SAVA INSURANCE GROUP

BEING THERE FOR EACH OTHER. WITH A HEART FOR THE WORLD.

Solvency and Financial Condition Report

of the Sava Insurance Group for 2023

Ljubljana, April 2024

Management board of Sava Re d.d.

Marko Jazbec, Chairman of the Management Board

Polona Pirš Zupančič, Member of the Management Board

Peter Skvarča, Member of the Management Board

David Benedek, Member of the Management Board

TABLE OF CONTENTS

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.

Due to the transition to the new accounting standards IFRS 17 and IFRS 9, the accounting information in sections A.2 and A.3 differs from that reported in the Solvency and Financial Condition Report for 2022.

Gross premiums written are defined in IFRS 17 as gross premiums written, excluding reinsurance reinstatement premiums, as reinstatement premiums represent claims cash flows rather than premium cash flows. For 2022, gross premiums written are reported in the same way and are therefore not identical to those reported under IFRS 4. As a result, the premium figure for 2022 differs from the figure reported in the Solvency and Financial Condition Report of the Sava Insurance Group for 2022.

Summary

Introduction

In 2023, geopolitical tensions remained high. Russia's military aggression against Ukraine continued. In addition, a military conflict broke out between Israel and Hamas. The Sava Insurance Group reviewed its exposures at the outbreak of the military conflict and found that there were no material exposures in this region. Tensions between China and Taiwan intensified in 2023. The closer cooperation between Russia, Iran and North Korea also poses a threat to global stability. Elections will be held in no fewer than 40 countries around the world next year, and the results and changes in the ruling political parties could have a significant impact on the geopolitical environment.

The year 2023 was also marked by natural catastrophes affecting Slovenia and some other countries where the Group is present. During the summer months, a wave of storms and floods caused extensive damage to property in the region. The Group's gross claims resulting from these events amounted to EUR 88.3 million. Taking into account reinsurance protection, the net impact of these events on the Group's result was EUR 27.4 million. Increased loss frequency, unpredictable macroeconomic conditions and geopolitical conflicts also affected rates and reinsurers' willingness to renew certain types of reinsurance protection. This resulted in an increased risk of obtaining adequate reinsurance protection. Nevertheless, Sava Re managed to arrange adequate reinsurance protection for the 2024 financial year at an acceptable price and on favourable terms.

The financial performance of the insurance companies and the performance of the pension and asset management companies benefited from the favourable developments in the financial markets, resulting in higher interest income, assets under management and contributions to funds. The favourable developments in the financial markets have also improved the return on the Group's investment portfolio.

In September 2023, the rating agencies S&P Global Ratings and AM Best reaffirmed the "A" ratings of Sava Re and Zavarovalnica Sava. The outlook was stable.

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 based in southeastern Europe. As at 31 December 2023, 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 (re)insurance companies, the Group includes companies that are providers of pension, asset management and assistance services.

The Group employs around 3,000 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. The Group's domestic business was further strengthened in 2013 with the acquisition of 100% of Zavarovalnica Maribor. 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. In 2023, Sava Re established Vita S Holding (MKD), a healthcare company based in North Macedonia, and acquired ASP (SRB), a Serbian company providing development and maintenance services for core IT systems. 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]

In 2023, the Sava Insurance Group surpassed its target net profit for the year on strength of business line diversification and despite a more modest performance by Zavarovalnica Sava due to unprecedented storms and floods.

The Sava Insurance Group achieved strong organic growth in all its operating segments and markets in 2023. The business volume increased to EUR 910.1 million, up 14.4% on the previous year and 13.8% ahead of plan. This growth was mainly driven by gross non-life premiums, which increased by 19.5% in the EU markets and by 21.7% in the non-EU markets. The life insurance business also grew, by 7.5% domestically and 13.6% abroad. In reinsurance, the Group continued to improve the composition of its portfolio, achieving a 19.4% increase in gross premiums of non-proportional contracts.

The Group's net profit of EUR 64.7 million and return on equity of 10.8% were above plan, despite the significant impact of the summer storms and floods, which materially affected the Group's largest subsidiary, Zavarovalnica Sava, because the Group's other operating segments performed better than planned. A significant contributor to the outperformance of the plan was Sava Re's performance in the international reinsurance markets. The hard reinsurance market trends in recent years, the restructuring of the reinsurance portfolio to improve profitability and the absence of major losses also contributed to the strong above-target result. In addition, investment performance supported the plan's outperformance. Due to rising interest rates, the Group's investment return was 2.1%, 0.6 percentage points higher than planned. The Group's companies that manage financial assets also closed 2023 well ahead of target. This performance was driven by both capital market movements and increased inflows into the funds. All these factors mitigated the severe negative impact of the storm and flood losses.

The Group has also been successful in advancing its core strategic priorities. An ongoing commitment to customer centricity and business process optimisation is accelerating and simplifying business processes, resulting in improvements in service at all points of the customer journey. Moreover, sustainability has become more firmly embedded in the operations of the Group companies. A culture

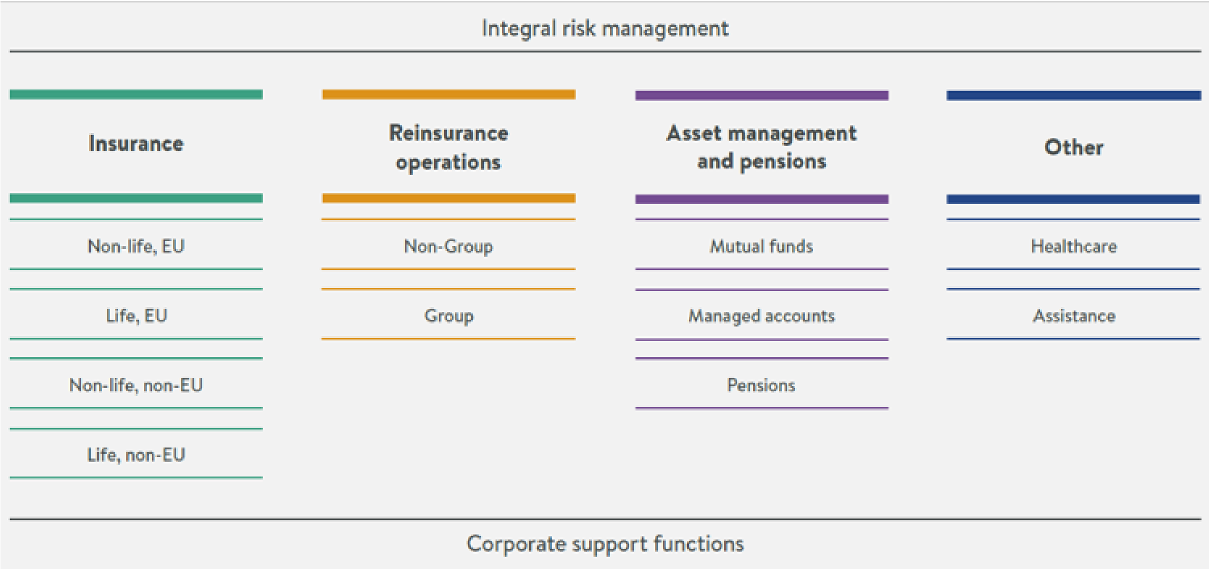
[1] This section provides information on the performance of the Sava Insurance Group based on IFRS accounts; therefore, the figures do not equal those calculated based on Solvency II.

of sustainability is also being systematically built among employees, with the Group aiming to set an example for the wider community.

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



For the 2023–2027 period, the Group has adopted a 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 first goal is personalised customer communication, which will be achieved by integrating all communication channels through a centralised customer relationship management system. The second goal is to create a hybrid sales model that will enable the sales network to deal with more complex types of insurance and to advise customers. 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 to simplify customer service as well as 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, we 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 level of the Sava Insurance Group 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 2023	31 December 2022
Group SCR = 4 + 5 + 6	**337,171**	**310,079**
(6) Capital requirement for other financial sectors	7,919	7,648
(5) Capital requirement for residual undertakings	7,146	6,390
(4) SCR calculated on the basis of the consolidated data of the Group companies that are consolidated under Solvency II[3] (= 1 + 2 + 3)	**322,106**	**296,041**
(3) Adjustment for TP and DT[4]	-5,481	-9,159
(2) Operational risk	24,414	22,702
(1) Basic solvency capital requirement (BSCR)	**303,173**	**282,499**

[2] The capital requirements for other financial sectors include Sava Pokojninska and Sava Infond. The capital requirements for residual undertakings include the companies G2I, DCB and Sava Penzisko for 2022, and the companies DCB, Sava Penzisko and Vita S Holding for 2023.
[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.

Diversification effect	*-140,508*	*-135,748*
Sum of risk components	*443,681*	*418,246*
Market risk	119,568	119,530
Counterparty default risk	20,844	23,242
Life underwriting risk	44,598	49,739
Health underwriting risk	39,803	32,500
Non-life underwriting risk	218,869	193,235

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 associate DCB, which is 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 the subsidiaries Sava Penzisko Društvo and Vita and the associate DCB 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.

Adjustments to IFRS equity for Solvency II balance sheet valuation purposes

EUR thousand	31 December 2023
IFRS equity[5]	**584,495**
Difference in the valuation of assets	-70,146
Difference in the valuation of technical provisions	111,314
Difference in the valuation of other liabilities	-11,618
Foreseeable dividends, distributions and charges	-27,121
Adjustment for minority interests	-318
Deduction for participations in other financial undertakings	-13,028
Subordinated liabilities in basic own funds	58,703
Total basic own funds after deductions	**632,281**
Total own funds in other financial sectors	13,028
Eligible own funds to meet the Group SCR	**645,309**

As can be seen from the table, Solvency II eligible own funds are significantly larger than IFRS equity.

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. When drafting the business and strategic plans, it makes sure that the plans are in line with

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

the risk appetite, making 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.

Capital adequacy of the Group

EUR thousand	31 December 2023	31 December 2022
Group SCR	**337,171**	**310,079**
Eligible own funds to meet the Group SCR	**645,309**	**566,020**
Of which tier 1	*586,606*	*509,730*
Of which tier 2	*58,703*	*56,290*
Of which tier 3	*0*	*0*
Group solvency ratio	**191%**	**183%**
Minimum capital requirement (MCR) of Group	155,432	142,515
Eligible own funds to meet the Group MCR	604,664	525,592
Of which tier 1	*573,578*	*497,089*
Of which tier 2	*31,086*	*28,503*
Of which tier 3	–	–
Group MCR	**389%**	**369%**

As at 31 December 2023, 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 2023, 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 191% was well above the regulatory requirement of 100%, and the MCR ratio was 389%. The Group's risk strategy for 2023–2027 set the Group's target solvency ratio in the range of 170%–210%. This demonstrates that the Group is well capitalised, also according to its own criteria.

A. Business and performance

A.1 Business

Name and legal form of the parent company

Sava Re d.d.
Dunajska cesta 56
SI-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 with a branch office in Croatia (Zavarovalnica Sava), one life insurance company in Slovenia (Vita), two life insurers based outside Slovenia (Sava Životno Osiguranje (SRB) and Illyria Life (RKS)) and four non-life insurers outside Slovenia (Sava Neživotno Osiguranje (SRB), Sava Osiguruvanje (MKD), Illyria (RKS) and Sava Osiguranje (MNE)).

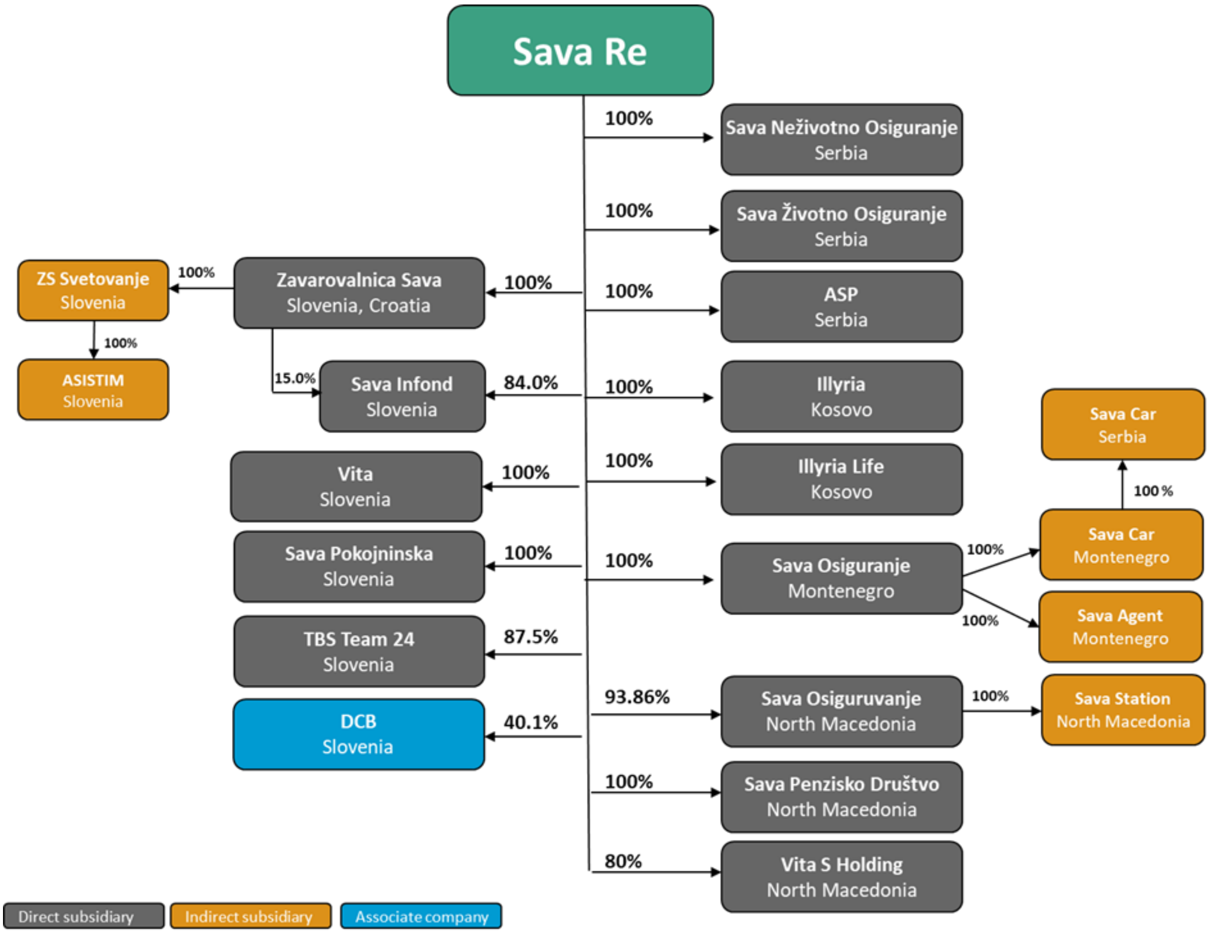
In addition to the listed (re)insurance companies, the Group also includes the following companies:

- 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;
- Vita S Holding (MKD): a subsidiary engaged in healthcare activities;
- ASP (SRB): a subsidiary providing development and maintenance services for core IT systems;
- G2I (GBR)[6]: an associate company marketing online motor insurance policies.

The following diagram shows the Group's composition.

6 The company was sold in 2023.

Composition of the Group as at 31 December 2023[7]



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 2023

	Zavarovalnica Sava (SVN)	Sava Neživotno Osiguranje (Serbia)	Illyria (RKS)	Sava Osiguruvanje (North Macedonia)	Sava Osiguranje (Montenegro)
Registered office	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Železnička 41, Opština Centar, PF 133, 1000 Skopje, North Macedonia	Ulica Svetlane Kane Radević br. 1, 81000 Podgorica, Montenegro
Main activity	insurance	non-life insurance	non-life insurance	non-life insurance	non-life insurance
Share capital (EUR)	68,417,377	6,314,464	7,228,040	3,820,077	4,033,303
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
% equity interest / voting rights held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 93.86%	Sava Re: 100.0%
Profit or loss for 2023 (EUR)	26,313,921	1,177,260	1,025,462	-40,791	3,585,668
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company

[7] The percentages in the diagram refer to shareholdings. The shareholdings provided for 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.

	Illyria Life (RKS)	Sava Životno Osiguranje (Serbia)	Sava Pokojninska (SVN)	TBS Team 24 (SVN)	Sava Penzisko Društvo (MKD)
Registered office	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo	Bulevar vojvode Mišića 51, 11040 Belgrade, Serbia	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Majka Tereza 1, 1000 Skopje, North Macedonia
Main activity	life insurance	life insurance	pension fund	provision of assistance services	fund management activities
Share capital (EUR)	3,285,893	4,326,664	6,301,109	8,902	2,110,791
Nominal value of combined shareholdings of all Group companies (EUR)	3,285,893	4,326,664	6,301,109	7,789	2,110,791
% equity interest / voting rights held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 87.5%	Sava Re: 100.0%
Profit or loss for 2023 (EUR)	1,074,443	640,302	506,936	1,516,776	2,247,309
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary pension company	subsidiary	subsidiary pension company
	DCB (SVN)	**Sava Infond (SVN)**	**Vita (SVN)**	**Vita S Holding (MKD)**	**ASP (SRB)**
Registered office	Pod Skalo 4, 4260 Bled, Slovenia	Ulica Eve Lovše 7, 2000 Maribor, Slovenia	Trg republike 3, 1000 Ljubljana, Slovenia	Ul. Dimche Mirchev 20, Opština Centar, 1000 Skopje, North Macedonia	Bulevar Kralja Aleksandra 17, 11000 Belgrade, Serbia
Main activity	hospital activities	fund management activities	life insurance	non-specialised wholesale trade	computer programming
Share capital (EUR)	379,123	1,460,524	7,043,900	1,320,026	1,129
Nominal value of combined shareholdings of all Group companies (EUR)	189,562	1,460,524	7,043,900	1,056,021	1,129
% equity interest / voting rights held by Group members	Sava Re: 40.1%/50.0%	Sava Re: 84.00%/84.85% Zavarovalnica Sava: 15.00%/15.15%	Sava Re: 100.0%	Sava Re: 80.0%	Sava Re: 100.0%
Profit or loss for 2023 (EUR)	3,957,023	4,144,562	8,980,780	-10,941	86,564
Position in the Group	associate company	subsidiary	subsidiary insurance company	subsidiary	subsidiary

Following are details of the parent company, Sava Re, as its supervisory board also oversees the operations of the Sava Insurance Group and its auditor audits the Group's financial statements with notes and 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

In 2022, a contract was signed with Deloitte Revizija d.o.o., Dunajska 165, 1000 Ljubljana, for the audit of the financial statements for the period 2022–2024.

Deloitte has also audited the financial statements of Sava Re and the Sava Insurance Group for 2022 and 2023. In 2022 and 2023, the Group's subsidiary companies were audited by the local audit staff of the same auditing firm.

Holders of qualifying holdings in the Company as at 31 December 2023

Shareholder	Number of shares	Holding	% of voting rights
InterCapital Securities Ltd. – fiduciary account	3,295,534	19.1%	21.3%
SDH d.d.	3,043,883	17.7%	19.6%
Republic of Slovenia	2,392,436	13.9%	15.4%
European Bank for Reconstruction and Development (EBRD)	1,071,429	6.2%	6.9%
Modra Zavarovalnica d.d.	714,285	4.1%	4.6%

Source: Central securities register KDD d.d.
Note:
In accordance with Article 235a of the Slovenian Companies Act (ZGD-1), Sava Re has started the regular process of identifying shareholders who are registered with intermediaries as holders of shares and who are not themselves intermediaries (ultimate shareholders). The process was last carried out on 2 October 2023. According to the information received, Croatia Osiguranje d.d. held 2,439,852 POSR shares and Adris Grupa d.d. held 838,197 POSR shares on that date.

Major lines of business transacted and the Group's key markets[8]

In 2023, the Group's main lines of business were:

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

These lines of business accounted for 69.1% of the total gross premiums written (2022: 68.5%).

[8] This subsection presents consolidated data based on Solvency II valuations, excluding Sava Pokojninska and Sava Penzisko Društvo; therefore, the figures do not agree with the IFRS valuation.

Gross premiums written by material line of business

EUR thousand	2023	2022	Index
Other motor insurance and proportional reinsurance	190,964	151,656	125.9
Motor vehicle liability insurance and proportional reinsurance	165,853	136,884	121.2
Fire and other damage to property insurance and proportional reinsurance	143,742	132,692	108.3
Unit-linked life	108,245	97,453	111.1
Other lines of business	271,927	238,531	114.0
Total	**880,730**	**757,217**	**116.3**

The Group operates in the Slovenian market and globally. The following table shows the Group's major markets in terms of premiums written in 2023.

As shown in the table, the Group sourced the majority of its premium income from Slovenia, other countries in the Adriatic region, China and South Korea.

Major countries in which the Group operates

EUR thousand	Gross premiums written in 2023	Gross premiums written in 2022	Index
Slovenia	655,532	551,807	118.8
Serbia	49,157	37,375	131.5
Kosovo	21,703	20,527	105.7
Montenegro	20,665	17,389	118.8
North Macedonia	20,434	17,404	117.4
China	10,765	10,882	98.9
South Korea	10,361	11,182	92.7

Significant events in 2023

Major loss events

In the summer of 2023, Slovenia and certain other countries in which the Group is present were hit by a wave of storms and floods that caused significant property damage. The Group's gross claims resulting from these events amounted to EUR 88.3 million. Taking into account reinsurance protection, the net impact of these loss events on the Group's result was EUR 27.4 million.

Changes to the management and supervisory boards

Changes in the composition of the management and supervisory boards are described in section B.1.2 *Governing bodies*.

Other significant events

- In June 2023, the 39th general meeting of shareholders was held.
- In September 2023, the rating agencies S&P Global Ratings and AM Best reaffirmed the "A" ratings of Sava Re and Zavarovalnica Sava. The outlook was stable.

Significant events after the reporting date

- On 22 February 2024, Sava Re signed a contract to acquire a 2.5% stake in TBS Team 24. Upon completion of the transaction on 27 February 2024, Sava Re held a 90% stake in the company.

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 associate DCB, which is 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 the subsidiaries Sava Penzisko Društvo and Vita and the associate DCB are consolidated in accordance with Article 335(1), point (f), of the Delegated Regulation.

A.2 Underwriting performance

The 2023 performance figures with comparatives for 2022 have been prepared in accordance with IFRS 17 and IFRS 9, which entered into force on 1 January 2023.

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.

