Zavarovalnica Triglav, d.d.,
Miklošičeva 19, Ljubljana

triglav

Solvency and Financial Condition Report

Zavarovalnica Triglav, d.d.
2019

Ljubljana, March 2020

Zavarovalnica Triglav, d.d.

€320.1 million
solvency capital requirement

283%
solvency ratio

€905.3 million
own funds to cover solvency capital requirement

€2,178.9 million
in investments

€571.6 million
net premiums earned

€106.4 million
minimum capital requirement

€70.6 million
net profit

27.3%
market share in Slovenia

MEMBERS OF THE MANAGEMENT BOARD:

President: Andrej Slapar

Members of the Management Board:

Uroš Ivanc

Tadej Čoroli

Barbara Smolnikar

David Benedek

Marica Makoter

Ljubljana, March 2020

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Summary

Summary

Zavarovalnica Triglav is a public limited company with its registered office in the Republic of Slovenia where it holds the leading position on the insurance market. The beginnings of its operations go back 120 years. Today, Zavarovalnica Triglav is the parent company of the Triglav Group that included 30 subsidiaries and 7 associated companies at the end of 2019. The Triglav Group operates in six countries of the broader Adriatic region where its 20% market share makes it the leading insurance and financial group. The Triglav Group and thereby its parent company Zavarovalnica Triglav as well as its subsidiary Pozavarovalnica Triglav Re are rated by two recognised ratings agencies, S&P Global Ratings and A.M. Best. In 2019, both gave the Group an **independent rating of "A"** with a stable medium-term outlook thus confirming its financial stability, high level of capital adequacy and profitability of its operations.

The strategic activities of Zavarovalnica Triglav include the **insurance business** and **asset management**. As part of its insurance business, the Company concludes non-life, health, life and pension insurance and reinsurance contracts. It operates mainly on the Slovenian market, while it also operates outside Slovenia within the scope of the Triglav Group activities. Its activity is supervised by the Slovenian regulator, the Insurance Supervision Agency, while its external auditor for the 2019 financial year was the Deloitte revizija d.o.o. auditing firm.

Zavarovalnica Triglav is managed and governed according to a two-tier system of governance including the General Meeting, the Supervisory Board and the Management Board. At the end of 2019, the Management Board comprised six members. In March 2019, the Supervisory Board appointed David Benedek as the new Management Board member for a five year term of office. He assumed the function of Management Board member on 29 August 2019 when he received the decision of the Insurance Supervision Agency by way of which he was issued the permit for the performance of this function. The Supervisory Board is composed of nine members, three of whom are employee representatives. The system of governance of Zavarovalnica Triglav also includes the so-called four key functions that report directly to the Management Board (risk management function, the compliance function, the internal audit function and the actuarial function) and six risk management system committees that are appointed by the Management Board. Their work is placed into the second line of defence of the three lines of defence model of risk management. The work of the committees of Zavarovalnica Triglav is explained in detail in section B.3.4 of this Report.

The operations of Zavarovalnica Triglav were **profitable again in 2019**, with net profit amounting to EUR 70.6 million. The Company recorded premium growth in all insurance segments and posted a total of EUR 702.1 million in gross insurance, co-insurance and reinsurance premium. Its operations were mostly affected by the higher growth in net insurance premium income when compared to the growth of net claims incurred and positive operating performance. Its combined ratio for non-life insurance at the end of 2019 was 85.6%. The Company's operations in 2019 are presented in more detail in sections A.2, A.3 and A.4 of this Report.

Zavarovalnica Triglav has successfully issued a new 30.5-year callable subordinated bond with first-call available in 10.5 years in the nominal amount of EUR 50 million in 2019. With it the Company replaced the previous subordinated bond, which will mature in 2020. This new issue is a part of regular Group capital management activities, which provide optimal capital structure for Company and its cost efficiency.

Zavarovalnica Triglav has 13 thousand shareholders from 34 countries with the majority located in Slovenia. There were no significant changes to the ownership structure of the Company in 2019. The composition of the Company's top ten shareholders in terms of the scope of ownership remained unchanged, with their total shareholding remaining at last year's level (77%). The two biggest owners, i.e. legal entities owned by the Republic of Slovenia, kept their shareholdings unchanged, while some of the other large shareholders adjusted their shareholdings.

Zavarovalnica Triglav implements an attractive and sustainable dividend policy whereby the gross amount of the dividend per share for 2018 was EUR 2.50 or 70% of the Triglav Group's consolidated net profit for 2018.

As part of its operations, Zavarovalnica Triglav is exposed to underwriting, market, credit, liquidity, operational and other risks. Through active management, it supervises all of the underwritten and potential risks with the aim of keeping its risk profile within the limits of the risk appetite. Zavarovalnica Triglav has a **three lines of defence model** in place that allows it to identify all risks in real time as well as to monitor them carefully and manage them effectively. The first line of defence includes all business functions that identify operational risks. The second line of defence is composed of decision-making bodies and business functions that together perform the measurement of individual risks, monitor exposure to such risks and determine the exposure limit system. The third line of defence is represented by the Internal Audit of Zavarovalnica Triglav. Over the previous period, the Company actively upgraded the its risk management system and regularly monitored the risk profile. Details on the Company's risk management process are described in section B.3.

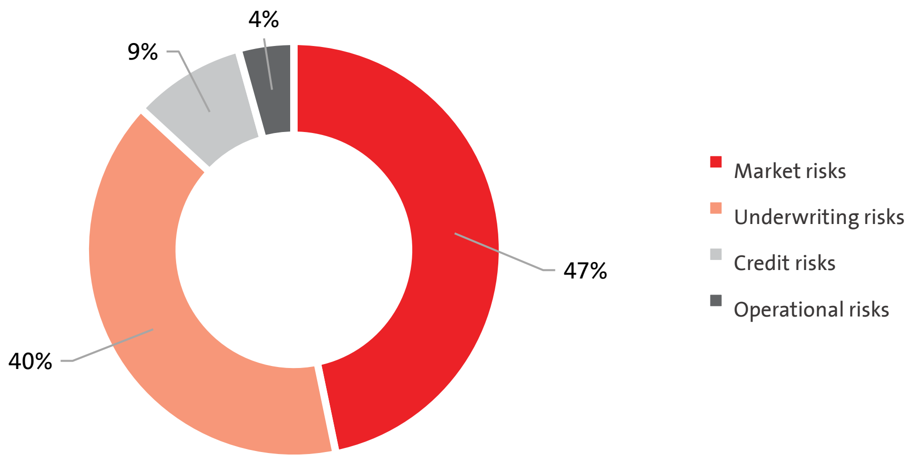
Zavarovalnica Triglav performs the **Own Risk and Solvency Assessment (**ORSA) process regularly and in doing so takes into account all the risks, to which it is exposed, as well as any potential risks that could have an impact on its operations over the next three-year period. The Company uses the results of the ORSA as the basis for the determination of its existing and future capital needs and for the adoption of strategic and business decisions. The ORSA process therefore represents the basis for the decisions of the Management Board related to capital management in the strategic period and is directly tied to strategic planning. Last year, the Company carried out the ORSA process for the 2019 financial year. The details on the ORSA process are provided in section B.3.6.

Zavarovalnica Triglav has a management policy established for each type of risk in the portfolio. The Company measures and assesses risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method. The regulatory solvency capital requirement (SCR) is calculated for the four types of risk, to which Zavarovalnica Triglav is also most exposed. These are **underwriting, market, credit** and **operational risks**. The Company calculates the SCR using the standard formula stipulated in Commission Delegated Regulation (EU)[1]. Section C outlines the exposure, important concentrations, risk mitigation techniques and sensitivity for each of the risk types.

[1] COMMISSION DELEGATED REGULATION (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

At the end of 2019, the SCR of the Company, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 475.8 million for the four main risk types. Zavarovalnica Triglav has formed two ring-fenced funds, i.e. SVPI[2] and SVPI renta[3], for which risks are calculated separately for each risk category under the standard formula. The chart below applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 17.8 million to the overall SCR of Zavarovalnica Triglav. The simplification method is presented in more detail in section E of this Report.

Risk profile of Zavarovalnica Triglav as at 31 December 2019



Zavarovalnica Triglav is most exposed to **market risks** that arise from the relevant assets and liabilities in the portfolio. Zavarovalnica Triglav holds a broad range of various financial instruments in its investment portfolios whereby the value of the instruments depends on the fluctuations on financial markets. Market risks include interest rate risk, equity risk, property risk, credit spread risk, currency (FX) risk and market concentration risk. By actively managing market risks, the Company creates a profitable portfolio that provides for stable and safe operations.

The second most important type of risks are **underwriting risks**, which are represented by the risk of loss or of an adverse change in the value of underwriting liabilities due to inadequate premiums and assumptions taken into account by the Company in the calculation of technical provisions. When taking on underwriting risks, Zavarovalnica Triglav is moderately conservative, which is why it underwrites a wider range of risks, thereby ensuring their diversification. By actively managing these risks, the Company maintains such quality of the portfolio that provides for stable and safe operations while maximising return.

The Report presents the balance sheet of Zavarovalnica Triglav for solvency purposes as at 31 December 2019, including the balance sheet for financial reporting purposes. The differences between the reporting purposes are presented in greater detail in section D of this Report. Assets and liabilities are **valued at fair value** for solvency purposes. When assets and liabilities are

[2] Supplementary voluntary pension insurance.
[3] Supplementary voluntary pension insurance during the payment phase.

valued, Zavarovalnica Triglav uses the risk-free interest rate curve prescribed by EIOPA[4] and does not apply any adjustments of the curve.

Zavarovalnica Triglav manages capital in a centralised manner at the Triglav Group level by ensuring optimum and cost-effective capital allocation and use through capital concentration at the parent company. Capital management relies on the abovementioned risk management system and is based on the strategic goals of the Triglav Group, regulatory requirements, good practices and internally established methodologies. Account is also taken of the specificities of the position, business environment, macroeconomic conditions and ownership structure of Zavarovalnica Triglav. Effective capital management at the Company ensures safety and profitability of operations, the attainment of suitable capital adequacy, maintenance of a high credit rating and confidence of all stakeholders. All of the above objectives were achieved in 2019.

Capital adequacy or the capital adequacy ratio is calculated according to the standard formula as the ratio between the total eligible own funds and the solvency capital requirement. Zavarovalnica Triglav was adequately capitalised as at 31 December 2019. It had sufficient own funds to meet both the minimum solvency capital requirement (803%) and the SCR (283%):

Solvency ratio of Zavarovalnica Triglav (as at 31 December 2019) =

$$\frac{\textit{Total eligible own funds}}{\textit{Solvency capital requirement}} = \frac{905}{320} = \mathbf{283\%}$$

Capital adequacy of Zavarovalnica Triglav as at 31 December 2019 and 31 December 2018

In EUR thousand

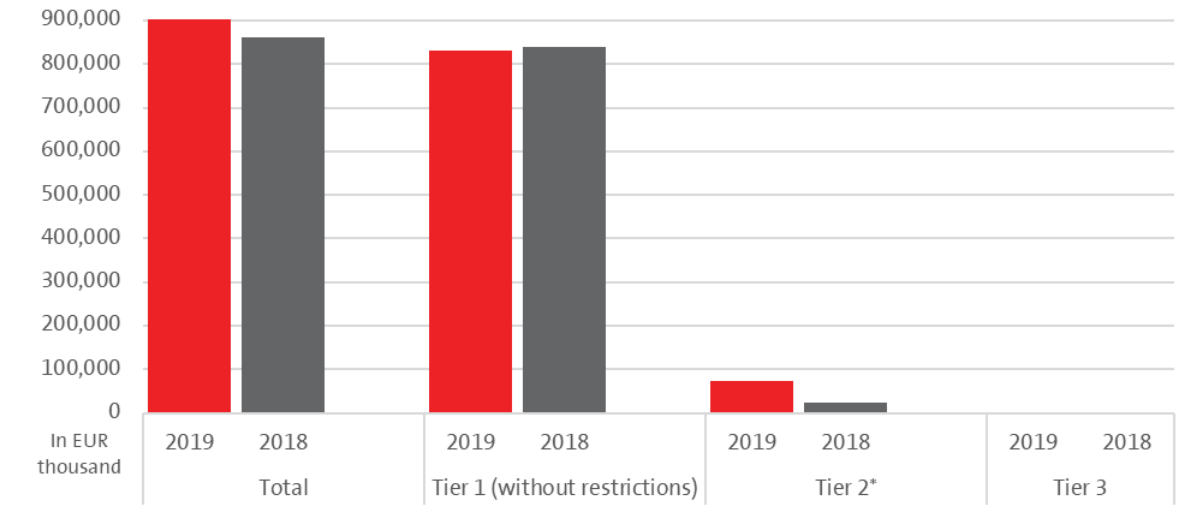
Company's capital adequacy	31 December 2019	31 December 2018
Total eligible own funds to meet the SCR	905,284	861,066
Total eligible own funds to meet the MCR	853,567	858,766
Solvency capital requirement (SCR)	320,091	324,920
Minimum capital requirement (MCR)	106,359	100,913
Capital adequacy to SCR	283%	265%
Capital adequacy to MCR	803%	851%

The capital adequacy of Zavarovalnica Triglav depends on the eligible own funds that it holds in order to meet the SCR as well as by its SCR. The Company's capital adequacy in 2019 increased by 18 pp compared to the year before, which is the result of the increase in eligible own funds alongside the simultaneous decrease in the SCR.

The Company holds the highest quality own funds and thus classifies its entire share capital and the reconciliation reserve as Tier 1 assets, while it classifies subordinated bonds as Tier 2 assets.

[4] European Insurance and Occupational Pensions Authority.

