13,633	0	38,572
20	Cash and cash equivalents (D.1.14)	93,234	-7,002	86,233	0	-10,722	75,510
21	Other assets (D.1.15)	178,082	-173,955	4,127	-2,987	0	1,139
Total assets		2,558,941	-192,643	2,366,298	-93,048	-114,831	2,158,419

36 The notes in parentheses are links to sections of the report with details of the valuation methods used.

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Liabilities							
22	Gross technical provisions – non-life (D.2.1)	781,283	0	781,283	-116,476	-94,883	569,924
23	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	531,230	-15,847	515,382	-103,619	37	411,800
24	Gross technical provisions – policies where policyholders bear the investment risk (D.2.1)	436,782	0	436,782	-34,397	16	402,400
25	Provisions other than technical provisions (D.3.1)	8,094	-626	7,469	0	0	7,469
26	Deferred tax liabilities (D.1.4)	3,648	-526	3,122	51,250	0	54,372
27	Financial liabilities other than debts owed to credit institutions (D.3.6)	180,964	-172,870	8,094	0	0	8,094
28	Insurance and intermediaries payables (D.3.2)	42,595	0	42,595	0	-10,398	32,196
29	Liabilities from reinsurance and co-insurance business (D.3.3)	11,516	0	11,516	0	-8,177	3,339
30	Other trade payables (D.3.4)	22,309	-588	21,721	374	-1,425	20,670
31	Subordinated liabilities (D.3.5)	74,924	0	74,924	-18,634	0	56,290
32	Other liabilities (D.3.7)	28,706	-990	27,715	-9,154	0	18,561
Total liabilities		2,122,051	-191,448	1,930,603	-230,657	-114,831	1,585,115
Excess of assets over liabilities		436,890	-1,195	435,695	137,609	0	573,304

IFRS and Solvency II balance sheets as at 31 December 2021[37]

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

37 The notes in parentheses are links to sections of the report with details of the valuation methods used.

EUR thousand		IFRS value	Adjustment in accordance with Article 335 of the Delegated Regulation	Post-adjustment IFRS value	Revaluation	Reclassification	SII value
Liabilities							
22	Gross technical provisions – non-life (D.2.1)	751,379	0	751,379	-111,230	-86,657	553,492
23	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	556,949	-14,047	542,902	-7,517	64	535,449
24	Gross technical provisions – policies where policyholders bear the investment risk (D.2.1)	453,356	0	453,356	-41,313	29	412,072
25	Provisions other than technical provisions (D.3.1)	9,018	-449	8,569	0	0	8,569
26	Deferred tax liabilities (D.1.4)	11,387	-760	10,627	34,932	0	45,560
27	Financial liabilities other than debts owed to credit institutions (D.3.6)	173,245	-172,660	584	0	0	584
28	Insurance and intermediaries payables (D.3.2)	46,497	0	46,497	396	-10,815	36,078
29	Liabilities from reinsurance and co-insurance business (D.3.3)	10,109	0	10,109	0	-8,269	1,840
30	Other trade payables (D.3.4)	24,536	-852	23,685	0	0	23,685
31	Subordinated liabilities (D.3.5)	74,864	0	74,864	3,202	0	78,065
32	Other liabilities (D.3.7)	42,905	-1,567	41,338	-19,346	0	21,992
Total liabilities		2,154,245	-190,335	1,963,909	-140,877	-105,647	1,717,386
Excess of assets over liabilities		529,016	-3,081	525,936	68,673	0	594,608

The Group's off-balance sheet items as at 31 December 2022 include contingent assets of EUR 38 million, representing the nominal value of the cancelled subordinated instruments, in respect of which the Group continues to take action to protect its interests. In addition, off-balance sheet items at 31 December 2022 include contingent liabilities relating to commitments to make payments to alternative funds in the amount of EUR 7.7 million (31 December 2021: EUR 17.4 million).

D.1 Assets

The following is a presentation of individual categories of assets, together with the valuation methods used for material categories, where these differ from IFRS valuation.

D.1.1 Goodwill

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

D.1.2 Deferred acquisition costs

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

D.1.3 Intangible assets

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

D.1.4 Deferred tax assets and liabilities

The Group recognises deferred tax assets and liabilities in the IFRS balance sheet in accordance with IAS 12 "Income Taxes".

Deferred tax assets and liabilities are determined based on identified temporary differences. These are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. 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 therefore recognised as either deferred tax assets or deferred tax liabilities as a result of accounting for current and future tax consequences.

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

In the SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations, with the exception of:

- the revaluation of the item "participations in subsidiaries and associates" if they are considered to be strategic investments, based on which revaluation differences are treated as permanent and therefore there is no basis for accounting for deferred taxes;
- the revaluation of the item "listed own shares", as it does not represent a taxable temporary difference;
- the revaluation of the item "subordinated liabilities", as it does not represent a taxable temporary difference.

Deferred taxes relating to the revaluation for the SII balance sheet are accounted for at the tax rates applicable in Slovenia (19%), the domicile of the parent company that prepares the consolidated financial statements.

In accordance with Solvency II principles, the Group recognised an additional net deferred tax liability (tax assets less tax liabilities) of EUR 36.8 million resulting from revaluations (2021: EUR 23.5 million). The following table provides a detailed overview by item.

Deferred tax assets and liabilities

	31 December 2022			31 December 2021		
EUR thousand	IFRS value	Revaluation	SII value	IFRS value	Revaluation	SII value
Deferred tax assets	27,885	14,475	42,361	5,466	11,395	16,861
Deferred acquisition costs	0	6,397	6,397	0	5,181	5,181
Intangible assets	0	3,847	3,847	0	3,035	3,035
Financial investments	25,250	398	25,648	2,240	0	2,240
Reinsurers' share of technical provisions	0	3,194	3,194	0	2,407	2,407
Other items of deferred tax assets	2,636	639	3,274	3,226	772	3,998
Deferred tax liabilities	3,122	51,250	54,372	10,627	34,932	45,560
Property and equipment held for own use	0	530	530	0	288	288
Property and equipment other than for own use	0	627	627	0	320	320
Financial investments	3,080	0	3,080	10,587	201	10,788
Gross TPs	0	48,354	48,354	0	30,411	30,411
Other items of deferred tax liabilities	42	1,739	1,782	40	3,712	3,752

The largest impact on deferred tax assets in the IFRS balance sheet arose from the negative revaluation of investments. In the SII balance sheet, an additional large impact on deferred tax assets arose from the re-valuation of deferred acquisition costs.

The largest impact on deferred tax liabilities arose from the revaluation of gross 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. A valuation was carried out in 2022. These certified property appraisers assess fair value and fair value less costs to sell in accordance with the International Valuation Standards and the International Accounting Standards. The valuation includes verifying that the methods used are appropriate for the valuation of property rights. Depending on the purpose of the valuation and the amount of data available, a market value appraisal uses the market approach and the income approach.

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

D.1.6 Investments

Property, plant and equipment other than for own use

The methodology is consistent with that 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 own holiday facilities represent an immaterial part of the assets and are therefore not valued by external independent appraisers.

Investments in subsidiaries and associates

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

In accordance with Article 335(1), point (f), of the Delegated Regulation, full consolidation was not applied to the data of the Group’s non-EU based pension companies (Sava Penzisko Društvo). These companies are included in the item “investments in subsidiaries and associates” in the adjusted IFRS balance sheet, valued at their carrying amount. In the SII balance sheet, participations in non-insurance companies are valued using the IFRS equity method in accordance with Article 13(5) of the Delegated Regulation, whereby goodwill that was part of the cost is deducted from the cost that is the basis for the equity method calculations. The value of goodwill and other intangible assets, which would be valued at nil under the asset valuation methodology, is deducted from the resulting value of the company.

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

Shares

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

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

Bonds

All bonds are valued at fair value in the SII balance sheet. Bonds classified as held to maturity are revalued to fair value in the SII balance sheet, taking into account their fair value as at the reporting date.

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

Investment funds

As investment funds are valued at fair value in the IFRS balance sheet, no revaluation is necessary for the SII balance sheet.

In this line item, the Group reclassifies investment funds from registers of assets held to support obligations to policyholders who bear the investment risk for which the Group provides a guarantee (guaranteed NAVPU), to the extent that this item includes investments for the benefit of life insurance policyholders who bear the investment risk, in accordance with IFRSs.

Alternative funds

The value of alternative funds (real-estate and infrastructure funds, private debt funds, private equity funds) for IFRS reporting purposes is based on the NAVPU provided by the fund manager or as the value of invested assets.

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

Deposits other than cash equivalents

Deposits other than cash equivalents are not revalued as the IFRS amortised cost is assumed to be a reasonable approximation of the SII value.

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

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

Financial investments supporting obligations arising out of insurance for which policyholders bear the entire investment risk and for which the Group does not guarantee a specified level of return are included in investments for the benefit of life insurance policyholders who bear the investment risk. Financial investments supporting obligations arising out of insurance for which policyholders bear the investment risk and for which the Group guarantees a specified level of return are reclassified in the SII balance sheet to other financial investments that support life insurance obligations.

Investments held in the SII balance sheet to cover obligations of policyholders who bear the investment risk are carried at fair value in the IFRS balance sheet, eliminating the need for revaluation for the SII balance sheet.

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

D.1.7 Loans and mortgages

The valuation in the SII balance sheet and in the IFRS balance sheet is the same – at amortised cost.

D.1.8 Reinsurers' share of technical provisions

Hereinafter, we use the term "SII provisions" for technical provisions calculated in line with Solvency II regulations and "IFRS provisions" for technical provisions calculated in accordance with the International Financial Reporting Standards (IFRS 4). The main principles used to calculate the IFRS provisions are described in the Group's annual report, notes to the financial statements, section 17.4.25 "Technical provisions".