Summary income statement

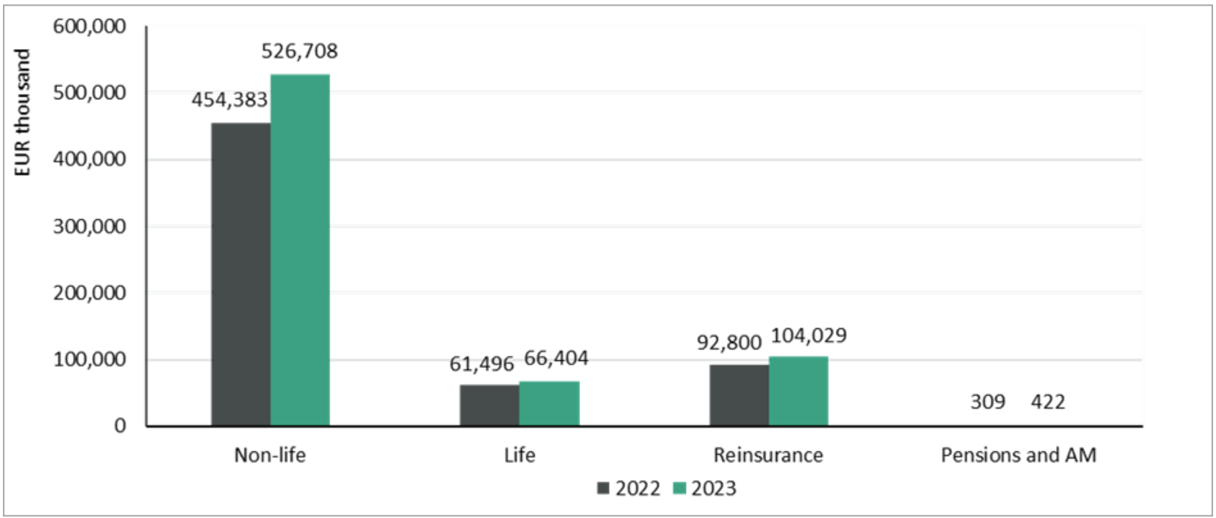
EUR thousand	2023	2022	Index
Insurance revenue	697,563	608,988	114.5
Insurance service expenses	-657,126	-537,511	122.3
Claims incurred	-465,474	-368,310	126.4
Operating expenses	-189,565	-165,031	114.9
Onerous contracts	-2,086	-4,170	50.0
Result before reinsurance	**40,437**	**71,477**	**56.6**
Reinsurance service result	43,040	4,596	936.4
Insurance service result	**83,478**	**76,073**	**109.7**
Net investment result	27,923	6,536	427.2
Finance result from insurance contracts	-13,304	-9,141	145.5
Net foreign exchange gains/losses	1,193	1,837	64.9
Finance result	**15,812**	**-768**	**-**
Income from non-insurance activities	25,551	21,405	119.4
Other expenses	-51,015	-44,383	114.9
Income from investments in subsidiaries and associates	2,286	2,280	100.3
Net other operating income or expenses	3,501	3,895	89.9
Profit or loss before tax	**79,613**	**58,502**	**136.1**
Income tax expense	-14,956	-11,579	129.2
Net profit or loss for the period	**64,657**	**46,923**	**137.8**

	2023	2022	Change
Combined ratio	93.1%	92.6%	+0.5 p.p.
Loss ratios	64.5%	64.4%	+0.1 p.p.
Expense ratio	28.6%	28.2%	+0.4 p.p.
Return on investment portfolio	2.1%	0.6%	+1.5 p.p.
Return on equity	10.8%	8.3%	+2.5 p.p.

The **insurance service result before reinsurance** was EUR 31.0 million lower than in the previous year, reflecting the high volume of claims related to the summer extreme weather events. Reinsurance protection significantly mitigated the impact of these claims on the **insurance service result**, and the Group also significantly increased its insurance revenue, both of which contributed to a stronger insurance service result than in the previous year. It is also important to note that the insurance service result in 2022 was impacted by inflation and the resulting increase in claims incurred.

Insurance revenue grew by EUR 88.6 million, driven by premium growth, particularly in the non-life business, where it increased by EUR 72.3 million due to price increases resulting from claims inflation and due to organic growth. In the reinsurance segment, revenue increased by EUR 11.2 million due to growth in non-proportional reinsurance premiums. In the life segment, revenue increased by EUR 4.9 million due to growth in gross premiums and a shift in the portfolio composition towards life risk insurance products. These products have a higher share of premiums counted as insurance revenue compared to those with a savings component.

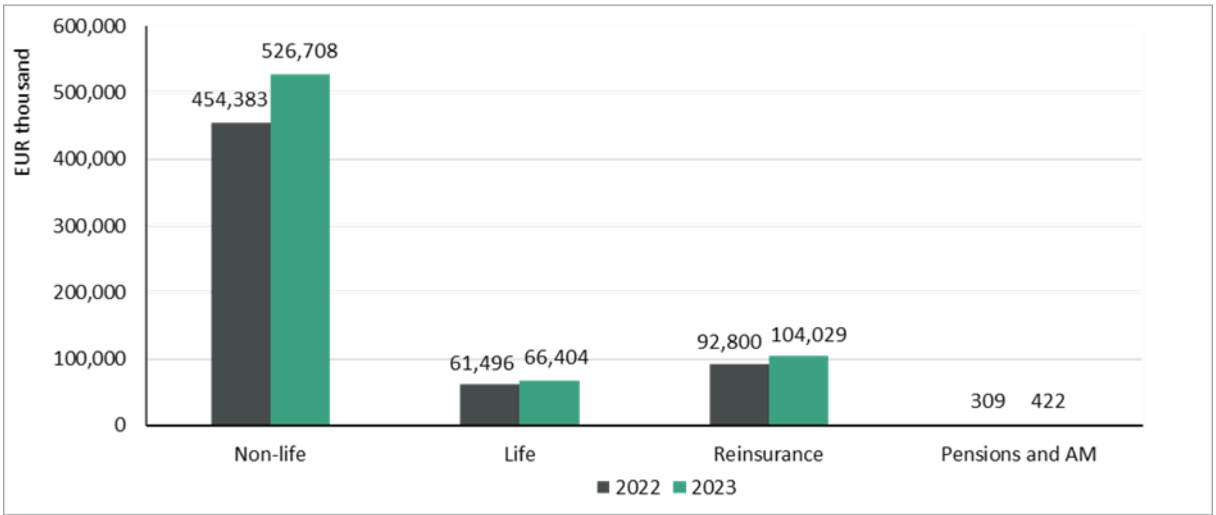
Insurance revenue by segment



Claims incurred increased by EUR 97.2 million compared to 2022. The non-life business accounted for the majority of the increase, at EUR 82.9 million, mainly due to the extreme summer weather events that affected Slovenia, Croatia and Serbia.

Operating expenses increased by EUR 24.5 million in 2023. Acquisition costs were up EUR 12.1 million due to higher sales, while administrative costs increased by EUR 12.4 million, particularly due to higher business volume and general price increases driven by inflation.

Operating expenses by segment



Expenses for onerous contracts decreased significantly (by EUR 2.1 million, or 50.0%). In 2022, the life business incurred more of these expenses as part of the portfolio moved from profitable to unprofitable following the update of mortality assumptions. However, in 2023, the expenses of unprofitable contracts decreased due to the improved profitability of non-life insurance.

The **reinsurance service result** for 2023 showed a higher surplus due to the difference in the volume of claims between the two years that triggered the reinsurance protection. In 2023, the amounts recovered from reinsurance were significantly higher than in the previous year because of the severe summer weather events.

The **net investment result** was EUR 27.9 million, up EUR 21.4 million from the previous year. Consequently, the return on the investment portfolio was also higher, at 2.1%. The result improved mainly due to higher interest income from investing at higher interest rates and the net increase in the fair value of FVTPL investments.

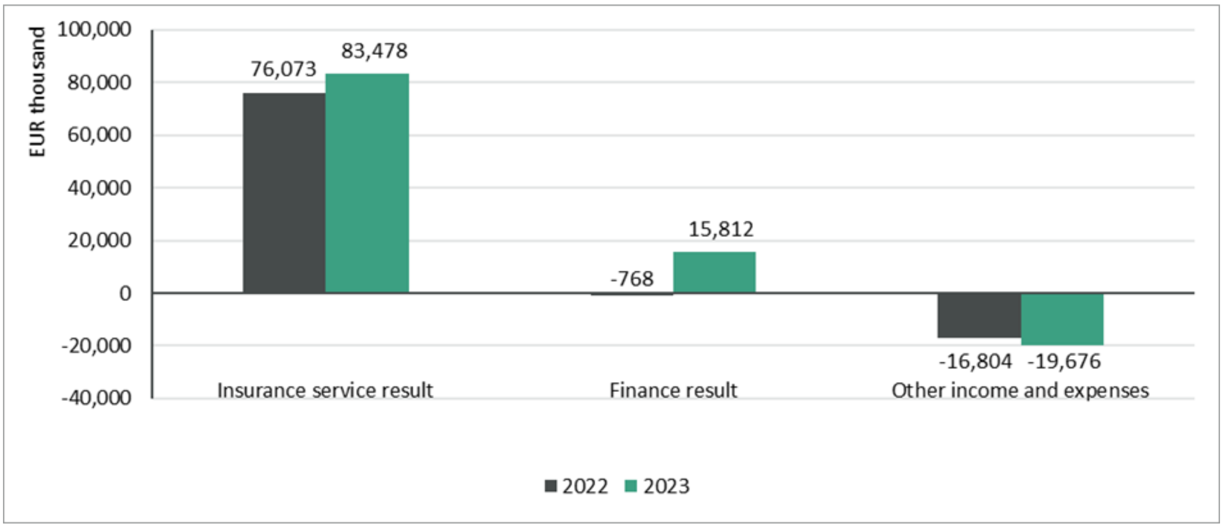
Non-insurance revenue increased by EUR 4.1 million to EUR 25.6 million. The major part of this revenue originated from asset management (EUR 19.6 million), where revenue increased by EUR 1.6 million due to the appreciation of assets under management in pension funds and in funds of a mutual fund management company. The remainder (EUR 6.0 million) was mainly generated by assistance services, where revenue increased by EUR 2.5 million as a result of a higher volume of assistance cases and inflation-adjusted price increases.

Other operating expenses amounted to EUR 51.0 million, up EUR 6.6 million. These expenses included non-attributable expenses (EUR 29.4 million) and expenses of non-insurance companies (EUR 21.6 million). The rise in personnel costs, an increase in the volume of assistance cases due to higher claims volume and inflation, and increased IT service costs were the main reasons for this.

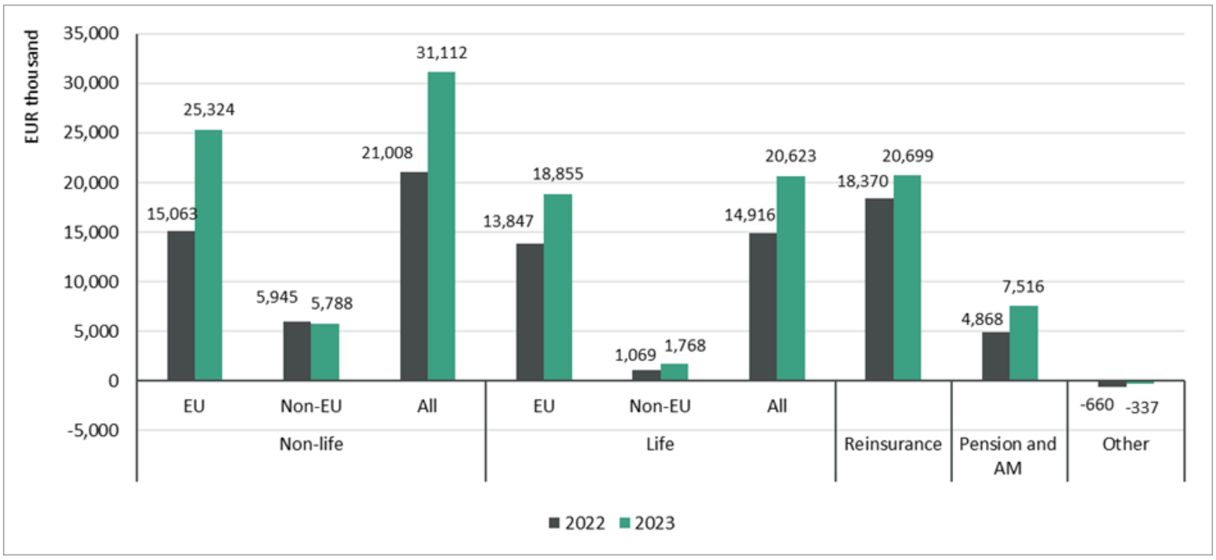
The **combined ratio** deteriorated slightly due to both the loss and expense ratios. The level of the **loss ratio** was a result of an increased claims experience in the non-EU markets caused by extreme weather events during the summer, some larger claims and claims inflation, and a major loss event in the reinsurance segment in early 2023. The movement in the **expense ratio** was primarily attributable to the extraordinary income in 2022. Without factoring this in, the expense ratio for 2022 would have been 28.5%.

Net profit increased by EUR 21.1 million to EUR 79.6 million in 2023. This increase was primarily due to the improved finance result driven by favourable financial markets and partly due to the insurance service result explained earlier. All operating segments ended 2023 with higher profits before tax than in 2022. In absolute terms, the non-life business saw the largest increase, up EUR 10.1 million, followed by the life business, which improved by EUR 5.7 million, the reinsurance business by EUR 2.3 million, pensions and assets under management by EUR 2.6 million, and the “other” segment by EUR 0.3 million. In line with growth in profit before tax, the **net profit for the year** also increased by EUR 17.7 million. As a result, the return on equity was higher, at 10.8%.

Composition of profit or loss before tax



Composition of profit or loss before tax by segment



The result of the non-life and life segments increased mainly for the business in the EU countries. The reinsurance segment delivered an improved result compared to the previous year, with a large portion of the result attributable to business written in Asia. Result of the pensions and asset management operating segment

More detailed segment information can be found in the Group's annual report.

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.

Investment income and expenses by type

EUR thousand	1 January – 31 December	
Investment income and expenses by type in EUR	**2023**	**2022**
Interest income at effective interest rate	20,603	15,438
Change in fair value and gains on disposal of FVTPL assets	9,487	10,275
Gains on disposal of FVTPL assets	139	363
Gains on disposal of other IFRS asset categories	67	1,308
Income from dividends and shares – other investments	1,090	1,312
Movement in expected credit losses (ECL)	1,029	1,356
Diverse other income	4,637	4,841
Total income from the investment portfolio	**37,052**	**34,892**
Change in fair value of FVTPL investments	6,527	22,055
Losses on disposal of FVTPL investments	165	358
Losses on disposal of other IFRS asset categories	881	1,715
Impairment losses on other investments	0	0
Movement in expected credit losses (ECL)	739	1,028
Other expenses	818	3,200
Total expenses for the investment portfolio	**9,129**	**28,356**
Net investment result	**27,923**	**6,536**
Net investment income on investments in associates	2,286	2,280
Net investment income on investment portfolio	**30,209**	**8,816**

In 2023, investment income totalled EUR 37.1 million, up EUR 2.2 million year on year. In 2023, the composition of investment portfolio income was dominated by interest income at the effective interest rate, which amounted to EUR 20.6 million (55.6% of total finance income), an increase of EUR 5.2 million year on year.

Investment portfolio expenses in 2023 were EUR 19.2 million lower than in 2022. Expenses from changes in the fair value of FVTPL assets were EUR 15.5 million lower than in the previous year and totalled EUR 6.5 million (2022: EUR 22.1 million).

Consolidated net investment income on the investment portfolio

EUR thousand	2023	2022	Absolute change
Net investment income on financial investments	27,023	5,539	21,484
Net investment income on investments in associates	2,286	2,280	6
Net investment income on investment property	900	997	-96
Net investment result	**27,923**	**6,536**	**21,387**
Net investment income on investment portfolio	**30,209**	**8,816**	**21,394**

Net investment income on the investment portfolio totalled EUR 30.2 million in 2023. In 2023, the Group achieved a higher return than in 2022, mainly due to a more favourable financial market environment than in the previous year. The higher return was mainly driven by higher interest income and higher net changes in the fair value of FVTPL investments. The figures in the table “Investment income and expenses by type in EUR” differ from the figures in the table below “Net investment income by asset class” because net exchange differences have not been taken into account in the above table.

Net investment income by asset class

EUR thousand	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVTPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains or losses	Movement in expected credit losses (ECL)	Other income or expenses	Total	Income/expenses of associates
Investments measured at amortised cost	**2,586**	**0**	**0**	**0**	**0**	**-1,729**	**-59**	**-6**	**793**	
Debt instruments	1,671	0	0	0	0	-11	-9	-1	1,650	
Cash and cash equivalents	114	0	0	0	0	-1,704	0	0	-1,590	
Deposits and CDs	738	0	0	0	0	-14	-67	-5	653	
Loans	63	0	0	0	0	0	17	0	80	
Investments measured at fair value through profit or loss	**781**	**2,934**	**0**	**426**	**0**	**-335**	**5**	**2,336**	**6,147**	
Held for trading	0	0	**0**	0	0	0	0	0	0	
Debt instruments	0	0	**0**	0	0	0	0	0	0	
Equity instruments	0	0	**0**	0	0	0	0	0	0	
Other investments	0	0	**0**	0	0	0	0	0	0	
Designated to this category	781	2,934	0	426	0	-335	5	2,336	6,147	
Debt instruments	781	1,409	0	0	0	0	5	0	2,195	
Equity instruments	0	1,942	0	426	0	-335	0	-4	2,028	
Other investments	0	0	0	0	0	0	0	0	0	
Investments in infrastructure funds	0	0	0	0	0	0	0	2,047	2,047	
Investments in property funds	0	-416	0	0	0	0	0	293	-123	
Derivatives	0	0	**0**	0	0	0	0	0	0	
Investments measured at fair value through other comprehensive income	**18,031**	**0**	**-813**	**665**	**0**	**-3,453**	**343**	**-72**	**14,701**	**2,286**
Debt instruments	18,031	0	-813	0	0	-3,453	343	-11	14,097	
Equity instruments	0	0	0	665	0	0	0	50	714	2,286
Other investments	0	0	0	0	0	0	0	-110	-110	
Receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-136**	**-136**	
Receivables	0	0	0	0	0	0	0	-136	-136	
Investment property	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**902**	**902**	
Investment property	0	0	0	0	0	0	0	902	902	
Total	**21,398**	**2,934**	**-813**	**1,090**	**0**	**-5,516**	**289**	**3,025**	**22,407**	**2,286**

The Group recognises unrealised gains and losses on FVOCI investments in accumulated other comprehensive income from financial investments. The following table shows the movement in accumulated other comprehensive income from financial investments.

Movement in accumulated other comprehensive income from financial investments

EUR	2023	2022
Balance as at 1 January	**-120,776**	**11,697**
Change in fair value	51,125	-160,520
Transfer of negative accumulated other comprehensive income from financial investments to profit or loss due to impairment	0	0
Transfer from accumulated other comprehensive income from financial investments to profit or loss due to sale	661	-1,078
Deferred tax	-7,283	29,125
Balance as at 31 December	**-76,272**	**-120,776**

Accumulated other comprehensive income from financial investments increased in 2023 compared to the previous year, mainly due to the higher prices of debt securities.

The Group does not hold any securitised assets.

A.4 Performance of other activities

Other income and expenses

Other income comprises income from investment property (holiday facilities), income from property, plant and equipment assets, extraordinary interest income, other income not directly attributable to insurance business and sales revenue from non-insurance companies (including asset management revenue, such as entry, exit and management fees, and income from assistance services). In 2023, the Group realised other income of EUR 16.9 million (2022: EUR 12.7 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 2023, the Group realised other expenses of EUR 26.5 million (2022: EUR 19.9 million).

Lease contracts

The Group earns a small part of its income from leases. It has operating lease arrangements for its real property. Leases are recognised as assets (investment property) in the Group's balance sheet 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 2023 (2022: EUR 1.4 million). Maintenance costs associated with investment property are either included in the rent or charged to the lessee. Costs covered by the Group in 2023 totalled EUR 110 thousand (2022: EUR 203 thousand).

Material intra-Group business

The following tables show material intra-Group transactions.

Income and expenses relating to Group companies

EUR thousand	2023	2022
Insurance revenue	63,775	57,961
Insurance service expenses	-92,996	-62,206
Finance result from insurance contracts	-1,074	-833
Other operating expenses	-465	-334
Dividend income	30,642	51,923
Interest income	71	63
Total	**-47**	**46,574**

Investments in and amounts due from Group companies

EUR thousand	31 December 2023	31 December 2022
Loans granted to Group companies	2,342	1,031
Other short-term receivables	75	51
Total	**2,417**	**1,082**

Liabilities to Group companies include solely other current liabilities of EUR 183 thousand as at 31 December 2023 (31 December 2022: EUR 157 thousand).

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 operating segment 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 strategy and policy 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

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 2023

The composition of the supervisory board changed in 2023. The term of office of Andrej Gorazd Kunstek and Edita Rituper, members of the supervisory board, employee representatives, expired on 12 June 2023. The works council reappointed Edita Rituper for a four-year term of office, and Blaž Garbajs was appointed as the second employee representative, his first term of office on the supervisory board. Both the appointed members began their new terms of office on 13 June 2023.

The end of Andrej Gorazd Kunstek's term as a member of the supervisory board also marked the end of his term as a member of two supervisory board committees. To replace Andrej Gorazd Kunstek's positions, the supervisory board appointed Edita Rituper as a new member of the nominations and remuneration committee and Blaž Garbajs as a new member of the audit committee. At the end of December, the supervisory board also appointed Blaž Garbajs as an additional member of the nominations and remuneration committee.

In 2023, the supervisory board comprised the following members: Davor Ivan Gjivoje Jr (Chairman), Keith William Morris (Deputy Chairman), Klemen Babnik, Matej Gomboši, Andrej Gorazd Kunstek (until 12 June 2023), Edita Rituper and Blaž Garbajs (from 13 June 2023).

Composition of the supervisory board in 2023

Member	Position	Beginning of term of office	End 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	13 June 2023	13 June 2027
Blaž Garbajs	member, employee representative	13 June 2023	13 June 2027

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 2023[9] (Sava Re 2023 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).

[9] The Sava Re 2023 SFCR was published on Sava Re's website on 5 April 2024.

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.

The management board of Sava Re in 2023

In 2023, the management board consisted of the following members: Marko Jazbec (chairman), Polona Pirš Zupančič, Peter Skvarča and David Benedek (the latter from 22 March 2023).

The average age of the management board members was 50.4 years. All management board members are citizens of the Republic of Slovenia.

Composition of the management board in 2023

Full name	Marko Jazbec	Polona Pirš Zupančič	Peter Skvarča	David Benedek
Function	chair	member	member	member (from 22 March 2023)
Area of responsibility at management board level	▪ coordination of work of the management board ▪ general, HR, organisational and legal affairs ▪ public relations ▪ compliance ▪ internal audit ▪ management of strategic investments in Slovenia-based insurance companies (from 22 March 2023) ▪ information technology ▪ sustainable development	▪ corporate finance ▪ strategic planning and controlling ▪ accounting ▪ investor relations ▪ capital and risk management ▪ actuarial affairs	▪ 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 non-Slovenian subsidiaries	▪ financial operations and asset management ▪ management of strategic investments in pension companies and asset management companies (AMCs) ▪ management of strategic investments in healthcare companies ▪ managing overarching cooperation with commercial banks or banking groups at Group level
First appointed	12 May 2017	14 January 2018	19 June 2020	22 March 2023
End of term of office	13 May 2027	15 January 2028	19 June 2025	22 March 2028

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.

David Benedek was appointed as a member of Sava Re's management board on 5 December 2022; he began his five-year term of office on 22 March 2023. With the assumption of office by David Benedek, the management board of Sava Re returned to four members.

B.1.3 Risk management

The risk management system is one of the key building blocks of the system of governance. The management of the Group's parent company 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 main 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.