Quality of the Company's eligible own funds to meet the SCR as at 31 December 2019:

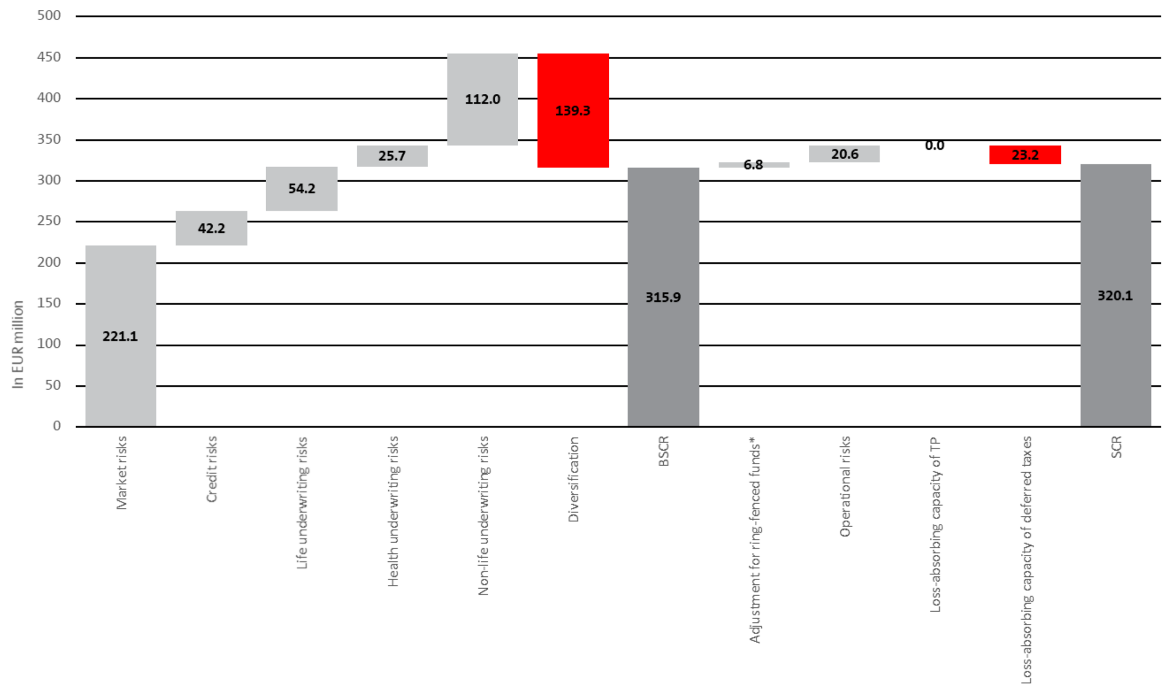


* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR

Eligible own funds are calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at fair value. They are composed of the Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 73 million) and the reconciliation reserve (EUR 758.6 million). The calculation of eligible own funds takes into account the value of expected dividends for the 2019 financial year (EUR 56.8 million) that are paid out in 2020.

The **solvency capital requirement** for the Company is calculated using the standard formula and without any simplification. It is the sum of the SCR for the main risks of the Company whereby diversification between them is taken into account.

Structure of the Company's SCR



* Adjustment for the aggregation of the notional SCR of ring-fenced funds/matching adjustments portfolios

The Company calculates the minimum capital requirement using the method for composite insurance companies, where the linear minimum capital requirements are calculated first, separately for the non-life and life underwriting parts.

In 2019, as much as 87% of the SCR of Zavarovalnica Triglav came from underwriting and market risks. Practically all of its own funds were classified as Tier 1 in terms of quality. The Company manages own funds efficiently which ensures safety and profitability of operations as well as the realisation of planned and strategic goals. The Company has a well-thought risk management system that works well in practice and is appropriately incorporated into the corporate governance of the Company.

A. Business and performance

A.1 Business

A.2 Underwriting performance

A.3 Investment performance

A.4 Performance of other activities

A.5 Any other information

A. Business and performance

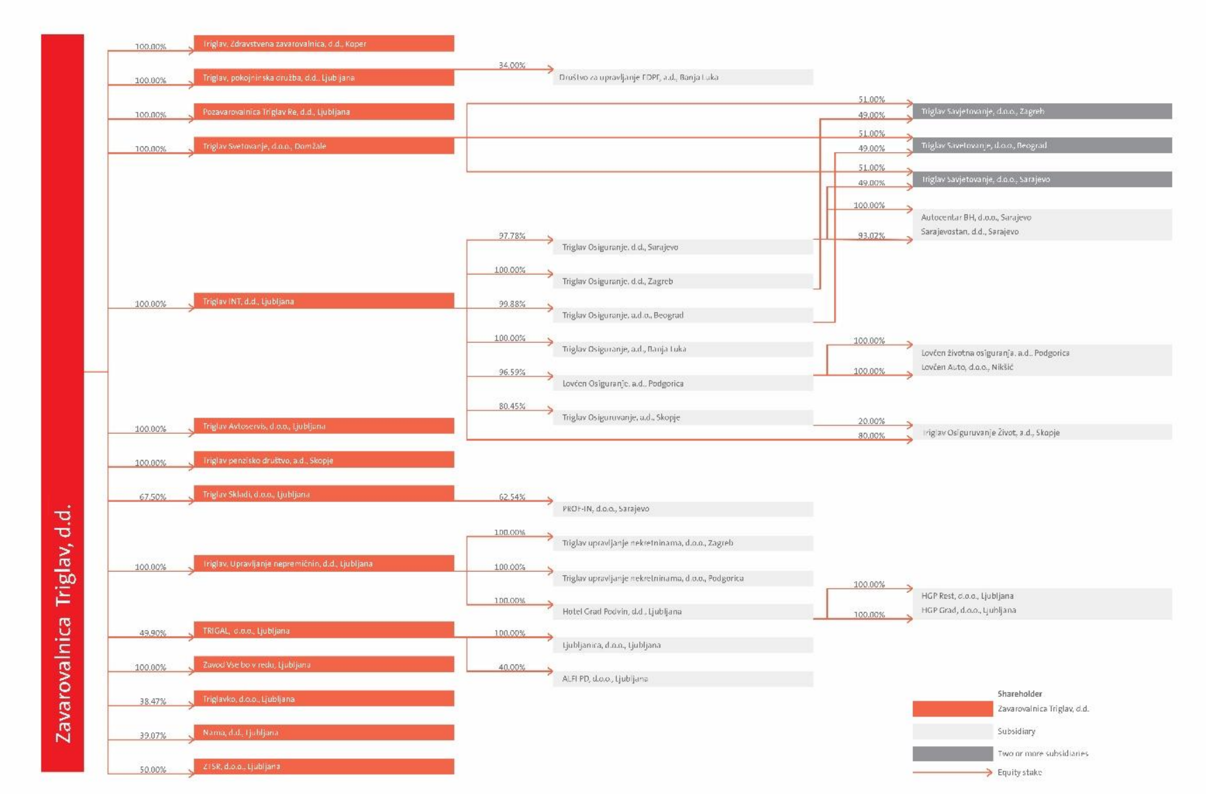
A.1 Business

A.1.1 About Zavarovalnica Triglav

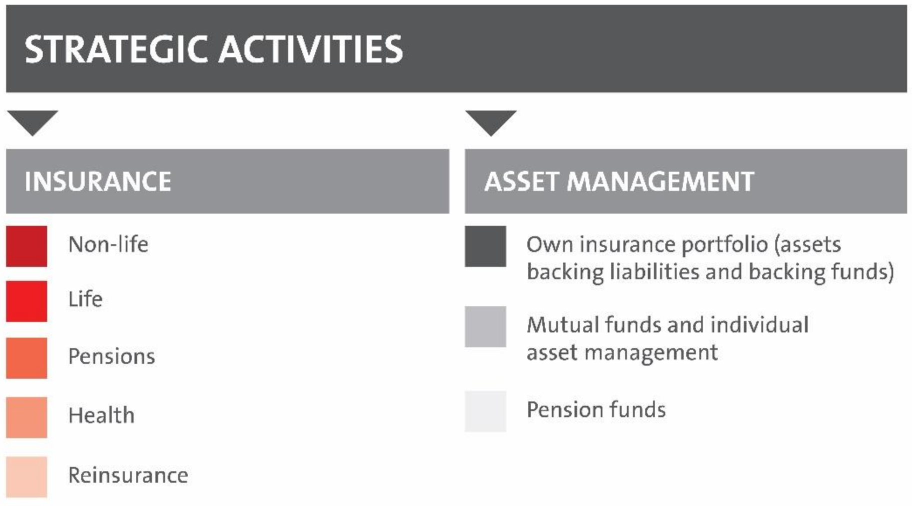
Zavarovalnica Triglav, d.d. (hereinafter: the Company) headquartered in Ljubljana, Miklošičeva 19, is the parent company of the Triglav Group (hereinafter: the Group) comprising 30 subsidiaries and 7 associated companies.

A schematic of the Group's subsidiaries and associated companies as at 31 December 2019 is shown below including their respective equity interests.

Figure 1: Schematic of the Group's subsidiaries and associated companies and their respective equity interests as at 31 December 2019



The Company carries on the insurance and reinsurance activities as well as the asset management activity. As part of its insurance business, the Company concludes non-life, health, life and pension insurance contracts. The Company operates mainly on the Slovenian market, while it operates in the broader international environment through partnership ties with foreign companies involved in insurance agency and brokerage as well as reinsurance.



The Company held a 27.3% market share in Slovenia at the end of 2019 and thereby a convincing leading market position.

In 2019, the Company operated in all segments of non-life and health insurance with the exception of the segment of worker's compensation insurance (LoB 3). Out of all the non-life and health insurance segments, the Company earns the most premium from fire and other damage to property insurance (LoB 7), other motor insurance (LoB 5) and motor vehicle liability insurance (LoB 4).

In 2019, index-linked or unit-linked insurance (LoB 31) represented the largest segment of life insurance. These were followed by insurance with profit participation (LoB 30) and other life insurance (LoB 32).

The Company carries on the insurance and reinsurance activities as well as the asset management activity. Asset management encompasses saving via insurance services and mutual fund investments. Asset management enables the assurance of adequate funds for the payment of contractual liabilities and the maintenance of suitable capital adequacy.

A.1.2 Supervisory body

The Company's supervisory body is:

Insurance Supervision Agency (hereinafter: ISA),
Trg republike 3,
1000 Ljubljana,
Slovenia

A.1.3 External audit

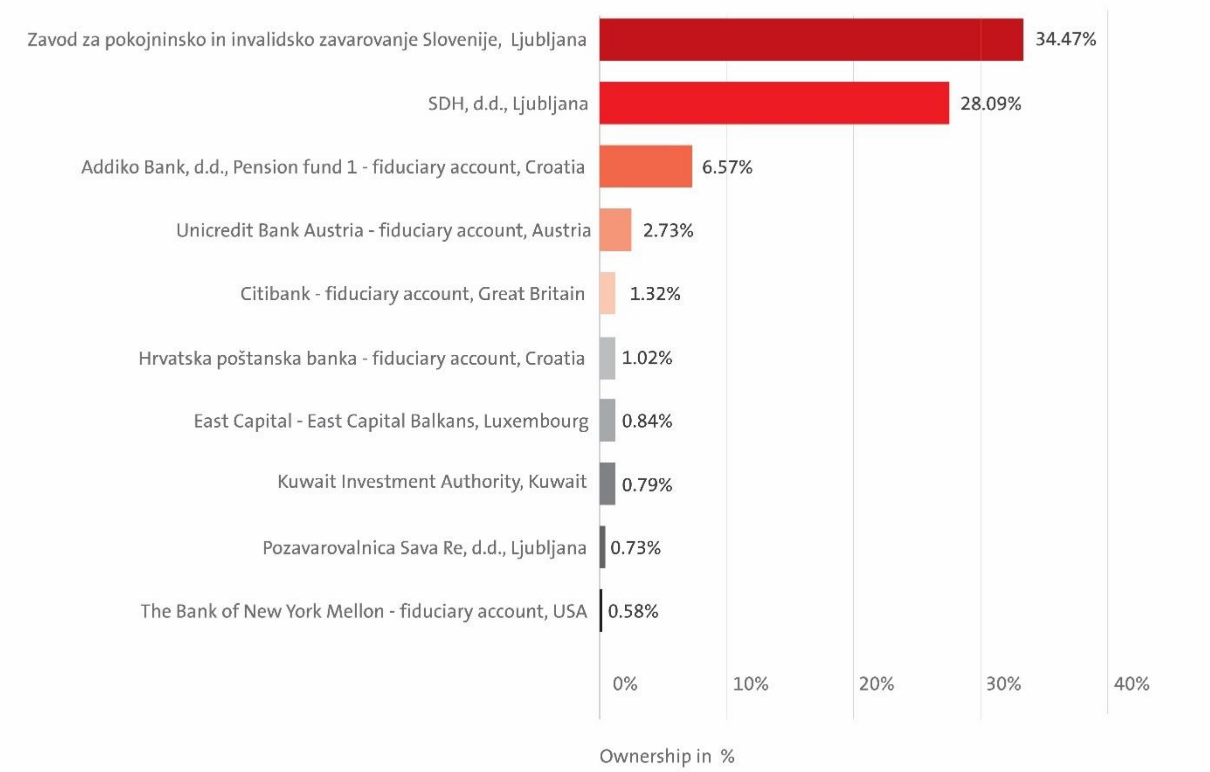
Based on the resolution of the General Meeting of Shareholders of the Company (hereinafter: General Meeting), the following audit firm was appointed as the external auditor of the Company for the 2019 financial year:

Deloitte revizija d.o.o.,
Dunajska cesta 165,
1000 Ljubljana,
Slovenia

A.1.4 Ownership structure of Zavarovalnica Triglav

There were no major changes to the ownership structure of the Company in 2019. The composition of the Company's top ten shareholders in terms of the scope of ownership remained unchanged, with their total shareholding remaining at last year's level (77%). The two biggest owners, i.e. funds owned by the Republic of Slovenia, kept their shareholdings unchanged, while some of the other large shareholders adjusted their positions.

Chart 1: Top ten shareholders of the Company as at 31 December 2019



The Company had 13,161 shareholders at the end of 2019, down 7% compared to the year before. The number of shareholders decreased as a result of the continuation of exits by Slovenian citizens who owned a small number of shares from the time of the privatisation of the Company. International shareholders held 17.4% of all shares or 35% of the shares in circulation (owned by shareholders with a stake of less than 5%) at the end of the year.

A.1.5 Major business events and achievements in 2019

- Good business results: The Company's good operating performance meant that it exceeded the planned results.
- The Group maintained the high "A" credit rating: The credit rating agencies S&P Global Ratings and A.M. Best confirmed the Group's A rating with a stable medium-term outlook.
- Dividend payment: Dividend payments accounted for 70% of the Group's 2018 net profits.
- Bond issuance: The Company successfully issued a 30.5-year subordinated bond and replaced the subordinated bond, which will mature in 2020. The new issuance is part of ordinary capital management activities of the Group, by way of which the Company ensures an optimum capital structure and its cost effectiveness.
- Changes in the Management Board and Supervisory Board of the Company: The Supervisory Board appointed David Benedek as a Management Board member for a five year term of office. The Works' Council elected Peter Celar, Branko Gorjan and Igor Zupan as Supervisory Board members who act as employee representatives.

A.2 Underwriting performance

The Company's net profit in 2019 was up 8% compared to the year before, i.e. from EUR 65.5 million to EUR 70.6 million. The main reason for the higher net profit is mainly the result of the higher growth in net premium income than in the net claims incurred as well as good operating performance.

The non-life combined ratio stood at 85.6% at the end of 2019, down 0.5 pp compared to the year before. The main reason behind the decrease of the combined ratio compared to the year before is the decrease in the net claims incurred compared to the net written premium in the period.