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

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

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 those used to calculate gross provisions. We use simplifications to calculate the share of the ceded business based on cession data for each homogeneous group and each cohort. Using the resulting share of the gross best estimate provision (before taking into account costs, future cash flows from premiums and commissions, any future inflation and the time value of money), we calculate the best estimate provision for the ceded business (before costs, reclassifications, future inflation and discounting). The consideration of currency composition, future inflation and the time value of money is the same as for the gross best estimate provisions. Adjustments for the expected default of a counterparty are made on the basis of the amount of the reinsurers' share of the technical provisions (for the IFRS balance sheet valuation), which is divided according to the credit ratings of the counterparties and the probability of default associated with these ratings.

D.1.9 Deposits to cedants

As deposits to cedants are short-term investments, their IFRS balance sheet value is considered a reasonable approximation of their fair value. The fair value of such deposits is therefore not calculated by the model, whereas the fair value for the SII balance sheet is taken from the IFRS balance sheet.

D.1.10 Insurance and intermediaries receivables

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

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

D.1.11 Reinsurance and co-insurance receivables

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

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

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 rentals of premises and equipment, and other short-term receivables.

The valuation in the SII balance sheet is the same as in the IFRS balance sheet.

D.1.13 Own shares

Own shares are listed on a regulated market and are therefore revalued to the closing market price on the SII balance sheet valuation date for SII balance sheet purposes.

D.1.14 Cash and cash equivalents

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

Deposits with an original maturity of up to three months are treated in the SII balance sheet in the same way as deposits with a longer maturity and are therefore reclassified as deposits other than cash equivalents.

D.1.15 Any other assets, not elsewhere shown

Other assets include short-term deferred costs and short-term accrued income. Short-term deferred costs comprise prepaid insurance, licences, rent and similar.

The valuation of other assets for the purposes of the SII balance sheet follows a cash flow perspective. Items for which the cash flow has already occurred are revalued to nil. Other items are recognised in the SII balance sheet at the same amounts as in the IFRS balance sheet.

D.2 Technical provisions

The Group establishes the gross premium provision by reclassifying the items of not-past-due premiums receivable on direct insurance, accepted reinsurance and co-insurance, and accrued commissions payable on accepted reinsurance and co-insurance business. Special features of individual companies are taken into account.

The valuation of gross technical provisions, including the reinsurers' share thereof, is carried out by the actuarial departments of the Group companies. The valuation of the reinsurers' share of the SII provisions (best estimate provisions for accepted business) is described in the 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 calculating the Solvency II provisions, the Group does not apply the matching adjustment under Article 182 of ZZavar-1 (or Article 77b of Directive 2009/138/EC), the volatility adjustment under Article 184 of ZZavar-1 (or Article 77d of Directive 2009/138/EC), the transitional adjustment of the relevant risk-free interest rate term structure under Article 639 (or Article 308c of Directive 2009/138/EC), or the transitional deduction under Article 640 of ZZavar-1 (or Article 308d of Directive 2009/138/EC).

The Group establishes the following categories of SII provisions:

- best estimate claims provisions for direct insurance business,
- best estimate premium provisions for 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 provisions for accepted reinsurance business,
- the risk margin.

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

Best estimate claims provisions for direct insurance business

Claims provisions relate to loss events that have already occurred but the claims have not yet been settled, whether claims have been reported or not. The best estimate is calculated using 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 curves. The calculation also takes into account all expenses relating to the period from the date of the loss event to the date of recognition, including any expected future subrogation recoveries from these claims.

Provisions for claims incurred but not yet settled are established based on statistics from previous years and are calculated for both reported and unreported claims.

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

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

The main assumptions used in the calculation of the best estimate claims provisions (hereinafter: BE CP) are:

- the expected ultimate loss ratio: the expected final share of all claims settled 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 is highly dependent on the choice of loss development factors, especially the choice of the tail, which represents the factors for the years for which the companies have no current loss experience. The 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, selecting a curve that best fits the selected development factors for the fully developed accident years. This factor is appropriately adjusted based on actuarial judgement;
- the expected share of the loss adjustment expenses as a percentage of future claims payments: the share of the loss adjustment expenses as a percentage of future claims is set based on historical data and adjusted, where necessary, to reflect future expectations and trends in the level of loss adjustment expenses;
- the expected share of subrogation recoverables as a percentage of future claims payments: the share of subrogation recoverables as a percentage of future claims payments is determined based on historical data of subrogation recoveries and adjusted, where necessary, to reflect future expectations or trends;
- discounting: to calculate best estimate claims provisions, all cash flows are discounted using the relevant risk-free interest rate curves;
- annuities: the reported motor and general liability claims may include claims that are expected to be paid in the form of life annuities or annuities until age 26 or graduation; the Group companies calculated the related provisions separately using life techniques, and therefore the best estimate claims provisions for non-life lines of business are calculated without these provisions and the related data.

For the last accident year (2022), the overall average expected ultimate loss ratio is slightly higher than that calculated at 31 December 2021 for the 2021 accident year, due to an increase in claims inflation, some larger claims that occurred and a return of claims frequency to pre-pandemic levels.

Best estimate premium provisions for direct insurance

The premium provision relates to loss events that will occur after the valuation date; that is, during the remaining period of validity of the insurance coverage. It is calculated for those contracts that are in force at the calculation date and consists of all expected future cash flows within the boundaries of the insurance contracts (contract boundaries). The best estimate is calculated using the weighted average of all possible scenarios and the time value of cash flows, which means that all cash flows are discounted using the relevant risk-free interest rate curves.

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

- all claims that will occur in the future,
- all loss adjustment expenses related to the handling of claims referred to in the preceding indent,
- all future subrogation recoveries based on the claims referred to in the first indent,
- all future expenses relating to 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,
- the future written premiums from multi-year contracts with annual accounting and permanent contracts for periods for which cover already exists but premiums have not been accounted for,
- the future written premiums from multi-year contracts with annual accounting and permanent contracts with annual premium statements of account within contract boundaries,
- any expenses associated with the premiums referred to in the preceding two indents,
- the amount of future expected bonuses and rebates dependent on the level of the loss ratio of certain contracts.

The Group's smaller (non-EU based) insurance companies calculate the premium provision for future claims and expenses using a simplified method based on the IFRS unearned premiums and the expected loss and expense ratios.

The main assumptions used in the calculation of the best estimate premium provisions (hereinafter: BE PP) are:

- the expected loss ratios: in determining 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 claims trends;
- the expected share of loss adjustment expenses as a percentage of future claims payments: the ratio of loss adjustment expenses to future claims payments is determined based on historical data and is adjusted, where necessary, to reflect future expectations and trends in the level of loss adjustment expenses;
- the expected ratio of commissions to future premium cash flows: the ratio of commissions to paid premiums is determined based on historical data and adjusted, where necessary, to reflect on future expectations and potential changes in premium rates;
- the expected ratio of other expenses to future premium cash flows: other expenses as a percentage of premiums written are determined based on historical data and adjusted, where necessary, to reflect future expectations and trends in expense levels;
- the expected share of subrogation recoveries as a percentage of future claims payments: this share is determined based on historical data on subrogation recoveries;
- the expected development of claims by year: this development is determined based on historical patterns of claims payments;
- expected development of subrogation recoveries by year: this development is determined based on historical data of subrogation recoveries;
- the expected lapse rate: the expected lapse rate or premium refund rate due to early termination of contracts is determined based on previous year's data and, adjusted, where necessary, in line with expectations.

The overall expected ultimate loss ratio used in the calculation of the best estimate premium provision as at 31 December 2022 is slightly higher than that used in the calculation of the best estimate premium provision as at 31 December 2021, for similar reasons (except for major claims already incurred) as the loss ratio for claims provisions.

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

The best estimate provisions for annuities stemming from non-life insurance (hereinafter referred to as the best estimate provisions for non-life annuities) are calculated separately from the best estimate claims provisions for non-life insurance business due to the specific manner in which claims are paid. It is determined separately for:

- reported annuities arising out of non-life insurance business (both accumulation and payout phases): these best estimate annuities are reported in 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: the best estimate provisions for this type of annuities are reported in the non-life lines of business as part of the best estimate claims provisions.

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

- the expected share of loss adjustment expenses as a percentage of future claims payments: the share of loss adjustment expenses as a percentage of future annuity payments is determined based on historical data for the previous financial year;
- expected inflation: expected future inflation is determined based on the current macroeconomic situation and outlook;
- the mortality rate is based on selected mortality tables.

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

- the expected number of such annuities determined based on past claims experience and future expectations,
- the average amount of the present value of all future annuity obligations at the date of commencement of the annuity, determined as the average of all expected annuity obligations already in payment and adjusted, where necessary, by actuarial judgement based on trends.

For the calculation at the end of 2022, the expected average annuity subsequently reported was slightly higher than for the calculation at the end of 2021.

Best estimate provisions for direct life insurance

The best estimate provisions for life insurance business are calculated at the insurance contract level using consistent assumptions for individual homogeneous groups of life insurance policies. These are broadly divided into traditional life insurance (endowment, term life, whole life, life annuities), unit-linked life insurance (guaranteed or non-guaranteed, term life or whole life) and similar-to-life-technique health insurance. The calculation is made based on best estimates of future contract cash flows, including best estimates of all contractual cash flows and of related cash flows such as claims handling costs, administrative expenses and financial returns on invested assets covering the obligations arising from insurance contracts. Best estimate claims provisions for life insurance contracts are calculated separately.

If the insurance contract meets all three of the following 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 therefore no future premiums are included 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 pure unit-linked insurance, the contract is valued as a technical provision calculated as a whole in the amount of the value of the investment fund assets, and the difference between expected actual and accrued costs is valued through best estimate provisioning.