Replacement of key function holders

If the holder of a key function is temporarily unable to perform his or her duties for any reason, a temporary replacement or substitute should be provided at short notice. The conditions, methods and procedures for the temporary replacement of a key function holder in circumstances where he or she is unable to perform the duties for which he or she has been authorised are set out in more detail in the Group's internal policy on human resources development and succession planning.

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's 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 to which the Group is or may be exposed in the course of its business 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:

- a risk management committee,
- an actuarial committee,
- a process solutions and projects committee,
- an IT steering committee,
- an innovation management committee,
- an information systems architecture committee of the Sava Insurance Group,
- a reserving committee of the Sava Insurance Group.

The main tasks of the individual committees of the supervisory board are set out in detail in the Sava Re 2023 SFCR, section B.1.4 *Committees of the governance system*.

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.

The Group companies have no loans issued to employees or to any members of the management or supervisory boards, and there were no such transactions in 2023.

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 Sava Insurance Group companies are conducted at arm's length and on the basis of reimbursement of expenses incurred in providing services. The Group companies alternate between the roles of service provider and service user within the Sava Insurance Group in order to increase the efficiency of the Group as a whole.

As part of the annual functional analysis, risks identified and resources expended are used to determine the 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 invoiced.

Operational transactions that are subject to assessment in terms of related-party transactions are charged using the comparable uncontrolled price method based on internal or external comparisons or, if this is not possible, by reimbursing expenses incurred in providing the services.

The system of related-party transactions is set out in detail in the internal transfer pricing rules. The obligation of the subsidiaries to report related-party transactions is defined in the Sava Insurance Group Financial Control Rules. In accordance with OECD guidelines on setting transfer prices, the Slovenian Tax Procedure Act, the Slovenian Corporate Income Tax Act and the internal transfer pricing rules, the company annually prepares a transfer pricing report (general documentation) and a transfer pricing report (special documentation), presenting in detail all transaction with related persons, the methodology of setting transfer prices, comparability analyses of transactions and other content as required by the above laws.

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 2023, significant transactions included:

- total remuneration of the members of the management board and the supervisory board, including its committees, and employees not subject to the tariff part of the collective agreement of EUR 4.9 million (2022: EUR 4.5 million)[10], and
- loans granted to subsidiaries of EUR 2.8 million as at 31 December 2023 (2022: EUR 1.5 million).

In 2023, the parent company paid out EUR 24.8 million in dividends (2022: EUR 23.2 million). All related-party transactions are set out in detail in the Group's annual report, in section 17.10 *Related party disclosures*.

[10] 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 2023, 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.

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 management 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.

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.

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 below; those of the other key functions constituting the risk management system are set out in sections B.4.2 *Compliance function*, B.5 *Internal audit function* and B.6 *Actuarial function* of this report.

The risk management function of each 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.

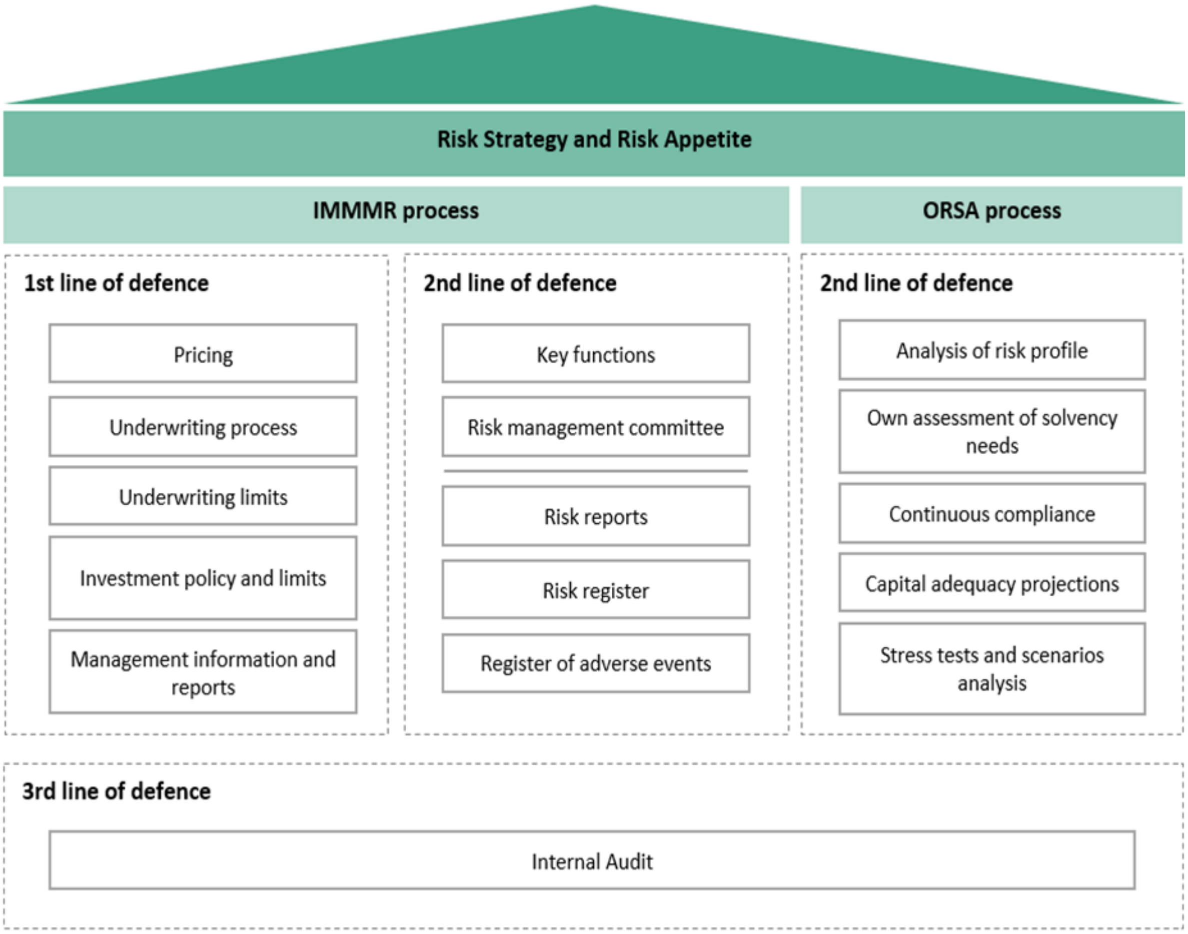
Good practices from Sava Re's risk management model and the risk management organisation are also transferred to other Group companies.

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. To this end, the Group has adopted the Sava Insurance Group Risk Strategy for 2023–2027. 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, 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 uses its own solvency model to conduct 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.

For the Group, the full ORSA is generally performed annually. However, in the event of a significant change in the risk profile or eligible own funds that has not been anticipated in the business or strategic plans, the Group conducts an ad hoc ORSA according to 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.

The parent company's register of internal controls is reviewed on an annual basis, whereas internal controls for risk mitigation as part of the risk register are assessed on a quarterly or annual basis (depending on the risk). 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 Group level, an adverse event register is also used to improve 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. Each company's risk management function monitors the handling of adverse events and the introduction of new internal controls to reduce the occurrence of such events. Companies report on adverse events in their risk reports and in other ways as well.

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 main 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 thus 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 the Company's compliance with regulations and other commitments;
- liaise with and advise senior management on compliance issues;
- cooperate with other control and supervision functions to exchange compliance-related issues, good practices and experiences at the parent company level;
- coordinate the preparation and adoption of compliance-related policies and rules within the parent company and between the parent company and Group subsidiaries;
- coordinate the preparation of comments on draft insurance-related legislation;
- participate in setting up and updating compliance programmes in certain separate areas, including internal controls for compliance of operations, taking into account the requirements and capacities of processes and resources available, according to the requirements of specific legislation or regulations, and factors of the broader business and professional environment (e.g. commitments assumed through contracts, declarations and other collective activities aimed at raising the standards of fair business in the broader environment);
- 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, the function holders in the Group companies and 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;
- monitors the implementation of the recommendations made in compliance reports.

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 the internal audit function's 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 and also perform first-line-of-defence actuarial tasks. As the actuarial function is part of the second line of defence of the risk management system, it is organised in a way that prevents any one person from both performing (first line) and controlling (second line) the same tasks.

The company's actuarial function holder is responsible for carrying out the actuarial function. Each composite insurer and the Group may appoint separately the actuarial function holders for non-life, life and health business, and the parent company may also appoint separately the actuarial function holder of the company (reinsurance actuarial function holder) and the actuarial function holder(s) of the Group. The Group actuarial function is responsible for coordinating the activities of the Group's actuarial functions and developing a uniform methodology.

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 the parent company, 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 insurance companies domiciled in Slovenia have set up a reserving committee in 2024. The committee has been established to ensure a systematic review of the process of formulation and development of the assumptions used in the calculation of a company's technical provisions considering all applicable standards, i.e. Solvency II and IFRS, and to provide the management of individual companies with expert opinions and proposals regarding the formulation of the assumptions used in the calculation of the technical provisions, to ensure the effective management of each company. The role of the reserving committee is to assist management in understanding the appropriateness of the assumptions used in the calculations of provisions and to understand the impact of movements in provisions and the assumptions used on a company's financial statements.

The main 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 estimate 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; document in the report the implementation of the

above tasks and their results, clearly identifying any deficiencies and making recommendations for their elimination;
- serve on the company's risk management committee.

The main 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 performed the internal audit function for Zavarovalnica Sava and Sava Pokojninska as from 1 February 2018, for Sava Infond as from 1 January 2020 and for Vita as from 22 January 2021. All arrangements are based on outsourcing agreements concluded for an indefinite period.

Conducting the compliance function

Since 1 January 2021, Sava Re has performed the key function of compliance monitoring 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 business to Sava Infond, and so have Sava Re and Zavarovalnica Sava since 1 January 2022.

Conducting 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 2023, 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 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 November 2023.

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 is also confirmed by an internal corporate governance audit. The last such audit was conducted 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

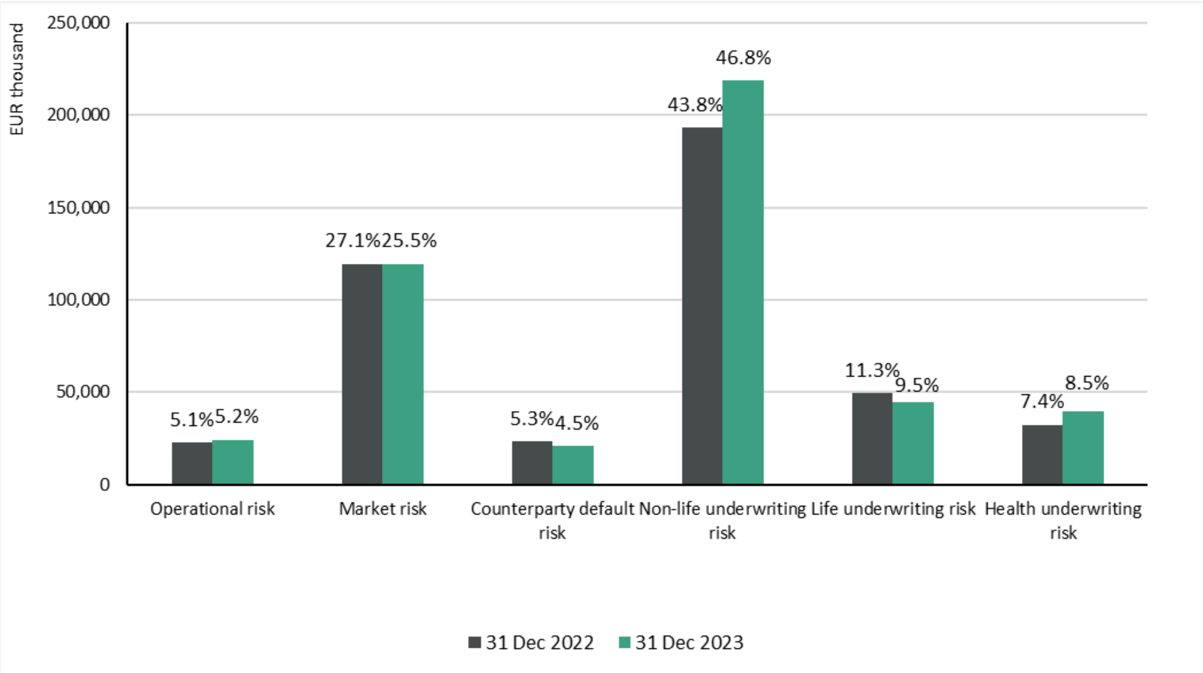
The Group is exposed to various risks in the course of its operations. This document does not purport to provide an exhaustive list of all possible risks, but rather discusses risks that were reasonably foreseeable at the time of writing. The Group's risks are identified, measured, managed, monitored 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 this document have been addressed. 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.

Undiversified SCR by risk module[11]



The Group's main risks in line with the Standard Formula are non-life underwriting and market risks; other risk categories are small. Non-life underwriting risk increased in 2023, mainly due to portfolio growth and increases in premium rates, claims provisions and the change in the reinsurance programme for Group business. Market risks remained at a similar level, but the proportions between the sub-modules have changed slightly.

At the Group level, in addition to the SCR by risk module, the Standard Formula also includes capital requirements for financial institutions (Sava Pokojninska and Sava Infond), which are treated in

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

accordance with the relevant sectoral regulations, and the capital requirements for the remaining Group companies (Sava Penzisko Društvo and Vita S Holding and the associate company DCB)[12].

Key findings of ORSA for 2024

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 the Standard Formula, and of calculation projections of the own assessment of solvency needs, an impact analysis of various scenarios, and the consideration of potential management actions. Risks that are difficult to quantify are assessed qualitatively in the ORSA.

The ORSA for 2024 (submitted to the regulator in March 2024) was based on the Group's business plan approved in December 2023. The results of the 2024 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, according to both the Standard Formula and 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 2024 ORSA, several relevant scenarios were also implemented for the Group. The Group analysed the impact of increased macroeconomic risks on the its business and solvency through a financial scenario. The scenario has a substantial impact on the business and solvency position of the Group, but the Group's solvency position is sufficiently robust, and its solvency remains well above the regulatory requirements if the scenario materialises (taking into account the assumptions used in the scenario). The results of the financial scenario are described in detail in section C.2.4 *Risk management* of this report. In addition to the above scenario, we have also included other scenarios for transition and physical risks arising from climate change, the results of which are discussed in section C.6.3 *Sustainability risk and climate change risk*. Individual scenarios can have a significant impact on the Group's solvency position, but none of the scenarios run were found to be severe enough to cause the Group's solvency ratio to fall below its optimal capitalisation range.

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

The geopolitical situation remained uncertain in 2023. The war between Russia and Ukraine continued, and a military conflict began between Israel and Hamas. The Sava Insurance Group has no material exposures in this region. Tensions between China and Taiwan continued and worsened, and closer cooperation between Russia, Iran and North Korea also posed a threat to global stability. No fewer than 40 countries around the world will hold elections next year, and the results and changes in ruling political parties could have a significant impact on the geopolitical environment.

The macroeconomic environment was more favourable in 2023 than in 2022. Returns on shares and bonds exceeded expectations. The US economy proved resilient, avoiding a recession despite high interest rate hikes and even achieving better-than-expected economic growth of 2.9% in the third quarter[13]. In Europe, there was no GDP growth[14], while Slovenia achieved 1.6% GDP growth in 2023, and the other countries where the Group is present had slightly higher growth[15].

[12] In 2022, G2I was also included as an associate company, while Vita S Holding joined the Group in 2023 and is therefore only included in the calculation in 2023.

[13] https://tradingeconomics.com/united-states/gdp-growth-annual

[14] https://tradingeconomics.com/euro-area/gdp-growth-annual

[15] Source: UMAR, Economic Mirror, No. 1/2024, IMF, World Economic Outlook, October 2023, www.statista.com.

At the same time, strong deflation was observed in 2023. Inflation is on the decline as a result of the restrictive monetary policies of central banks in the euro area, the US and other developed countries. As a result, interest rate rises are expected to come to an end.

In 2023, the impact of claims inflation on insurance products continued but was less pronounced than in the previous year. The monitoring of the risk of a decline in non-life profitability due to the impact of claims inflation on motor and property insurance was integrated into regular risk monitoring. To ensure that premiums remain sufficient to meet obligations under insurance contracts, premium rating systems were updated in segments where claims inflation was identified. Claims inflation also affected reinsurance markets, where we saw an increase in sums insured and retentions in 2023. In both the domestic and international reinsurance markets, other factors (including increased loss frequency in some markets, macroeconomic conditions, geopolitical conflicts and the prevailing hard market) influenced the renewal of reinsurance treaties in 2023, further tightening conditions and thus making the renewal of reinsurance protection more challenging. Despite the difficult situation, the Group managed to obtain adequate reinsurance protection. On the other hand, rate increases and tighter conditions in the reinsurance markets had a positive impact on accepted reinsurance business.

Potential systemic risks are kept under constant review in order to take timely action. Exposure to such risks was reduced by, among other things, ensuring adequate diversification of the investment portfolio and a sufficient percentage of highly liquid assets to meet extraordinary liquidity needs. Despite the changed circumstances, the Group's solvency ratio remained high and in line with the internal criteria throughout 2023, and the Group also recorded an adequate solvency ratio as at 31 December 2023 (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.

In the summer of 2023, Slovenia and certain other countries in which the Group is present were hit by a wave of storms and floods that caused significant property damage. The gross claims resulting from these events amounted to EUR 88.3 million. Taking into account reinsurance protection, the net impact of these events on the Group's result was EUR 27.4 million.

The increasing number and severity of catastrophic events has prompted the Group to continue to monitor climate change risks. These risks are discussed in more detail in section C.6.3 *Sustainability risk and climate change risk*.

C.1 Underwriting risk

Underwriting risk arises from the Group's underwriting activities: the underwriting of (re)insurance contracts and the 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.

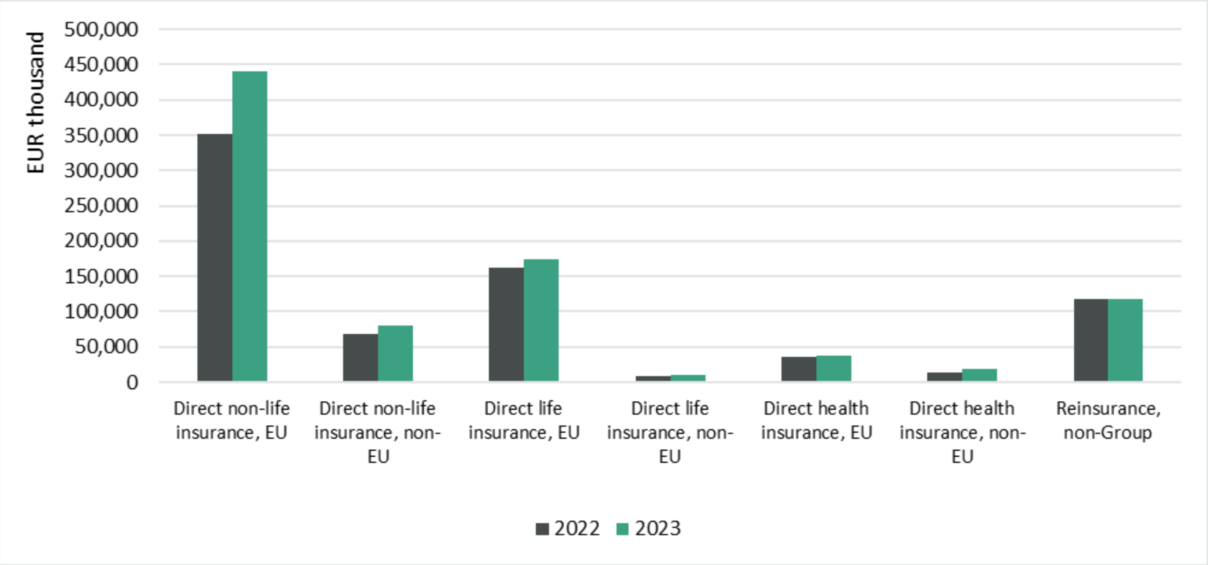
Underwriting risk is broadly divided into:

- non-life underwriting risk,
- life underwriting risk, including annuities stemming from non-life insurance business, and
- health underwriting risk.

The Group markets all three types of insurance and is therefore exposed to all three types of risk.

The following chart shows gross premiums written by line of business, separately for the Group's EU-based and non-EU based companies. For more information on exposure, please refer to the next section.

Breakdown of Group gross premiums written

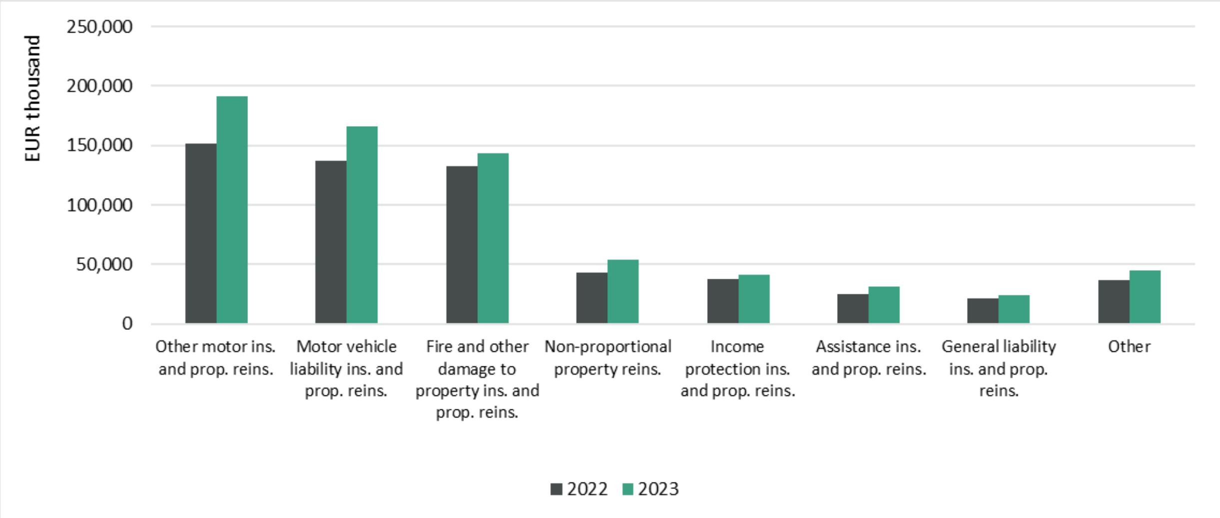


C.1.1 Non-life underwriting risk

Risk exposure

The consolidated gross non-life insurance premiums by material lines of business are shown below. The breakdown of the Group's gross non-life premiums written did not change significantly in 2023.

Consolidated gross premiums written by major class of non-life insurance



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 (re)insurance contracts. This risk depends on many factors, such as inadequate assessment of market developments, inadequate assessment of claims development, use of inadequate statistics, deliberately insufficient premiums for certain classes of business that are expected to be offset by other classes of business, or inadequate assessment of external macroeconomic factors that may change significantly during the term of a contract; in certain classes of business, there is also inadequate assessment of environmental factors, including climate change. These include:
  - underwriting process risk,
  - pricing risk, and
  - risk of unexpected increase in claims.