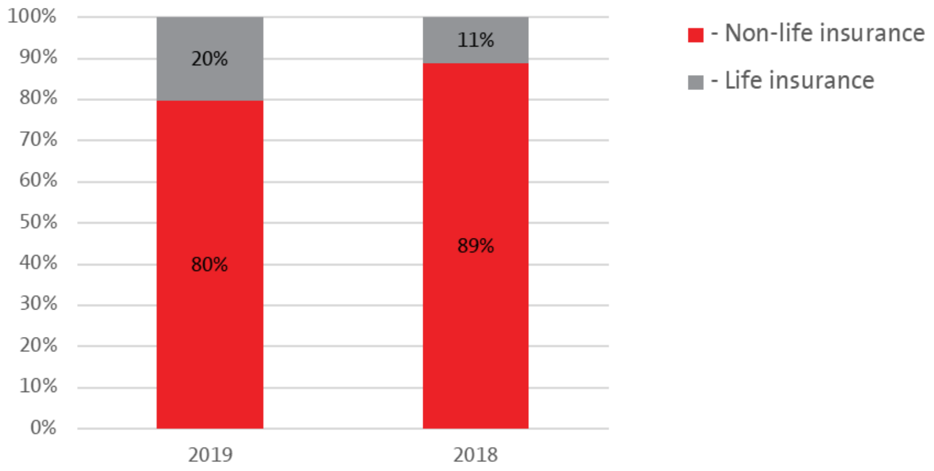
The net return on equity, which is the ratio between net income returned and the average balance of equity, stood at 12.4% in 2019, an increase of 0.8 pp compared to the year before. Compared to the year before, the increase is mainly the result of higher net profit.

Table 1: Company's operating performance in 2019 and 2018

		In EUR thousand
	2019	**2018**
Net profit or loss	**70,614**	**65,544**
- Non-life Insurance	56,290	58,260
- Life insurance	14,325	7,284
Non-life insurance combined ratio	**85.6%**	**86.1%**
ROE	**12.4%**	**11.6%**

In 2019, 20% of the Company's net profit came from life insurance, while 80% was generated from non-life insurance. Compared to the previous year, the share of life insurance grew by 9 p.p. at the expense of non-life insurance.

Chart 2: Company's net profit or loss in 2019 and 2018



The Company booked a total of EUR 702.1 million in gross insurance, co-insurance and reinsurance premium in 2019. The premium grew by EUR 41.9 million when compared to 2018. According to the segmentation for solvency purposes, the Company booked EUR 550.3 million of gross insurance, co-insurance and reinsurance premium from non-life insurance and health insurance and EUR 151.9 million from life insurance. The biggest share of non-life with health insurance premium is derived from the fire insurance and other damage to property insurance segment (LoB 7). These were followed by other motor vehicle insurance (LoB 5) and mandatory third-party liability insurance (LoB 4).

Gross claims incurred in 2019 came in at EUR 402.1 million, whereby EUR 246.7 million of the said amount came from non-life insurance and health insurance and EUR 155.3 million came from life insurance. The majority of gross claims incurred among non-life insurance and health insurance arose from claims in the fire insurance and other damage to property insurance (LoB 7) as well as other motor vehicle insurance segments (LoB 5). Compared to 2018, gross claims incurred were up 5.9 million, whereby gross claims incurred under life insurance increased by EUR 19.5 million and those under non-life and health insurance decreased by EUR 13.5 million.

The Company's gross expenses in 2019 amounted to EUR 181.5 million. EUR 152.5 million of the abovementioned amount came from non-life insurance and health insurance and EUR 29 million came from life insurance. Subject to the segmentation for solvency purposes, the highest expenses were incurred in the fire insurance and other damage to property insurance segment (LoB 7). Expenses increased by EUR 18.9 million when compared to 2018.

The table below presents the amounts of the gross insurance, reinsurance and co-insurance premium written, gross claims incurred and the expenses under the major insurance segments used for solvency purposes. The amounts for other insurance segments are presented in template S.05.01 of Annex to this Report.

Table 2: Premium, claims and expenses of the Company by major insurance segments for solvency purposes in 2019 and 2018

	In EUR thousand	
	2019	**2018**
Gross written premiums from insurance, reinsurance and co-insurance contracts	**702,132**	**660,210**
- Non-life insurance with health insurance	**550,278**	**513,529**
-- Motor vehicle liability insurance (LoB 4)	98,302	89,074
-- Other motor insurance (LoB 5)	124,373	118,489
-- Fire insurance and other damage to property insurance (LoB 7)	168,192	155,582
-- Other non-life insurance with health insurance segments	159,411	150,384
- Life insurance	**151,854**	**146,681**
-- Insurance with profit participation (LoB 30)	55,411	54,943
-- Index-linked and unit-linked insurance (LoB 31)	89,448	85,277
-- Other life insurance (LoB 32)	6,994	6,461
-- Annuities from non-life insurance contracts (LoB 34)	0	0
Gross claims incurred	**402,070**	**396,148**
- Non-life insurance with health insurance	**246,733**	**260,278**
-- Motor vehicle liability insurance (LoB 4)	52,056	51,351
-- Other motor insurance (LoB 5)	79,089	77,268
-- Fire insurance and other damage to property insurance (LoB 7)	66,822	66,787
-- Other non-life insurance with health insurance segments	48,767	64,872
- Life insurance	**155,337**	**135,870**
-- Insurance with profit participation (LoB 30)	79,487	66,286
-- Index-linked and unit-linked insurance (LoB 31)	68,995	69,890
-- Other life insurance (LoB 32)	1,344	1,237
-- Annuities from non-life insurance contracts (LoB 34)	5,511	-1,543
Expenses	**181,463**	**162,595**
- Non-life insurance with health insurance	**152,482**	**133,943**
-- Motor vehicle liability insurance (LoB 4)	26,294	22,397
-- Other motor insurance (LoB 5)	31,752	28,305
-- Fire insurance and other damage to property insurance (LoB 7)	49,474	43,974
-- Other non-life insurance with health insurance segments	44,961	39,267
- Life insurance	**28,981**	**28,652**
-- Insurance with profit participation (LoB 30)	9,204	9,531
-- Index-linked and unit-linked insurance (LoB 31)	16,496	16,258
-- Other life insurance (LoB 32)	3,232	2,810
-- Annuities from non-life insurance contracts (LoB 34)	49	53
Other expenses	**10,974**	**8,221**

The Company operates mostly in the territory of the Republic of Slovenia, with life insurance sold exclusively in Slovenia. More than 97% of premium income is generated by the sale of insurance to domestic clients and more than 99% of all claims are paid to domestic clients as well. The percentages above did not change significantly in 2019 compared to 2018.

Table 3: Geographic distribution of the premium and claims of the Company in 2019 and 2018

	In EUR thousand	
	2019	**2018**
Gross written premiums from insurance, reinsurance and co-insurance contracts	**702,132**	**660,210**
- Slovenia	684,274	642,738
- Other countries	17,858	17,473
Gross claims incurred	**402,070**	**396,148**
- Slovenia	400,211	395,957
- Other countries	1,859	191

Detailed quantitative data on the Company's operations subject to the geographic distribution is shown in template S.05.02 in Annex to this Report.

A.3 Investment performance

The Company's investment policy remains conservative as the majority of the investments in the portfolio is still represented by debt securities that are closely tied to liabilities. The main factors affecting the Company's investment performance are the structure of the investments and the developments on capital markets.

This chapter presents the Company's investment result broken down by the contribution of individual investment classes. A comparison with the investment performance published, by the Company last year, is also provided. The investment result shown was also published by the Company in the Annual Report of the Triglav Group and Zavarovalnica Triglav, d.d. for 2019 (hereinafter: Annual Report), section 3.7 in the Accounting Report.

Taking into account index-linked and unit-linked insurance contracts, the investment performance in 2019 was higher than in 2018. Interest income fell in both the government bond and corporate bond classes on account of the prolonged period of low interest rates. The "Other" class presents interest income from default interest on receivables and other interest expenses. Dividend income, which comes mostly from the dividends received from subsidiaries, decreased additionally. These paid fewer dividends to the parent company in 2019. An additional reason for the decrease in dividend income is the sale of a portion of equity investments which is also reflected in the higher realised result of this investment class. The "Net profit or loss" category comprises changes in the fair value of assets classified as "fair value through profit or loss", gains and losses from sale and permanent impairments. The item increased significantly compared the year before. The significant growth on stock markets is reflected the most in the collective investment undertaking class where the Company's exposure to stock market changes is the highest. The general decrease in the levels of interest rates is resulting in the significant increase of the realised and unrealised result of bond investments. The positive trend of credit spread contraction in the corporate bond class further strengthens the above trend. The significant increase of the realised result in the corporate bond segment is mainly the result of the restructuring of the debt portfolio towards lower credit risks. Hedging against sudden interest rate increases with derivatives resulted in net loss in the first half of the year. The "unrealised gains and losses" category relates only to investments classified as "available for sale" and represents a periodical change in the revaluation surplus which is an integral part of equity. "Other net financial income" is higher compared to the year before as a result of extraordinary income from the repayment of receivables. The leasing result remains unchanged in comparative terms.

Table 4: Performance of the Company's investment activities for financial reporting purposes in 2019 and 2018

2019						**In EUR thousand**
Investment performance	Net interest	Dividends	Net profit or loss	Other net financial income	Unrealised gains and losses	Rents
Investments	**38,286**	**6,104**	**85,937**	**-688**	**13,275**	**4,941**
Real estate	0	0	340	0	0	4,941
Shares	0	5,905	5,055	0	5,406	0
Government bonds	16,189	0	4,676	0	-5,974	0
Corporate bonds	13,952	0	19,140	0	11,853	0
Collective investment undertakings	0	199	62,521	0	1,989	0
Loans	2,284	0	0	0	0	0
Deposits, cash and cash equivalents	378	0	0	0	0	0
Derivatives	0	0	-5,522	0	0	0
Other	5,483	0	-273	-688	0	0

2018						**In EUR thousand**
Investment performance	Net interest	Dividends	Net profit or loss	Other net financial income	Unrealised gains and losses	Rents
Investments	**42,272**	**7,584**	**-26,553**	**-1,417**	**-39,515**	**4,819**
Real estate	0	0	1,165	0	0	4,819
Shares	0	7,124	-543	0	-988	0
Government bonds	17,363	0	3,778	0	-13,428	0
Corporate bonds	17,914	0	-3,396	0	-22,582	0
Collective investment undertakings	0	460	-23,534	0	-2,517	0
Loans	2,270	0	0	0	0	0
Deposits, cash and cash equivalents	14	0	0	0	0	0
Derivatives	0	0	-3,536	0	0	0
Other	4,711	0	-487	-1,417	0	0

The Company has no investments in securitized products.

A.4 Performance of other activities

A.4.1 Other income and expenses

The Company's other income comprising other insurance income and other income came in at EUR 41.1 million in 2019. Roughly half of the income, i.e. EUR 19.8 million, relates to reinsurance commission income. Other income mostly relates to other income from insurance operations and income from investment properties. The values of the abovementioned item did not change materially compared to the year before.

The Company's other expenses in 2019 amounted to EUR 32.8 million. The biggest share of the abovementioned income relates to expense for employee bonuses (EUR 10.6 million), commission expenses (EUR 4 million), the fire tax (EUR 4.1 million), depreciation and other expenses from investment property (EUR 3.7 million), expenses from interest on issued bonds (EUR 2.7 million) and impairments and write-offs of receivables (EUR 2.7 million). The Company's other expenses increased by EUR 5.4 million when compared to the year before. The main reason for the increase is the higher expenses for interest on issued bonds, which increased by EUR 1.5 million as a result of the newly issued bond, and higher expenses from the impairment and write-off of receivables which were up by EUR 1.1 million.

Detailed information on the Company's other income and expenses are presented in the Annual Report, in sections 4.6, 4.7, 4.13 and 4.14 in the Accounting Report.

Table 5: Other income and expenses of the Company for financial reporting purposes in 2019 and 2018

In EUR thousand

	2019	2018
Other income	**41,110**	**39,940**
- Other insurance income	29,755	27,448
- Other income	11,355	12,492
Other expenses	**32,765**	**27,414**
- Other insurance expenses	14,951	11,820
- Other expenses	17,814	15,594

A.4.2 Lease agreements

In the reporting period, the Company was a party to several lease agreements both as lessor/landlord and as lessee/tenant.

Among the contractual relationships where the Company acts as the lessor/landlord, only investment property is considered material. Of the total value of investment properties of EUR 46 million, the annual rental income amounted to EUR 4.5 million.

The Company acts as the tenant/lessee when renting business premises and parking spaces, leasing software and data lines, leasing multi-function devices and leasing cars.

The new International Financial Reporting Standard dealing with leases (hereinafter: IFRS 16) entered into force on 1 January 2019. The standard mainly changes the recognition of leases for lessees/tenants, while it brings no significant changes for lessors/landlords. The financial statements of lessees/tenants no longer disclose leases among lease costs, but as the right to use assets which are also depreciated subject to the lease term. Upon initial recognition, the value of the assets is measured at the current value of future rents.

As at 1 January 2019, the right to use assets in the amount of EUR 4.7 million was recognised by the Company. The total annual depreciation expense of these assets was EUR 1 million, while interest expenses came in at EUR 76 thousand. Rental costs not accounted according to IFRS 16, i.e. short-term leases and low-value leases, came in at EUR 360 thousand in 2019.

A.5 Any other information

EVENTS IN 2020

Pandemic: At the time of writing this Report, great uncertainties were detected regarding the continued spread of coronavirus in Slovenia as well as in neighboring countries. In many countries around the world, including Slovenia, public life is being stopped, production and supply chains are being disrupted.

The international financial markets recorded at the beginning of March 2020 noticeable changes in exchange rates in a short period on a global economic level which are a consequence of coronavirus COVID_19 epidemic. The noticeable changes were in high declines in share prices and other goods (oil), additional pronounced decline in risk-free interest rates and increase in credit spreads. There is also a noticeable liquidity fluctuation because of the said risks. The pandemic will have a big impact on economic growth both in countries that the Company operates in as well as abroad.

Due to the fluctuations in the financial markets, market risks are one of the most important influences on business operations. The structure of the investment portfolio remains similar to the end of 2019. Sensitivity of capital adequacy to market risk shocks is presented in more detail in Chapter C.2 of this Report.

Underwritting risks are also increasing, mainly from credit, health and life insurance and event cancellation insurance, which represent a smaller part of Company's operations. When taking out insurance, the scope of insurance premiums may shrink in some insurance classes as a result of distance contracting and, secondarily, of the projected economic downturn. On the other hand, reduced economic activity could also lead to a reduction in loss events themselves, at least in the short term.

In accordance with the recommendations of the health care profession and the competent institutions, the Company has adapted its business processes to limit the spread of infections. Thus, the business continuity plan was activated, which also includes distance services, both for taking out insurance and for dealing with claims. Work from home has been established to a considerable extent. These exceptional measures ensure that customer support is as effective as possible, while protecting customers and employees. However, operational risks are increased due to disruption of work processes, greater simultaneous absence of key employees, risk of interruptions, work from home and, consequently, greater risk of information security.