The expected contractual cash flows include the following:

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

For individual contracts, the following needs to be considered:

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

For cash flows considered until policy expiry, the present value is calculated using the risk-free interest rate. For life insurance policies, the present value of embedded options and guarantees is estimated separately, using stochastic economic scenarios or an approximation method. Future dynamic policyholder behaviour is not modelled and future management actions are only modelled in the calculation of the present value of options and guarantees where some realisation of fair value gains is assumed if scenarios materialise where projected investment returns (before realisation of fair value gains) falls below the required level based on interest guarantees in traditional life policies.

Best estimate provisions for guaranteed payments at birth are calculated based on the expected number and level of payments for policies in force. These provisions are calculated based on estimated future payments calculated using the triangular method, taking into account the number of births by policy year and development year, or using analytical formulae. The present value of the cash flows is calculated using a risk-free interest rate.

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

In 2022, all assumptions used were reassessed and certain minor changes were made. In some segments, the expense ratio increased as a result of changes in the portfolio size, and there were minor changes in expected lapse ratios and expected mortality. The valuation was also affected by a change in the risk-free interest rate.

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 balances, after elimination of intra-Group transactions, only the latter are considered). Due to the negligible volume and 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 includes the following steps:

- a calculation of the "technical" gross provision, which is of the best estimate provision for loss events (both incurred and future) on business written before 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;
- preparing cash flows, taking into account future excess inflation on claims cash flows, the currency structure of cash flows and discounting.

"Technical" gross provisions are calculated using the chain-ladder method applied to cumulative paid claims triangles, taking into account the Bornhuetter–Ferguson (BF) adjustment. In the chain-ladder method, the development factors are selected based on data from the years that reflect the nature of the portfolio for which the provision is calculated. If exceptional events cause individual factors to deviate excessively from the average, they are excluded from the calculation of the development factors. The development tail is calculated using an approximation together with a distribution function: exponential, Weibull, power, inverse power; the R-squared criterion is used to select 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 estimated using loss ratios. The expected incurred loss ratio for an underwriting year is set as the selected average of a pre-assessed naive loss ratio determined by expert judgement, multi-year averages, information from the reinsurance underwriting department and the IFRS incurred loss ratio (excluding provisions at the portfolio level). For less recent years for which the development is known, greater weight is given to the realised ratio, whereas for more recent years greater weight is given to the naive loss ratio. For payment development or cash flow, the pattern derived from the triangle development is applied. The joint view summarises the results of all the methods, on the basis of which best estimate ultimate losses are selected, which is then used to calculate technical gross provisions.

Future loss adjustment and administrative expenses related to in-force business are taken into account through expense ratios.

We increase the cash flows of future claims payments (both incurred and not yet incurred) by the expected future excess rate of inflation, based on expected maturities. The basis for the currency breakdown of the resulting cash inflows is the currency composition of the liabilities for the IFRS balance sheet. Future cash flows broken down by currency are discounted using the relevant risk-free interest rate curves.

The main assumptions underlying the calculation are the selection of an appropriate method for each line of business, which did not change in in 2022 for most lines of business, and the ultimate ratios applied, especially for the most recent underwriting year, which is subject to the greatest uncertainty due to unknown losses and unexpired coverage. The share of expected ultimate claims and commissions as a percentage of expected ultimate premiums for the non-Group accepted reinsurance business in the most recent underwriting year is significantly higher than in the previous year, which was impacted by a large number of catastrophe claims.

Risk margin

The risk margin, along with the best estimate provisions, ensures that the value of technical provisions is equal to the amount that another insurer would require to underwrite and meet the obligations to policyholders, insured persons and other beneficiaries under the insurance contracts. The risk margin is calculated by determining the cost of insuring the amount of eligible own funds equal to the solvency capital requirement necessary to support the insurance obligations during their lifetime or until their expiry. The rate used to determine the cost of providing the above amount of eligible own funds, being the premium over the relevant risk-free interest rate that an insurer would consider in providing 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 the individual Group (re)insurance companies.

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

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

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

For composite insurance companies, the risk margin is calculated separately for life and non-life insurance, and it is allocated to the individual lines of business in such a way as to reflect appropriately the contributions of the individual lines of business to the solvency capital requirement (in accordance with Article 37(3) of the Delegated Regulation). In calculating 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 and that the capital requirement for each segment is calculated only in the following risk modules:

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

D.2.1 Value of Solvency II technical provisions

The following tables show the values of the gross best estimate provisions, the reinsurers' share of the best estimate provisions and the risk margin as at 31 December 2022 and 31 December 2021 by line of business. There are separate tables for the best estimate claims provision, the best estimate premium provision, 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 2022	31 December 2021	31 December 2022	31 December 2021
Medical expense insurance and proportional reinsurance	1,986	1,585	488	317
Income protection insurance and proportional reinsurance	23,359	23,423	466	429
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	117,518	115,466	620	537
Other motor insurance and proportional reinsurance	29,293	24,213	1,198	309
Marine, aviation and transport insurance and proportional reinsurance	13,350	15,745	1,660	2,287
Fire and other damage to property insurance and proportional reinsurance	106,013	97,269	12,435	10,408
General liability insurance and proportional reinsurance	47,811	44,949	1,482	1,186
Credit and suretyship insurance and proportional reinsurance	1,253	1,300	2	0
Legal expenses insurance and proportional reinsurance	35	49	14	19
Assistance insurance and proportional reinsurance	2,543	1,638	6	3
Miscellaneous financial loss	5,065	8,067	727	1,087
Non-proportional health reinsurance	558	704	1	1
Non-proportional casualty reinsurance	10,688	11,839	6,047	2,891
Non-proportional marine, aviation and transport reinsurance	11,012	9,348	25	44
Non-proportional property reinsurance	80,891	79,743	13,571	15,013
Total	451,374	435,337	38,743	34,531

Gross and reinsurance best estimate provisions move in line with portfolio size, loss events, claims payments and increases in the expected loss ratio.

Best estimate premium provision (BE PP)

EUR thousand	Gross BE PP		Reinsurers' share of BE PP	
Line of business	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Medical expense insurance and proportional reinsurance	1,250	948	35	-13
Income protection insurance and proportional reinsurance	-10,802	-10,520	13	-15
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	38,842	33,926	-500	-478
Other motor insurance and proportional reinsurance	41,310	36,109	907	509
Marine, aviation and transport insurance and proportional reinsurance	535	622	36	-63
Fire and other damage to property insurance and proportional reinsurance	9,019	13,672	1,110	789
General liability insurance and proportional reinsurance	-1,227	-313	64	141
Credit and suretyship insurance and proportional reinsurance	730	1,101	-37	0
Legal expenses insurance and proportional reinsurance	-180	-195	-46	-98
Assistance insurance and proportional reinsurance	6,105	4,372	-8	-57
Miscellaneous financial loss	100	-39	-19	61
Non-proportional health reinsurance	-50	-23	0	0
Non-proportional casualty reinsurance	-414	-313	-78	-12
Non-proportional marine, aviation and transport reinsurance	-278	-94	-421	-261
Non-proportional property reinsurance	-16,026	-15,444	-2,855	-3,240
Total	68,914	63,808	-1,797	-2,736

Best estimate premium provisions increased slightly in 2022 compared to the previous year, mainly due to portfolio growth and slightly less favourable expected future claims experience, particularly in motor lines.

Best estimate provisions for life lines of business

EUR thousand	TP calculated as a whole		Gross BE	
Line of business	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Health insurance	0	0	-10,489	-13,734
Insurance with profit participation	0	0	274,674	362,584
Index-linked and unit-linked insurance	68,758	93,167	323,166	311,429
Other life insurance	0	0	99,915	133,739
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	29,377	34,976
Total	68,758	93,167	716,644	828,993

The decrease in the best estimate technical provisions for life insurance is the result of portfolio movements, together with reclassifications, updated valuation assumptions used in the valuation and a significant upward shift in the risk-free interest rate curve. The level of technical provisions calculated as a whole decreased in 2022 due to the decline in the value of investment fund assets and consequently fewer policies with no risk component.

In health insurance, the best estimate provisions increased due to a change in morbidity and cost assumptions.

The decrease in technical provisions for the line of business "insurance with profit participation" was mainly driven by portfolio movements due to policy maturities and a significant rise in the risk-free interest rate curve, while changes in other assumptions had a lesser effect.

The increase in the best estimate technical provisions for the line of business "index-linked and unit-linked insurance" was mainly driven by portfolio development and asset value movements, partially offset by changes in the risk-free interest rate curve and assumptions. However, if technical provisions for this line of business are calculated as a whole, they are lower than in the previous period.

Technical provisions for the "other life insurance" line of business decreased because of higher mortality assumptions, policy maturities and a significant increase in the risk-free interest rate curve.

The provision for annuities stemming from non-life insurance decreased due to a significant increase in the risk-free interest rate curve, despite the recognition of provisions for annuities newly reported in 2022.

Risk margin

EUR thousand	Risk margin	
Line of business	31 December 2022	31 December 2021
Medical expense insurance and proportional reinsurance	321	353
Income protection insurance and proportional reinsurance	9,716	9,169
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	6,721	7,841
Other motor insurance and proportional reinsurance	5,985	6,460
Marine, aviation and transport insurance and proportional reinsurance	1,385	1,555
Fire and other damage to property insurance and proportional reinsurance	8,656	10,060
General liability insurance and proportional reinsurance	3,071	3,683
Credit and suretyship insurance and proportional reinsurance	470	644
Legal expenses insurance and proportional reinsurance	5	10
Assistance insurance and proportional reinsurance	754	707
Miscellaneous financial loss	332	640
Non-proportional health reinsurance	68	84
Non-proportional casualty reinsurance	933	1,484
Non-proportional marine, aviation and transport reinsurance	1,611	1,400
Non-proportional property reinsurance	9,607	10,258
Total non-life	49,635	54,348
Health insurance	2,467	2,902
Insurance with profit participation	7,267	7,003
Index-linked and unit-linked insurance	10,475	7,475
Other life insurance	8,403	7,680
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	116	186
Life reinsurance	70	114
Total life	28,798	25,359
Total	78,433	79,707

The risk margin decreased compared to 31 December 2021, chiefly driven by the rise in interest rates for discounting.