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

  Sustainability risks, including those related to climate change, are also considered when assessing the adequacy of provisions.

  Similarly to premium risk, the main contributors of reserve risk are motor and property business (fire and other damage to property, including related business interruption insurance), where the best estimates of provisions are also structurally the largest due to the Group's multi-year focus on these lines of business.

- **Catastrophe risk** includes the risk of occurrence of a catastrophic event; such events are rare, but their financial impact is too high to simply be covered by otherwise appropriate premiums and provisions. Catastrophe risk may materialise as an extreme event or a large number of catastrophic events in a short period. The risk also includes an excessive geographical accumulation of risk. The Group's portfolio is relatively well diversified geographically, with a slightly higher concentration of risks in Slovenia, which is further addressed through a 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 liabilities resulting from changes in the level or volatility of lapse rates. The Group is not materially exposed to this type of risk.
- **Sustainability risks**, including those related to climate change, have recently become more relevant and are therefore receiving increased attention from the Group. We carry out qualitative assessments, exposure analyses and longer-term scenario analyses, and monitor the progress of their modelling. The knowledge gained in this area is then applied in setting insurance premiums, determining best estimate provisions and arranging sufficient reinsurance protection to keep risks within the risk appetite.

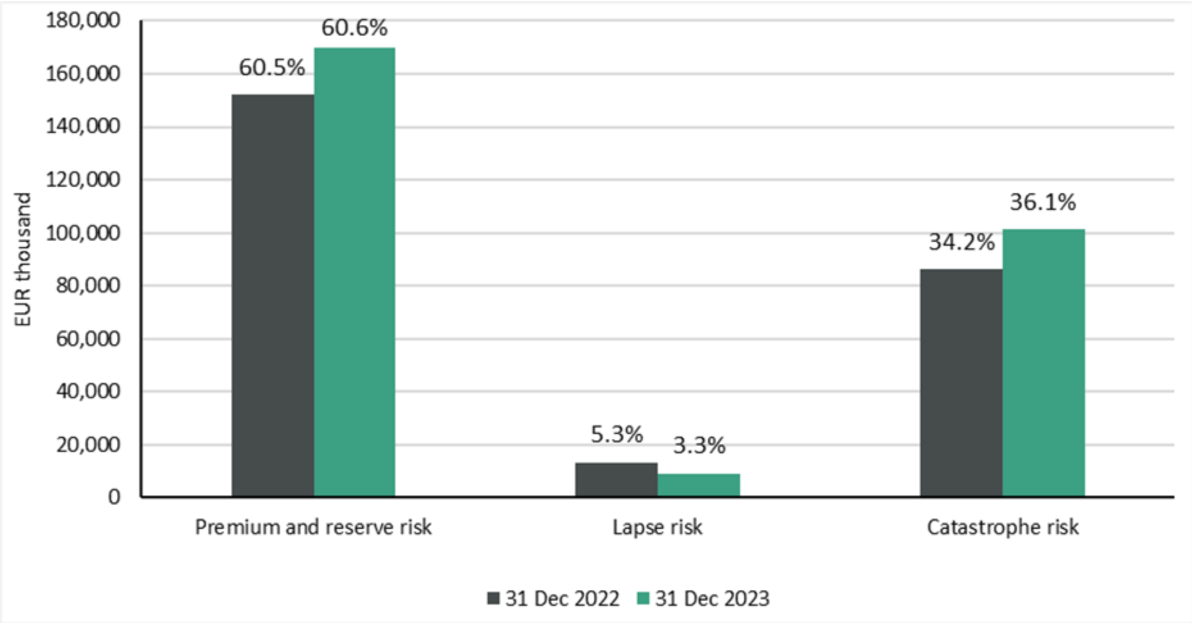
Other underwriting risks, such as economic environment risk and policyholder behaviour risk, may be relevant, but their impact is already indirectly reflected in the non-life underwriting risks listed above.

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[16]



As at 31 December 2023, the solvency capital requirement in accordance with the Standard Formula for non-life underwriting risks amounted to EUR 218.9 million (31 December 2022: EUR 193.2 million), representing 46.8% (31 December 2022: 43.8%) of the total SCR of all risk modules[17]. 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 2023, the capital requirement for non-life insurance risks increased due to higher premium, reserve and catastrophe risks. The increase in premium and reserve risk is mainly due to portfolio growth and premium rate increases, major natural catastrophes in 2023 and claims inflation, whereas the increase in the capital requirement for catastrophe risk is largely due to portfolio growth and the change in the reinsurance programme for the Group business. Lapse risk remained relatively low and decreased slightly due to a change in the calculation methodology for this risk for accepted reinsurance business.

The Group also uses the 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 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.

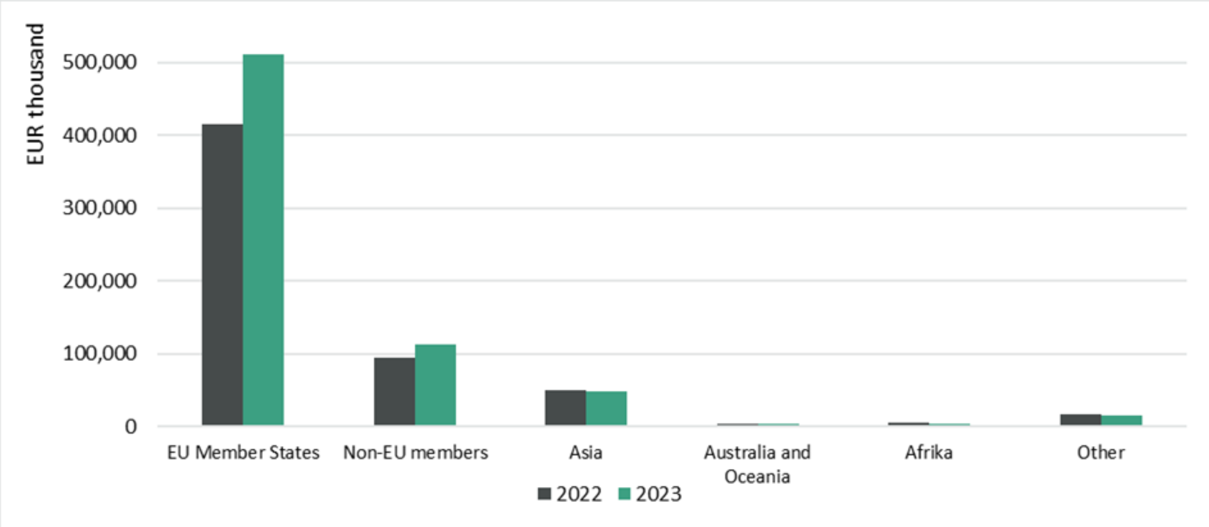
[16] The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.

[17] The sum of all SCRs of all risk modules, including operational risk, is taken into account.

Risk concentration

The following graph shows the regional breakdown of gross premiums written in fire and other damage to property insurance and proportional reinsurance, and non-proportional property reinsurance business. The Group generates the majority of its premiums in EU Member States, primarily in Slovenia, where the Group's direct insurance companies operate. Compared to 2022, gross premiums in the EU Member States increased, and premiums in the non-EU countries in Europe also increased slightly. The diversification of gross premiums remained at a similar level to 2022.

Consolidated gross premiums written – non-life



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 a reinsurance programme in place to mitigate catastrophe risk, under which the Group's maximum exposure per event is the priority amount (detailed below), 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[18]	2023	2022
Flood	15,060,648	12,891,510
Earthquake	18,566,047	15,159,157
Storm and hail	56,534,206	53,163,175

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 maximum loss equal to the priority of the catastrophe excess-of-loss cover plus a reinstatement premium. In this way, the maximum net exposure of the portfolio to a catastrophe event is limited by the retention up to the capacity of the reinsurance cover.

Compared to the previous year, the reinsurance programme has been adapted to reflect the changes in accepted business. The increased portfolio size necessitated an increase in cover capacity in some

[18] The data are compiled as at 30 June of each year.

lines of business. In addition, the higher volume of catastrophes led to an increase in reinsurance premium rates and an increase in some retentions. This led to a modest increase in catastrophe risk.

Risk management

The Group manages underwriting risk through:

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

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

In addition to the above, the Group monitors the impact of sensitivity analyses on risk levels. In the calculation as at 31 December 2023, 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 the overall SCR. A 10% increase in the premium volume measure would result in a 4.7 p.p. decrease in the solvency ratio.

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 3.0 p.p. decrease in the solvency ratio.

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 2023	**645,309**		**337,171**		**191%**	
Increase in volume measure for premium risk of non-life and NSLT health insurance	645,309	0	345,653	-8,482	187%	-5 p.p.
Increase in volume measure for reserve risk of non-life and NSLT health insurance	645,309	0	342,592	3,061	188%	-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 on an ongoing basis to reflect any deterioration in loss ratios across all classes of insurance and for major policyholders. In response to rising inflation, the Group has already taken steps to increase premium rates for motor and property insurance. Due to deteriorating macroeconomic conditions and the increased severity of natural catastrophes in recent years, reinsurance premium rates increased further in 2023, which was beneficial for the management of premium risk in reinsurance underwriting.

The Group mitigates price risk by conducting detailed market analyses, monitoring the business environment (media, competitors, customers) and regulatory requirements, and monitoring historical claims trends (for the entire insurance market) and projections. In the case of obligatory proportional reinsurance treaties, Sava Re follows the fortunes of its ceding companies, whereas in the case of non-proportional and facultative contracts, the decision to accept the risk is made by Sava Re. It follows from the foregoing that in order to manage this risk, it is essential to review the practices of existing and future ceding companies and to analyse developments by market and class 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 Group verifies the appropriateness of prices through modelling and other detailed profitability reviews.

Another underwriting process 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 sensitivity analyses and scenarios, and the setting of appropriate retentions. Retention levels and reinsurance protection for individual risks remained similar to the previous year in 2023.

Reserve risk

The Group manages reserve risk by means of robust processes and effective controls as regards the calculation of technical provisions in accordance with both 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 insurance contract liabilities. The design and operational effectiveness of controls are reviewed at least annually and whenever a significant change occurs in the process, or methods and models used to calculate technical provisions.

Such controls include:

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

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 maximum loss equal to 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. 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 major risk for the Group. Therefore, as part of the annual ORSA process, the Group tests catastrophe scenarios in terms of their impact on solvency. As part of the ORSA for 2024, the Group addressed catastrophe risk in two climate scenarios, which are described in sub-section C.6.3 *Sustainability and climate change risks*

.

C.1.2 Life underwriting risk

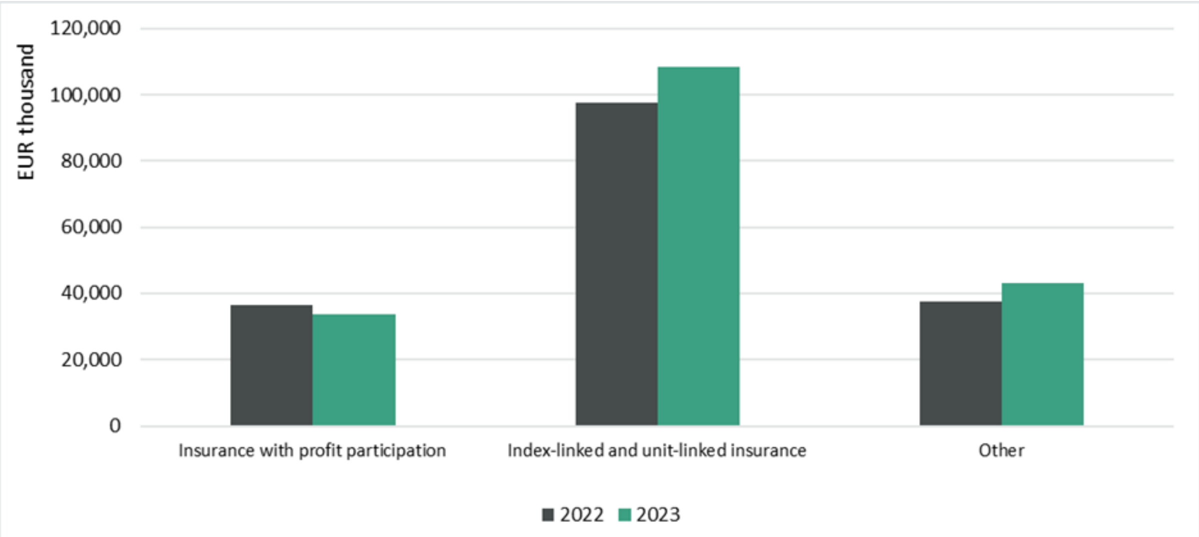
The main life underwriting risks are:

- 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 2022, the largest share of consolidated gross life premiums written in 2023 is index-linked or unit-linked, which increased compared to 2022 due to a higher volume of new business.

Consolidated gross written premiums for Group premiums by material line of business



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. The level of risk depends on the use of appropriate statistics, the identification of lapses for various reasons in an underwriting year and the economic situation, which may also affect policyholder behaviour. Risk levels also depend on the competitive insurance products available in the market and the 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 used in the mortality tables for premium pricing. It depends on the use of relevant statistics and the identification of insured persons whose health or lifestyle may increase their mortality risk.

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.

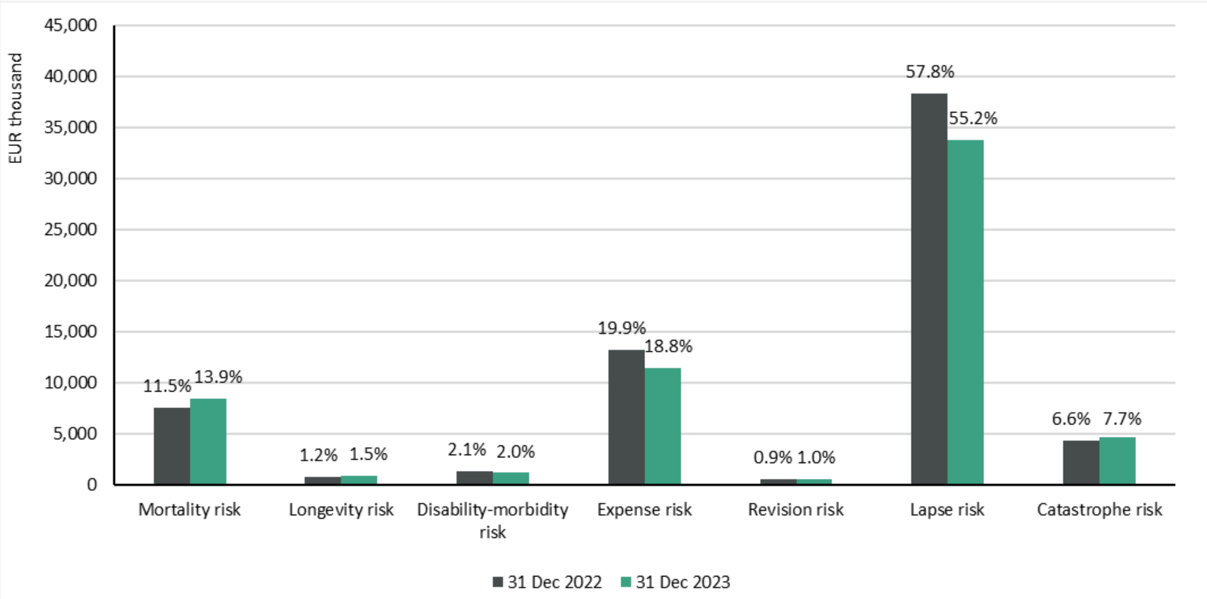
Risk measurement

The Group makes quantitative assessments of life underwriting risk using the Standard Formula. The solvency capital requirement for life underwriting risks in accordance with the Standard Formula amounted to EUR 44.6 million as at 31 December 2023 (31 December 2022: EUR 49.7 million), representing 9.5% (31 December 2022: 11.3%) of the total SCR of all risk modules[19]. The change in the capital requirement compared to the previous year was mainly due to a change in the methodology for calculating the best estimate technical provisions for unit-linked life insurance, where future premiums are not taken into account in the event of insufficient insurance risk and insurance contracts are treated similarly to paid-up contracts.

Lapse risk represents the largest share of the Group's undiversified life underwriting risk, the largest being mass lapse risk. This risk decreased compared to the previous period due to the aforementioned change in the methodology of treating future premiums of unit-linked life insurance. Another significant risk is the expense risk, which decreased modestly compared to the previous period due to the change in expense assumptions and the change in the inclusion of future unit-linked insurance premiums, and the mortality risk, which increased slightly due to the change in mortality assumptions and the change in the risk-free interest rate curve. 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.

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



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.

[19] The sum of all SCRs of all risk modules, including operational risk, is taken into account.

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

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 monitoring the number and percentage of policy lapses on a quarterly basis, restricting surrenders where insurer approval is required and systematically preventing intermediaries from rearranging policies.

The procedures used to manage **mortality risk** include the consistent application of underwriting protocols (detailing deviations from the normal mortality risk), regular monitoring of exposures and the adequacy of the mortality tables used, and appropriate reinsurance protection.

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

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.

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 2023	**645,309**		**337,171**		**191%**	
Increase in expected mortality rates of 15%	638,397	-6,912	337,171	0	189%	-2 p.p.
Increase in expenses (other than commissions) of 10% and inflation rate of 1 p.p.	635,977	-9,332	337,171	0	189%	-3 p.p.
Increase in lapse rate of 50%	617,886	-27,422	337,171	0	183%	-8 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.

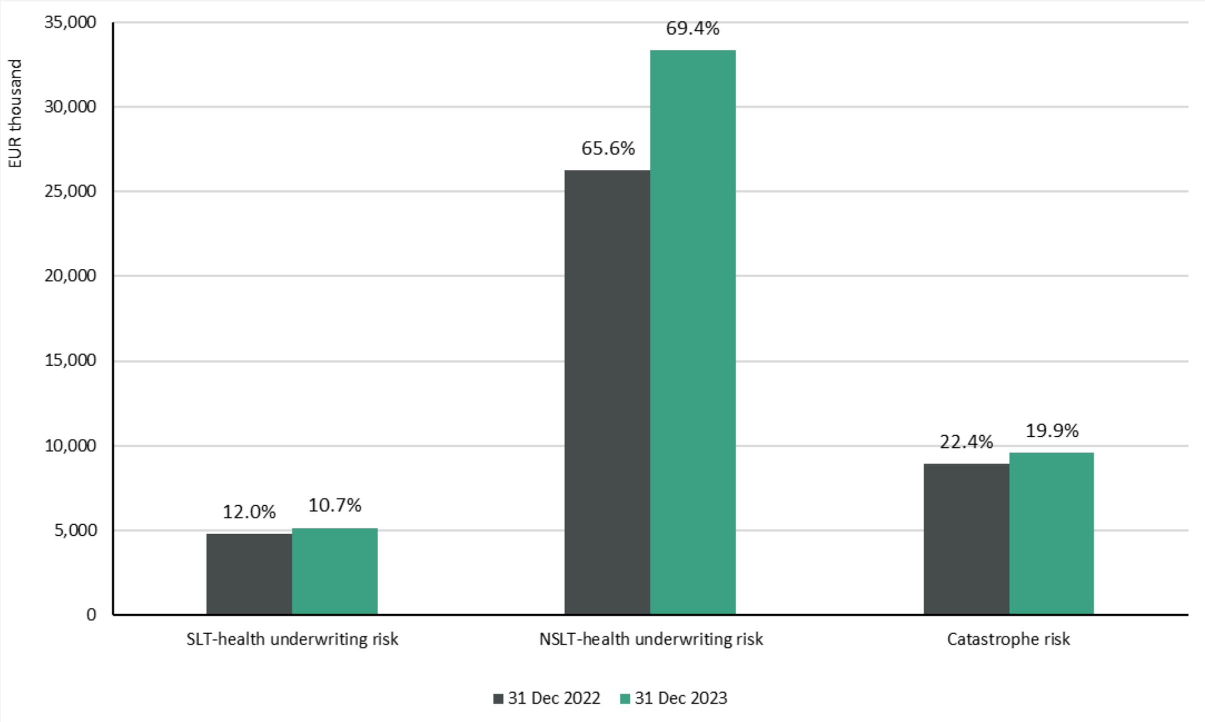
The Group makes quantitative assessments of health underwriting risk using the Standard Formula. According to this formula, the Group was exposed to health underwriting risk in the amount of EUR 39.8 million as at 31 December 2023 (31 December 2022: EUR 32.5 million), representing 8.5% (31 December 2022: 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 2023 is therefore slightly higher than in the previous year.

The SLT health underwriting risk in 2023 remained at a similar level to the previous period. However, the NSLT health underwriting risk and the health catastrophe insurance increased slightly, partly due to growth in the accident insurance portfolio and partly due to a change in the contract boundary of one of the accident products.

A comparison of risks is provided in the following breakdown of each undiversified risk by health underwriting risk sub-module.

[21] The sum of all SCRs of all risk modules, including operational risk, is taken into account.

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



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.

[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 debt alternative 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 price risk** is the risk of a fall in the level of equity prices resulting in a fall in the value of equities. Exposure to this risk arises from investments in equities, equity and mixed mutual funds, and 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 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 price risk, leading 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.

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

EUR thousand	31 December 2023	Share 31 December 2023	31 December 2022	Share 31 December 2022
Asset class				
Bonds	**1,280,713**	**62.1%**	**1,168,935**	**63.5%**
Government bonds	*819,116*	*39.7%*	*743,655*	*40.4%*
Corporate bonds	*461,597*	*22.4%*	*425,279*	*23.1%*
Investment funds	**86,364**	**4.2%**	**90,952**	**4.9%**
Deposits	**27,362**	**1.3%**	**26,898**	**1.5%**
Equity investments	**21,754**	**1.1%**	**23,110**	**1.3%**
Shares – listed	*17,994*	*0.9%*	*21,281*	*1.2%*
Shares – unlisted	*3,761*	*0.2%*	*1,828*	*0.1%*
Property	**100,969**	**4.9%**	**98,284**	**5.3%**
Own-use property	*71,597*	*3.5%*	*71,861*	*3.9%*
Other property	*29,371*	*1.4%*	*26,423*	*1.4%*
Loans and mortgages	**2,006**	**0.1%**	**2,420**	**0.1%**
Investments of policyholders who bear the investment risk	**544,804**	**26.4%**	**431,400**	**23.4%**
Total	**2,063,973**	**100%**	**1,841,998**	**100%**

The value of assets included in the calculation of market risk was EUR 2,064.0 million as at 31 December 2023 (31 December 2022: EUR 1,842.0 million).

Investments in government and corporate bonds increased as a result of the investment of free cash flow and the appreciation of these investments.

In addition to the portfolio investments, the calculation includes the assets of policyholders who bear the investment risk and the related obligations arising from these contracts, which increased significantly in 2023 due to business growth and favourable trends in capital markets.

The predominance of fixed-rate financial instruments reflects the Group's policy, which seeks primarily to match the nature of the investments with the liabilities they cover and to diversify investments.