Due to the many unknowns, it is difficult to fully assess the consequences at this time. However, the Company currently estimates that it has a sufficiently resilient insurance and investment portfolio and an adequate capital position to successfully cope with increased risks in these exceptional circumstances.

OTHER RELEVANT INFORMATION

All information relating to business and performance of the Company is disclosed in sections A.1 through A.4.

B. System of governance

B. System of governance

B.1 General information on the system of governance

A two-tier system of governance including the following bodies is set up at the Company: General Meeting, the Management Board and the Supervisory Board. The bodies operate in accordance with the laws and other regulations, the Company 's Articles of Association and their respective rules of procedure.

In addition to the management bodies, the Company's system of governance also includes the risk management function, the actuarial function, the compliance function and the internal audit function. They are organised at the Company as independent organisational units, which carry out their duties and responsibilities independently from one another and from the other organisational units of the Company.

They operate in line with the structure of the three lines of defence within the Company's governance system. The responsibilities for the performance of tasks, processes and reporting obligations of every key function are defined within the system of governance. Key functions are presented in further details in Sections B.3.3, B.4.1, B.5 and B.6.

The system of governance also includes committees, the members of which are appointed and recalled by the Management Board. The committees differ from one another in terms of their purpose, composition and powers, while their decisions are binding. Committees within the risk management system are presented in Section B.3.4.

B.1.1 Management bodies of the Company

B.1.1.1 Management Board

The Management Board governs and manages the Company independently and at its own responsibility. It represents and presents the Company without limitation. The Company is always represented and presented in legal transactions by two Management Board members jointly, i.e. the President and member. The Management Board has at least three and no more than six members, one of whom is the President. The President of the Management Board proposes the appointment or recall of all or individual Management Board members to the Supervisory Board. The Company has an Employee Representative whose position is Management Board member.

The main competences and tasks of the Management Board are as follows: compliant management and organisation of the Company's operations; representation of the Company vis-à-vis third parties; responsibility for the legality of operations, adoption of the development strategy of the Company and the annual plan of operations, reporting to the Supervisory Board on the performance of both the Company and the Group.

On 28 March 2019, the Supervisory Board appointed David Benedek as the new Management Board member for a five year term of office. He assumed the function of Management Board member on 29 August 2019 when he received the decision of the ISA by way of which he was issued the permit for the performance of this function.

As at 31 December 2019, the Management Board composition was as follows:

Table 6: Composition of the Management Board and the competences of the members of the Management Board of the Company as at 31 December 2019

Company's Management Board	Function	Competences
Andrej Slapar	President of the Management Board	- Management Board Office - Legal Office - Internal Audit Department - Corporate Communication Department - Business Intelligence (BI) - Compliance Office - Non-Life Insurance Development and Actuarial Department - Corporate Accounts - Senior management staffing - Arbitration - Nuclear Insurance and Reinsurance Pool, GIZ (Commercial Association of Slovenian Insurance Companies) - representation of the Company in the Council of the Slovenian Insurance Association
Uroš Ivanc	Member of the Management Board	- Strategic Sourcing Department - Risk Management Department - Strategic Planning and Controlling Department - Accounting Division - Finance Division (excluding Investment Department)
Tadej Čoroli	Member of the Management Board	- Innovation and Digitalisation of Operations Service - Client Contact Unit - Marketing Department - Insurance Sales Division - Non-Life Insurance Division - Non-Life Insurance Claims Division
Barbara Smolnikar	Member of the Management Board	- Life Insurance Division - Life Insurance Development and Actuarial Department - Money Laundering Prevention Division
David Benedek	Member of the Management Board	- Subsidiary Management Division - Investment Department
Marica Makoter	Member of the Management Board - Workers' Director	- representation of the interests of the workers within the Management Board as stipulated in the Worker Participation in Management Act - Organisation Development and Business Process Management Department - Fraud Prevention, Detection and Investigation Department - Project Change and the Portfolio Management Department

	- IT Division - Back Office Division - HRM Division, except HR issues related to senior management staffing

B.1.1.2 General Meeting of Shareholders

Shareholders exercise their rights in Company matters at the General Meeting that is convened no less than once a year. The powers and operation of the General Meeting are defined by the Companies Act and the Company's Articles of Association. A shareholder registered in the share register kept by the Central Securities Clearing Corporation (KDD) as the holder of the shares at the end of the fourth day prior to the General Meeting session may participate in the General Meeting. They may exercise their voting right provided they announce their participation no later than by the end of the fourth day prior to the date of the General Meeting. The rights and obligations afforded to the shareholders by the shares as well as the explanations on the limitations on share transfers and the attainment of the qualified share are presented in greater detail in the Business Report of the Annual Report, section 6.2.

B.1.1.3 Supervisory Board

The Company's Supervisory Board has nine members, six of whom are shareholders' representatives and three are employee representatives. The members of the Supervisory Board - shareholders' representatives are elected by the General Meeting. The Members of the Supervisory Board who act as employee representatives are elected by the Company's Works Council, which informs the Company's General Meeting of its decision. The Chairman and Vice Chairman are elected from among the Supervisory Board members who act as shareholders' representatives. The term of office of Supervisory Board members is 4 years, whereby they may be re-elected without limitation.

The Supervisory Board supervises the management of the Company. In addition to the powers granted to the Supervisory Board by the Companies Act and the Insurance Act (hereinafter: ZZavar-1), the Supervisory Board grants its consent to the decisions of the Management Board where the stake of the Company or the value exceeds the limit set in the Rules of Procedure of the Supervisory Board, i.e. in the establishment of companies with share capital in Slovenia and abroad, the acquisition or sale of the Company's stakes in foreign or domestic companies, the issue of debt securities of the Company and long-term borrowing from domestic and foreign banks, the acquisition and sale of the Company's real estate as well as investment in its real estate. The Supervisory Board also grants its consent to the appointment and dismissal of the Internal Audit Department Director as well as the granting and revoking authorisations of the Company's key function holders. It also grants consent to the Management Board for the business strategy and financial plan of the Company as well as the internal acts of the system of governance. The Supervisory Board also sets the remuneration of the President and members of the Management Board and works with the Management Board to set the remuneration of the Internal Audit Department Director.

When supervising the conduct of the Company's business, the Supervisory Board in particular supervises the adequacy of procedures and effectiveness of the work of the Internal Audit Department, considers the findings of the ISA, tax inspection and other supervisory authorities in procedures for the supervision of the Company, verifies annual and other financial reports of the Company and prepares a reasoned opinion thereto, provides grounds for its opinion on the Internal Audit Department's annual report to the General Meeting and compiles a written report for the General Meeting, reviews the proposal for the appropriation of distributable profit, which was submitted by the Management Board, takes a position on the audit report and draws up a written report for the General Meeting by including potential comments or approving it.

The Supervisory Board is not directly part of the three lines of defence within the Company's risk management system, but its role in the system is nevertheless essential. Just as the Management Board, the Supervisory Board is a primary stakeholder, to which all three lines of defence report, and simultaneously the entity responsible for the functioning of the three lines of defence system within the risk management system and control processes. As part of its supervisory work, it is regularly briefed on the effectiveness and performance of the functioning of the risk management system.

The Supervisory Board appoints and may also recall the members of the Management Board. In doing so, it strives to ensure the continuity of their work through prudent and timely selection of the President and other members of the Management Board.

The Supervisory Board decides with the majority of the votes cast by the members present.

On 31 May 2019, the four year term of office of the following Supervisory Board members - employee representatives expired: Boštjan Molan, Ivan Sotošek and Peter Celar. On 25 April 2019, the Works' Council elected Peter Celar and Branko Gorjan and on 26 September 2019 also Igor Zupan as the new Supervisory Board members who act as employee representatives. Peter Celar and Branko Gorjan began their term of office on 1 June 2019 while Igor Zupan's term began on 27 September 2019 and will expire on 31 May 2023.

As at 31 December 2019, the Supervisory Board composition was as follows:

Table 7: Members of the Supervisory Board as at 31 December 2019

Member of the Supervisory Board	Function	Competences
Igor Stebernak	Chairman, shareholders' representative	Appointments and Remuneration Committee
Andrej Andoljšek	Vice Chairman, shareholders' representative	Strategic Committee Nominations Committee
Milan Tomaževič	Member, shareholders' representative	Strategic Committee
Žiga Škerjanec	Member, shareholders' representative	Appointments and Remuneration Committee Strategic Committee Nominations Committee
Nataša Damjanovič	Member, shareholders' representative	Audit Committee, Appointments and Remuneration Committee

Mario Gobbo	Member, shareholders' representative	Audit Committee
Peter Celar	Member, workers' representative	Appointments and Remuneration Committee Nominations Committee
Branko Gorjan	Member, workers' representative	Strategic Committee
Igor Zupan	Member, workers' representative	Audit Committee

SUPERVISORY BOARD COMMITTEES

The Supervisory Board may appoint one or several committees, which prepare draft resolutions of the Supervisory Board, assure their realisation and perform other expert tasks. A committee or commission may not decide on issues that fall under the competence of the Supervisory Board.

The following Supervisory Board committees operated at the Company in 2019: Audit Committee, Appointments and Remuneration Committee, Strategic Committee and the Nominations Committee, which represents a provisional committee for the implementation of the nomination procedure for the appointment of a candidate or candidates for one or more Supervisory Board members – shareholders' representatives.

Table 8: Composition and competences of Supervisory Board committees as at 31 December 2019

Supervisory Board committees	Competences
AUDIT COMMITTEE **Composition:** - Mario Gobbo, committee Chairman - Nataša Damjanovič, member - Igor Zupan, member (since 13 November 2019) - Simon Kolenc, independent external expert	- monitoring the financial reporting process, preparing reports and drafting proposals for ensuring its comprehensiveness; - monitoring the efficiency and effectiveness of internal controls, internal audit and risk management system; - monitoring the mandatory audit of annual and consolidated financial statements and reporting on the audit findings to the Supervisory Board; - responsibility for the auditor selection procedure and proposing the appointment of a candidate to the Supervisory Board to audit the Company's Annual Report and participating in the drafting of an agreement between the auditor and the Company; - supervising the integrity of financial information provided by the Company and evaluating the drafting of the Annual Report as well as the drafting of a proposal for the Supervisory Board; - cooperation with the Internal Audit Department, monitoring its quarterly reports, examination of the internal acts and rules on the functioning of the Internal Audit Department and the annual plan of the Internal Audit Department; - examination of the decision on the appointment, dismissal and remuneration of the Internal Audit Department Director.

APPOINTMENTS AND REMUNERATION COMMITTEE **Composition:** - Igor Stebernak, committee Chairman - Žiga Škerjanec, member - Nataša Damjanovič, member - Peter Celar, member (since 20 August 2019)	- drafting proposals regarding the criteria for membership in the Management Board; - drafting proposals regarding the policy on remuneration, compensation and other benefits for the Management Board members; - preliminary consideration of proposals made by the President of the Management Board related to the management of the Company; - performance of the fit and proper assessment of the Management and Supervisory Board members; - support and drafting of proposals in areas that concern the Supervisory Board.
STRATEGIC COMMITTEE **Composition:** - Milan Tomaževič, committee Chairman - Andrej Andoljšek, member - Žiga Škerjanec, member - Branko Gorjan, member (since 20 August 2019)	- drafting and discussing proposals for the Supervisory Board with respect to the Group strategy and monitoring the implementation thereof; - drafting and discussing proposals and opinions for the Supervisory Board with respect to the Group's strategic development.
NOMINATIONS COMMITTEE **Composition:** - Andrej Andoljšek, committee Chairman - Žiga Škerjanec, member - Peter Celar, member - Boštjan Kolar, external member	- conducting the nomination procedure for the appointment of a candidate/-s to the position of Supervisory Board member/-s – shareholders' representatives - recording the candidate/-s for the position of Supervisory Board member/-s and inviting the Appointments and Remuneration Committee to produce a fit and proper assessment of the candidates - sending the proposal to the Supervisory Board for the appointment of a candidate/-s to the position of Supervisory Board member/-s – shareholders' representatives

B.1.2 Remuneration policy

By implementing the Remuneration Policy of the Company (hereinafter: Remuneration Policy), the Company realises a solid and reliable system of governance as well as the integrity and transparency of the operations.

MANAGEMENT BOARD

The remuneration of the Management Board, i.e. both the basic salary and the annual operating performance-based bonus, are set and paid out pursuant to the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Management Board members are entitled to a perk in the form of the premium for voluntary pension insurance. No special pension schemes or early retirement schemes apply to Management Board members.

EXECUTIVE AND MANAGEMENT EMPLOYEES AND OTHER EMPLOYEES WORKING UNDER INDIVIDUAL AGREEMENTS

The basic salary (fixed part of pay) for executive and management employees and other employees working under individual agreements is stipulated in the employment contract, whereby the minimum and maximum basic gross salary for each group is stipulated in an internal act.

Management employees and other employees working under individual agreements are entitled to a work performance-based part of pay (variable part of pay) provided they exceeded the predetermined targets and expected work results in the assessment period. The wage bill for the payment of the work performance-based part of pay is set by the Management Board in observance of operating results.

In accordance with the criteria determined by the Management Board and subject to good operating results, executive, managerial and other employees working under individual agreements are entitled to the operating performance-based part of pay – annual bonus. The amount of the bonus is limited at the top end.

EMPLOYEES WORKING UNDER A COLLECTIVE AGREEMENT

The basic salary of employees working under a collective agreement is determined by taking into account the qualifications and responsibilities required by the position of employment as well as how demanding the position of employment is. If they exceed the predetermined targets and expectations, they are entitled to a work performance-based part of pay (variable part of pay). The wage bill for the payment of the work performance-based part of pay is set by the Management Board in observance of operating results.

In accordance with the criteria determined by the Management Board and subject to good results, workers are entitled to the operating performance-based part of pay – annual bonus.

All employees at the Company can join the collective supplemental voluntary pension insurance (SVPI) and voluntary pension insurance (VPI). The Company pays the premium as a proportion of the employee's gross salary for each employee in accordance with the agreement reached with the employees' representatives. Collective voluntary supplementary pension insurance represents the collection of funds on the members' personal accounts with the aim of providing them with the disbursement of a supplementary old age pension from retirement onwards. Voluntary pension insurance represents saving to acquire a monthly pension payment that is paid out either from a particular date onward or from the date of retirement until the end of one's life, but for no less than 10 years.

B.1.3 Related party transactions

Related parties of the Company include:

- shareholders who have a significant influence on the operations of the Company;
    - Zavod za pokojninsko in invalidsko zavarovanje Slovenije (Pension and Disability Insurance Institute of Slovenia) holding a 34.47% stake;
    - Slovenski državni holding, d.d. (Slovenian Sovereign Holding) holding a 28.09% stake;
- members of the Management Board;
- members of the Supervisory Board.