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 as follows:

- SII provisions are based on the cash-flow principle and include expected future profits on the in-force portfolio, whereas the IFRS provisions are based on the earned income less expenses principle. 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), whereas the premium provision takes into account all expected future cash flows from the in-force portfolio. Therefore, at 31 December 2022, the expected future profits on the active portfolio accounted for 12% (31 December 2021: 13%) of the difference between IFRS and SII provisions of non-life lines of business. In the calculation of the best estimate premium provisions, not-past-due receivables and payables related to premiums and reinsurance commissions included in other IFRS line items are eliminated (shown as a reclassification in the balance sheet). This reclassification represents 45% (31 December 2021: 44%) of the difference between IFRS and SII provisions of non-life lines of business.
- Furthermore, a comparison of the values of the provisions under the two standards (IFRS and SII) is not immediately meaningful, although the purpose the provisions under both standards is to cover claims incurred but not yet paid. An important substantive difference between the IFRS and SII values of the claims provisions is that the SII provisions need to be sufficient to meet obligations only in the weighted average of all possible scenarios, whereas IFRS provisions need to be sufficient in the vast majority of cases. Accordingly, the assumptions for IFRS provisions are more prudent. 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 greatest), it was 69% for IFRS claims provisions (31 December 2021: 69%) and 65% for Solvency II best estimate claims provisions (31 December 2021: 63%).
- SII non-life provisions take into account the time value of money, whereas IFRS provisions are generally not discounted. Interest rates increased significantly in 2022, increasing the difference between IFRS and SII provisions, but this was partially mitigated by the inclusion of explicit assumptions about future claims inflation in the SII provisions.
- The total value of SII life provisions is lower than that of IFRS provisions, but there are more significant differences between individual lines of business. Some lines of business have higher SII provision values, while others have higher IFRS provision values. IFRS provisions for life lines of business take into account the expected present value of future cash flows through 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 as a liability. In contrast, SII best estimates for life business take into account both expected losses and expected profits on life business. SII provisions for life insurance with a savings component that includes an interest guarantee and/or profit participation feature are higher than IFRS provisions because the risk-free interest rate curve is lower than the interest guarantee. In contrast, SII provisions for protection and unit-linked life business are lower than IFRS provisions as the former take into account expected future gains from mortality, morbidity and expenses.

D.2.3 Description of the level of uncertainty

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

Sensitivity testing of direct insurance premium provisions

	Stress impact %	
Scenario	31 December 2022	31 December 2021
5% increase in ultimate loss ratios for most recent accident year	10.5%	10.7%
5% increase in expenses (other than commissions)	2.4%	2.4%
10% reduction in share of subrogation recoveries	0.3%	0.3%

Sensitivity testing of direct insurance claims provisions

	Stress impact %	
Scenario	31 December 2022	31 December 2021
5% increase in ultimate loss ratios for most recent accident year	5.3%	4.8%
10% increase in loss adjustment expenses	0.5%	0.5%
10% reduction in share of subrogation recoveries	0.1%	0.1%

Sensitivity testing of the provision for accepted reinsurance

	Stress impact %	
Scenario	31 December 2022	31 December 2021
5% increase in expected loss ratios in the most recent underwriting year	4.4%	4.4%
10% decrease in not-past-due items (premiums less commissions)	2.2%	2.2%
50% increase in expenses (other than commissions)	0.3%	0.4%

Sensitivity testing of the provision for life insurance

	Stress impact %	
Scenario	31 December 2022	31 December 2021
15% increase in expected mortality rates	0.9%	0.9%
10% increase in expenses (other than commissions) and 1% increase in inflation rate	1.6%	1.5%
50% increase in lapse rate	2.2%	1.5%

It should be noted that the calculation based on the USPs for reserving risk produces 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 expenses and income used in the calculation of the best estimate provisions is not high.

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

D.3 Other liabilities

The following is an explanation of the valuation of the individual components of other liabilities.

D.3.1 Provisions other than technical provisions

Other provisions comprise the net present value of employee benefits, including severance pay upon retirement and jubilee benefits.

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

D.3.2 Insurance and intermediaries payables

From this item, the Group eliminates not-past-due commission payables relating to accepted (inward) reinsurance and co-insurance business at the SII balance sheet date. The Group considers this item as a future cash flow when calculating the best estimate premium provisions. Changes in payables and premium provisions are recorded as reclassifications.

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

D.3.3 Liabilities from reinsurance and co-insurance business

The Group eliminates 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 from the liabilities from reinsurance business item in the SII balance sheet. The Group considers these items as future cash flows when calculating future cash flows for the reinsurers' share of the best estimate premium provision. Changes in receivables and premium provisions are recorded as reclassifications.

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

D.3.4 Other payables (trade, not insurance)

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

The SII balance sheet valuation of insurance payables differs from the valuation in the IFRS balance sheet in the addition of the expected future commissions and future payables for fire brigade charges from contracts that are no longer active as at the reporting date. Up to and including 31 December 2021, these items were included in insurance and intermediaries payables.

D.3.5 Subordinated liabilities

Subordinated liabilities include the bond issued by the parent company. The bond was admitted to trading on the regulated market of the Luxembourg Stock Exchange.

The subordinated bond is measured at amortised cost under IFRS and is therefore revalued to fair value for the SII balance sheet based on the published Bloomberg closing price at the SII balance sheet valuation date.

D.3.6 Other financial liabilities other than debts owed to credit institutions

Other financial liabilities also include long-term lease liabilities that qualify for valuation under IFRS 16. Up to and including 31 December 2021, we reported long-term lease liabilities as part of other liabilities, not elsewhere shown.

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

D.3.7 Any other liabilities, not elsewhere shown

Other liabilities consist primarily of accrued expenses, deferred premium income and deferred reinsurance and co-insurance commissions.

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

D.4 Alternative methods for valuation

The Group uses alternative valuation methods to determine the fair value of financial investments for which the Group does not have a quoted market price. The alternative methods are the use of IFRS balance sheet values, the valuation of subsidiaries and associates that are not consolidated under Solvency II and the valuation of property obtained from independent external property appraisers.

Subsidiaries and associates not consolidated under Solvency II include EU-based pension and asset management companies (Sava Pokojninska and Sava Infond), non-EU based Group pension companies (Sava Penzisko Društvo) and associates (DCB and G2I). The Group recognises EU-based pension companies and asset management companies in the SII balance sheet at the proportionate amount of available capital calculated in accordance with sectoral rules applicable to pension and asset management companies in Slovenia. In accordance with Article 13(5) of the Delegated Regulation, the Group's non-EU based pension companies and interests in associates are valued in the SII balance sheet using the IFRS equity method, whereby goodwill that was part of the cost is deducted from the cost that forms the basis of the equity method calculation. The value of goodwill and other intangible assets, which would be valued at nil under the asset valuation methodology, is deducted from the resulting value of the companies.

Periodically (every three years), the Group obtains fair value appraisals of its property for own use and investment property assets from an independent external appraiser. The fair value appraisals thus obtained are the most representative of the amount for which the appraised properties could be exchanged between knowledgeable, willing parties in an arm's length transaction. In 2022, valuations were obtained from an external certified real estate appraiser to update the estimated fair values of the own-use and investment properties. The estimated fair values of the properties are not materially different from the previously estimated fair values.

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:

- long-term solvency within the optimal capitalisation range defined in the risk strategy;
- an appropriate level of financing flexibility;
- an acceptable level of volatility in the available capital and the solvency ratio;
- steering operating segments that tie up capital to achieve adequate profitability;
- managing the business to achieve an adequate return on equity or an adequate dividend yield for shareholders.

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

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

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

As provided by the risk strategy, all Group subsidiaries are required to maintain a sufficient amount of capital at all times to meet solvency requirements under 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 resulting from the Standard Formula methodology and from potential small to 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 that the Group's and each company's capital adequacy is maintained at an acceptable level.

The first phase of the annual verification of the potential for capital optimisation and additional capital allocation 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 the measures required to achieve the target capital allocation.

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

When allocating capital to business segments, it must be ensured that an adequate return on equity is achieved. Taking into account the business aspect, we strive to maximise the ratio of the return generated by a particular operating segment tying up capital to allocated capital in terms of the capital allocated to cover risks (an effective ratio of return to risk).

E.1 Own funds

As at 31 December 2022, the Group reported an excess of assets over liabilities of EUR 573.3 million (31 December 2021: EUR 594.6 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 38.6 million (31 December 2021: EUR 48.0 million);
- foreseeable dividends in the amount of EUR 24.8 million (31 December 2021: EUR 23.2 million); their amount is determined based on the proposed resolution of the parent company's management and supervisory boards to the general meeting;
- EUR 206 thousand of non-available minority interests at the Group level (31 December 2021: EUR 107 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 12.6 million (31 December 2021: EUR 12.6 million), which is an amount equal to the own funds of Sava Pokojninska and Sava Infond;
- other items in accordance with the provisions of ZZavar-1.

The excess of assets over liabilities is increased by subordinated liabilities of EUR 56.3 million (31 December 2021: EUR 78.1 million), as these are part of the Group's basic own funds.