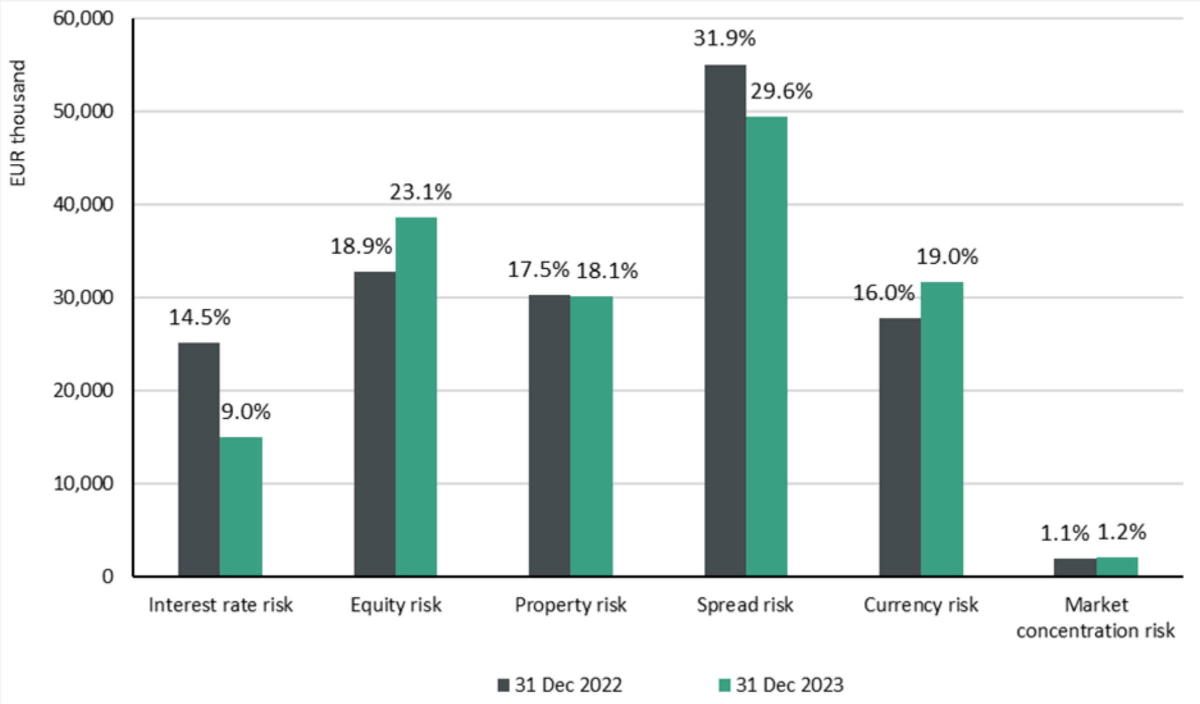
C.2.2 Risk measurement

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.

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

Undiversified market risk by risk sub-module[24]



As at 31 December 2023, the solvency capital requirement under the Standard Formula for market risk was EUR 119.5 million (31 December 2022: EUR 119.6 million), representing 25.5% (31 December 2022: 27.1%) of the total SCR of all risk modules[25]. The share of this risk decreased slightly, but the level of risk remained at the same level as last year.

Interest rate risk is relatively low at 9.0% (31 December 2022: 14.5%) of the undiversified capital requirement for market risk. The risk decreased in 2023, due to the lower risk-free interest rate term structure.

Equity price risk is the second-largest market risk, accounting for 23.1% (31 December 2022: 18.9%) of the undiversified capital requirement for market risk. Equity price risk increased in 2023 driven by the increase in the value of the investment portfolio where policyholders bear the investment risk, a higher symmetric adjustment and higher prices for mutual funds in financial markets.

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 in 2023 remains at about the same level as in 2022.

Spread risk is the largest market risk, accounting for 29.6% (31 December 2022: 31.9%) of the undiversified capital requirement for market risk. The risk is driven by the Group's exposure to debt securities and deposits. In 2023, the risk decreased, mainly due to an increase in the share of better-rated 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 19.0% (31 December 2022: 16.0%) of the undiversified capital requirement for market risk, with both assets and liabilities exposed to this risk. The Group's exposure to currency risk arises mainly from the reinsurance business of Sava Re, the Group's non-EU based companies and

[24] The share of an individual risk submodule is calculated as a percentage of the sum of all risk submodules.
[25] The sum of all SCRs of all risk modules, including operational risk, is taken into account.

financial investments (direct and investment fund investments). Despite the high alignment of IFRS assets and liabilities, there is a minor currency mismatch under Solvency II, mainly due to differences in the valuation of IFRS insurance contract assets and liabilities and best estimate provisions under Solvency II, as well as the capital of the Group companies not denominated in euro. This risk increased slightly in 2023.

Market risk concentration of the Group as at 31 December 2023 was 1.2% (31 December 2022: 1.1%) of the undiversified capital requirement for market risk. Market risk concentration arises from the exposure to Kosovo government bonds, which exceeded the exposure threshold under Solvency II.

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

In addition to the Standard Formula, the Group uses its own assessment of solvency needs to monitor and assess market risk. 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 own assessment of solvency needs in the same way as in the Standard Formula. In the own assessment of solvency needs, we assess the following financial risks: equity price 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 own assessment of solvency needs, we include all marketable equity securities that are sufficiently liquid to allow the parameters of the model to be estimated with sufficient accuracy using historical data. For other investments, we use the stresses prescribed by the Standard Formula. In 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 own assessment of solvency needs, we 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 own assessment of solvency needs.

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 because of the spread risk on EU government bonds – which are treated as risk-free in the Standard Formula, but in the own assessment of solvency needs we also assess the risk of these investments – and the recalculation of the interest rate risk,

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

where the economic scenarios assume a higher variability of interest rates than in the Standard Formula.

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.

In order to manage material market risks in a systematic manner, the Group has adopted an asset and liability management policy and an investment risk management policy. The policies define:

- the basic investment guidelines,
- the measures used to monitor investment performance,
- the measures used to monitor investment risks,
- the 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 price risk by diversifying this investment portfolio segment across different capital markets and by using a limit system that caps the overexposure to the equity portfolio.

Currency mismatch is managed at the level of each Group company through the currency matching of IFRS liabilities. The monitoring and management of currency risk is presented in greater detail in the Group's annual report in section 16.7.4.1.5 *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 16.7.4.3 *Credit risk*.

In addition, the Group has carried out a number of sensitivity analyses on market risk, applying various parameters that affect the level of the solvency capital requirement for market risk and the level of the Group's eligible own funds and, consequently, its solvency position. The following table shows the results of 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 2023	**645,309**		**337,171**		**191%**	
Increase in interest rates of 100 bps	637,955	-7,353	337,199	28	189%	-2 p.p.
Decrease in interest rates of 100 bps	649,985	4,676	338,690	1,520	192%	1 p.p.
Fall in value of equity securities of 20%	630,983	-14,326	329,054	-8,116	192%	1 p.p.
Decrease in value of property of 15%	630,552	-14,757	335,062	-2,109	188%	-3 p.p.
Widening of credit spreads by 100 bps	610,083	-35,226	335,763	-1,408	182%	-9 p.p.

The first sensitivity analysis was an **increase and decrease in interest rates**. The analysis was performed by shifting the risk-free base curve by 100 basis points up or down for all maturities. We then recalculated eligible own funds and the SCR for all interest-rate-sensitive assets and liabilities. The Group's eligible own funds decreased marginally when interest rates were increased by 100 basis points, the Group's SCR increased slightly, and the Group's solvency ratio decreased marginally as a result. A sensitivity analysis of a 100 basis-point reduction in interest rates resulted in a modest increase in the Group's eligible own funds and SCR. The Group's solvency ratio increased slightly.

The second is a sensitivity analysis of the **decrease in the value of the Group's equity securities**, which was carried out by reducing the value of the equity securities by 20% 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. The Group's eligible own funds were reduced by more than the Group's materiality threshold, but the Group's SCR was also reduced, so the impact on the Group's solvency ratio was small.

The third sensitivity analysis assumed a **fall in property prices** of 15%. The calculation was made using the amount of property as at the reporting date. The sensitivity analysis mainly resulted in a decline in the Group's eligible own funds, which exceeded the Group's materiality threshold. 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 sensitivity analysis on the Group's solvency ratio was minor.

The fourth is a sensitivity analysis to **increases in credit spreads**. The analysis was carried out by increasing the credit spreads by 100 basis points and then recalculating the eligible own funds and the solvency capital requirement. The Group's eligible own funds were reduced by more than the Group's materiality threshold, but the Group's SCR was also reduced, so the impact on the Group's solvency ratio was moderate.

Scenario analysis in ORSA

The Group's ORSA analysed the impact of increased macroeconomic risks on the Company's business and solvency through a financial scenario.

The financial scenario assumed a banking crisis. The scenario assumed an increase in interest rates at the longer end of the risk-free interest rate curve, a widening of credit spreads on debt securities and a decline in the value of other asset classes. Based on this scenario, we calculated the impact on the planned investment portfolio and planned insurance obligations, both as at 31 December 2024. 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. The Group's solvency ratio would decrease significantly if the inflation scenario were to materialise, but even in this scenario the Group's solvency would not be jeopardised due to its high basis. The solvency ratio would remain within the optimal capitalisation range in line with the risk strategy[27] and well above the regulatory level of 100%.

The Group also included a climate scenario in the ORSA in relation to the impact of transition risks on the investment portfolio, which is described in subsection C.6.3 *Sustainability and climate change risks*.

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 for 2023–2027, the solvency ratio range of 170% to 210% is defined as optimal capitalisation.

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 as part of market risk of the Standard Formula (cash and cash equivalents and deposits to cedants). The credit risk of trade receivables arises from delays in the payment of receivables arising from the Group's primary insurance and inward reinsurance business, and in the payment of subrogation 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

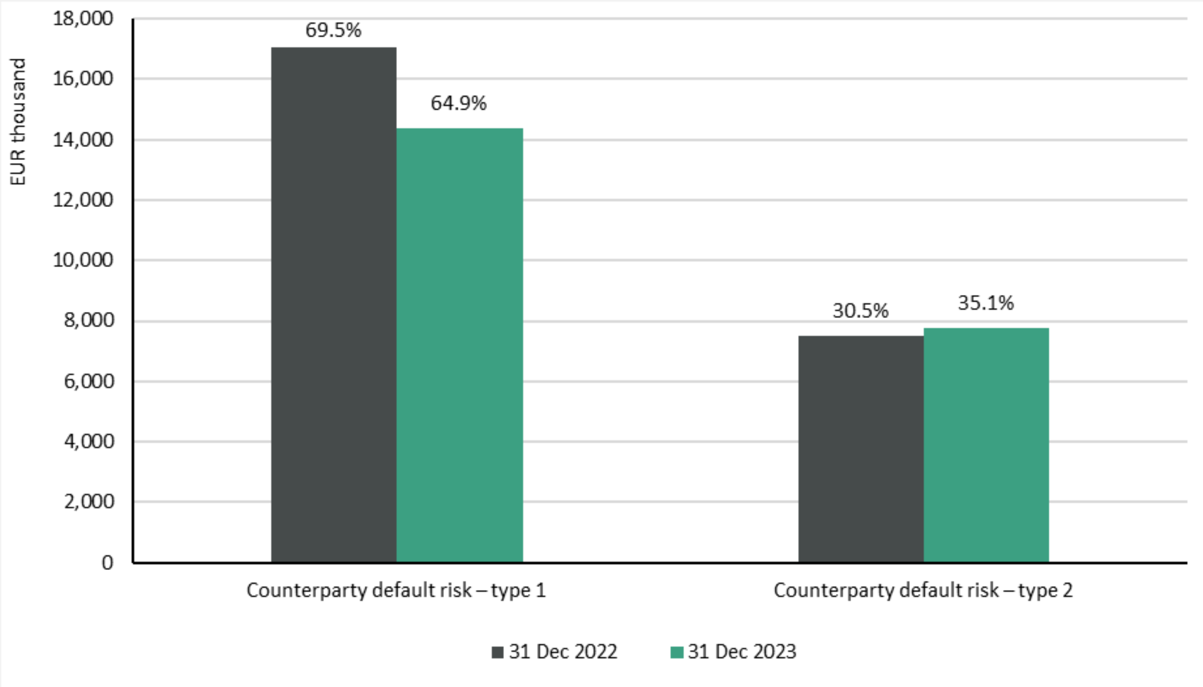
The Group makes a quantitative assessment of credit risk using the Standard Formula. As mentioned above, spread risk and market risk concentration are assessed within the market risk module, whereas counterparty default risk is assessed in a separate counterparty default risk module. This section will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

The Group's solvency capital requirement in accordance with the Standard Formula for counterparty default risk amounted to EUR 20.8 million as at 31 December 2023 (31 December 2022: EUR 23.2 million) or 4.5% (31 December 2022: 5.3%) of the total SCR of all risk modules[28]. The risk decreased somewhat from 31 December 2023 to 31 December 2022.

The following chart shows the composition of the counterparty default risk module in accordance with the Standard Formula by risk sub-module.

[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]



Type 1 risk includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. In 2023, the balance of cash and cash equivalents decreased, so that type 1 risk also decreased, although the exposure related to reinsurance and co-insurance contracts and deposits with cedants increased marginally.

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 2023 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 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.

C.3.3 Risk concentration

The Group has no significant concentrations of 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.

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

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. Exceptions are reinsurance contracts of subsidiaries with assistance service providers and reinsurance with a local reinsurer where required by local regulations. In such cases, local reinsurers transfer the risk to Sava Re, so that the actual exposure to counterparty default risk from reinsurance contract assets is small.

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 Group's SCR and 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, which also has an impact on the level of non-controlling interests and, consequently, on the level of the Group's eligible own funds. The table below shows the results of the sensitivity analyses conducted.

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 2023	**645,309**		**337,171**		**191%**	
Reinsurer credit rating downgrade	645,311	2	339,494	2,323	190%	-1 p.p.

A sensitivity analysis of a one-notch ratings downgrade resulted 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. The decline was very small.

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.

To determine their exposures to liquidity risk, Group companies, in accordance with their capabilities, implement, analyse and monitor 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 2023, the EU-based Group insurers held a level of highly liquid assets significantly exceeding the 20% requirement set in the risk strategy: Zavarovalnica Sava 53%, Vita 34.4% and Sava Re 52%. The extraordinary liquidity requirements of the non-EU companies are attended to by the parent company.

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

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 2022 due to the lower volume of life business.

EPIFP – life and non-life business

EUR thousand	31 December 2023	31 December 2022
Non-life business	39,334	25,021
Life business	49,046	84,894
Total	**88,380**	**109,915**

Non-life EPIFP increased significantly compared to last year, mainly due to a change in the contract boundary of one accident insurance product.

Compared to last year, the decrease in the life EPIFP was a result of updated operating assumptions and a change in the methodology for applying the contract boundary for unit-linked life business.

[30] Undertaking for collective investment in transferable securities.

C.5 Operational risk

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

C.5.1 Risk exposure

Operational risks are not among the Group's most significant risk exposures. Nevertheless, some are relatively important to the Group. The key operational risks of the Sava Insurance Group in 2023, ranked according to their rating in the risk register (from highest to lowest), are:

- the risk of personal data breaches by the EU-based companies (increased due to the implementation of the new Data Protection Act (ZVOP-2)),
- the risk of intentional or unintentional leakage of confidential information,
- the risk of data loss due to a compromised or non-functioning IT system (slightly increased),
- the risk of a cyber-attack,
- the risks associated with subsidiaries reporting to the parent,
- the risk of inadequate provision of external IT services (in-house or commercial cloud services),
- the risk of errors in the consolidated calculations for the Group (increased due to the implementation of the new accounting standard IFRS 17).

C.5.2 Risk measurement

At Group level, the capital requirement for operational risks is calculated 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 in accordance with the Standard Formula was EUR 24.4 million as at 31 December 2023 (31 December 2022: EUR 22.7 million), representing 5.2% (31 December 2022: 5.1%) 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 to assess the risks that arise at Group 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; there is, however, an increase in risks related to ongoing development projects (e.g. IT risk).

[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;
- monitoring operational risk indicators at Group level for all Group companies (indicators are defined in the risk strategy and are also used to indirectly measure reputational risk);
- 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 large financial losses, as well as damage to the company's reputation. The Group 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 and the setting up of a database protection system. Security threats and incidents are regularly monitored by the security operations centre (SOC). In 2023, the Sava Insurance Group has taken an active approach to planning activities to comply with the new DORA[32] regulation for all

[32] Digital Operational Resilience Act.

companies in the Group. The legislation, which comes into force on 17 January 2025, sets new network and information security requirements for financial institutions. Activities will be managed at Group level by a formally established project team.

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 2023, ranked according to their rating in the risk register (from highest to lowest), are:

- the risk of deteriorating macroeconomic conditions or changes in capital markets affecting the Group's profitability or causing the investment portfolio to underperform,
- the risk that the Group will fall behind the market in terms of digitalisation and innovation,
- the risk of increased competition in the markets in which the Group has a presence,
- the risk of changes in legal and regulatory practices and the resulting impact on the Group's operations,
- the risk that IT support is not adequate in terms of content, funding or priorities to enable the Group to achieve its strategic objectives.

While the macroeconomic situation was slightly more favourable in 2023, the geopolitical situation remained uncertain (escalating tensions between Russia and NATO, the start of a military conflict between Israel and Hamas), with a high risk of humanitarian crisis and disruptions to trade and the flow of raw materials. In 2023, we saw increased government borrowing and credit rating downgrades, as well as an increase in cyberattacks. The situation is expected to remain uncertain.

In 2023, the project for the transition to the new accounting standards IFRS 17 and IFRS 9 was completed at the Group level, and an information security strategy was adopted to establish a high level of cyber resilience for the Sava Insurance Group.

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 at the individual company and Group level in terms of likelihood and potential financial impact. In addition, an attempt is made to assess key strategic risks using qualitative analysis of various scenarios. Based on both analyses combined, the Group obtains an overview of the extent and change in the exposure to this type of risk.

Risk concentration

In 2023, the Group was not materially exposed to concentrations of strategic risk; however, certain risks increased (discussed under strategic risk exposures).

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. In the Group, 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 required.

At Group level, the necessary measures were taken in 2023 to limit the impact of the uncertain geopolitical and macroeconomic environment. The situation of the Group will continue to be monitored and appropriate action will be taken. Regulatory risks will be mitigated as far as possible, and competition in the markets in which the Group is present and other factors affecting the performance of each company will be monitored. Measures were also taken at Group level to manage strategic risks in the area of IT support (improvement of IT project management processes and methods, operation of the Group's IT steering committee, information security committee and IT architecture committee).

The Group's management recognises that reputation is important to the achievement of business objectives and the long-term realisation of 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. In the Group, risks related to reputation are also managed through efforts to improve services, timely and accurate reporting to regulators and well-planned public communication. In order to better monitor and manage these risks, the monitoring of strategic indicators, which also indirectly measure reputation risk, began in 2023 at all Group companies. 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. The Group is preparing for compliance with the new DORA regulation for all Group companies. Implementation risks will continue to be significant.

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.6.2 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 the Group obtains information externally and seeks to define what could materially affect its business operations in the future.

A survey of all Group companies was conducted in 2023 to assess emerging risks, and a weighted risk assessment was prepared at Group level based on the responses of the Group companies. The highest risks assessed up to 2027 are physical climate risks (extreme weather events), macroeconomic risks and the risk of a major cyber-attack. Beyond 2027, in addition to climate change risk, the risk of a major cyberattack and risks related to artificial intelligence (A.I.) were identified as major risks.

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.

C.6.3 Sustainability risk and climate change risk

Within the Group, an increasing amount of attention is being paid 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 follows the guidelines of the Global Reporting Initiative (GRI) standards, which take a comprehensive approach to sustainable development, looking at the activities of Group companies from all angles and considering all impacts – economic, environmental and social.

Group companies are exposed to transition risk as they move towards more sustainable business operations. The Group is adapting its business, 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 also 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[33], which provide for the integration of sustainability risk into the risk management system.

Climate change risks

At Group level, both physical and transition risks are monitored as part of 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. In terms of natural catastrophes, the year 2023 was more turbulent for the Sava Insurance Group than the previous year, as Slovenia was hit by the most extensive floods in its history. During 2023, Sava Re recorded five loss events for which the Company's share of the claims exceeded EUR 1 million. In terms of natural catastrophes, Zavarovalnica Sava was also hit by 5 loss events exceeding EUR 1 million, two more than in 2022. Sava Neživotno Osiguranje in Serbia recorded two such loss events. Other subsidiaries did not record major differences in loss events due to natural catastrophes in 2023.

[33] Insurance Distribution Directive.

The Group also has significant exposure to the risks associated with the transition to a zero-carbon society, mainly due to the high value of the Group companies' investment portfolios. The transition can have a negative impact on the value of investments, and the Group manages the risks on the basis of the Sustainable Investment Policy of the Sava Insurance Group and by monitoring market developments.

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

- the risk of an increase in the frequency and/or severity of extreme weather events and natural catastrophes due to climate change,
- the risk of reduced availability and less affordable reinsurance/retrocession due to the increased frequency, correlation and strength of natural catastrophes,
- the risk of loss of income/premiums and poor portfolio diversification due to (re)insurance underwriting restrictions,
- the risk of inappropriate underwriting strategies and/or rules that do not take climate change impacts sufficiently into account.

The Group included in the ORSA the materiality of climate change risk exposures for the Group's investment portfolio and the insurance portfolio of Zavarovalnica Sava. Three climate change scenarios were also included to quantify the impact of transition risks on the Group's investment portfolio and the impact of physical risks on the Group's insurance portfolio in selected representative concentration pathways (RCP) scenarios and time horizons.

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 was assessed for exposure to flood risk at the cut-off date. A total of 86 APSFR[34] areas have been mapped with data on the coverages provided under property and motor policies. The analysis showed that the Group is significantly exposed to flood damage within Slovenia if the flood risk were to materialise. The most vulnerable areas are the Ljubljanica and Gradaščica river basins, the Savinja river basin and the Maribor-Ptuj-Drava river basin.

In its ORSA, the Group analysed the impact of physical risks on the insurance portfolio using two climate CAT scenarios, a short-term CAT scenario and a long-term RCP 8.5 climate scenario[35]. In the short-term CAT scenario, the Group analysed the impact of an increase in the frequency of natural catastrophes and assumed that Slovenia would suffer three catastrophe events in one year and that some western and northern European countries would be hit by a storm in the same year. In the long-term RCP 8.5 climate scenario, the Group analysed the impact of a long-term increase in the frequency and severity of natural catastrophes and assumed that Slovenia would experience five catastrophic events of increased severity within one year. Both scenarios were simulated for the Group using planning data for 2024, where the impact on the Group's eligible own funds and SCR at 31 December 2024 was calculated. Both scenarios would have a very large impact on the Group's eligible own funds (the impact considerably exceeding the Group's materiality threshold). If any of these scenarios were to materialise, the value of eligible own funds would decrease due to the payment of claims or the creation of SII

[34] Areas of potential significant flood risk (APSFR) according to the RS 2019 flood risk assessment.

[35] RCP 8.5 is a high emissions scenario, which corresponds to a future with no policy changes to reduce emissions and is characterised by increasing greenhouse gas emissions, leading to high concentrations of greenhouse gases in the atmosphere. It is broadly in line with the current policy scenario or the business-as-usual scenario.

provisions for non-life insurance. In addition, the Group's SCR would increase slightly. The Group's solvency ratio would decrease in both scenarios but would remain within the optimal capitalisation range as defined in the risk strategy[36]. Going forward, the Group will seek to diversify its (re)insurance portfolio, ensure adequate retrocession cover, limit its geographical exposure and promote preventive measures (particularly in the domestic portfolio). In addition, activities are underway to better understand the impact of climate change and to improve the technological support for the claims process.