The only materially significant transaction in 2019 was the distribution of dividends. In 2019, the Company paid out dividends for 2018 in the total amount of EUR 56.8 million. The Pension and Disability Insurance Institute of Slovenia received EUR 19.5 million and the Slovenian Sovereign Holding received EUR 16 million.

There were no material related-party transactions at the Company during the year.

B.2 Fit and proper requirements

In accordance with the requirements prescribed in Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (hereinafter: Delegated Regulation) relating to the Fit and Proper Policy, persons who manage or supervise the Company or perform work in key functions are required to have suitable professional qualifications and be suitable for the job (good reputation and integrity).

The **fit and proper assessment of Management Board and Supervisory Board members** as well as the Management Board and Supervisory Board as a collective body is implemented prior to the appointment for the term of office (initial assessment), during the term of office (periodic assessment) and in case of circumstances that raise doubts as to their fit and proper status of Management Board and Supervisory Board members (extraordinary assessment).

As part of the assessment, Management Board and Supervisory Board members are assessed in terms of the meeting of criteria regarding fitness (professional qualifications, experience, competences) and suitability criteria (clean criminal record, professional reputation, goodwill and personal integrity). As part of the assessment of the Management Board and Supervisory Board as collective bodies, all members are checked whether they possess collective knowledge and experience related to insurance and financial markets, the business strategy and business models, governance systems, financial and actuarial analyses, risk management and regulative frameworks as well as other legal requirements that are binding on the Company.

The **fit and proper assessment of the key function holders** is performed regularly (prior to the granting of the authorisation), periodically (during the validity of the authorisation) and in an extraordinary assessment (upon the occurrence of circumstances that raise doubt as to their fit and proper status). As part of the assessment, the fitness (professional qualifications, specialised knowledge, experience and competences) and suitability criteria (clean criminal record, professional reputation, goodwill and personal integrity) are verified. Key function holders must – in addition to the above fitness conditions that are general in nature and apply to everyone – also meet the following conditions:

THE HOLDER OF THE ACTUARIAL FUNCTION must possess the knowledge in the field of actuarial science and mathematical finance in accordance with the requirements of the ISA, no less than five years of experience in this field of work, a valid licence for a certified actuary; they must have membership in a full member of the International Actuarial Association – IAA and must have performed the actuarial function and tasks of a certified actuary on a comparable portfolio for at least the last two years prior to certification.

THE HOLDER OF THE RISK MANAGEMENT FUNCTION must possess the knowledge on the application of risk management models and methods as well as no less than five years of work experience.

THE HOLDER OF THE COMPLIANCE FUNCTION must possess no less than five years of work experience.

THE HOLDER OF THE INTERNAL AUDIT FUNCTION must possess no less than five years of work experience in the field of auditing or ten years of experience in a related activity as well as the title of certified internal auditor pursuant to the act governing auditing.

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

B.3.1 Description of the risk management system

The risk management system is one of the main building blocks of the Company's system of governance. Its objective is to identify, monitor and manage short-term and long-term risks underwritten by the Company in accordance with its strategic goals. Effective functioning of the risk management system is based on the awareness of risks as well as cooperation and open communication about the risks, the main aspect of which is a suitable corporate culture that represents an important guideline of the Company's management team. The system at the Company is set up so that risk assessments performed are communicated in a timely manner to all stakeholders who require such information for improved operation.

In order to effectively implement the risk management system, the Company has in place confirmed internal acts governing the risk management system that ensure a clear delimitation of internal relationships in terms of the responsibilities and competences of divisions in risk management processes and also define the risk handling methods, measures and the reporting system.

The objective of the risk management system is to ensure the realisation of the Company's strategic goals, the mission and the vision. The Company has determined a certain level of risks, measured by the level of potential loss that it is still willing to assume at particular level of profitability in the course of its business operations so as to attain the set business objectives and strategic goals.

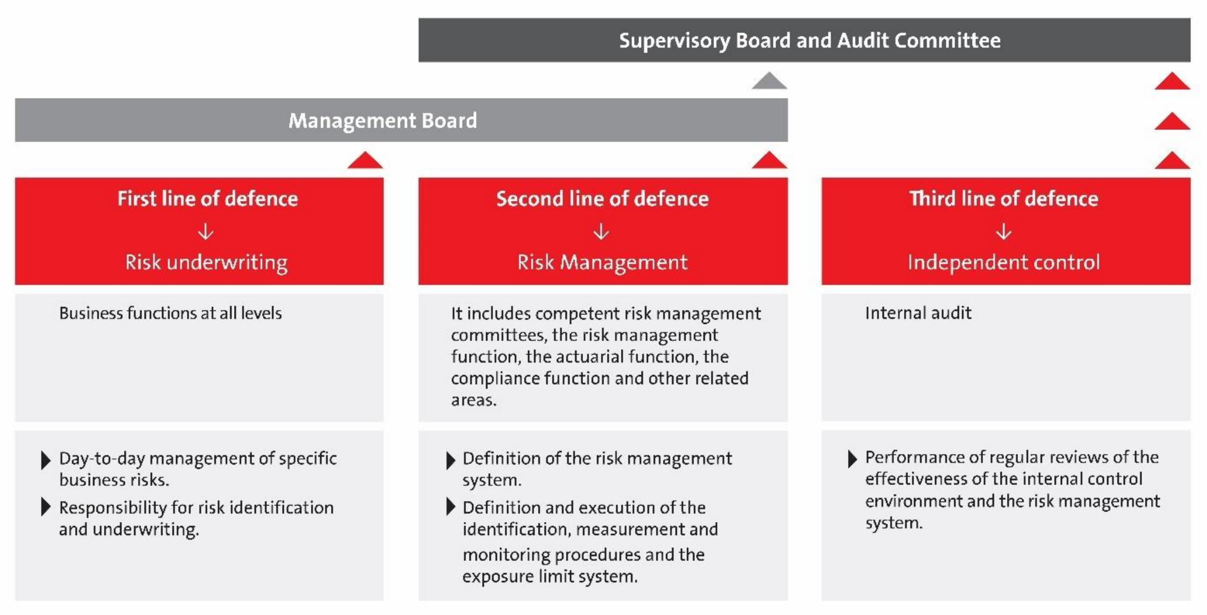
The main aim of the risk management system is supervision of the identified, underwritten and contingent risks. The system enables timely detection of risks and the implementation of measures to ensure that the risk profile levels are the same as those laid down in the Risk Appetite Statement (hereinafter: Risk Appetite).

The key guidelines when taking on risk are:

- avoidance of risks in functioning areas that are unacceptable to the Company because of the excessive level of risk;
- underwriting of risks in areas where a balanced ratio between the costs and returns of the underwritten risk is expected;
- limitation and mitigation of risks to an acceptable level by setting limits and regular monitoring;

The risk management system at the Company is based on the three lines of defence.

Figure 2: Risk management system at the Company



THE FIRST LINE OF DEFENCE consists of business functions, which are responsible as part of their business decisions for risk identification and underwriting in accordance with the Management Board's guidelines for their respective line of business and are also responsible for active operational management of specific business risks.

THE SECOND LINE OF DEFENCE represents business functions and decision-making bodies forming the risk management system, which includes exposure identification, measurement and monitoring procedures as well as the exposure limit system. Key functions, such as risk management function, the actuarial function and the compliance function, work as the second line of defence. The second line of defence also includes the competent committees for the area of risk management, Fraud Prevention, Detection and Investigation, Project Portfolio and Change Management, and IT Management Support.

THE THIRD LINE OF DEFENCE includes the internal audit function which executes supervision of the Company's operations by systematically and methodically auditing and assessing the adequacy and effectiveness of the governance of the Company, risk management and control procedures. The internal audit function also issues recommendations for improvements.

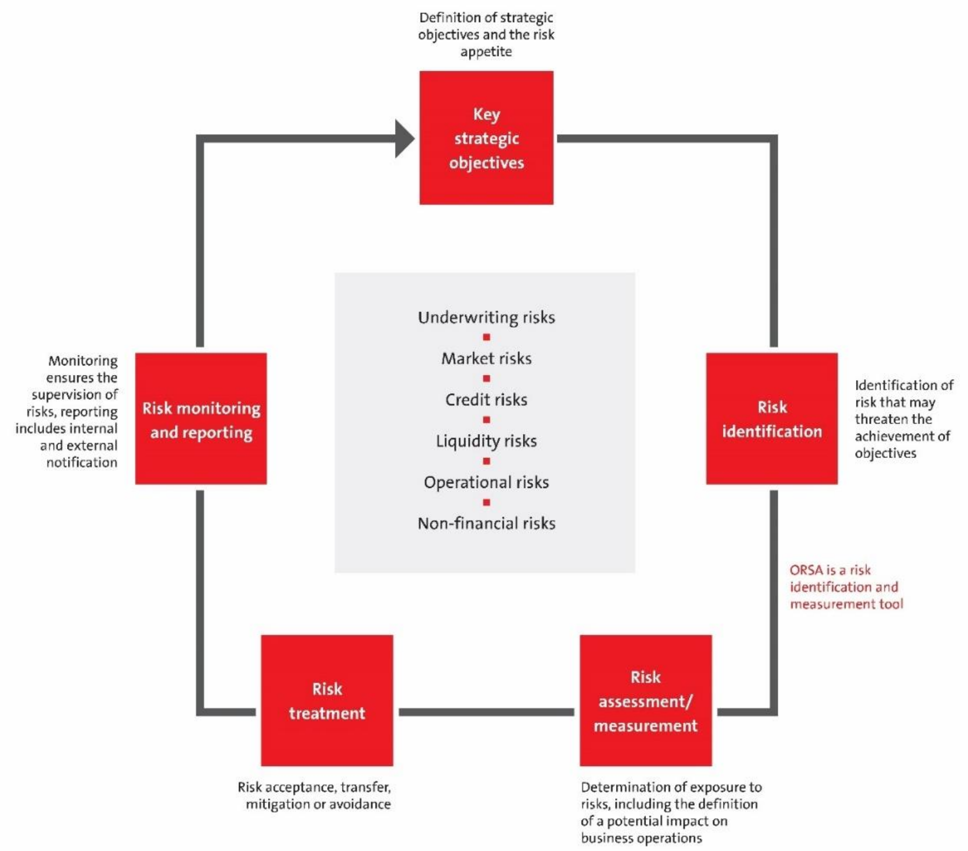
The risk management system at the Company is based on the basic building blocks: knowledge and understanding of underwritten risks, integration of risk management into the overall organisational culture and structure, definition of limits and the system for risk exposure monitoring and action, risk measurement and risk reporting.

The risk management system encompasses the following activities:

- identification of risks occurring in operations;
- measurement or assessment of the importance of individual risks;
- definition of risks which involves the definition of objectives in the area of risk underwriting taking into account the guidelines from the defined risk appetite, and establishment of a limit system on the basis of the risk appetite;
- control over the underwriting of risks arising from operations and reporting;
- risk management in a manner that ensures compliance with the strategy and the defined restrictions as well as the implementation of measures in the event deviations are identified or in case of strained operating conditions.

The main building blocks of the comprehensive risk management system of the Company are the Strategy of the Group and the Business Plan of the Company.

Figure 3: Risk management process at the Company



It is already during the process for the determination of strategic guidelines and objectives that events are considered that could have a negative impact on the operations of the Company, especially those affecting the achievement of the Company's planned key indicators and guidelines. As part of the Own Risk and Solvency Assessment (hereinafter: ORSA), their financial effect and impact on capital adequacy are assessed and measures are defined that ensure the timely detection and suitable consideration of the detected risks.

The Company regularly monitors, manages and reports on the more important detected events. Risks are regularly measured and monitored using various methods:

- The regulatory method is used in the process of calculating capital adequacy at the Company level and to justify significant changes in the period.
- Internal methods are used in the internal risk measurement process when own calculations of the defined key risk indicators are performed, thereby assessing the risk level of a particular category. In doing so, limits are defined that limit the underwriting of risks in an individual set and are used in regular operations.
- The S&P risk assessment method is used when the Company calculates capital adequacy based on the methodology of the S&P rating agency.

The risk management system committees are actively involved in the monitoring of the assessed material risks.

When managing risks, the Company acts preventively whereby it applies two approaches: decomposition (e.g. product) and diversification (e.g. investment) of individual risk types. When balancing risk exposure, the key measure is the setup of a suitable limit system that the Company adjusts to the current external developments subject to the business opportunities, whereby it remains within the defined risk appetite at all times.

B.3.2 Risk management strategy and definition of the risk appetite

The Company has outlined and described the complete risk management system with the risk management strategy and the risk appetite. The risk management strategy clearly defines the principles and objectives of the risk management system as well as a comprehensive risk management process (including the delimitation of competences and responsibilities) and provides guidelines for the underwriting of individual risk types (appetite and tolerance). The risk appetite is one of the central building blocks of the risk management system that represents the maximum level of risk measured by the level of potential loss that the Company is still willing to assume in the course of its business operations so as to attain the set business objectives and strategic goals.

The objective of risk management at the Company is advance identification of individual risk types and their assumption and management.

The Company aims to achieve optimum exposure to all material risks. In order to meet the return on equity objective, the Company assumes underwriting, market, credit, liquidity, operational and non-financial risks in accordance with the Company's business strategy, risk management strategy, investment policy and the annual business plan of the Company.

The Company defines its risk appetite in the form of indicators that are defined for all material risks.

B.3.3 Risk management function

All four key functions and the committees operating within the scope of the risk management system play an important role in the risk management system at the Company.

In addition to supporting the Management Board and the Supervisory Board in the effective implementation of the risk management system, the key tasks of the risk management function are to put in place, act as custodian of and monitor the risk management system, to monitor the overall risk profile of the Company as a whole, identify and assess emerging risks, actively provide for the functioning of the risk management system committees, coordinate and calculate capital requirements, coordinate the ORSA process and draft regular reports, including Solvency and Financial Condition Report of Zavarovalnica Triglav, d.d. (hereinafter: SFCR) and the Regular Supervisory Report of Zavarovalnica Triglav, d.d. (hereinafter: RSR). In addition to the above, the function is tasked with detailed unbiased reporting on risk exposure and consulting to the Management Board and the Supervisory Board on matters in the area of risk management, including strategic matters such as the Company's strategy, mergers and acquisitions as well as major business projects and investments.

The risk management function works autonomously and independently of the other business functions. It is performed in Risk Management Department.

As part of the regular assessment of the Company's risks, the risk management function assesses the suitability and effectiveness of risk management procedures and – if it detects deviations – performs the advisory function. By providing guidelines, recommendations and proposals, it co-creates internal controls for improved monitoring of risks within a specific process, functional area or at the level of the entire Company. It notifies the risk management system committees of the more important findings. In addition, it also reports to the ISA in line with the applicable legislation relating to the tasks of the risk management function.

The risk management function holder is authorised by the Management Board subject to consent from the Supervisory Board.