The Group's basic own funds are additionally reduced by the total value of individual participations in other financial and credit institutions (excluding insurers) exceeding 10% of the Group's own-fund items (paid-up share capital plus capital reserves). In addition, they are reduced by part of the value of all participations in financial and credit institutions that exceeds 10% of the Group's own-fund items (other than those alone exceeding 10% and thus being excluded). As at 31 December 2022, the Group had no such exclusions from own funds, the same as at 31 December 2021.

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 are not subject to Solvency II capital requirements under ZZavar-1.

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

As at 31 December 2022, the Group had no adjustments for other items in accordance with ZZavar-1, the same as at 31 December 2021.

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 2022, the Group held no ancillary own funds, the same as at 31 December 2021.

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

Composition of the Group's own funds

EUR thousand	31 December 2022	31 December 2021
Ordinary share capital (gross of own shares)	71,856	71,856
Non-available called but not paid in ordinary share capital at Group level	0	0
Share premium account related to ordinary share capital	42,702	42,702
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))	394,905	408,393
(1) Excess of assets over liabilities	573,304	594,608
(2) Own shares (held directly and indirectly)	38,572	48,043
(3) Adjustment for restricted own-fund items in respect of matching adjustment portfolios and ring-fenced funds	0	0
(4) Foreseeable dividends, distributions and charges	24,796	23,247
(5) Other basic own fund items	115,031	114,926
(6) Other non-available own funds	0	0
Subordinated liabilities	56,290	78,065
Non-available subordinated liabilities at Group level	0	0
Amount equal to the value of net deferred tax assets	0	0
Amount equal to the value of net deferred tax assets not available at Group level	0	0
Minority interests (if not reported as part of a specific own funds item)	472	367
Non-available minority interests at Group level	-206	-107
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-12,641	-12,562
Total basic own funds after deductions	553,379	588,715
Total own funds in other financial sectors	12,641	12,562
Eligible own funds to meet the Group SCR	566,020	601,277

Eligible own funds to cover the Group's SCR decreased by EUR 35.3 million in 2022, mainly as a result of the adverse financial market conditions, which led to a fall in the value of financial investments, partially mitigated by a decrease in the best estimate technical provisions due to the rise in the risk-free interest rate curve.

Eligible own funds also decreased as a result of the additional provisioning in non-life business to protect against expected future claims inflation.

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

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

EUR thousand	31 December 2022	31 December 2021
IFRS equity[38]	410,756	500,997
Difference in the valuation of assets	-106,681	-95,308
Difference in the valuation of technical provisions	254,492	160,060
Difference in the valuation of other liabilities	-23,835	-19,183
Foreseeable dividends, distributions and charges	-24,796	-23,247
Adjustment for minority interests	-206	-107
Deduction for participations in other financial undertakings	-12,641	-12,562
Subordinated liabilities in basic own funds	56,290	78,065
Total basic own funds after deductions	553,379	588,715
Total own funds in other financial sectors	12,641	12,562
Eligible own funds to meet the Group SCR	566,020	601,277

As can be seen from the table, the majority of differences in figures as at 31 December 2022 originate from differences in the valuation of technical provisions in accordance with Solvency II regulations in (re)insurance undertakings in and outside the European Union, similar to 31 December 2021. The methodology used is described in detail 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 adequate quality. To this end, the Solvency II regulations classify own funds into three capital tiers based on both permanence and loss-absorbing capacity.

Tier 1 funds include own funds that mostly meet the conditions laid down in Article 196(1), points (1) and (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. Consideration is given to features, such as permanence, confirmed absence of redemption incentives and encumbrances.

The Group includes the following in 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, subordinated or subject to early redemption.

Tier 2 funds include own fund items that mostly exhibit the features referred to in Article 196(1), point (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. Consideration is given to 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 own funds. Subordinated liabilities have the feature of subordination.

38 IFRS equity is adjusted for the elimination of the companies Sava Pokojninska, Sava 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 arising 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	minimum 50% of SCR	no additional restrictions[39]	maximum 15% of SCR
Group MCR coverage	minimum 80% of MCR	maximum 20% of MCR	not eligible

The following two tables show the amounts of the Group's eligible own funds designated to meet the Group's SCR and the Group's MCR as at 31 December 2022 compared to the figures as at 31 December 2021. 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 2022	566,020	509,730	56,290	0
As at 31 December 2021	601,277	523,212	78,065	0

Eligible own funds to meet the Group MCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2022	525,592	497,089	28,503	-
As at 31 December 2021	538,780	510,650	28,130	-

As at 31 December 2022, the major part of the Group's eligible own funds to cover its SCR and MCR is classified as tier 1 funds and includes no ancillary own funds[40]. 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 transitional regulatory 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's 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 206 thousand as at 31 December 2022 (31 December 2021: EUR 107 thousand).

39 The total of tier 2 and tier 3 assets must not exceed 50% of the SCR.
40 Hereinafter the term "Group's eligible own funds" refers to the Group's eligible own funds designated to meet the Group's SCR, unless otherwise stated.

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 (the first method under Article 377 of ZZavar-1).

The SCR calculated based on the consolidated figures of the insurance undertakings in the Group (Group's 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's solvency capital requirement is calculated as the sum of the Group's consolidated SCR plus the capital requirement for other financial sectors, calculated in accordance with relevant sectoral regulations, and the capital requirement for residual undertakings of the Group.

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

Group solvency capital requirement (Group SCR)

EUR thousand	31 December 2022	31 December 2021
(7) Group SCR (= (4) + (5) +(6))	310,079	304,405
(6) Capital requirement for other financial sectors	7,648	7,797
(5) Capital requirement for residual undertakings	6,390	6,142
(4) SCR calculated on the basis of the consolidated data of the Group companies that are consolidated[41] under Solvency II (= (1) + (2) + (3))	296,041	290,466
(3) Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-9,159	-17,709
(2) Operational risk	22,702	21,816
(1) Basic solvency capital requirement	282,499	286,360
Diversification effect	-135,748	-132,071
Total of risk components	418,246	418,431
Market risk	119,530	147,025
Counterparty default risk	23,242	20,596
Life underwriting risk	49,739	38,255
Health underwriting risk	32,500	32,460
Non-life underwriting risk	193,235	180,095
(A) Eligible own funds (excluding other financial sectors)	553,379	588,715
(B) Eligible own funds in other financial sectors	12,641	12,562
(C) Eligible own funds to meet Group SCR	566,020	601,277
Group solvency ratio (%) (= (C) / (7))	183%	198%

Similar to 31 December 2021, the largest portion of the Group's SCR as at 31 December 2022 related to non-life underwriting risk, which increased mainly because of portfolio growth, premium rate increases, some major claims in 2022 and claims inflation. The Group's second-largest risk is market risk, which decreased in 2022, mainly due to a decline in the value of investments as a result of adverse financial market conditions. Life underwriting risk also changed significantly in 2022, increasing mainly due to the higher risk-free interest rate curve and the adjustment for the loss-absorbing capacity of deferred taxes, which decreased mainly due to fair value revaluation of investments. Other risks represent a smaller share of the Group's SCR and remained at a similar level at 31 December 2022 as at 31 December 2021. For details regarding changes in individual modules, see section C "Group risk profile".

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

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

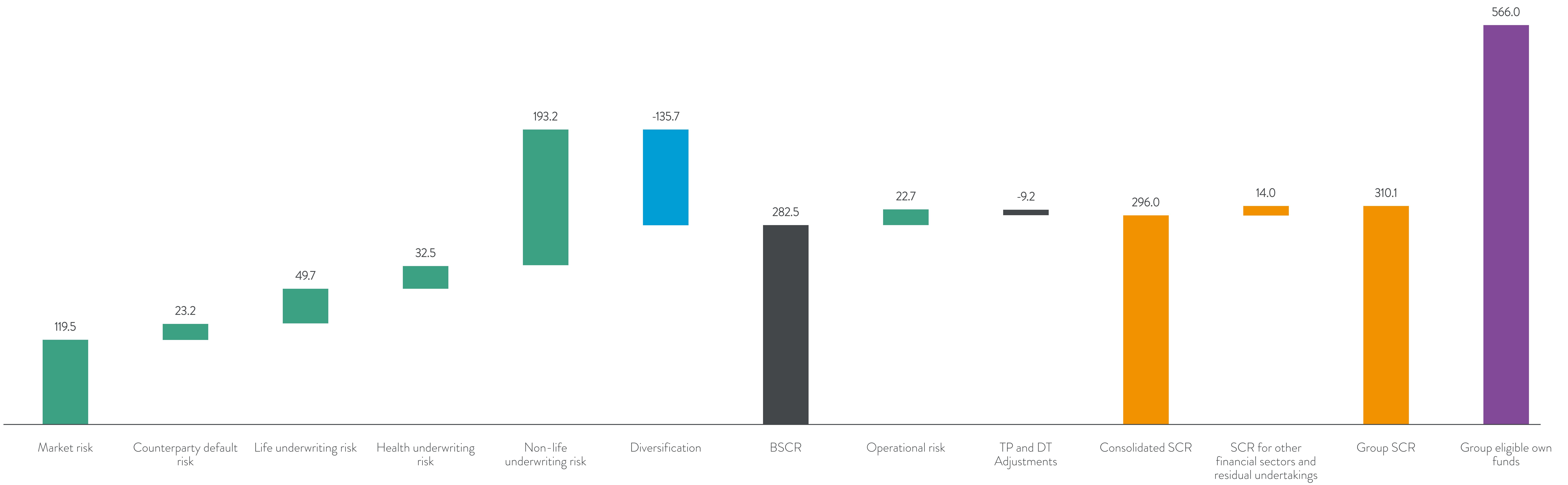
As at 31 December 2022, the Group adjusted the SCR for deferred taxes of EUR 7.6 million (31 December 2021: EUR 16.6 million). The adjustment for the loss-absorbing capacity of deferred taxes is calculated in accordance with the Delegated Regulation and Article 23 of the Decision on the Terms and Method of Covering Losses by Reducing Technical Provisions and Deferred Taxes. At the level of individual companies and the Group level, adjustments have been made in the amount of the maximum adjustment for the loss-absorbing capacity of deferred taxes that may be taken into account without requiring any evidence, i.e. up to the amount of net liabilities for deferred taxes in the SII balance sheet.