As part of its ORSA, the Group analysed the impact of transition risk on the investment portfolio over the medium term using the RCP 4.5[37] climate scenario, which assumes that the increase in coupon prices would lead to a decrease in the value of investments (increase in the required yield on government bonds, widening of credit spreads on bonds issued by companies operating in sensitive sectors, change in the value of equity investments and investment property). The scenario was simulated using the Group's planning data for 2024, and the impact on the Group's eligible own funds and SCR as at 31 December 2024 was calculated. If this scenario were to materialise, the fall in the Group's eligible own funds would significantly exceed the Group's materiality threshold, with the Group's SCR also decreasing. The Group's solvency ratio would remain within the optimal capitalisation range according to the risk strategy even if this scenario were to materialise. In the future, the Group plans to implement various measures to mitigate the impact of such a scenario (compliance with sustainability policies, scenario analysis in the ORSA, monitoring of risk indicators, analysis of external partners, etc.).

Other sustainability risks

In addition to climate risks, other sustainability risks are monitored at Group level. These are also regularly assessed in the risk register. The Group's key sustainability risks in 2023, 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 on and reporting in line with sustainability-related legislation.

At Group level, some of the above risks are estimated to increase over the strategy period, mainly due to the increased volume and complexity of new legislation. In addition to the above risks, the following risks are monitored at the Group level: 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. In 2023, three new sustainability risks were included in the regular assessment at Group level: the risk of not achieving strategic goals, the risk of not identifying new sustainability opportunities and the risk of not identifying

[36] The Group's optimal solvency ratio for 2023–2027 is between 170% and 210%.

[37] RCP 4.5 is an intermediate emissions scenario consistent with a future of relatively ambitious emissions reductions and a slight increase in greenhouse gas emissions before they start to decline around 2040. In spite of these relatively ambitious measures to reduce emissions, RCP 4.5 still falls short of the 2°C/1.5°C target agreed in the Paris Agreement. It is broadly consistent with the greenhouse gas emissions profile that would result from implementing the 2015 Nationally Determined Contributions (by 2030), followed by a rapid peak in emissions and then a 50% reduction in global emissions by 2080.

environmental changes (with stakeholders) in time to adapt to new legislation and new policies. Individual companies also monitor other risks relevant to their particular business.

In the coming years, the Group will continue its efforts to contribute to sustainable development, to monitor and analyse risks related to sustainability and social responsibility, and to focus on the effective implementation of sustainability regulations. For more information on sustainable development, see the Group's annual report, section 13 *Sustainability report*.

C.6.4 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 2023 totalled EUR 180.6 million (31 December 2022: EUR 172.9 million). The capital requirement for Sava Pokojninska was calculated in accordance with sectoral regulations and amounted to EUR 7.0 million as at 31 December 2023 (31 December 2022: 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 not achieving the guaranteed return in 2023 slightly decreased compared to the previous year due to the favourable capital market conditions.

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.

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 statement of financial position as prepared for the Group's reporting in accordance with the International Financial Reporting Standards as adopted by the EU and is referred in this document as the IFRS balance sheet. In 2023, new accounting standards for the valuation of investments and (re)insurance contracts (IFRS 9 and IFRS 17) came into force. The Group therefore used the new IFRS valuation as the starting point for preparing the SII balance sheet for 2023. In this document, we use the term gross IFRS provisions for the IFRS 17 term insurance contract assets and liabilities and the term reinsurers' share of IFRS provisions for reinsurance contract assets and liabilities, respectively.

The Group uses the full consolidation method for all its companies in the preparation of its IFRS consolidated financial statements, except for the associate DCB, which is 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, Vita S Holding and the associate DCB 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 amounts for which they could be transferred or settled between knowledgeable and willing parties in an arm's length transaction. The value of liabilities is not adjusted 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 for the purpose of 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 16.4 *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:

- an 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 table shows the Group's balance sheet as at 31 December 2023. 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, taking into account the revaluations and reclassifications of asset and liability items (SII balance sheet).

IFRS and Solvency II balance sheets as at 31 December 2023[38]

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)	0	0	0	0	0	0
3	Intangible assets (D.1.3)	32,716	-12,090	20,626	-20,626	0	0
4	Deferred tax assets (D.1.4)	6,584	752	7,336	8,669	0	16,005
5	Property and equipment held for own use (D.1.5)	67,852	-462	67,390	4,207	0	71,597
6	Property and equipment other than for own use (D.1.6)	25,299	0	25,299	4,073	0	29,371
7	Investments in subsidiaries and associates (D.1.6)	23,835	56,144	79,979	-34,469	0	45,510
8	Shares (D.1.6)	21,754	0	21,754	0	0	21,754
9	Bonds (D.1.6)	1,276,811	-48,015	1,228,796	-1,072	52,990	1,280,713
10	Investment funds (D.1.6)	89,793	-3,428	86,364	0	0	86,364
11	Deposits other than cash equivalents (D.1.6)	25,616	-1,262	24,355	463	2,545	27,362
12	Investments for the benefit of life insurance policyholders who bear the investment risk (D.1.6)	597,804	0	597,804	-10	-52,990	544,804
13	Loans and mortgages (D.1.8)	755	1,031	1,785	221	0	2,006
14	Reinsurers' share of technical provisions (D.1.9)	105,840	0	105,840	-12,985	-27,054	65,801
15	Deposits to cedants (D.1.10)	0	0	0	0	13,212	13,212
16	Insurance and intermediaries receivables (D.1.11)	3,382	-58	3,324	-41	38,753	42,036
17	Reinsurance and co-insurance receivables (D.1.12)	0	0	0	0	30,213	30,213
18	Other receivables (D.1.13)	11,334	-1,143	10,191	0	0	10,191
19	Own shares (D.1.14)	24,939	0	24,939	23,276	0	48,215
20	Cash and cash equivalents (D.1.15)	50,560	-3,887	46,673	0	-2,545	44,129
21	Other assets (D.1.16)	184,930	-181,391	3,538	-2,810	121	849
Total assets		**2,582,236**	**-210,477**	**2,371,759**	**-46,870**	**55,245**	**2,380,134**
Liabilities							
22	Gross technical provisions – non-life (D.2.1)	652,658	0	652,658	-45,515	33,359	640,503
23	Gross technical provisions – life (excl. policies where policyholders bear the investment risk) (D.2.1)	401,844	-24,598	377,247	25,006	-668	401,584
24	Gross technical provisions – policies where policyholders bear the investment risk (D.2.1)	586,913	0	586,913	-90,805	0	496,107
25	Provisions other than technical provisions (D.3.1)	8,074	-463	7,612	0	0	7,612
26	Deferred tax liabilities (D.1.4)	3,437	-1,785	1,652	26,579	0	28,231
27	Financial liabilities other than debts owed to credit institutions (D.3.6)	190,020	-180,490	9,529	0	0	9,529
28	Insurance and intermediaries payables (D.3.2)	9,769	0	9,769	-536	19,206	28,439
29	Liabilities from reinsurance and co-insurance business (D.3.3)	0	0	0	0	3,280	3,280
30	Other trade payables (D.3.4)	31,046	-746	30,300	1,859	68	32,227
31	Subordinated liabilities (D.3.5)	74,988	0	74,988	-16,285	0	58,703
32	Other liabilities (D.3.7)	12,885	-1,227	11,658	0	0	11,658
Total liabilities		**1,971,633**	**-209,308**	**1,762,325**	**-99,697**	**55,245**	**1,717,873**
Excess of assets over liabilities		**610,603**	**-1,168**	**609,434**	**52,827**	**0**	**662,260**

As at 31 December 2023, the Group had off-balance sheet items amounting to EUR 38 million (31 December 2022: EUR 38 million), which are contingent assets equal to the amount of its cancelled subordinated instruments, in respect of which it continues to take action to protect its interests. In addition, off-balance sheet items as at 31 December 2023 include contingent liabilities relating to commitments to make payments to alternative funds in the amount of EUR 4.6 million (31 December 2022: EUR 7.7 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

The deferral of policy acquisition costs is included in the measurement of insurance contract liabilities in accordance with IFRS 17; therefore, the Group does not recognise deferred policy acquisition costs separately in the IFRS balance sheet.

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 is presented separately (gross principle).

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

[38] The notes in brackets are linked to sections of the report where the valuation methods used are described in detail.

- 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 revaluations in the SII balance sheet are accounted for at the tax rates applicable in Slovenia, the domicile of the parent company that prepares the consolidated financial statements. For 2023, a tax rate of 22% was used (2022: 19%).

In accordance with Solvency II principles, the Group recognised an additional net deferred tax liability (difference between assets and liabilities) of EUR 12.2 million resulting from revaluations (2022: EUR 36.8 million). The following table provides a detailed overview by item.

Deferred tax assets and liabilities

EUR thousand	31 December 2023		
	IFRS value	Revaluation	SII value
Deferred tax assets	**7,336**	**8,669**	**16,005**
Financial investments	15,494	239	15,733
Gross TPs	-9,545	0	-9,545
Reinsurers' share of TP	212	2,857	3,069
Other	1,175	5,574	6,749
Deferred tax liabilities	**1,652**	**26,579**	**28,231**
Financial investments	-139	1,047	907
Gross TPs	661	24,489	25,150
Reinsurers' share of TP	-30	0	-30
Other	1,161	1,043	2,204

The largest impact of deferred tax assets is on financial investments, which is already reflected in the IFRS balance sheet and is due to the negative revaluation of investments. In the SII balance sheet, an additional large impact on deferred tax assets arose from the revaluation of intangible assets.

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.

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 the methodology used for property, plant and equipment held for own use, which is described in detail in section D.1.5 *Property, plant and equipment held for own use*. The 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 Group’s non-EU based pension companies (Sava Penzisko Društvo) and to other subsidiaries that are not insurance companies or ancillary service companies (Vita S Holding). These companies are included in the item “investments in subsidiaries and associates” in the adjusted IFRS balance sheet, valued at their carrying amount. However, in the SII balance sheet, they 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 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 company.

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

Shares

Shares – listed

Listed shares are valued at market value in both the IFRS balance sheet and the SII balance sheet based on the last published market price.

Shares – unlisted

Unlisted shares are valued at market value in both the IFRS and SII balance sheets based. The market price is calculated using a model. Where investments are not valued using a model because they are not material, it is assumed that cost is a reasonable approximation of market value.

Bonds

All bonds are valued at market value in the SII balance sheet. Bonds valued at amortised cost in the IFRS balance sheet are revalued to market value in the SII balance sheet, taking into account their market value as at the reporting date.

The Group reclassifies to this item the bonds from registers of assets supporting obligations to policyholders who bear the investment risk where the Group provides a guarantee (guaranteed NAV). If these bonds are valued at amortised cost, a mark-to-market revaluation is carried out for the purpose of preparing the SII balance sheet, taking into account the market price at the reporting date.

Investment funds

The Group values its investments in mutual funds and ETFs at the last published price in both the IFRS and SII balance sheets.

The Group also values investments in alternative funds (real estate and infrastructure funds, private debt funds, private equity funds, etc.) at market value, in both the IFRS and SII balance sheets, based on values received from the fund managers.

The Group reclassifies to this item investment funds from registers of assets supporting obligations to policyholders who bear the investment risk where the Group provides a guarantee (guaranteed NAV).

Deposits other than cash equivalents

The Group classifies deposits other than cash equivalents as investments at amortised cost. For the purpose of the SII balance sheet, IFRS amortised cost is considered to be a reasonable approximation of market value.

In contrast to the IFRS balance sheet, the value of deposits in the SII balance sheet is reported net of the impact of expected credit losses (ECL), which is reported as a revaluation.

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.

D.1.7 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 where the Group guarantees a defined level of return (guaranteed NAV), are reclassified in the SII balance sheet as other financial investments that support life insurance obligations.

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

Investment for the benefit of policyholders who bear the investment risk that are reclassified to other financial investments in the SII balance sheet are revalued to market value in the case of bonds valued at amortised cost.

D.1.8 Loans and mortgages

The Group classifies loans as valued at amortised cost. For the purpose of the SII balance sheet, amortised cost is considered to be a reasonable approximation of market value.

In contrast to the IFRS balance sheet, the value of loans in the SII balance sheet is reported net of the impact of expected credit losses (ECL), which is reported as a revaluation.

D.1.9 Reinsurers’ share of technical provisions

The Group recognises the net amount of reinsurance contract assets and liabilities in the IFRS balance sheet within the amount of the reinsurers’ share of TPs. The Company accounts for reinsurance contract liabilities in accordance with IFRS 17.

Hereinafter, we use the term “SII provisions” for TP calculated in accordance with Solvency II regulations and “IFRS provisions” for (re)insurance contract liabilities and assets calculated in accordance with the International Financial Reporting Standards (IFRS 17). The main principles used to calculate the IFRS provisions are described in the Group’s annual report, notes to the financial statements, section 16.4.21 *Insurance contracts*.

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

In the SII balance sheet, the Group reclassifies past-due commission and claims receivables for ceded re/co-insurance from the item reinsurers' share of TP to the item reinsurance and co-insurance receivables and past-due premium payables for ceded re/co-insurance to the item reinsurance and co-insurance payables. Special features of individual companies are taken into account.

In calculating the reinsurers' share of TPs, the Group companies base their calculations on the cash flows that arise in the calculation of gross TPs, using assumptions that are broadly consistent with the assumptions used in the calculation of gross TPs.

The time value of money is taken into account in the same way as for gross best estimate provisions. Adjustments for expected counterparty defaults are made based on the division of the amount of technical provisions ceded to reinsurers by counterparty credit ratings and the likelihood of non-payment related to these credit ratings.

D.1.10 Deposits to cedants

Under some reinsurance contracts, a portion of the reinsurance premium is retained by the cedant as a guarantee of payment of future claims and is generally released after one year. The cash flows associated with these deposits are included in the valuation of insurance contract liabilities in accordance with IFRS 17, and therefore the Group does not separately recognise deposits with cedants in the IFRS balance sheet.

In the SII balance sheet, the Group reclassifies the deposits with cedants item from gross IFRS provisions to this item.

D.1.11 Insurance and intermediaries receivables

The Group classifies receivables arising out of insurance business and those due from intermediaries into the item insurance and intermediaries receivables. In accordance with the IFRSs, the Group does not separately present in the IFRS balance sheet receivables due from policyholders under insurance contracts and receivables arising out of accepted re/co-insurance, as the cash flows associated with these receivables are included in the valuation of insurance contract liabilities and assets under IFRS 17.

In the SII balance sheet, the Group reclassifies from the gross IFRS provisions to the item insurance and intermediaries receivables: the past-due insurance receivables for policies already recognised under IFRS 17, the not-past-due insurance receivables for policies already recognised under IFRS 17 that relate to inactive policies and the past-due receivables for premiums arising out of re/co-insurance. Special features of individual companies are taken into account.

In the SII balance sheet, this item additionally includes past-due insurance receivables for policies not recognised under IFRS 17 and not-past-due insurance receivables for policies not recognised under IFRS 17 relating to inactive policies. These two items are not included in the IFRS balance sheet and are therefore shown as revaluations in the SII balance sheet.

Insurance and intermediaries receivables are not additionally revalued to fair value as the short-term nature of the items means that the carrying amount is a satisfactory approximation of fair value.

D.1.12 Reinsurance and co-insurance receivables

The cash flows associated with receivables arising out of ceded re/co-insurance business are included in the valuation of reinsurance contract liabilities in accordance with IFRS 17, and therefore the Group does not separately present receivables arising out of re/co-insurance business.

In the SII balance sheet, the Group reclassifies from the IFRS reinsurers' share of technical provisions to the reinsurance and co-insurance receivables item the past-due receivables for commissions on ceded re/co-insurance and receivables for claims arising out of ceded reinsurance and co-insurance. Special features of individual companies are taken into account.

D.1.13 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.1.14 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.1.15 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.1.16 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 recognises the net value of insurance contract assets and liabilities in the IFRS balance sheet within TPs. The Company accounts for insurance contract assets and liabilities in accordance with IFRS 17.

The valuation of gross TPs, 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 business held) is described in the valuation of assets, in section D.1.9 *Reinsurers' share of technical provisions*. The methodology follows the guidelines set out in the Group's underwriting and reserving risk policy and complies with applicable actuarial methods.

In the SII balance sheet, the Group reclassifies past-due premium receivables for direct insurance, accepted re/co-insurance and the related commission and expense payables from of the TP item. It also reclassifies from the same item not-past-due premium receivables for expired direct insurance policies and the related payables for expenses and tax on insurance business. The Group also reclassifies liabilities for claims on accepted non-Group reinsurance and deposits with cedants from the TP item. Special features of individual companies are taken into account.

In calculating the SII 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 where the claims and related cash flows are yet to be paid, regardless of 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 company 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 further development of claim payments for incurred claims based on historical trends of settled and reported claims;

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

Due to the nature and seasonality of claims, the Group companies in some cases establish a best estimate provision for annuities, a best estimate provision for major natural catastrophe claims and a best estimate provision for other contingencies separately from the remaining best estimate claims provisions, using appropriate actuarial methods.

The result is then increased by expected future excess inflation and loss adjustment expenses and reduced by expected subrogation recoveries, plus liabilities for incurred but not settled claims, the best estimate of the realised subrogation recoveries, the earned portion of the provision for bonus payments and the earned portion of the profit commission for FOS business.

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

- the expected ultimate loss ratio is the expected proportion of all resolved claims incurred in a given period as a percentage of the premiums earned in that period;
- the expected future excess inflation, which is taken into account as an explicit increase in the claims-related cash flows (depending on their expected maturity), is determined based on the current macroeconomic situation and outlook;
- loss development factors: for long-tail classes, the amount of the IBNR provision is highly dependent on the choice of loss development factors and the form of the tail, which represents the factors for the years for which the companies have no actual loss experience. Development factors are selected based on historical development factors and adjusted for expected future changes, while the tail development factor is determined using a logarithmic regression, where a curve is selected that best fits the chosen development factors for the fully developed accident years. These factors may be corrected in line with actuarial judgement;
- the average IBNR claim using the average IBNR claim method is determined on the basis of historical IBNR claims figures depending on the development year and further adjusted for trends;
- the expected ratio of loss adjustment expenses to future claim payments is determined based on historical data and, if necessary, adjusted based on future expectations and loss adjustment expense trends;
- the expected 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;
- impairment percentages for subrogation receivables are determined on the basis of a historical analysis of the recoverability of subrogation receivables.

For the last accident year (2023), the overall average expected ultimate loss ratio is substantially higher than that calculated at 31 December 2022 for the 2022 accident year, mainly due to the large magnitude of summer storms and floods in Slovenia, Serbia and Croatia.

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 boundary of the insurance contracts (contract boundary). 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.

In calculating the premium provision, the Group companies take into account the following expected cash flows, appropriately broken down by year and discounted using the risk-free interest rate term structure:

- all future 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 indent one,
- all future expenses associated with the servicing of in-force contracts,
- all future premium inflows based on not-past-due insurance receivables,
- commissions and fire brigade charges arising from the premiums referred to in the preceding indent,
- the expected amount of future premium adjustments,
- the future premiums written within the contract boundary,
- any expenses associated with the premiums referred to in the preceding two indents,
- unearned portion of the provision for bonuses,
- unearned portion of the future expected profit commission on FOS business,
- expected cash flows (inflows and outflows) from tax on insurance premiums.

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

- the expected loss ratio is the expected final share of all claims incurred in a given period as a percentage of the premiums earned in that period; in determining the expected loss ratios, ultimate loss ratios are used 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 ratio of loss adjustment expenses to future claims payments is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of loss adjustment expenses;
- the expected share of subrogation recoveries 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 of the share of subrogation recoveries as a percentage of claims;
- the expected share of future premium adjustments (due to lapses, discount adjustments, changes in cover, etc.) or the amount of the subsequently written premiums is determined on the basis of the previous year's data and, if necessary, adjusted to future expectations;
- the expected share of commissions in future premium cash flows is determined on the basis of commission rates;
- the proportion of other policy acquisition expenses in future premium cash flows is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of these expenses;
- the proportion of administrative expenses in future premium cash flows is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of these expenses;
- the expected proportion of the fire service and health levies is defined by law according to each internal class of insurance;
- the expected claims development by year is determined based on historical patterns of claim payments;
- the expected development of recourse payments by year is determined based on historical data of recourse payments;

The overall expected ultimate loss ratio used in the calculation of the best estimate premium provision as at 31 December 2023 is slightly higher than that used in the calculation of the best estimate premium provision as at 31 December 2022, primarily as a result of the higher expected magnitude of catastrophes and the uncertainty regarding claims inflation.

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

- the expected ratio of loss adjustment expenses to future claim payments is determined based on historical data and, if necessary, adjusted based on future expectations and loss adjustment expense trends;
- the expected future inflation is determined based on the current macroeconomic situation and outlook;
- the mortality rate is determined based on selected mortality tables.

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

- the expected number of such annuities is 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 an annuity is determined as the average of all expected annuity obligations already in payment, adjusted, where necessary, by actuarial judgement based on trends.

There were no major changes in the above assumptions last year.

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 loss adjustment expenses, administrative expenses and financial returns on invested assets covering the obligations arising from insurance contracts. The best estimate claims provisions for life insurance business are calculated separately.

SII regulations provide that where all of the following conditions are met:

- the company cannot compel the policyholder to pay the premium (the premium is uncollectible),
- the insurance contract does not contain a discernible financial guarantee,

- the insurance contract does not provide a discernible insurance cover,

future premiums are not considered when determining best estimate provisions. In 2023, the Group reviewed its portfolio of insurance contracts and concluded that certain homogeneous groups of unit-linked life insurance contracts meet the above conditions. As a result, the valuation in these cases was adjusted to exclude future premiums and their indirect impact on insurance liabilities (claims and expenses).

In addition, from 2023, technical provisions calculated as a whole are no longer established separately. The total value of SII provisions (net of the risk margin) is now recognised in the best estimate provisions item. This change does not affect the level of own funds or the way in which capital requirements are determined.

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),
- other income (investment management fees).

For individual contracts, the following needs to be considered:

- the annual premium, payment frequency, sums insured, age and sex of the insured person, and commencement and termination dates of the insurance,
- the product technical bases: technical interest rate, mortality and morbidity tables, policy charges, surrender value rules and the like,
- the assumptions: expected mortality and morbidity rates, lapse rates, future profitability, expected expenses, future inflation.

The present value of the cash flows to maturity is calculated using a risk-free interest rate curve. A separate estimate of the present value of embedded options and guarantees is made, 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) fall 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. The procedure for calculating these provisions is based on the ratio of the total amount of bonuses paid during the period to the annual premium equivalent at the end of the period. The present value of 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 level of IBNR claims is calculated as the average sum at risk for each homogeneous group of policies. The present value of cash flows is calculated using a risk-free interest rate curve.

In 2023, 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 curve; the downward shift led to higher best estimates.

Best estimate provisions for accepted reinsurance

Calculations are performed 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.