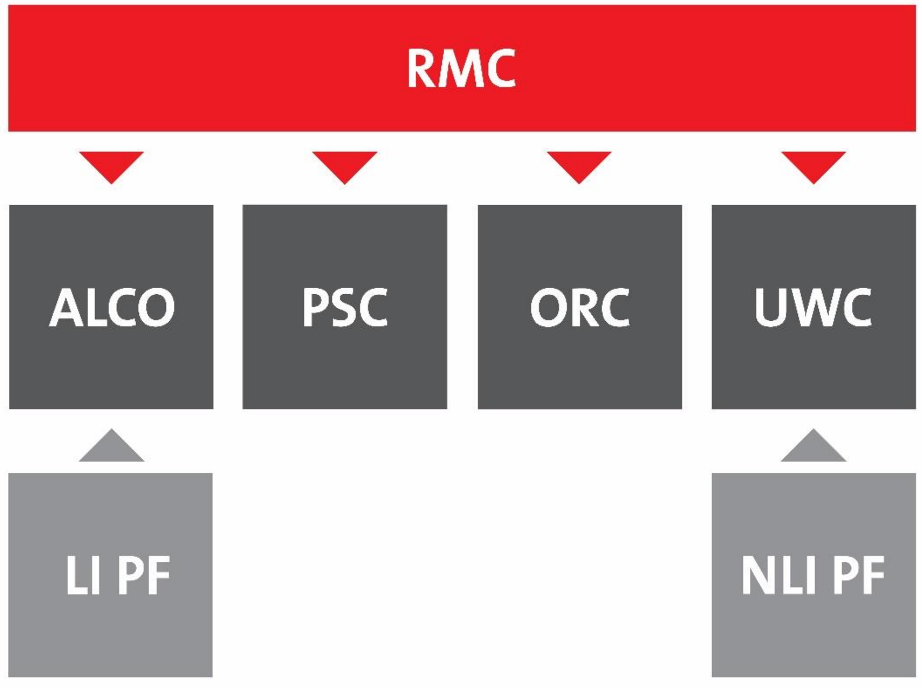
The findings and opinions of the risk management function holder are to be objective and independent from the influence of other business fields. The risk management function holder and other persons that perform the tasks of the risk management function at the Company have access to all Company information required for the performance of the said tasks.

The risk management function holder performs tasks as part of the second line of defence.

B.3.4 Committees operating within the scope of the risk management system

The following Committees form the second line of defence at the Company level within the scope of the risk management system and they work with one another and exchange the required information. Committees ensure effective functioning of the risk management system at divisions for which they are responsible and regularly monitor the risks of the Company.

Figure 4: Organisational chart of the committees within the Company's risk management system as at 31 December 2019



The Risk Management Committee (RMC) is the committee of the Management Board which is tasked with verifying the effectiveness of the functions that manage risk and ensuring that the Company has an appropriate infrastructure in place as well as adequate resources and systems that allow for a satisfactory level of business risks management. Apart from that, the committee assists in risk identification and management as well as in fostering the risk culture at the individual divisions within the Company. The fundamental objectives of the committee are to assist the Management Board in assessing exposure to operating risks, identifying material risks and weaknesses in the internal control environment of the Company, controlling risk exposure, confirming the methodology for risk measurement and the setting of limits for individual risk categories as well as verifying whether risk exposure complies with the Company's risk appetite.

The Assets and Liabilities Committee (ALCO) is the committee that is responsible for the management of life underwriting risks, market risks, credit risks and liquidity risks in the investment portfolio segment at the level of the Company. An important task of the committee is the creation of the Company's asset and liability management strategy aimed at achieving the strategic goals in line with the applicable statutory provisions taking into account the risk appetite, risk exposure limits and any other restrictions that affect the asset and liability management process at the Company.

The Underwriting Committee (UWC) is an integral part of the Company's risk management system, the basic objective of which is to monitor and optimise the level and concentration of assumed underwriting risks under non-life insurance products and to propose limits or an optimum ceding/transfer of assumed underwriting risks to reinsurance, taking into account both the Company's risk appetite and the risks arising from counterparty exposure. The committee identifies, manages, monitors and reports non-life underwriting risks and develops the non-life underwriting risk management system.

THE OPERATIONAL RISK COMMITTEE (ORC) works to set up an integrated operational risks management system that is tailored to the Company's requirements, including the optimum allocation of the appetite for operational risks subject to the guidelines stipulated in the Risk Appetite. It also works to control the functioning of the Company's operational risk management system, including the review and confirmation of measures for its improvement. Its operations are carried out with respect to all groups of operational risks (internal fraud or unauthorised activity of internal staff; external fraud or unauthorised activity of third parties; system failure and associated disruptions to operation; damage to physical assets; unsuitable human resource management and working environment safety; non-compliance with the regulations, unsuitable business or market practice and customers and products; unsuitable process and control environment implementation and management, including suppliers and business partners). IT security risk, including cyber risk and the business continuity management system, is monitored as a special group of operational risk. The ORC also monitors the recommendations of the Internal Audit Department relating to the structure of the operational risks management system.

NON-LIFE AND LIFE INSURANCE PRODUCT FORUMS (NLI PF AND LI PF) are tasked with pursuing the principal objective of assurance of continuous development and modification of insurance products for the Slovenian and other markets in which the Company markets its products. When developing and changing insurance products, it is necessary to ensure compliance with the Company's strategy as well as to make adaptations to meet the needs of the market while at the same time observing the legal frameworks, standards and good practice of the insurance and finance professions, insurance product management and supervision policy as well as the guidelines from the risk appetite regarding the assurance of a suitable underwriting risk profile.

THE PROJECT STEERING COMMITTEE (PSC) is a decision-making body that provides for comprehensive project portfolio management as well as the basis for transparent and traceable project implementation and project risk identification and management. This includes providing a coordinated and efficient project workflow and establishing appropriate and mutually coordinated projects at the Company.

B.3.5 Risk reporting system

The Company regularly implements risk monitoring and reports on risks in the form of standardized risk reports, including regulatory and internal indicators for all risk and operation segments. All divisions participate in the drafting of the report. In addition to the recommendations of the Risk Management Department, the report also contains comments on indicator trends and values in relation to the set limits and target values. The committees in the risk management system as well as the Management Board and the Supervisory Board discuss risk reports within the scope of their respective powers. The following is also part of the risk reporting system: Annual Report, SFCR, ORSA Report, RSR and the reports to external stakeholders.

B.3.6 Own risk and solvency assessment process

The main purpose of the ORSA process is for the Company to assess the risks arising from operations that impact the current or future capital needs. In order to suitably perform the ORSA process, it is necessary to put in place suitable and robust processes for the identification, monitoring and assessment of own risks and solvency requirements, whereby it is also necessary to ensure that the risk assessment results are used appropriately in decision-making procedures at the Company and at Group companies.

The solvency requirement assessment process builds on the basic elements of the risk management system and takes into account the risk profile, confirmed limits and the business strategy. The purpose of the solvency requirement assessment process is to verify the suitability of the regulatory measurement of risk and the strategic plan scenario from the point of view of capital adequacy assurance. The solvency requirements assessment process produces findings regarding the retention or transfer/ceding of risk, verifies the optimisation of capital management and helps meet the needs for the adjustment of premium rates whereby foundations are built for other strategic decisions. Additional stress tests provide a new spectrum of the view of the Company's risk profile and risk management.

Own risk assessment contains an assessment of the Company's current solvency requirements as well as an analysis of the sensitivity of the Company's capital adequacy to identified scenarios with a material impact on operations.

Own risk assessment is based on the identified risks that are taken into account in the assessment of solvency requirements in the planning period. An important part of ORSA is also the process, within the scope of which the Company assesses important future risks for the duration of its business strategy based on the knowledge about the current risks. This serves as the basis for the assessment of solvency requirements in the future years. As part of the annual strategic planning process, guidelines previously confirmed by the Management Board are used to determine all strategic indicators set by the Company's Management Board and Supervisory Board for the monitoring of the operations and the adoption of business decisions. One of the important indicators determined within the scope of the business strategy is the capital adequacy of the Company, which pursues the objectives outlined in the Risk Appetite of the Company and which represents an important impact on the design of the capital management policy in the future period. The Company has put in place a process for the determination of future solvency requirements so that the process is harmonised as much as possible with the strategic planning process and that it builds on the same guidelines.

The ORSA process is implemented regularly, i.e. at least once a year. In extraordinary situations, the ORSA process is implemented upon any change in the business strategy or upon any major change either in the current risk profile of the Company or in case of the identification of potential future events or scenarios that could have a material impact on the achievement of strategic goals or capital adequacy. The Company prepares the ORSA report upon the conclusion of the activities, whereby the report contains key findings and recommendations for the upgrading of processes and guidelines for functional areas. The report is considered by the RMC and formally confirmed by the Management Board. The Company notifies the Supervisory Board of the progress and the material findings of the ORSA process.

In the previous year, the Company performed the ORSA Process for the 2019 financial year. When implementing the ORSA Process, the Company took into account all the material risks, to which it was exposed by the calculation date, as well as any potential risks that could have an impact on its operations over the next planning period. The Company's capital adequacy plan assessed within the scope of the ORSA process was confirmed by the Company's Supervisory Board as part of the strategic plan for the 2020–2022 period. The ORSA process, including the assessment of the assumed risks, thus represents the basis for the Management Board's decisions on capital management in the strategic period.

B.4 Internal control system

The Company's internal control system, which is based on the values and ethical principles laid down in the Group's Code of Conduct[5] encompasses risk assessment, setup of internal controls, regular assessment of their suitability and adequacy as well as communication and reporting to the supervisory bodies and other stakeholders.

The internal control system covers all organisational units and business functions of the Company. It includes all employees at the Company, including the Management Board, risk management system committees and key functions. Internal control activities are thus performed in all business and operational processes through the three lines of defence system.

The roles and responsibilities within the internal control system are distributed among business function holders who are responsible for the setup, documenting and continuous care for the effectiveness of internal controls, key functions of the second line of defence that monitor and control the suitability of internal controls and the Internal Audit Department which performs final control of the internal control system at the Company.

The Management Board approves the Group's Code, the internal act on the internal control system, the key function policy as well as the rules of procedure of committees, including amendments thereto. The Management Board monitors and manages the internal control system of the Company based on the reports issued by key functions, reporting by business functions and the decisions taken by the Management Board.

B.4.1 Compliance function

The compliance function monitors the compliance of the Company's operations with regulations and other commitments within the scope of the internal control system, and in this context monitors and assesses the potential impacts of changes in the legal environment and the associated circumstances on the Company's operations. As part of the above, it assesses risks to the compliance of the Company's operations, the suitability and effectiveness of procedures for the harmonisation of the Company's operations with the established changes and in doing so carries out the advisory function. By providing guidelines, recommendations and proposals, it co-creates internal controls for the assurance of compliance within a specific process, functional area or at the level of the entire Company. It regularly reports to the Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board on compliance of the Company's operations with regulations and other commitments. At the Company, the compliance function also plays an important role in terms of efforts to ensure fair and transparent operations, respect for human rights, implementation of programmes for the

[5] The Group’s Code of Conduct is submitted on the official website of the Company: http://www.triglav.eu

assurance of compliance in individual areas (e.g. consumer and competition protection, personal data protection, prevention of conflict of interest and internal fraud, etc.) and for the development and observation of ethical commitments and the care for their implementation in practice.

The compliance function works autonomously and independently of the other business functions within the scope of the headquarters department and is directly subordinated to the Management Board. It is part of the second line of defence in the three-level risk management system. The organisational placement, the role and responsibilities of the compliance function within the system of governance of the Company, including its reporting obligations, are defined in general in the Company's internal documents on the organisation, system and policy of governance and compliance.

B.5 Internal audit function

The internal audit function carries out risk assessment-based continuous and comprehensive control over the Company's operations. Based on a systematic and methodical approach, it reviews and assesses the suitability and effectiveness of the management of the Company, risk management and control procedures and provides recommendations for improvement. It cooperates with external auditors and other supervisory bodies, monitors the realisation of internal and external auditors' recommendations, participates in the performance of internal audits at other Group companies, maintains the quality and provides for continuous development of internal auditing at the Company, and also transfers the internal auditing know-how and good practices to other Group companies. It also provides advisory services in agreement with the Management Board and the management teams of functional areas.

The Management Board provides for appropriate working conditions to the internal audit function, both in terms of organisational independence and the funds available for its operation as well as in terms of access to all divisions, records, assets and people at the Company (including the members of the Management Board, Audit Committee and the Supervisory Board). The internal audit function, which is organised as an independent organisational unit within the Company and directly subordinated to the Management Board, is both functionally and organisationally separated from other organisational units of the Company. The internal audit function is independent in determining the areas, objectives and scope of internal audits, performance of tasks and reporting on internal auditing. The function holder and internal auditors do not perform any development and operational tasks that could cause a conflict of interest and impair their objectivity, nor do they decide on activities in the areas that are the subject of internal auditing.

The internal audit function reports on its work directly to the Management Board and Supervisory Board. The internal audit function holder therefore reports on the work of the function and the possible limitations on the operations (occurrence of circumstances that could impair the objectivity of internal auditors, eventual limitation of funds for work and the like), findings of internal audits performed as well as on the realisation of recommendations and the assessment of the suitability and effectiveness of risk management and control procedures in the audited areas:

- to the Management Board so as to maintain independence from other business functions at the Company;
- to the Audit Committee and the Supervisory Board, thereby strengthening the independence from the Management Board.

The internal audit function performs its tasks in accordance with the hierarchy of rules on internal auditing adopted by the Slovenian Institute of Auditors and the internal rules on the functioning of the internal audit function adopted by the Management Board subject to consent from the Supervisory Board.

B.6 Actuarial function

The actuarial function is one of the key functions of the Company. It is performed separately for non-life insurance and life insurance and operates autonomously and independently of the other business functions.

The Management Board and the Supervisory Board of the Company authorise the actuarial function holder who is responsible for performing the tasks of the actuarial function.

The actuarial function holder must have full, free and unlimited access to all information, data, activities and personnel of the Company, which it requires to perform its tasks.

Some of the key tasks of the actuarial function include the coordination and performance of calculations of technical provisions and the assurance that appropriate methods, models and assumptions are used in the calculations of technical provisions as well as the assurance of the suitability, adequacy and quality of the data used in the calculations of technical provisions. Another key task of this function is the verification of the suitability of the general underwriting risk policy and delivering an opinion on the adequacy of the insurance premium amount for individual products by assessing whether the premium for individual products is sufficient to cover all the liabilities arising from these insurance contracts. The function also verifies the adequacy of reinsurance and participates in the implementation of the ORSA process at the level of the Company. It also coordinates and calculates capital requirements within the scope of underwriting risks.

The actuarial function holder is authorised for the supervision and impartial reporting on the performance of actuarial tasks. They report regularly to the Management Board and the Supervisory Board of the Company on the operation of the actuarial function, and regularly inform the RMC, ALCO and UWC of material findings. They perform tasks delegated by the abovementioned committees and also work with other committees, which are part of the risk management system, as appropriate.