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

The following chart shows the individual risk modules of the Standard Formula, the Group's SCR and the Group's eligible own funds as at 31 December 2022.

As illustrated by the graph, the Group's eligible own funds markedly exceed the Group's SCR, as reflected in the Group's high solvency ratio of 183% as at 31 December 2022 (31 December 2021: 198%).

Solvency capital requirement by risk module as at 31 December 2022 **(EUR million)**

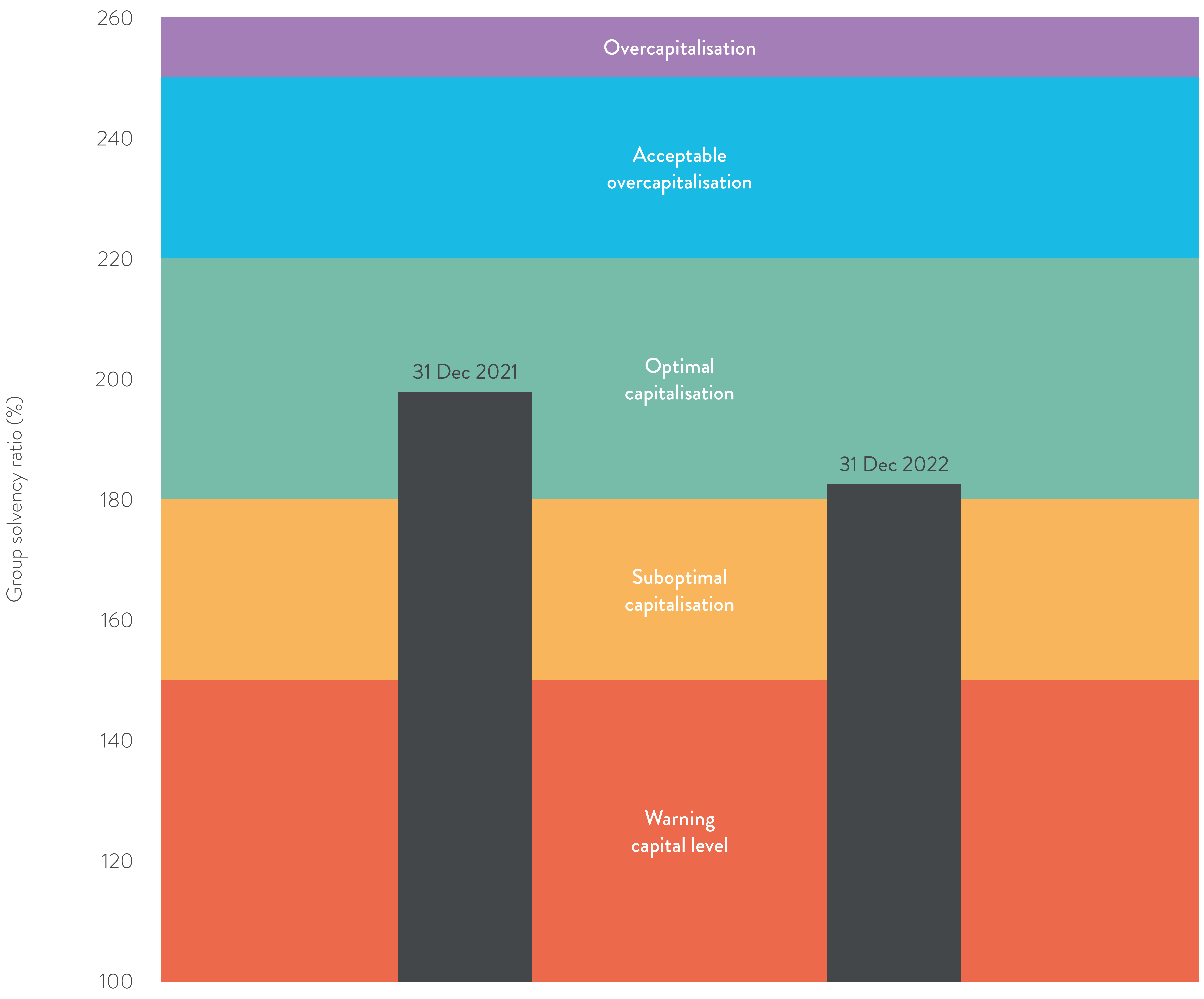


A major criterion for determining the risk appetite in the Sava Insurance Group's risk strategy is the solvency ratio. In accordance with its capital management policy, the Group aims to achieve its target capital adequacy over the long term, as set out in its risk strategy. In addition, to maintain 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 sufficient 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 over the statutory requirement is determined.

In line with the risk strategy, the suboptimal capitalisation range starts at a solvency ratio of 150%, and the optimal capitalisation is in the range between 180% and 220%. Based on this, as at 31 December 2022, the Group is also well capitalised according to internal criteria.

In December 2022, the financial projections and the calculation of the Group's eligible own funds, the Group's SCR and the Group's solvency ratio for the strategy period were also confirmed. The Group's solvency ratio is planned at a level consistent with the risk strategy over the strategy period.

Alignment of the Group solvency ratio with the risk strategy



E.2.2 Minimum capital requirement (MCR)

The Sava Insurance Group calculates the Group's 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.

The Group's eligible own funds designated to meet the MCR of EUR 525.6 million (31 December 2021: EUR 538.8 million) substantially exceed the Group's MCR of EUR 142.5 million (31 December 2021: EUR 140.7 million).

Input data for calculating Group MCR

EUR thousand	31 December 2022	31 December 2021
Sava Re	53,457	54,498
Zavarovalnica Sava	58,746	55,698
Vita	10,218	11,430
Sava Neživotno Osiguranje (SRB)	3,947	3,416
Sava Životno Osiguranje (SRB)	3,201	3,204
Sava Osiguruvanje (MKD)	2,995	3,004
Sava Osiguranje (MNE)	3,000	3,000
Illyria	3,751	3,200
Illyria Life	3,200	3,200
Group MCR	142,515	140,651

Group MCR

EUR thousand	31 December 2022	31 December 2021
Minimum capital requirement (MCR) of the Group	142,515	140,651
Eligible own funds to meet the Group MCR	525,592	538,780
Of which tier 1	497,089	510,650
Of which tier 2	28,503	28,130
Of which tier 3	-	-
Group MCR	369%	383%

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, as no Group company or the Group uses an internal model to calculate the solvency capital requirement.

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

As at 31 December 2022, the Group was compliant with legislation, with a high solvency ratio well above the statutory 100%. Moreover, as at 31 December 2022, the Group had a major surplus of eligible own funds above the minimum capital requirement.

Based on the projections of the solvency capital requirement and eligible own funds, we estimate that the Group's solvency ratio will remain above the statutory 100% throughout the three-year projection period, as required by law. Therefore, the Group does not expect any further steps or measures to ensure compliance with its 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 methods

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 through reductions in 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 under (re)insurance contracts, as (re)insurance companies may expect that the reduction in these benefits may be used to cover potential unexpected losses.
Basic solvency capital requirement – BSCR	Osnovni zahtevani solventnostni kapital – BSCR	The basic solvency capital requirement under the Standard Formula is an amount based on the statutory calculation of the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk and counterparty default risk.
Business continuity procedures	Načrt neprekinjenega delovanja	Document that contains 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 major business disruptions.
Capital asset pricing model	CAPM	Model that describes the relationship between risk and expected return on assets.
Eligible own funds	Primerni lastni viri sredstev	Own funds eligible to cover the solvency capital requirement.
Expected profit included in future premiums	EPIFP	Expected profits included in future premiums
Financial instruments at fair value through profit or loss	FVPL	Financial instruments at fair value through profit or loss.
Freedom of service	FOS	Business written under the freedom of services principle.
IFRS	MSRP	International Financial Reporting Standards. EU-wide uniform set of rules for 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 to which a company has access and which 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 in business.
Modified duration	Modificirano trajanje	Modified duration measures sensitivity of the portfolio to parallel shifts in the interest rate curve. A change in interest rates of +/-1% has an impact on the portfolio of approximately -/+MD%.
Net asset value per unit – NAVPU	Vrednost enote premoženja – VEP	The net asset value of a unit or share is the value of the individual units or shares of a sub-fund and is published regularly.
Operational limits	Operativni limiti	Operational limits for specific areas are set on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by the first line of defence in the day-to-day risk management processes to keep a company or the Group within its defined risk appetite.
Own risk and solvency assessment – ORSA	Lastna ocena tveganj in solventnosti – ORSA	Own assessment of the risks associated with the business and strategic plans of a company or the Group, and assessment of the adequacy of own funds to cover risks.
Physical risks of climate change	Fizična tveganja podnebnih sprememb	Risks arising from the physical effects of climate change. These include acute physical risks arising from weather events that adversely affect the business and chronic physical risks arising from long-term climate change that adversely affect a company's business.
Present value	Sedanja vrednost	The value of future cash flows recalculated to present-day values. This is done by discounting.
Probable maximum loss – PML	Največja verjetna škoda – PML	This is the maximum loss for a risk that an insurer assesses could occur in a single loss event. It is usually expressed as a percentage of the sum insured and, in extreme cases, is equal to the sum insured (the PML is 100% of the sum insured).