The best estimate provision consists of a best estimate premium provision and a best estimate claims provision. The basis for the calculations is the allocation of business by underwriting year, and calculations are made only for reinsurance treaties already underwritten.

The calculation of best estimate provisions includes the following steps:

- the calculation of the technical gross provision, which consists of the best estimate claims provision (already incurred and also future) and the associated payments (performance-related commissions payable to cedants and contractually agreed reinstatement premiums), before taking account of the time value of money;
- the breakdown of the "technical" gross provision into the premium "technical" provision (for future claims) and the claims "technical" provision (for incurred, but not yet settled claims);
- the inclusion of future internal costs arising from in-force contracts;
- the inclusion of future cash flows from premiums and commissions, including premiums and commissions booked but not yet due and paid;
- the preparation of cash flows, taking into account future inflation, 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. If these triangles are too dispersed, the ultimate losses are assessed based on expected ultimate loss ratios (naive method). For payment development or cash flow, the pattern is applied that is obtained from the triangle development.

The calculation of the best estimate provisions for the portfolio of accepted Group reinsurance business takes into account the cash flows from the calculation of the reinsurers' share of the best estimate provisions of the Group's subsidiaries relating to business written with the parent company and that portion of the technical gross provision for the purpose of the parent company's solo calculation is not recalculated.

Future loss adjustment and administration expenses associated with the contracts written are determined through the expected shares of these expenses in future premiums or claims.

The basis for the currency breakdown of the resulting cash flows is the currency structure of the sum of the claims provisions for reported claims and unearned premiums, less deferred commission. Future cash flows broken down using this key are then 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 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. For non-Group accepted reinsurance business, the share of expected ultimate claims and commissions as a percentage of expected ultimate premiums for the most recent underwriting year is slightly higher than in the previous year due to a higher volume of catastrophes, but this did not have a significant impact on the Group's results in this operating segment due to effective reinsurance arrangements.

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,
- 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 simplified calculation method is used by Group companies in projecting the solvency capital requirement, specifically level 2 of the hierarchy referred to in Article 77 of the “Decision on detailed instructions for the evaluation of technical provisions” is taken into account: The total solvency capital requirement for each future year is calculated 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 77 of the relevant decision 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 2023 and 31 December 2022 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.

In the following tables, for 2023, the reinsurers’ share of the best estimate provisions of the Group’s non-proportional reinsurance business is reclassified, for the sake of comparison with the gross share, to the basic (proportional) lines of business, where the gross share of the best estimate provisions is also located to which the reinsurers' share relates.

Best estimate claims provision (BE CP)

EUR thousand	Gross BE CP		Reinsurers' share of BE CP	
Line of business	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Medical expense insurance and proportional reinsurance	2,494	1,986	389	488
Income protection insurance and proportional reinsurance	26,220	23,359	467	466
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	137,439	117,518	6,839	620
Other motor insurance and proportional reinsurance	44,282	29,293	11,260	1,198
Marine, aviation and transport insurance and proportional reinsurance	10,978	13,350	902	1,660
Fire and other damage to property insurance and proportional reinsurance	112,806	106,013	28,601	12,435
General liability insurance and proportional reinsurance	54,215	47,811	2,432	1,482
Credit and suretyship insurance and proportional reinsurance	419	1,253	7	2
Legal expenses insurance and proportional reinsurance	36	35	88	14
Assistance insurance and proportional reinsurance	3,238	2,543	21	6
Miscellaneous financial loss	5,775	5,065	3,056	727
Non-proportional health reinsurance	571	558	1	1
Non-proportional casualty reinsurance	12,208	10,688	941	6,047
Non-proportional marine, aviation and transport reinsurance	9,463	11,012	24	25
Non-proportional property reinsurance	82,767	80,891	14,788	13,571
Total	**502,913**	**451,374**	**69,816**	**38,743**

In 2023, best estimate claims provisions increased significantly, partly due to portfolio growth and claims inflation, partly due to the inclusion of a provision for so-called ENID events, and partly due to summer storms and flooding in Slovenia. The latter is also the main reason for the large increase in the reinsurers' share of claims provisions, as a large portion of these claims is ceded to retrocessionaires.

Best estimate premium provision (BE PP)

EUR thousand	Gross BE PP		Reinsurance BE PP	
Line of business	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Medical expense insurance and proportional reinsurance	1,529	1,250	8	35
Income protection insurance and proportional reinsurance	-19,301	-10,802	-12	13
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	44,986	38,842	-1,445	-500
Other motor insurance and proportional reinsurance	54,023	41,310	-57	907
Marine, aviation and transport insurance and proportional reinsurance	-766	535	-192	36
Fire and other damage to property insurance and proportional reinsurance	11,759	9,019	-789	1,110
General liability insurance and proportional reinsurance	275	-1,227	-14	64
Credit and suretyship insurance and proportional reinsurance	785	730	-47	-37
Legal expenses insurance and proportional reinsurance	-22	-180	15	-46
Assistance insurance and proportional reinsurance	9,644	6,105	0	-8
Miscellaneous financial loss	155	100	-54	-19
Non-proportional health reinsurance	-152	-50	0	0
Non-proportional casualty reinsurance	-360	-414	0	-78
Non-proportional marine, aviation and transport reinsurance	-162	-278	-669	-421
Non-proportional property reinsurance	-19,348	-16,026	-5,644	-2,855
Total	**83,043**	**68,914**	**-8,900**	**-1,797**

The best estimate premium provision also increased in 2023 compared to the previous year. The major part of the increase was in the motor lines of business, where the provision base increased due to portfolio growth and rising average premiums. A higher increase in the premium provision can also be seen in the property segment, partly also due to portfolio growth and rising average premiums, but also partly due to deteriorating expected loss ratios as a result of more frequent catastrophes.

Best estimate provisions for life lines of business

EUR thousand	Gross BE		TP calculated as a whole	
Line of business	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Health insurance	-10,292	-10,489	0	0
Insurance with profit participation	270,961	274,674	0	0
Index-linked and unit-linked insurance	486,870	323,166	0	68,758
Other life insurance	96,441	99,915	0	0
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	30,410	29,377	0	0
Total	**874,390**	**716,644**	**0**	**68,758**

The increase in the best estimate provisions for life insurance is the result of portfolio movements, but the change is affected by updated valuation assumptions and a downward shift in the risk-free interest rate curve. Technical provisions calculated as a whole are no longer shown separately and are included in the best estimate liabilities. A methodological change has been made for unit-linked life insurance where the insurance risk is low at the level of homogeneous risk groups and where it is considered that there is not sufficient insurance risk to justify taking future premiums into account. The new valuation excludes future premiums and their indirect impact on insurance liabilities (claims and expenses) and treats policies as if they had been paid up. The estimated impact of the change in methodology is a decrease in best estimate provisions of EUR 3.0 million.

The decrease in provisions in the insurance with profit participation and other lines of business was mainly driven by movements in the portfolio due to maturities and new profitable business, whereas changes in assumptions resulted in a slight increase in provisions. The increase in the best estimate provisions for the index-linked and unit-linked insurance line of business was mainly driven by portfolio development, asset value movements and methodological changes, partially offset by changes in the risk-free interest rate curve and assumptions.

Risk margin

EUR thousand	Risk margin	
Line of business	**31 December 2023**	**31 December 2022**
Medical expense insurance and proportional reinsurance	454	321
Income protection insurance and proportional reinsurance	8,720	9,716
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	8,186	6,721
Other motor insurance and proportional reinsurance	8,116	5,985
Marine, aviation and transport insurance and proportional reinsurance	1,251	1,385
Fire and other damage to property insurance and proportional reinsurance	10,302	8,656
General liability insurance and proportional reinsurance	3,569	3,071
Credit and suretyship insurance and proportional reinsurance	464	470
Legal expenses insurance and proportional reinsurance	7	5
Assistance insurance and proportional reinsurance	971	754
Miscellaneous financial loss	472	332
Non-proportional health reinsurance	60	68
Non-proportional casualty reinsurance	792	933
Non-proportional marine, aviation and transport reinsurance	1,372	1,611
Non-proportional property reinsurance	9,812	9,607
Total non-life	**54,547**	**49,635**
Health insurance	2,029	2,467
Insurance with profit participation	4,903	7,267
Index-linked and unit-linked insurance	9,237	10,475
Other life insurance	6,976	8,403
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	157	116
Life reinsurance	0	70
Total life	**23,301**	**28,798**
Total	**77,848**	**78,433**

The risk margin for non-life business increased compared to 31 December 2022, mainly due to an increase in the best estimate provisions and an increase in the capital requirement. In contrast, the risk margin for life insurance decreased due to the change in the treatment of future expected premiums for unit-linked life insurance mentioned above and the resulting reduction in the capital requirements for this segment of insurance.

D.2.2 Comparison of IFRS and SII technical provisions

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

- A different interest rate curve is used for discounting, as the risk-free interest rate curve is used for SII provisions, and a liquidity premium is added to this curve for IFRS provisions.
- The adjustment for non-financial risk is specific to the IFRS standard, the SII equivalent is the risk margin.
- IFRS includes all receivables and liabilities in the calculation, whereas SII only includes not-past-due receivables and liabilities, and in the case of the reinsurance segment SII does not include either claims payable or receivable or deposits to cedants.
- In SII calculations, all future profits on in-force contracts are recognised in eligible own funds, whereas in IFRS they are deferred through provisions (the contractual service margin where the general measurement model is used or as part of unearned premiums where the premium allocation approach is used).
- IFRS takes into account all attributable expenses and policy acquisition costs, whereas SII takes into account all costs relating to the existing portfolio.
- The recognition date (the date from which the provision is calculated for a particular policy) is different under IFRS and SII – under SII, all policies written up to the valuation date are included in the calculation, whereas under IFRS, the policy is included in the calculation at the earliest of the following: the beginning of the coverage period, the date when the first premium is due and the date of policy inception, if it is a non-profitable contract.
- The contract boundary of supplementary life insurance (rider) in the SII calculation is different from that considered in the IFRS valuation, as IFRS follows the contract boundary of the underlying policy, whereas under SII the contract boundary of the supplementary insurance is determined independently in accordance with legal requirements.
- The contract boundary of unit-linked life business is also shorter in the SII calculation than in the IFRS valuation due to legal requirements.
- The remaining difference is largely due to the different level of segmentation for inwards reinsurance business. This is because IFRS provisions are valued at the individual reinsurance contract level, taking into account the expected loss ratio of the contract, while SII provisions are valued using a combination of triangular methods with BF adjustment and the naive method.

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 provisions to key parameters of the calculation. We conducted an analysis on the portfolios of all Group companies, separately for best estimate premium and claims provisions for direct business and for best estimate provisions for accepted reinsurance and best estimate provisions for life insurance. The following tables shows the scenarios tested and their impact on the level of provisions tested.

Sensitivity analysis of direct insurance premium provisions

Scenario	Stress impact (%)	
	31 December 2023	31 December 2022
Increase in expected loss ratios of 10%	13.7%	10.4%
Increase in expenses (other than commissions) of 10%	3.6%	2.9%
Decrease in share of subrogation recoveries of 10%	0.4%	0.3%

Sensitivity analysis of direct insurance claims provisions

Scenario	Stress impact (%)	
	31 December 2023	31 December 2022
Increase in ultimate loss ratios of most recent accident year of 10%	11.6%	10.8%
Increase in loss adjustment expenses of 10%	0.5%	0.5%
Decrease in share of subrogation recoveries of 10%	0.1%	0.1%

Sensitivity analysis of the provision for accepted reinsurance

Scenario	Stress impact (%)	
	31 December 2023	31 December 2022
Increase in expected loss ratios of most recent underwriting year of 10%	10.7%	8.9%
Decrease in not-past-due items (premiums less commissions) of 10%	1.6%	2.2%
Increase in expenses (other than commissions) of 50%	0.6%	0.4%

Sensitivity analysis of the provision for life insurance

Scenario	Stress impact (%)	
	31 December 2023	31 December 2022
Increase in expected mortality rates of 15%	1.0%	0.9%
10% increase in expenses (other than commissions) and 1% increase in inflation rate	1.3%	1.6%
Increase in lapse rate of 50%	2.3%	2.2%

It should be noted that the calculation based on the USPs for reserve 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

The Group classifies payables arising out of insurance and payables due to insurance intermediaries as insurance and intermediaries payables, but excludes, for the purposes of the SII balance sheet, fire service levies, guarantee fund payables and payables to the Insurance Supervisory Agency (AZN).

The cash flows associated with insurance payables arising from policies written and from accepted re/co-insurance are included in the valuation of IFRS 17 insurance contract liabilities, and therefore the Group does not present them separately in the IFRS balance sheet.

In the SII balance sheet, the Group reclassifies from gross SII provisions to insurance and intermediaries payables the past-due commissions on accepted re/co-insurance and the liabilities for claims arising from accepted non-Group reinsurance. Special features of individual companies are taken into account.

For market value valuation, the balance of the payables for payments already received on unrecognised policies (i.e. prepayments) is valued at 0, as the cash flow has already been realised.

Other insurance and intermediaries payables are not revalued as the short-term nature of the items ensures that the carrying amount is a satisfactory approximation of fair value.

D.3.3 Reinsurance and co-insurance payables

The cash flows associated with payables arising out of ceded re/co-insurance are included in the valuation of reinsurance contract liabilities in accordance with IFRS 17, and therefore the Group does not separately present payables arising out of re/co-insurance business.

In the SII balance sheet, the Group reclassifies past-due premium payables on ceded re/co-insurance business from the reinsurers' share of TPs to reinsurance and co-insurance payables. Special features of individual companies are taken into account.

Liabilities from reinsurance and co-insurance business are not revalued to market value as these items are short term in nature and their carrying amount is a satisfactory approximation of market value.

D.3.4 Other trade payables

Other trade payables comprise fire service levies, guarantee fund payables and payables to the Insurance Supervisory Agency, short-term payables to employees for accrued salaries and reimbursed expenses, tax payables, payables to suppliers for operating expenses and other payables.

In the SII balance sheet, a reclassification is made from gross technical provisions to the other trade payables item of the cost of past-due insurance receivables for policies already recognised under IFRS 17 valued using the general model (BBA), the cost of not-past-due insurance receivables for policies already recognised under IFRS 17 valued using the general model (BBA) that relate to inactive policies and liabilities for tax on insurance premiums for policies already recognised under IFRS 17 that relate to inactive policies. Special features of individual companies are taken into account.

In the SII balance sheet, this item additionally includes past-due insurance receivables for policies not recognised under IFRS 17 and those already recognised under IFRS 17 valued using the premium allocation approach (PAA), the cost of not-past-due insurance receivables for policies not recognised under IFRS 17 that relate to inactive policies and liabilities for tax on insurance premiums for policies not recognised under IFRS 17 that relate to inactive policies. The items are not included in the IFRS balance sheet and are therefore shown as revaluations in the SII balance sheet.

No additional market value revaluation of other items of other trade payables is performed as these items are short term in nature and their carrying amount is a satisfactory approximation of market value.

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

The item other financial liabilities other than debts owed to credit institutions includes lease liability measured in accordance with IFRS 16 and other financial liabilities.

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

Any other liabilities include accrued charges, liabilities for non-current assets held for sale and other accrued costs (expenses) and deferred revenue.

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

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 valuers.

Subsidiaries and associates not consolidated under Solvency II include the EU-based pension and asset management companies (Sava Pokojninska and Sava Infond), the non-EU based Group pension companies (Sava Penzisko Društvo), other subsidiaries that are not insurance companies or ancillary service companies (Vita S Holding) and associates (DCB). 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, other subsidiaries that are not insurance companies or ancillary service 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 lower limit of capital adequacy 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, the 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 perspective, opportunities are sought to maximise the ratio of the return generated by a segment tying up capital to the allocated capital (an effective ratio of return to risk).

E.1 Own funds

As at 31 December 2023, the Group reported an excess of assets over liabilities of EUR 662.3 million (31 December 2022: EUR 573.3 million).

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

- own shares in the amount of EUR 48.2 million (31 December 2022: EUR 38.6 million);
- foreseeable dividends in the amount of EUR 27.1 million (31 December 2022: EUR 24.8 million); their amount is determined based on the proposed resolution of the parent company's management and supervisory boards to the general meeting;
- EUR 318 thousand of non-available minority interests at the Group level (31 December 2022: EUR 206 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 13.0 million (31 December 2022: 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 58.7 million (31 December 2022: EUR 56.3 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 also reduced by the part of the value of all participations in financial and credit institutions (other than those that already exceed 10% and are therefore eliminated) that exceeds 10% of the Group's own funds items. As at 31 December 2023, the Group had no such eliminations from own funds, the same as at 31 December 2022.

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 2023, the Group had no adjustments for other items in accordance with ZZavar-1, the same as at 31 December 2022.

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 2023, the Group held no ancillary own funds, the same as at 31 December 2022.

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

Composition of the Group's own funds

EUR thousand	31 December 2023
Ordinary share capital (gross of own shares)	71,856
Non-available called but not paid in ordinary share capital at Group level	0
Share premium account related to ordinary share capital	42,702
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0
Subordinated mutual member accounts	0
Non-available subordinated mutual member accounts at Group level	0
Surplus funds	0
Non-available Group surplus funds	0
Preference shares	0
Non-available Group preference shares	0
Share premium account related to preference shares	0
Non-available share premium account related to Group preference shares	0
Reconciliation reserve (= 1 - 2 - 3 - 4 - 5 - 6)	471,776
(1) Excess of assets over liabilities	*662,260*
(2) Own shares (held directly and indirectly)	*48,215*
(3) Adjustment for restricted own-fund items in respect of matching adjustment portfolios and ring-fenced funds	*0*
(4) Foreseeable dividends, distributions and charges	*27,121*
(5) Other basic own fund items	*115,148*
(6) Other non-available own funds	*0*
Subordinated liabilities	58,703
Non-available subordinated liabilities at Group level	0
Amount equal to the value of net deferred tax assets	0
Amount equal to the value of net deferred tax assets not available at Group level	0
Minority interests (if not reported as part of a specific own funds item)	589
Non-available minority interests at Group level	-318
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-13,028
Total basic own funds after deductions	**632,281**
Total own funds in other financial sectors	**13,028**
Eligible own funds to meet the Group SCR	**645,309**

Eligible own funds to meet the Group SCR increased by EUR 79.3 million in 2023, mainly due to strong operating results and a more favourable valuation of investments.

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 2023
IFRS equity[39]	**584,495**
Difference in the valuation of assets	-70,146
Difference in the valuation of technical provisions	111,314
Difference in the valuation of other liabilities	-11,618
Foreseeable dividends, distributions and charges	-27,121
Adjustment for minority interests	-318
Deduction for participations in other financial undertakings	-13,028
Subordinated liabilities in basic own funds	58,703
Total basic own funds after deductions	**632,281**
Total own funds in other financial sectors	13,028
Eligible own funds to meet the Group SCR	**645,309**

The table as at 31 December 2023 shows that the majority of differences come from differences in the valuation of technical provisions in accordance with the requirements of the Solvency II legislation in (re)insurance companies based inside and outside the European Union. The methodology used is detailed in section D.2 *Technical provisions*.

The Group's minimum capital requirement (MCR) and the Group's SCR are covered by eligible own funds. These own funds must be of 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, i.e. debt with a maturity of 20 years and a contractual redemption option of 10 years, as tier 2 own funds. Subordinated liabilities have the feature of subordination.

Tier 3 funds are own fund items classified as neither tier 1 nor tier 2. They include letters of credit and guarantees that are held in trust for the benefit of insurance creditors by an independent trustee and are provided to the Group by credit institutions. Tier 3 also includes own funds arising from net deferred tax assets. The Group holds no tier 3 own funds. The following table shows the statutory restrictions on the way in which the Group SCR and MCR are to be met.

[39] IFRS equity is adjusted for the elimination of the companies Sava Pokojninska, Sava Penzisko Društvo and Sava Infond.

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[40]	maximum 15% of SCR
Group MCR coverage	minimum 80% of MCR	maximum 20% of MCR	not eligible

The following two tables show the amounts of the Group's eligible own funds designated to meet the Group SCR and MCR as at 31 December 2023 compared to the figures as at 31 December 2022. 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 2023	645,309	586,606	58,703	0
As at 31 December 2022	566,020	509,730	56,290	0

Eligible own funds to meet the Group MCR

EUR thousand	Total	Tier 1	Tier 2	Tier 3
As at 31 December 2023	604,664	573,578	31,086	-
As at 31 December 2022	525,592	497,089	28,503	-

As at 31 December 2023, the majority of the Group's eligible own funds to cover the Group SCR and MCR was classified as tier 1 and did not include any ancillary own funds[41]. 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 318 thousand as at 31 December 2023 (31 December 2022: EUR 206 thousand).

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

[41] 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 2023	31 December 2022
(7) Group SCR = 4 + 5 + 6	**337,171**	**310,079**
(6) Capital requirement for other financial sectors	7,919	7,648
(5) Capital requirement for residual undertakings	7,146	6,390
(4) SCR calculated on the basis of the consolidated data of the Group companies that are consolidated[42] under Solvency II = 1 + 2 + 3	**322,106**	**296,041**
(3) Adjustments for the loss-absorbing capacity of provisions and deferred taxes	-5,481	-9,159
(2) Operational risk	24,414	22,702
(1) Basic solvency capital requirement	303,173	282,499
Diversification effect	-140,508	-135,748
Total of risk components	443,681	418,246
Market risk	119,568	119,530
Counterparty default risk	20,844	23,242
Life underwriting risk	44,598	49,739
Health underwriting risk	39,803	32,500
Non-life underwriting risk	218,869	193,235
(A) Eligible own funds (excluding other financial sectors)	**632,281**	**553,379**
(B) Eligible own funds in other financial sectors	**13,028**	**12,641**
(C) Eligible own funds to meet Group SCR	**645,309**	**566,020**
Group solvency ratio (%) = C / 7	**191%**	**183%**

Similar to 31 December 2022, the largest portion of the Group's SCR as at 31 December 2023 related to non-life underwriting risk, which increased year on year mainly because of portfolio growth, rate increases, higher claims provisions and the change in the reinsurance programme for Group business. The Group's second largest risk is market risk, which remained at the same level in 2023 as in 2022. 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.