B.7 Outsourcing

Pursuant to the requirements of the ZZavar-1, the Company has set up all of the legally required controls and processes related to operations that are outsourced (hereinafter: Outsourced Operations).

The procedures and measures for supervising the Outsourced Operation providers and the assurance of compliance of their actions with the applicable legislation and internal rules are defined in each agreement or service-level agreement concluded between the person in charge and the provider of an individual Outsourced Operation. Consequently, each service provider is bound by the agreement to ensure the same standard of diligence as the one that the Company is committed to ensuring. An agreement and organisational measures also serve to ensure that the Company's supervisory bodies have the same options of performing supervision over the providers of Outsourced Operations as if the Company had performed these operations using its own resources. In accordance with the contractual provisions, service providers are obliged to set up and ensure mutatis mutandis the same internal controls and mechanisms to manage any potential deficiencies as the Company. The Company also has the right to supervise the functioning of the service provider's internal control system and provide guidelines regarding the performance of the outsourced service.

The Company pays special attention to the risks arising from an Outsourced Operation or the Outsourced Operation provider. These risks are considered by the Company both in making a decision to outsource an operation and in the selection of a provider, thereby ensuring that – despite the performance of a certain service being outsourced – the same level of service is provided to the policyholders as well as the same level of stability of operations as if the services were provided using own resources. Outsourced services are regularly monitored and supervised, i.e. at least once a year.

The ability of the provider and the risks arising from an outsourced service are monitored through the regular assessment of the risk whereby the aim is to define the risks or eventual changes the risks arising from an Outsourced Operation.

The Company outsources one operation relating to asset management. The operation is provided for the Company by one of its subsidiaries that specialises in asset and investment fund management. The Company performs eleven Outsourced Operations for other Group companies. These relate to the sale of insurance, asset management, IT system maintenance and the performance of internal auditing.

B.8 Any other information

SYSTEM OF GOVERNANCE ADEQUACY ASSESSMENT

An adequate system of governance is in place at the Company that is proportionate both to the nature and the scope of its operations as well as the complexity of the risks arising in the course of its operations. The system is adjusted to the legislative requirements. Adequacy is confirmed by the results of regular internal audits of this system, which are performed annually by the competent departments of the Company.

OTHER RELEVANT INFORMATION

All other information relating to the system of governance was disclosed by the Company in sections B.1 through B.7.

C. Risk profile

C. Risk profile

As part of its operations, the Company is exposed to underwriting, market, credit, liquidity, operational and other risks. The Company manages risks using internal methodologies and indicators according to regulatory capital adequacy criteria and through capital adequacy according to the S&P risk assessment method, all in accordance with the process described in section B of this Report.

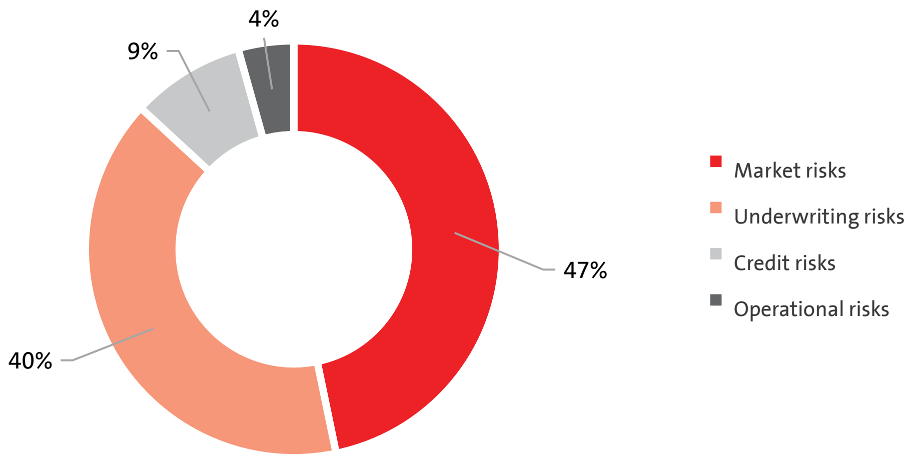
Out of all the risks, the Company's greatest exposure is to market and underwriting risks, while it is less exposed to credit and operational risks.

In order to ensure adequate risk management, the Company has risk exposures and rates in place for each risk type that help it assess the level of assumed risk. Appropriate exposure limits that prevent excessive risk underwriting and ensure adequate portfolio diversification are also defined as needed. An important element of risk management is also the risk mitigation techniques that represent an important tool for the reduction of the concentration of individual risk types.

For regulatory reporting purposes, the Company measures risk using the standard formula defined in the Delegated Regulation, which measures risk as the value-at-risk of the Company's own basic funds with the confidence level of 99.5% over a period of one year.

As at the end of 2019, the overall risk estimate of the Company, which does not take into account mutual risk effects (i.e. diversification), amounted to EUR 475.8 million for underwriting, market, credit and operational risks. The diversification of risks between the modules lowers the overall value of the mentioned risks by EUR 139.3 million.

Chart 3: Risk profile of the Company as at 31 December 2019



The Company has established two ring-fenced funds, i.e. SVPI and SVPI renta, for which risks are calculated separately, i.e. for each risk category under the standard formula. The above chart applies the simplification at risk module level method and also takes into account the risks of the ring-fenced funds that contribute EUR 17.8 million to the solvency capital requirement of the Company. The method is presented in more detail in section E.1 of this Report.

C.1 Underwriting risk

Underwriting risks are risks of loss or of an adverse change in the value of underwriting liabilities due to inadequate pricing (premiums) and provisioning assumptions taken into account in the calculation of technical provisions. The Company assumes underwriting risks when concluding insurance transactions that represent its core activity.

The main objective of underwriting risks management is to maintain such quality of the portfolio that provides for stable and safe operations while maximising return. In order to achieve the main objective, the Company has put in place procedures to ensure an appropriate level of underwriting risks exposure.

As at 31 December 2019, underwriting risks accounted for 40% of the Company's non-diversified overall risk estimate which in turn represents EUR 191.9 million.

The Company identifies the following underwriting risks in respect of its portfolio:

- non-life underwriting risks;
- health underwriting risks;
- life underwriting risks.

C.1.1 Non-life and health insurance

Under non-life insurance, the Company underwrites premium and reserve risk, lapse risk and catastrophe risk.

As at 31 December 2019, the Company's risk estimate under non-life and health insurance represents 29% of the Company's overall risk estimate, excluding diversification.

Table 9: Company's risk estimate for underwriting risks under non-life insurance for 2019 and 2018

		In EUR thousand
	2019	**2018**
Premium and reserve risk	96,605	92,087
Lapse risk	24,001	18,507
Catastrophe risk	32,574	30,512
Diversification	-41,184	-35,473
Non-life underwriting risks	**111,995**	**105,634**

Table 10: Company's risk estimate for underwriting risks under health insurance for 2019 and 2018

In EUR thousand

	2019	2018
Health insurance risk valued as life insurance risk	10	11
Premium and reserve risk	24,105	25,312
Lapse risk	6,153	5,591
Catastrophe risk	2,758	2,758
Diversification	-7,314	-6,921
Health underwriting risks	**25,712**	**26,751**

The growth in the risk estimate for non-life insurance as at the end of 2019 is mainly the result of portfolio growth as the latter increases premium and reserve risk. The capital requirement increased additionally as a result of the change to the standard formula that adds capital requirements for hail and windstorm perils under the catastrophe risk sub-module and also values certain existing risks differently.

The risk estimate for health insurance did not change materially in the reporting period.

RISK EXPOSURE

The Company is most exposed to premium risk in the other motor vehicle insurance segment (LoB 5).

PREMIUM AND RESERVE RISK

The exposure of the volume measure for premium risk ranges in accordance with the net earned premium. It increased at the Company by EUR 19.2 million compared to the previous period as a result of portfolio growth. Details on the net earned premium of the Company as at 31 December 2019 are shown in template S.05.01 in Annex to this Report.

Table 11: Premium risk exposure measured as the annual volume of net earned premium under non-life and health insurance for 2019 and 2018

In EUR thousand

	2019	2018
Net earned premium	**420,378**	**401,129**
- Other motor vehicle insurance (LoB 5)	112,396	104,151
- Fire and other damage to property insurance (LoB 7)	93,234	91,679
- Motor vehicle liability insurance (LoB 4)	86,372	81,012
- Income protection insurance (LoB 2)	53,791	53,083
- General liability insurance (LoB 8)	26,330	26,007
- Other non-life and health insurance segments	48,256	45,197

The Company is most exposed to reserve risk in the motor vehicle liability insurance segment (LoB 4). The exposure of the volume measure for reserve risk ranges in accordance with the net claims provisions that decreased somewhat at the Company compared to the previous period as a result of a higher number of claims. Details on the net claims provisions of the Company as at 31 December 2019 are shown in template S.17.01 in Annex to this Report.

Table 12: Exposure of the Company's reserve risk volume measure for underwriting risk under non-life and health insurance for 2019 and 2018

In EUR thousand

	2019	2018
Net claims provisions	**193,662**	**177,898**
- Motor vehicle liability insurance (LoB 4)	82,419	65,282
- General liability insurance (LoB 8)	39,082	38,028
- Income protection insurance (LoB 2)	28,569	30,581
- Fire and other damage to property insurance (LoB 7)	19,802	19,857
- Other motor vehicle insurance (LoB 5)	14,429	13,597
- Other non-life and health insurance segments	9,361	10,553

CATASTROPHE RISK

The Company is most exposed to catastrophe risk in the credit and suretyship insurance segment and the flood and hail perils.

CONCENTRATION RISK

Exposure concentration is managed by the Company according to three categories - according to peril, geographical location and industry. The concentration is managed by the Company using suitable forms of reinsurance that are based on the tables of maximum own shares. By regularly monitoring and reporting concentration risk, the Company reduces the probability of the occurrence of loss and its amount.

RISK MITIGATION TECHNIQUES

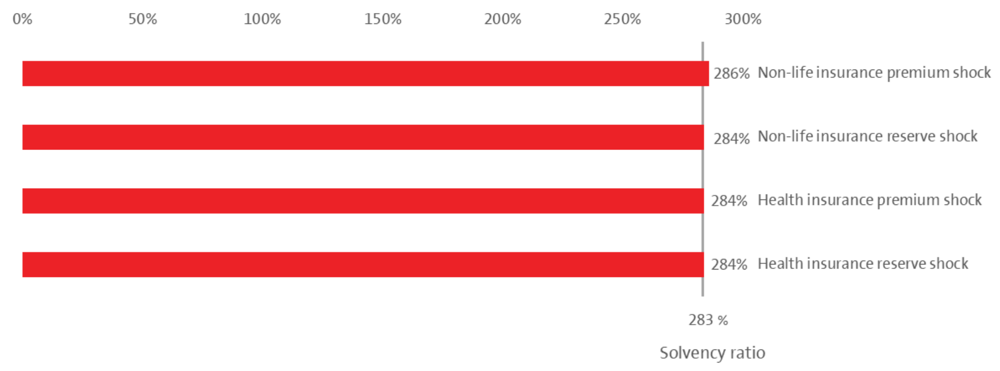
The Company mitigates risks mainly by purchasing various forms of reinsurance protection. In case of individual insurance, under which risks are underwritten based on consideration on a case by case basis, the Company transfers a part of the risk by purchasing facultative reinsurance protection whereby it takes into account both the maximum own shares, the PML and the risk appetite. The risks of the remainder of the portfolio are mitigated by transferring them to reinsurance by purchasing various forms of proportional or non-proportional reinsurance.

The Company regularly monitors the effectiveness of reinsurance protection and reconciles the amount of the transferred/ceded risks with the risk appetite no less than once a year. The Company devotes special attention to the management of natural disaster risk.

SENSITIVITY

The Company assesses the suitability of risk management through regular performance of sensitivity tests. Premium shock represents a 10% decrease of the volume measure for premium risk for non-life and health sub-modules. Similarly, reserve shock represents a 10% decrease of the volume measure for reserve risk for non-life and health sub-modules.

Chart 4: Sensitivity test of capital adequacy of the Company as at 31 December 2019



C.1.2 Life insurance

Under life insurance, the Company underwrites the risks of mortality, longevity, disability and morbidity, expenses, lapse, revision of conditions and catastrophes under life insurance.

The Company measures risk separately for its three sub-portfolios: portfolio of supplementary voluntary pension insurance (SVPI) in the saving phase, portfolio of SVPI pensions during the payment phase, and the remainder of the Company's portfolio. Risks of these portfolios are measured by the Company without the diversification effect between the remainder of the portfolio and the two ring-fenced funds.

As at 31 December 2019, the Company's risk estimate under life insurance represents 11% of the Company's overall risk estimate, excluding diversification.

Table 13: Company's risk estimate for underwriting risks under life insurance for 2019 and 2018

In EUR thousand

	2019	2018
Mortality risk	5,408	5,548
Longevity risk	13,362	11,485
Disability and morbidity risk	275	303
Lapse risk	16,338	21,581
Expense risk under life insurance	19,598	21,653
Revision risk	1,258	1,342
Catastrophe risk under life insurance	3,812	3,626
Diversification	-5,816	-8,964
Life underwriting risks	**54,234**	**56,573**

The risk estimate for 2019 decreased slightly compared to previous year. Lapse risk decreased as a result of changes to the expected lapse rates and portfolio structure changes. The decrease in the life insurance expense risk estimate is the result of lower expense assumptions. The increase in longevity risk is the result of the increase of the pension and annuity portfolio.

As at 31 December 2019, the risk estimate for risks under life insurance contracts of both ring-fenced funds came in at EUR 14.6 million.

RISK EXPOSURE

Risk exposure is presented below as the net best estimate of risk-sensitive life insurance liabilities. The exposure includes the net liability from non-life and health insurance claims, which are paid out as annuities.

Table 14: Company's exposure to underwriting risks under life insurance for 2019 and 2018

In EUR thousand

	2019	2018
Mortality risk	1,239,527	1,151,794
Longevity risk	1,287,018	1,221,514
Disability and morbidity risk	17,474	15,374
Lapse risk	1,137,486	1,065,503
Expense risk under life insurance	1,295,573	1,230,314
Revision risk	47,492	69,720
Catastrophe risk under life insurance	1,139,373	1,066,910
Exposure to life underwriting risks	**6,163,943**	**5,821,129**

The Company is exposed to MORTALITY RISK under policies that cover the peril of death and where the coverage at the moment of the policyholder's death is higher than the provisions for this purpose. Life insurance policies for the event of death and life insurance policies of borrowers have the highest exposure because the sums insured in the event of death are high and technical provisions arising from these types of coverage are relatively low. For similar reasons, life insurance policies with a savings component have a high exposure as well. Other policies carry a low exposure to mortality risk.