English term	Slovenian term	Meaning
Representative Concentration Pathways	RCP scenarij[42]	Different pathways of greenhouse gas concentrations and emissions.
Risk appetite	Pripravljenost za prevzem tveganj	The level of risk that a company or the Group is willing to take in order to achieve its strategic goals.
Risk management system	Sistem upravljanja tveganj	The risk management system is a set of measures taken by a company or the Group to manage (i.e. to identify, monitor, measure, manage and report on) material risks arising from both the operations of a company or the Group and the external environment, in order to enhance the achievement of strategic goals and minimise any loss of own funds.
Risk profile	Profil tveganj	All risks to which a company or the Group is exposed 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 the Group.
Risk tolerance limits	Meje dovoljenega tveganja	Limits for risk categories included in the risk profile of a company or the Group and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite set out in the risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgement.
Scenario	Scenarij	Scenarios seek to determine the impact of multiple changes in parameters, such as simultaneous changes in different types of risks affecting the insurance business, the value of financial assets and a change in interest rates.
Sensitivity analysis	Analiza občutljivosti	In a sensitivity analysis, a single parameter is changed to observe the effect on the value of assets, liabilities and/or own funds of a company or the Group, and the effect of such changes on those values.
Solvency capital requirement – SCR	Zahtevani solventnostni kapital – SCR	The SCR is an amount based on the regulatory calculation of all quantifiable risks, 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 the capital adequacy of a company or the Group in accordance with the Solvency II principles. A solvency ratio greater than 100% indicates that a company or the Group has more than sufficient resources to meet the solvency capital requirement.
Standard formula	Standardna formula	A set of calculations prescribed by Solvency II regulations used to calculate the solvency capital requirement.
Stress test	Stresni test	In a stress test, a single parameter is changed by a potential future financial event to observe the effect on the value of the assets, liabilities and/or own funds of a company or the Group, as well as any effect on the value of the parameter itself.
Tiers of capital	Kakovostni razredi kapitala	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether they are basic or ancillary).
Transition risk of climate change	Tveganja prehoda podnebnih sprememb	Transition risks arise from the transition to a low-carbon and climate-resilient economy. These risks include risks from new regulations, requirements and policies, legal risks, technology risks, market risks and reputational risks.
Undertaking-specific parameters – USP	Parametri, specifični za posamezno podjetje – USP	Insurance and reinsurance undertakings may, within the design of the Standard Formula, replace the standard deviations for the premium and reserve risk of NSLT health insurance by parameters specific to the undertaking concerned, in accordance with Article 218 of Delegated Regulation (EU) 2015/35.

42 RCP scenarios are defined by the Intergovernmental Panel on Climate Change (IPCC). A definition of scenarios is available at https://ar5-syr.ipcc.ch/topic_futurechanges.php.

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 expressed 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 Article 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	Agencija za trg vrednostnih papirjev (Securities Market Agency)	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: industry regulations
CRO	SC/02467143	SC	**SO Poslovno Savjetovanje**	10	PLLC	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
SI	SC/5946948000	SC	**TBS TEAM 24 d.o.o.**	10	PLLC	2		87.5%	100.0%	87.5%		dominant	100.0%	YES		M1: full consolidation
MK	SC/5989434	SC	**SAVA PENZISKO DRUSTVO AD Skopje**	9	PLC	2	Agency for Supervision of Fully Funded Pension Insurance – MAPAS	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: adjusted equity method
SI	SC/5690366000	SC	**Diagnostični Center Bled d.o.o. Bled**	10	PLLC	2		40.1%	50.0%	50.0%		significant	50.0%	YES		M1: adjusted equity method
GB	SC/10735938	SC	**G2I Ltd**	10	PLLC	2	Financial conduct authority	17.5%	17.5%	25.0%		significant	17.5%	YES		M1: adjusted equity method
XK	SC/810483769	SC	**Illyria s.h.a., Pristina**	2	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
MK	SC/4778529	SC	**Sava Osiguruvanje a.d., Skopje**	2	PLC	2	North Macedonian Insurance Supervision Agency	93.9%	100.0%	93.9%		dominant	100.0%	YES		M1: full consolidation
ME	SC/02303388	SC	**Sava Osiguranje a.d., Podgorica**	2	PLC	2	Montenegro Insurance Supervision Agency	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
XK	SC/810793837	SC	**Illyria Life s.h.a., Pristina**	1	PLC	2	Kosovo Central Bank	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation

								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 Article 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
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
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	93.9%	100.0%	93.9%		dominant	100.0%	YES		M1: full consolidation
SI	LEI/485100004VO FFO18DD84	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					dominant	100.0%	YES		M1: full consolidation
SI	SC/6149065000	SC	**ASISTIM, Klicni Center, Storitvene Dejavnosti in Vrednotenje, d.o.o.**	10	PLLC	2	Slovenian Insurance Supervision Agency	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 Article 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/21822302	SC	**PRIVREDNO DRUŠTVO ZA TEHNIČKI PREGLED I REGISTRACIJU SAVA CAR DOO BEOGRAD**	10	PLLC	2	Ministry of Internal Affairs of the Republic of Serbia	100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation

Legend

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

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	42,361
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	71,861
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1,377,594
Property (other than for own use)	R0080	26,423
Holdings in related undertakings, including participations	R0090	41,276
Equities	R0100	23,110
Equities – listed	R0110	21,281
Equities – unlisted	R0120	1,828
Bonds	R0130	1,168,935
Government Bonds	R0140	743,655
Corporate Bonds	R0150	425,279
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	90,952
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	26,898
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	431,400

		Solvency II value
Assets		C0010
Loans and mortgages	R0230	2,420
Loans on policies	R0240	141
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	2,279
Reinsurance recoverables from:	R0270	41,268
Non-life and health similar to non-life	R0280	36,947
Non-life excluding health	R0290	35,943
Health similar to non-life	R0300	1,003
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	4,327
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	4,327
Life index-linked and unit-linked	R0340	-6
Deposits to cedants	R0350	10,335
Insurance and intermediaries receivables	R0360	39,909
Reinsurance receivables	R0370	12,106
Receivables (trade, not insurance)	R0380	13,946
Own shares (held directly)	R0390	38,572
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	75,510
Any other assets, not elsewhere shown	R0420	1,139
Total assets	**R0500**	**2,158,419**

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	569,924
Technical provisions – non-life (excluding health)	**R0520**	543,520
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	503,989
Risk margin	**R0550**	39,530
Technical provisions – health (similar to non-life)	**R0560**	26,404
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	16,299
Risk margin	**R0590**	10,105
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	411,800
Technical provisions – health (similar to life)	**R0610**	-8,022
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	-10,489
Risk margin	**R0640**	2,467
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	419,823
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	403,967
Risk margin	**R0680**	15,856
Technical provisions – index-linked and unit-linked	**R0690**	402,400
Technical provisions calculated as a whole	**R0700**	68,758

		Solvency II value
Liabilities		**C0010**
Best Estimate	**R0710**	323,166
Risk margin	**R0720**	10,475
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	7,469
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	0
Deferred tax liabilities	**R0780**	54,372
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	8,094
Insurance & intermediaries payables	**R0820**	32,196
Reinsurance payables	**R0830**	3,339
Payables (trade, not insurance)	**R0840**	20,670
Subordinated liabilities	**R0850**	56,290
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	56,290
Any other liabilities, not elsewhere shown	**R0880**	18,561
Total liabilities	**R0900**	**1,585,115**
Excess of assets over liabilities	**R1000**	**573,304**

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	12,571	54,888	0	136,631	149,636	4,747	90,160	18,795	1,247	716	24,886	2,885
gross – accepted proportional reinsurance	R0120	21	1,769	0	69	1,795	6,879	53,003	3,193	362	10	0	185
gross – accepted non-proportional reinsurance	R0130												
Reinsurers' share	R0140	965	-9	0	5,401	4,237	979	20,732	922	160	641	101	871
Net	R0200	11,627	56,667	0	131,299	147,194	10,647	122,431	21,066	1,449	85	24,785	2,199
Premiums earned													
Gross – Direct Business	R0210	11,879	54,355	0	130,636	140,633	4,307	85,865	18,684	1,667	730	22,544	2,824
gross – accepted proportional reinsurance	R0220	18	1,717	0	237	1,849	6,978	53,667	3,382	457	10	0	203
gross – accepted non-proportional reinsurance	R0230												
Reinsurers' share	R0240	952	-55	0	5,412	3,134	760	21,615	1,044	166	615	124	901
Net	R0300	10,944	56,128	0	125,460	139,348	10,525	117,917	21,022	1,958	125	22,420	2,126