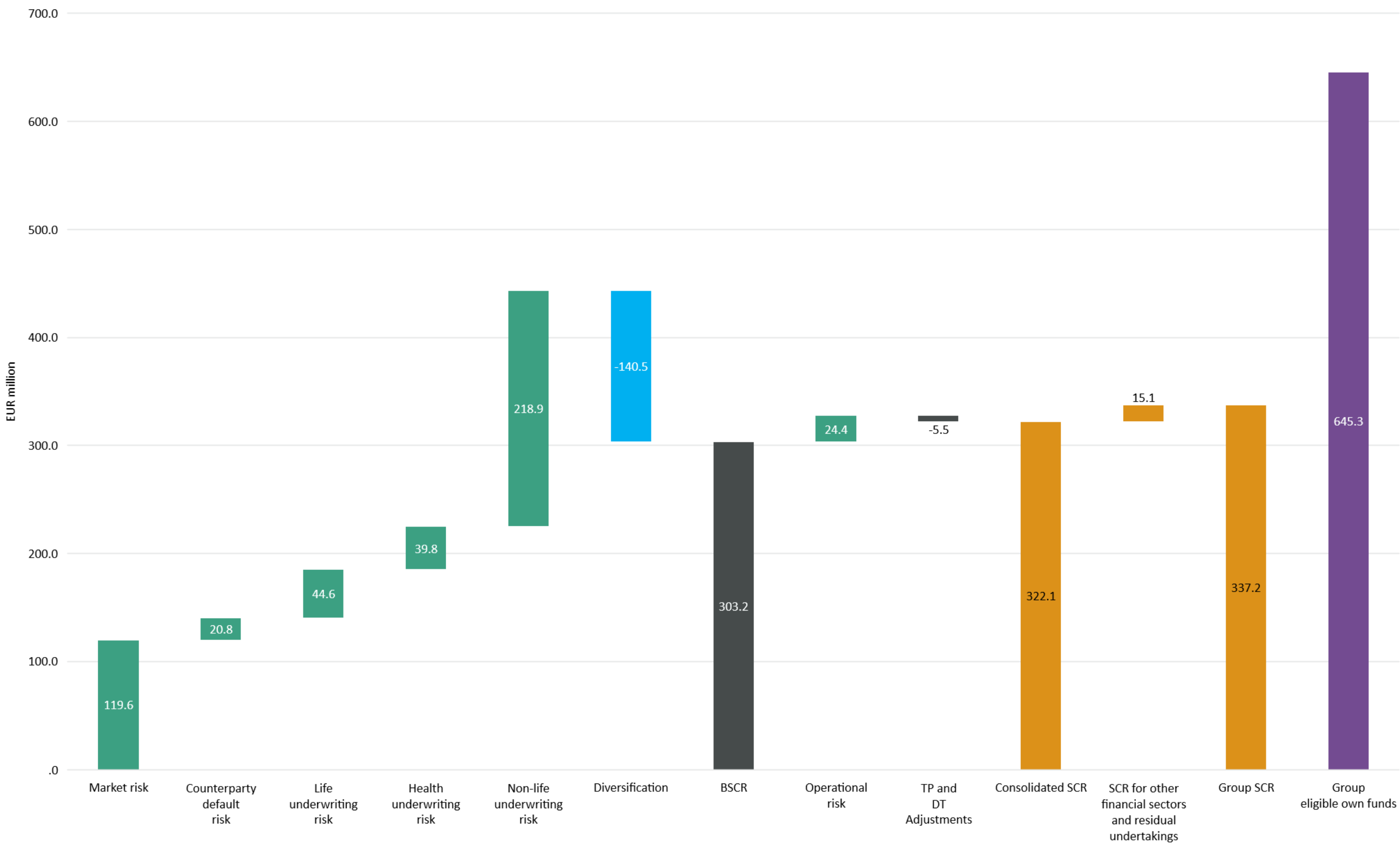
[42] Under Solvency II, the consolidation includes insurance companies and ancillary services undertakings.

As at 31 December 2023, the Group adjusted the SCR for deferred taxes of EUR 5.0 million (31 December 2022: EUR 7.6 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 SCR and the Group's eligible own funds as at 31 December 2023.

Solvency capital requirement by risk module as at 31 December 2023

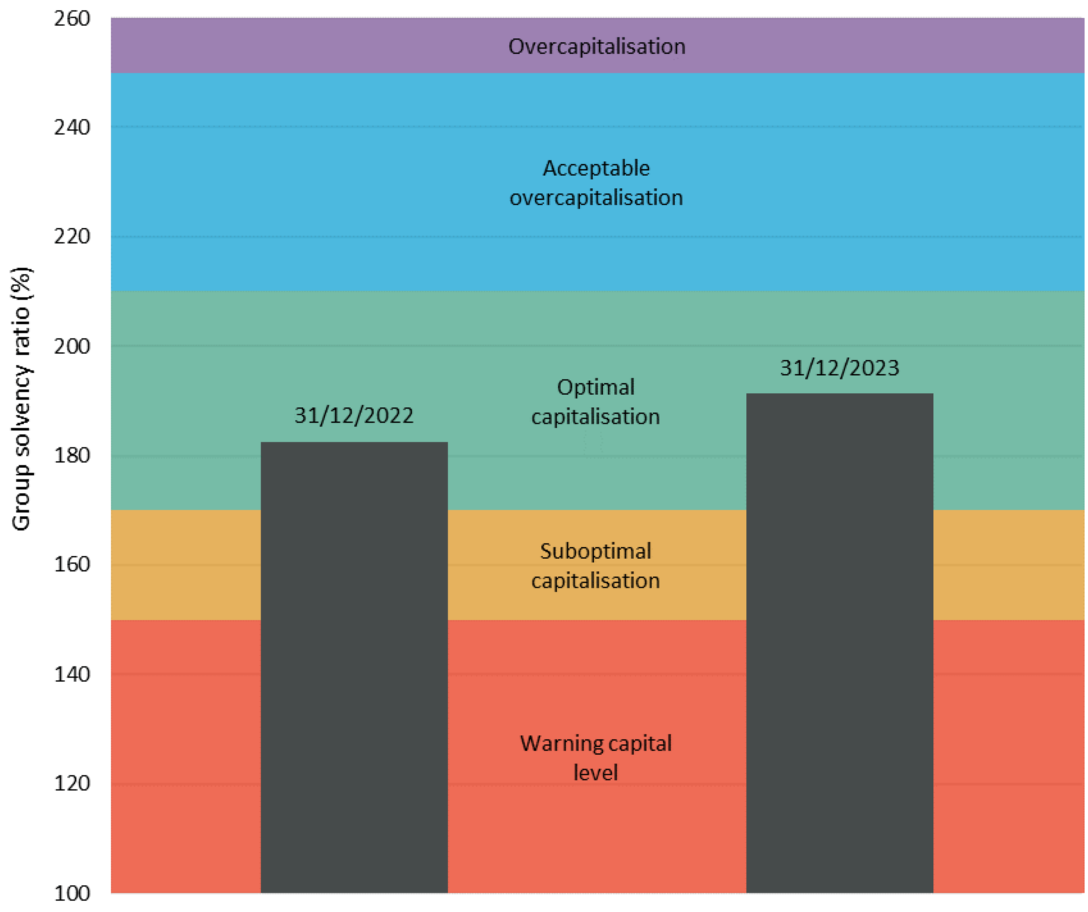


As illustrated by the graph, the Group's eligible own funds markedly exceed the Group's SCR, as reflected in the Group's high solvency ratio of 191% as at 31 December 2023 (31 December 2022: 183%).

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 for 2023–2027, the suboptimal capitalisation range starts at a solvency ratio of 150%, and the optimal capitalisation range is between 170% and 210%. On that basis, the Group is also well capitalised by internal criteria as at 31 December 2023.

In December 2023, 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 next three-year period were also confirmed. The Group's solvency ratio is planned at a level in line with the risk strategy for the next three years.

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.

Input data for calculating Group MCR

EUR thousand	31 December 2023	31 December 2022
Sava Re	56,482	53,457
Zavarovalnica Sava	66,840	58,746
Vita	10,534	10,218
Sava Neživotno Osiguranje (SRB)	4,771	3,947
Sava Životno Osiguranje (SRB)	3,194	3,201
Sava Osiguruvanje (MKD)	3,316	2,995
Sava Osiguranje (MNE)	3,074	3,000
Illyria	4,022	3,751
Illyria Life	3,200	3,200
Group MCR	**155,432**	**142,515**

Group MCR

EUR thousand	31 December 2023	31 December 2022
Minimum capital requirement (MCR) of the Group	155,432	142,515
Eligible own funds to meet the Group MCR	604,664	525,592
Of which tier 1	*573,578*	*497,089*
Of which tier 2	*31,086*	*28,503*
Of which tier 3	-	-
Group MCR	**389%**	**369%**

The Group's eligible own funds designated to meet the MCR of EUR 604.6 million (31 December 2022: EUR 525.6 million) substantially exceed the Group's MCR of EUR 155.4 million (31 December 2022: EUR 142.5 million).

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

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

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

There are no differences between the Standard Formula and any internal model, 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 2023, the Group was compliant with legislation, with a high solvency ratio well above the statutory 100%. Moreover, as at 31 December 2023, 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, and on the basis of the risks that can be foreseen at the time of preparing this document, 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.
Events not in data	**ENID dogodki**	Future events for which additional provisions are recognised.
Expected profit included in future premiums	**EPIFP**	Expected profits included in future premiums.
Financial instruments at fair value through profit or loss	**FVTPL**	Financial instruments measured 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.
IFRS provisions	**MSRP rezervacije**	Insurance and reinsurance contract assets and liabilities calculated in accordance with IFRS.
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.

English term	Slovenian term	Meaning
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 (in this case the PML is 100% of the sum insured).
Representative Concentration Pathways	**RCP scenarij**	Different pathways of greenhouse gas concentrations and emissions. 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.
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 and financial condition report – SFCR	**Poročilo o solventnosti in finančnem položaju – PSFP**	Insurance and reinsurance companies publish solvency and financial condition reports at least annually. The report includes a description of its business and operations, its governance system, risk profile, valuation for Solvency II purposes, structure and quality of own funds, and the level of the minimum and solvency capital requirement.
Solvency capital requirement – SCR	**Zahtevani solventnostni kapital – SCR**	The SCR is an amount based on the regulatory calculation of all quantifiable 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.

English term	Slovenian term	Meaning
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.
Technical provisions	**Zavarovalno-tehnične rezervacije – ZTR**	Provisions calculated in accordance with Solvency II (best estimate provisions).
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.

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.05.02.04 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	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	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
SI	SC/ 5822416000	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
SI	SC/ 5946948000	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	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	Diagnostični Center Bled d.o.o.	10	PLLC	2		40.1%	50.0%	50.0%		significant	50.0%	YES		M1: adjusted equity method
XK	SC/ 810483769	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	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	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

							Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	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	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
XK	SC/ 810793837	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
RS	SC/ 20482443	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	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	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	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	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	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	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	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/ 485100004V OFFO18DD84	Življenjska Zavarovalnica Vita d.d. Ljubljana	1	PLC	2	Slovenian Insurance	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	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	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
						Supervision Agency									
SI	LEI/ 549300P6F1 BDSFSW5T72	Pozavarovalnica Sava d.d., Ljubljana	3	PLC	2	Slovenian Insurance Supervision Agency					dominant	100.0%	YES		M1: full consolidation
SI	SC/ 6149065000	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
RS	SC/21822302	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
RS	SC/17077295	PREDUZEĆE ZA PROJEKTOVANJE I INŽENJERING INFORMACIONIH SISTEMA APPLICATION SOFTWARE PARTNER DOO, BEOGRAD - PALILULA	10	PLLC	2		100.0%	100.0%	100.0%		dominant	100.0%	YES		M1: full consolidation
MK	SC/7690088	Društvo za trgovija i uslugi VITA S HOLDING DOO S kopje	99	PLLC	2		80.0%	100.0%	80.0%		dominant	100.0%	YES		M1: adjusted equity method

Legend

Cell	Abbreviated	Long name
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**	16,005
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	71,597
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	1,491,075
Property (other than for own use)	**R0080**	29,371
Holdings in related undertakings, including participations	**R0090**	45,510
Equities	**R0100**	21,754
Equities – listed	**R0110**	17,994
Equities – unlisted	**R0120**	3,761
Bonds	**R0130**	1,280,713
Government Bonds	**R0140**	819,116
Corporate Bonds	**R0150**	461,597
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	86,364
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	27,362
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	544,804
Loans and mortgages	**R0230**	2,006
Loans on policies	**R0240**	167
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	1,838
Reinsurance recoverables from:	**R0270**	65,801
Non-life and health similar to non-life	**R0280**	60,916
Non-life excluding health	**R0290**	60,063
Health similar to non-life	**R0300**	852
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	4,892
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	4,892
Life index-linked and unit-linked	**R0340**	-6
Deposits to cedants	**R0350**	13,212
Insurance and intermediaries receivables	**R0360**	42,036
Reinsurance receivables	**R0370**	30,213
Receivables (trade, not insurance)	**R0380**	10,191
Own shares (held directly)	**R0390**	48,215
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**	44,129
Any other assets, not elsewhere shown	**R0420**	849
Total assets	**R0500**	**2,380,134**

Liabilities		Solvency II value C0010
Technical provisions – non-life	R0510	640,503
Technical provisions – non-life (excluding health)	R0520	619,908
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	574,595
Risk margin	R0550	45,313
Technical provisions – health (similar to non-life)	R0560	20,594
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	11,361
Risk margin	R0590	9,234
Technical provisions – life (excluding index-linked and unit-linked)	R0600	401,584
Technical provisions – health (similar to life)	R0610	-8,263
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	-10,292
Risk margin	R0640	2,029
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	409,848
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	397,812
Risk margin	R0680	12,035
Technical provisions – index-linked and unit-linked	R0690	496,107
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	486,870
Risk margin	R0720	9,237
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	7,612
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	28,231
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	9,529
Insurance & intermediaries payables	R0820	28,439
Reinsurance payables	R0830	3,280
Payables (trade, not insurance)	R0840	32,227
Subordinated liabilities	R0850	58,703
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	58,703
Any other liabilities, not elsewhere shown	R0880	11,658
Total liabilities	**R0900**	**1,717,873**
Excess of assets over liabilities	**R1000**	**662,260**

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**	17,578	39,680	0	165,805	189,124	5,491	98,527	22,422	2,087	727	31,449	4,104
gross – accepted proportional reinsurance	**R0120**	17	1,210	0	48	1,839	8,525	45,215	1,727	103	9	0	188
gross – accepted non-proportional reinsurance	**R0130**												
Reinsurers' share	**R0140**	1,219	372	0	6,463	6,557	1,554	27,851	2,781	334	625	0	1,446
Net	**R0200**	16,377	40,518	0	159,390	184,406	12,462	115,891	21,368	1,856	111	31,448	2,846
Premiums earned													
Gross – Direct Business	**R0210**	15,937	37,763	0	151,168	169,811	5,368	91,498	21,262	1,904	717	28,992	3,659
gross – accepted proportional reinsurance	**R0220**	7	766	0	0	2,195	5,583	51,083	739	163	29	0	201
gross – accepted non-proportional reinsurance	**R0230**												
Reinsurers' share	**R0240**	1,074	349	0	6,563	2,758	815	31,388	2,545	311	620	8	621
Net	**R0300**	14,870	38,180	0	144,605	169,248	10,136	111,194	19,456	1,755	126	28,985	3,239
Claims incurred													
Gross – Direct Business	**R0310**	9,705	14,910	0	97,261	137,962	1,167	93,674	7,926	-914	8	19,193	8,638
gross – accepted proportional reinsurance	**R0320**	39	469	0	128	1,141	5,111	36,578	1,528	104	3	0	86
gross – accepted non-proportional reinsurance	**R0330**												
Reinsurers' share	**R0340**	301	359	0	4,606	2,605	472	15,129	474	35	75	5	3,340
Net	**R0400**	9,442	15,020	0	92,783	136,498	5,806	115,123	8,980	-845	-64	19,188	5,383
Expenses incurred	**R0550**	4,775	10,459	0	47,281	37,095	3,728	47,695	5,487	523	-37	9,244	1,355
Balance – other technical expenses/income	**R1210**												
Total technical 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					576,995
Gross – Proportional reinsurance accepted	R0120					58,881
Gross – Non-proportional reinsurance accepted	R0130	652	2,330	3,312	53,483	59,777
Reinsurers' share	R0140	0	91	1,726	8,352	59,370
Net	R0200	652	2,239	1,586	45,131	636,282
Premiums earned						
Gross – Direct Business	R0210					528,080
Gross – Proportional reinsurance accepted	R0220					60,766
Gross – Non-proportional reinsurance accepted	R0230	337	2,061	3,055	44,695	50,148
Reinsurers' share	R0240	0	0	616	5,808	53,476
Net	R0300	337	2,061	2,439	38,888	585,518
Claims incurred						
Gross – Direct Business	R0310					389,530
Gross – Proportional reinsurance accepted	R0320					45,185
Gross – Non-proportional reinsurance accepted	R0330	0	-2,191	1,864	31,611	31,283
Reinsurers' share	R0340	0	5,895	209	61,562	95,066
Net	R0400	0	-8,087	1,655	-29,951	370,932
Expenses incurred	R0550	0	335	428	6,728	175,098
Balance – other technical expenses/income	R1210					29,630
Total technical expenses	R1300					204,727

		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**	2,608	33,695	108,245	40,530	0	0	0	0	185,078
Reinsurers' share	**R1420**	0	96	14	500	0	0	0	0	611
Net	**R1500**	2,608	33,599	108,230	40,030	0	0	0	0	184,467
Premiums earned										
Gross	**R1510**	2,583	33,762	108,247	40,268	0	0	0	0	184,861
Reinsurers' share	**R1520**	0	82	4	660	0	0	0	0	745
Net	**R1600**	2,583	33,681	108,244	39,609	0	0	0	0	184,117
Claims incurred										
Gross	**R1610**	0	41,280	57,014	27,009	0	0	0	148	125,451
Reinsurers' share	**R1620**	0	113	0	121	0	0	0	47	281
Net	**R1700**	0	41,167	57,014	26,888	0	0	0	101	125,170
Expenses incurred	**R1900**	0	5,880	11,657	11,263	0	0	0	104	28,904
Balance – other technical expenses/income	**R2510**									3,350
Total technical expenses	**R2600**									32,255
Total amount of surrenders	**R2700**	0	241,512	517,422	2,723	0	0	0	0	761,656

S.05.02.04 Premiums, claims and expenses by country

First part of table:

		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
	R0010		Croatia	Kosovo	North Macedonia	Montenegro	Serbia	
		C0080	C0090	C0090	C0090	C0090	C0090	C0140
Premiums written								
Gross – Direct Business	R0110	456,046	17,141	17,633	20,398	20,665	39,987	571,869
Gross – Proportional reinsurance accepted	R0120	2,582	923	4	0	0	1,964	5,473
Gross – Non-proportional reinsurance accepted	R0130	51	388	0	37	0	644	1,119
Reinsurers’ share	R0140	32,071	410	575	1,052	1,627	12,475	48,210
Net	R0200	426,608	18,041	17,061	19,382	19,039	30,120	530,251
Premiums earned								
Gross – Direct Business	R0210	415,948	16,809	17,181	19,132	18,656	35,324	523,050
Gross – Proportional reinsurance accepted	R0220	2,929	945	4	0	0	1,985	5,863
Gross – Non-proportional reinsurance accepted	R0230	48	359	0	34	0	608	1,049
Reinsurers’ share	R0240	31,473	404	575	1,006	1,488	11,628	46,575
Net	R0300	387,452	17,709	16,610	18,160	17,168	26,289	483,387
Claims incurred								
Gross – Direct Business	R0310	321,049	14,965	11,268	10,161	9,350	22,737	389,530
Gross – Proportional reinsurance accepted	R0320	1,314	181	2	17	-9	1,390	2,895
Gross – Non-proportional reinsurance accepted	R0330	1,005	126	1	12	-6	962	2,100
Reinsurers’ share	R0340	72,211	-148	74	120	2,062	10,587	84,907
Net	R0400	251,158	15,420	11,197	10,069	7,273	14,502	309,619
Expenses incurred	R0550	114,123	7,450	5,259	8,026	5,934	11,740	152,531
Balance – other technical expenses/income	R1210	24,806	523	315	542	990	2,453	29,630
Total technical expenses	R1300	138,929	7,973	5,574	8,568	6,924	14,193	182,161

Second part of table:

		Home Country	Top 5 countries (by amount of gross premiums written) – life obligations			Total Top 5 and home country
	R0010		Croatia	Kosovo	Serbia	
		C0220	C0230	C0230	C0230	C0280
Premiums written						
Gross	**R1410**	172,253	2,244	4,067	6,515	185,078
Reinsurers' share	**R1420**	464	0	0	146	611
Net	**R1500**	171,788	2,244	4,067	6,368	184,467
Premiums earned						
Gross	**R1510**	172,221	2,086	4,082	6,472	184,861
Reinsurers' share	**R1520**	634	0	0	111	745
Net	**R1600**	171,587	2,086	4,082	6,362	184,117
Claims incurred						
Gross	**R1610**	119,850	1,797	920	2,883	125,451
Reinsurers' share	**R1620**	281	0	0	0	281
Net	**R1700**	119,569	1,797	920	2,883	125,170
Expenses incurred	**R1900**	25,235	620	1,131	1,919	28,904
Balance – other technical expenses/income	**R2510**	2,803	163	150	234	3,350
Total technical expenses	**R2600**	28,038	783	1,281	2,153	32,255

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	471,776	471,776			
Subordinated liabilities	R0140	58,703		0	58,703	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	589	589	0	0	0
Non-available minority interests at group level	R0210	318	318	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	13,028	13,028	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	318	318	0	0	0
Total deductions	R0280	13,346	13,346	0	0	0
Total basic own funds after deductions	R0290	632,281	573,578	0	58,703	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
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	4,741	4,741	0	0	
Institutions for occupational retirement provision	R0420	8,288	8,288	0	0	0
Non-regulated entities carrying out financial activities	R0430	0	0	0	0	
Total own funds of other financial sectors	R0440	13,028	13,028	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					
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460					
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	632,281	573,578	0	58,703	0
Total available own funds to meet the minimum consolidated group SCR	R0530	632,281	573,578	0	58,703	
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	632,281	573,578	0	58,703	0
Total eligible own funds to meet the minimum consolidated group SCR	R0570	604,664	573,578	0	31,086	
Minimum consolidated Group SCR	R0610	155,432				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	389%				
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	645,309	586,606	0	58,703	0
Group SCR	R0680	337,171				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	191%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	662,260
Own shares (held directly and indirectly)	**R0710**	48,215
Foreseeable dividends, distributions and charges	**R0720**	27,121
Other basic own fund items	**R0730**	115,148
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	**R0740**	0
Other non-available own funds	**R0750**	
Reconciliation reserve before deduction for participations in other financial sector	**R0760**	471,776
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	49,046
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	39,334
Total Expected profits included in future premiums (EPIFP)	**R0790**	88,380

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	119,568		
Counterparty default risk	R0020	20,844		
Life underwriting risk	R0030	44,598	none	-
Health underwriting risk	R0040	39,803	none	-
Non-life underwriting risk	R0050	218,869	none	-
Diversification	R0060	-140,508		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	**R0100**	303,173		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	24,414
Loss-absorbing capacity of technical provisions	**R0140**	-431
Loss-absorbing capacity of deferred taxes	**R0150**	-5,050
Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	322,106
Capital add-on already set	**R0210**	
of which, capital add-ons already set – Article 37 (1) Type a	**R0211**	
of which, capital add-ons already set - Article 37 (1) Type b	**R0212**	
of which, capital add-ons already set – Article 37 (1) Type c	**R0213**	
of which, capital add-ons already set - Article 37 (1) Type d	**R0214**	
Solvency capital requirement	**R0220**	337,171
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for Article 304	**R0440**	
Minimum consolidated group solvency capital requirement	**R0470**	155,432
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	**R0500**	7,919
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**	921
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	**R0520**	6,998
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**	7,146
Capital requirements for collective investments undertakings or investments in funds	**R0555**	
Overall SCR		
SCR for undertakings included via D&A	**R0560**	0
Solvency capital requirement	**R0570**	337,171

SOLVENCY AND FINANCIAL CONDITION REPORT FOR 2023