		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	Miscellane-ous financial loss
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**
Claims incurred													
Gross – Direct Business	**R0310**	6,264	10,937	0	82,019	94,970	2,801	62,315	-4	1,242	1	13,821	562
gross – accepted proportional reinsurance	**R0320**	27	691	0	145	946	2,056	37,883	1,923	79	2	0	-19
gross – accepted non-proportional reinsurance	**R0330**												
Reinsurers' share	**R0340**	195	676	0	3,299	4,134	2,223	29,887	2,179	360	0	32	1,723
Net	**R0400**	6,096	10,952	0	78,865	91,783	2,635	70,310	-260	960	2	13,789	-1,180
Change in other technical provisions													
Gross – Direct Business	**R0410**	0	-76	0	-1,224	-127	-105	-519	-165	0	0	-2	-54
gross – accepted proportional reinsurance	**R0420**	0	0	0	0	2	48	-245	0	0	0	0	5
gross – accepted non-proportional reinsurance	**R0430**												
Reinsurers' share	**R0440**	0	0	0	-3	-6	-47	-80	-45	0	0	0	-7
Net	**R0500**	0	-76	0	-1,222	-119	-10	-684	-121	0	0	-2	-41
Expenses incurred	**R0550**	4,103	17,947	0	36,680	36,674	3,990	47,474	6,979	692	-98	11,304	1,092
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					497,162
Gross – Proportional reinsurance accepted	R0120					67,285
Gross – Non-proportional reinsurance accepted	R0130	679	2,302	3,836	46,733	53,550
Reinsurers' share	R0140	-35	1,912	1,147	12,509	50,534
Net	R0200	714	390	2,689	34,224	567,464
Premiums earned						
Gross – Direct Business	R0210					474,125
Gross – Proportional reinsurance accepted	R0220					68,518
Gross – Non-proportional reinsurance accepted	R0230	585	2,423	3,863	46,427	53,298
Reinsurers' share	R0240	0	2,062	927	11,627	49,287
Net	R0300	585	360	2,936	34,799	546,653

		Line of Business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
		C0130	C0140	C0150	C0160	C0200
Claims incurred						
Gross – Direct Business	R0310					274,928
Gross – Proportional reinsurance accepted	R0320					43,734
Gross – Non-proportional reinsurance accepted	R0330	396	1,247	3,996	35,011	40,649
Reinsurers' share	R0340	0	1,932	-6	10,850	57,485
Net	R0400	396	-685	4,002	24,160	301,826
Changes in other technical provisions						
Gross – Direct Business	R0410					-2,272
Gross – Proportional reinsurance accepted	R0420					-190
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	-187
Net	R0500	0	0	0	0	-2,275
Expenses incurred	R0550	133	740	701	8,243	176,653
Other expenses	R1200					0
Total expenses	R1300					176,653

		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	2,293	27,128	90,589	32,670	0	0	0	0	152,680
Reinsurers' share	R1420	67	114	79	885	0	0	0	0	1,146
Net	R1500	2,226	27,014	90,509	31,785	0	0	0	0	151,534
Premiums earned										
Gross	R1510	2,291	27,164	90,587	32,749	0	0	0	0	152,790
Reinsurers' share	R1520	37	118	81	1,285	0	0	0	0	1,522
Net	R1600	2,254	27,046	90,505	31,464	0	0	0	0	151,268
Claims incurred										
Gross	R1610	294	48,317	49,329	10,538	0	4,881	0	0	113,360
Reinsurers' share	R1620	0	32	-2	388	0	-18	0	0	400
Net	R1700	294	48,285	49,331	10,150	0	4,899	0	0	112,960
Changes in other technical provisions										
Gross	R1710	-294	25,555	13,832	7,769	0	0	0	0	46,862
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	-294	25,555	13,832	7,769	0	0	0	0	46,862
Expenses incurred	R1900	879	4,644	11,815	12,521	0	55	0	91	30,005
Other expenses	R2500									0
Total expenses	R2600									30,005

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		China	South Korea	North Macedonia	Montenegro	Serbia	
Premiums written		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross – Direct Business	R0110	416,094	0	0	17,433	17,393	29,625	480,544
Gross – Proportional reinsurance accepted	R0120	2,101	5,950	9,275	0	0	1,593	18,920
Gross – Non-proportional reinsurance accepted	R0130	45	5,959	3,048	0	0	486	9,538
Reinsurers' share	R0140	103,949	-55	0	1,838	3,171	9,592	118,495
Net	R0200	314,291	11,964	12,324	15,594	14,222	22,113	390,507
Premiums earned								
Gross – Direct Business	R0210	398,712	0	0	16,480	15,566	26,677	457,435
Gross – Proportional reinsurance accepted	R0220	1,579	5,341	9,908	0	0	1,572	18,400
Gross – Non-proportional reinsurance accepted	R0230	71	5,822	2,963	0	0	491	9,347
Reinsurers' share	R0240	103,095	-55	0	1,757	2,474	9,019	116,290
Net	R0300	297,267	11,218	12,871	14,723	13,092	19,721	368,892
Claims incurred								
Gross – Direct Business	R0310	238,692	0	0	8,544	7,240	10,442	264,918
Gross – Proportional reinsurance accepted	R0320	396	3,305	7,865	0	0	927	12,494
Gross – Non-proportional reinsurance accepted	R0330	-253	2,146	4,222	0	5	98	6,218
Reinsurers' share	R0340	93,189	0	0	1,366	1,372	2,547	98,474
Net	R0400	145,646	5,451	12,087	7,178	5,872	8,921	185,155
Changes in other technical provisions								
Gross – Direct Business	R0410	-2,292	0	0	-75	-110	94	-2,382
Gross – Proportional reinsurance accepted	R0420	0	12	19	0	0	0	31
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	-187	0	0	0	0	0	-187
Net	R0500	-2,104	12	19	-75	-110	94	-2,164
Expenses incurred	R0550	95,679	2,799	3,604	7,059	5,716	10,029	124,886
Other expenses	R1200							0
Total expenses	R1300							0

		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	143,347						143,347
Reinsurers' share	R1420	1,109						1,109
Net	R1500	142,238						142,238
Premiums earned								
Gross	R1510	143,314						143,314
Reinsurers' share	R1520	1,067						1,067
Net	R1600	142,247						142,247
Claims incurred								
Gross	R1610	110,473						110,473
Reinsurers' share	R1620	356						356
Net	R1700	110,117						110,117
Changes in other technical provisions								
Gross	R1710	29,152						29,152
Reinsurers' share	R1720	0						0
Net	R1800	29,152						29,152
Expenses incurred	R1900	25,877						25,877
Other expenses	R2500							0
Total expenses	R2600							0

S.23.01.22 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	71,856	71,856		0	
Non-available called but not paid in ordinary share capital at group level	R0020	0	0		0	
Share premium account related to ordinary share capital	R0030	42,702	42,702		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Non-available subordinated mutual member accounts at group level	R0060	0		0	0	0
Surplus funds	R0070	0	0			
Non-available surplus funds at group level	R0080	0	0			
Preference shares	R0090	0		0	0	0
Non-available preference shares at group level	R0100	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Non-available share premium account related to preference shares at group level	R0120	0		0	0	0
Reconciliation reserve	R0130	394,905	394,905			
Subordinated liabilities	R0140	56,290		0	56,290	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	472	472	0	0	0
Non-available minority interests at group level	R0210	206	206	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						

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
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	12,641	12,641	0	0	
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	0	0	0	0	
Deductions for participations where there is non-availability of information (Article 229)	R0250	0	0	0	0	0
Deduction for participations included by using D&A when a combination of methods is used	R0260	0	0	0	0	0
Total of non-available own fund items	R0270	206	206	0	0	0
Total deductions	R0280	12,847	12,847	0	0	0
Total basic own funds after deductions	R0290	553,379	497,089	0	56,290	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310	0			0	0
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	0
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Non available ancillary own funds at group level	R0380	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Own funds of other financial sectors						
Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	R0410	4,917	4,917	0	0	

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Institutions for occupational retirement provision	R0420	7,724	7,724	0	0	0
Non-regulated entities carrying out financial activities	R0430	0	0	0	0	
Total own funds of other financial sectors	R0440	12,641	12,641	0	0	0
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450	0	0	0	0	0
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	0	0	0	0	0
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	553,379	497,089	0	56,290	0
Total available own funds to meet the minimum consolidated group SCR	R0530	553,379	497,089	0	56,290	
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	553,379	497,089	0	56,290	0
Total eligible own funds to meet the minimum consolidated group SCR	R0570	525,592	497,089	0	28,503	
Minimum consolidated Group SCR	R0610	142,515				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	369%				
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	566,020	509,730	0	56,290	0
Group SCR	R0680	310,079				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	183%				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	**R0700**	573,304				
Own shares (held directly and indirectly)	**R0710**	38,572				
Foreseeable dividends, distributions and charges	**R0720**	24,796				
Other basic own fund items	**R0730**	115,031				
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**	394,905				
Expected profits						
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	84,894				
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	25,021				
Total Expected profits included in future premiums (EPIFP)	**R0790**	109,915				

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	**119,530**		
Counterparty default risk	R0020	23,242		
Life underwriting risk	R0030	49,739	none	-
Health underwriting risk	R0040	32,500	none	-
Non-life underwriting risk	R0050	193,235	none	-
Diversification	R0060	-135,748		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	282,499		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	22,702
Loss-absorbing capacity of technical provisions	R0140	-1,580
Loss-absorbing capacity of deferred taxes	R0150	-7,579
Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	296,041
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	310,079
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	142,515
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	7,648
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	979
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	6,669
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non- regulated entities carrying out financial activities	R0530	0
Capital requirement for non-controlled participation requirements	R0540	0
Capital requirement for residual undertakings	R0550	6,390
Overall SCR		
SCR for undertakings included via D&A	R0560	0
Solvency capital requirement	R0570	310,079

Sava Insurance Group
Solvency and Financial Condition Report for 2022
Published by Sava Re d.d.

Texts by Sava Re d.d. and AV studio d.o.o.
Designed and produced by AV studio d.o.o.
Photographs by Matej Vranič, Nik Jarh, Shutterstock,
Blanka Savšek and Jerneja Ažman (Sava Re Health Day),
archives of Sava Re and the Sava Insurance Group
Original version in Slovenian.
Translation by Sava Re in cooperation with Veris d.o.o.

Ljubljana, May 2023

Sava Re d.d.
Dunajska cesta 56, P.O.B. 318
SI-1001 Ljubljana, Slovenia
T +386 1 47 50 200
info@sava-re.si
www.sava-re.si