LONGEVITY RISK is represented by the exposure of the Company's annuity and pension insurance policies. The amount of the basic annuity for these policies is set in advance and is fixed, i.e. based on the paid in funds and assumptions which mainly relate to the duration remainder of the beneficiaries' life. If beneficiaries live longer on average than is assumed in the calculation of annuities, the Company may incur losses. The longevity risk is low under policies that are not lifetime or very long-term policies.

The Company is exposed to the DISABILITY AND MORBIDITY RISK under policies that cover critical and serious diseases and disability. The problem of the exposure of such policies to the risk in question is similar in terms of content to the abovementioned exposure of policies, which cover the peril of death, to mortality risk.

All policies, which feature contractual provisions allowing the policyholder to change the policy, are exposed to LAPSE RISK. The said changes include: surrender the policy, change the coverage or premium amounts, decide what proportion of saved assets they will use to purchase the annuity, etc. It is in the Company's interest for the concluded policies to remain in the portfolio under the agreed conditions until the expiry or the eventual realisation of the risk covered by the respective policy, while early terminations (lapses) generally (save for exceptional cases) represent a negative effect on the Company's operations.

The Company is exposed to LIFE INSURANCE EXPENSE RISK under all life insurance policies as well as health and non-life insurance claims, which are paid out as annuities. This risk represents the risk of an eventual increase in all types of actual expenses, which has a negative effect on the return of the Company's life insurance portfolio.

Non-life and health insurance claims paid out in the form of annuities are exposed to REVISION RISK. The periodic annuity payment may increase (most often due to the deterioration of the medical condition of the annuity beneficiary) which in turn increases the nominal amount of the Company's liability.

All policies that cover the mortality risk are exposed to CATASTROPHE RISK UNDER LIFE INSURANCE. This risk is very similar to the abovementioned mortality risk, with the difference being that this risk involves a one year increase in mortality and not a permanent systemic increase in mortality.

CONCENTRATION RISK

The fact that the Company's sales network is so widespread in Slovenia ensures geographic diversification and simultaneously contributes to increasing the sales volume of the entire Company. The extensive and diversified scope of underwritten risks is beneficial to the matching of the concentration of perils.

A broad range of life insurance products ensures the simultaneous servicing of the majority of the customers' needs and diversification between various risk types that are covered by the products. The mentioned broad range of products services the needs of customers that fall into various categories subject to age and other risk factors.

RISK MITIGATION TECHNIQUES

The most important aspect for life insurance products is the management of underwriting risks that is performed during the underwriting phase. This is performed according to the rules that have been set in advance and which are deemed to represent good practice. The process involves a medical and financial questionnaire, review of existing medical documentation and medical tests. The scope and depth of the process depend on the sum insured. Low sums insured and waiting periods are prescribed as protection against pre-contractual opportunism for insurance products without an underwriting process.

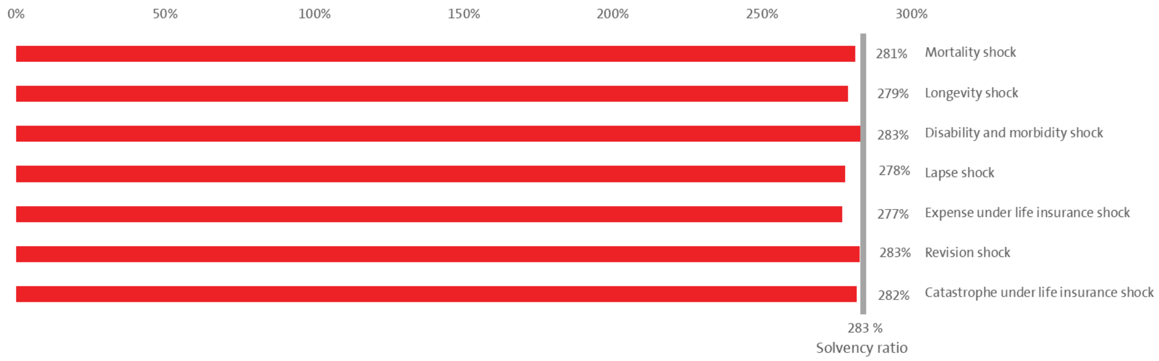
The second part of risk management is performed in the claim adjustment phase where the medical documentation from the claim report is cross-referenced with the data from the concluded policy.

Risk monitoring is performed regularly using the analysis of portfolio mortality, morbidity and market practices. The result of these analyses is a best estimate of the assumptions for all underwriting risks that are then used to calculate life insurance technical provisions, set new product prices and calculate capital adequacy.

SENSITIVITY

The Company performs sensitivity tests regularly in order to ensure risks are managed suitably.

Chart 5: Sensitivity test of capital adequacy of the Company as at 31 December 2019



In the above chart capital adequacy of the Company is presented in the event of realization of each individual shock, which is defined in observance of the standard formula.

C.2 Market risk

Market risks are risks of loss or adverse change in the financial standing of the Company resulting from fluctuations in the level and volatility of the market prices of assets, liabilities and financial instruments. The investment of the collected premium and own funds of the Company represents one of the main activities at the Company. The Company holds a broad range of various financial instruments in the investment portfolios whereby the value of the instruments depends on the fluctuations on financial markets.

Table 15: Company's risk estimate for market risks in 2019 and 2018

In EUR thousand

	2019	2018
Interest rate risk	11,192	31,247
Equity risk	124,302	99,960
Property risk	35,097	31,925
Spread risk	69,243	91,060
Market concentration risk	19,144	22,858
Currency risk	7,174	8,412
Diversification	-45,070	-56,863
Market risks	**221,083**	**228,599**

As at 31 December 2019, market risks represent 47% of the Company's overall risk estimate, excluding diversification.

The risk estimate is calculated at the level of the entire Company whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2019, the risk estimate for the market risks of both ring-fenced funds came in at EUR 3.5 million.

RISK EXPOSURE

The Company is exposed to market risks as part of the investment portfolio and the portfolio of liabilities. In view of the structure of investments, the Company is most exposed to spread risk and equity risk.

Table 16: Structure of the Company's investment portfolio as at 31 December 2019 and 31 December 2018

		In EUR thousand
	2019	**2018**
Property, plant and equipment held for own use	78,786	68,751
Real estate (except real estate held for own use)	60,115	52,936
Holdings in related undertakings, including participations	374,707	365,464
Equities	59,308	55,527
Bonds	1,613,929	1,520,293
- Government bonds	929,167	715,057
- Corporate bonds	683,610	800,892
- Structured notes	1,152	4,344
Collective investment undertakings	49,478	19,813
Derivatives	0	1,393
Deposits other than cash and cash equivalents	19,655	18,492
Other investments	1,694	1,689
Assets held for index-linked and unit-linked contracts	642,818	576,835
Loans and mortgages	8,802	45,276
Assets exposed to market risk	**2,909,292**	**2,726,469**

INTEREST RATE RISK arising from assets is decreased to a large extent by the interest rate risks from liabilities. All assets and liabilities, the value of which depends on the change in the interest rate (bonds, loans, deposits, interest-sensitive derivatives, cash flows from insurance policies), are exposed to interest rate risk. The Company manages interest rate risk mainly by matching assets and liabilities according to maturity. The duration gap of interest-sensitive items is monitored by the Company based on the market valuation, whereby investments to the benefit of unit-linked life insurance policyholders and investments from the voluntary supplemental pension insurance are both excluded. The capital requirement for the coverage of interest rate risk decreased significantly compared to the year before. This is significantly boosted by the decrease in the duration gap of assets and liabilities mainly as a result of the significant increase in the duration of financial investments in the highest rating classes.

SPREAD RISK is associated with an important source of returns generated by the Company through debt portfolio management. All assets, the value of which depends on the change in the part of the interest rate representing the credit spread, are exposed to spread risk. These are mainly bonds, loans and deposits. Only assets are exposed to spread risk because liabilities, with the exception of investments associated with index-linked or unit-linked contract, are valued according to the risk-free interest rate curve. The Company increased its exposure to investments that are exposed to spread risk by EUR 91.5 million compared to the year before. The increase in exposure is especially observable in the corporate bond segment, which came mainly as a result of the decrease in exposure to the segment of corporate bonds and loans. The increase in investments in collective investments undertakings further increased the exposure to investments that are subject to interest rate risk and spread risk. The Company's bond portfolio credit rating structure improved further compared to the year before. There is a noticeable increase in AAA, AA and A rated investments, while BBB rated and sub-investment grade investments are decreasing. The biggest change is seen in the AA and BBB rated classes. A major portion of the changes was recorded in the government bond segment. The tenor of the bond portfolio increased by more than 2 years compared to the year before, i.e. practically entirely because of government bonds. The decrease in the amount of the exposure to corporate bonds is the main factor for the significant decrease in the risk estimate for the coverage of spread risk compared to the year before. The Company considers the bonds, which are issued by the governments from the EEA and not denominated in the currency of the issuing country, to be ordinary corporate bonds for risk assessment calculation purposes.

EQUITY RISK represents all exposures under investments, the value of which is sensitive to a change in the level or volatility of stock market values. These are mainly stocks, undertakings for collective investment into shares and derivatives associated with stock markets. An important part of the Company's exposure to stock markets is the result of investments into associated companies. The Company holds equity investments in order to generate higher long-term returns and for diversification purposes. The Company increased its exposure to stock markets slightly in 2019, i.e. both in the segment of equities and the segment of collective investment undertakings that are exposed to equity risk. The successful operation of associated companies and partly also the increase in capital and participating interests are increasing the exposure to equity risk in the associated companies segment. The risk estimate for the coverage of the equity risk subsequently increased compared to the year before. Unit-linked insurance risk has a low effect on the risk estimate for equity risk.

PROPERTY RISK arises from the Company's investment properties and property, plant and equipment, which includes real estate held for own use, leased real estate and other property, plant and equipment . The risk estimate for the coverage of property risk increased compared to the year before as the balance sheet item encompassing real estate value-sensitive assets increased compared to the year before.

The Company's CURRENCY RISK arises from the mismatched asset and liability currency positions. The Company's liabilities are denominated in their entirety in euros. The Company pursues the policy of currency matching and invests the majority of its assets into euro-denominated investments. The risk estimate for currency risk is derived mainly from dollar-denominated bonds and non-euro investments through collective investment undertakings with a global and non-European geographic orientation. The first source decreased compared to the year before, while the second one increased significantly as a result of payments into alternative funds, which is why the risk estimate for currency risk remains at the level of the year before. The Company hedges a portion of the foreign currency-denominated exposure using currency swap derivatives.

CONCENTRATION RISK

The major share of the Company's assets is held in the form of bonds. The share of government bonds increased compared to the year before, while an increase in the financial sector was observed in the corporate bond segment. The Company continuously monitors exposure and compliance with the system of limits on exposure to issuers at the level of individual issuers or groups of related issuers. The Company also monitors concentration according to industry and geographical location.

Table 17: Company's exposure according to the security issuers' NACE classification sector

31 December 2019	
Financial and insurance activities	45.1%
Public administration and defence, compulsory social security	38.5%
Manufacturing	7.0%
Real estate activities	2.4%
Information and communication	2.4%
Other	4.6%
Total	**100.0%**

Table 18: Company's exposure according to the security issuers' country

31 December 2019	
Slovenia	41.1%
France	7.9%
Germany	6.3%
Netherlands	5.2%
Spain	4.4%
Italy	4.3%
USA	3.4%
Luxembourg	3.2%
Other	24.3%
Total	**100.0%**

The biggest exposure to a single issuer is represented by the exposure to the Republic of Slovenia. Exposures where the threshold value for concentration risk according to the standard formula is exceeded are mainly the exposures to non-strategic associates in the Group and strategic financial undertakings, i.e. Triglav, pokojninska družba, d.d. (hereinafter: Triglav pokojninska), Triglav Skladi, d.o.o. (hereinafter: Triglav Skladi) and Triglav penzisko društvo, a.d., Skopje (hereinafter: Triglav penzisko društvo), that are not fully consolidated for solvency purposes.

RISK MITIGATION TECHNIQUES

The Company has a limit system in place for market risks monitoring that defines the restrictions on the underwriting of risks at the highest level as well as the desired structure of the investment portfolio and the maximum acceptable exposure to counterparties, thus limiting the possibility of losses from underwritten risks to a level that is still acceptable considering the complexity of the business model, strategic goals and the capital strength of the Company. The basic principles for the setting of limits are derived from the identified risks that arise from the investment portfolio management and trading activity.

In addition to the adequately diversified investment portfolio, the Company also uses various derivative financial instruments as risk mitigation techniques as appropriate.

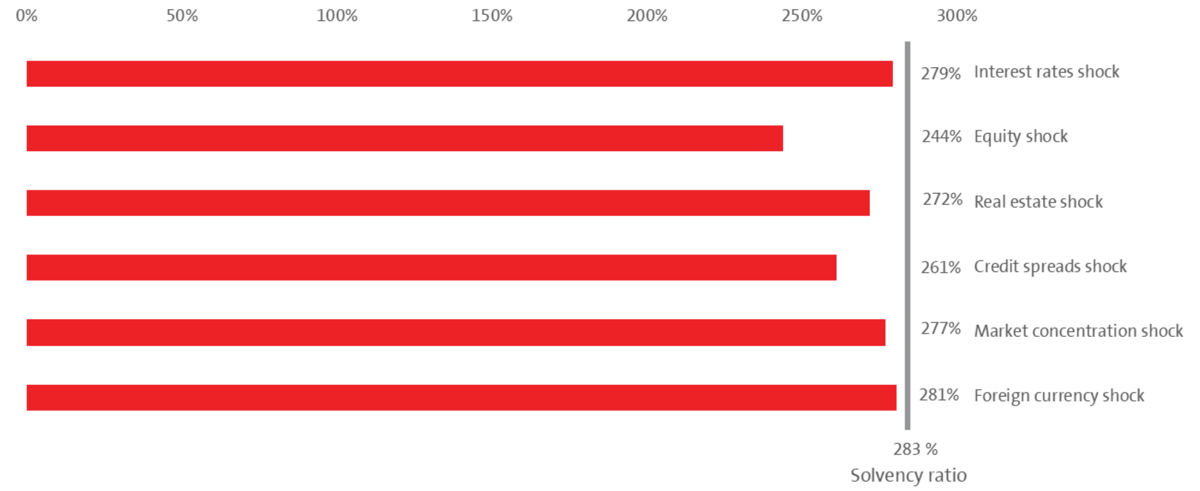
The use of such a range of instruments is assessed from various points of view, most often in terms of security, economy and the use of capital. The use of derivatives must focus on the comprehensive aspect of hedging individual portfolios whereby the derivatives used to hedge against interest rate and currency risk are currently in the forefront.

The Company actively manages interest rate sensitivity of assets and liabilities. The expected cash flows for liabilities over the medium- and long-term period as well as liquidity needs over the short-term period are an important factor for the assessment of the suitability of investments.

SENSITIVITY

As part of the ORSA Process in 2019, the Company conducted stress tests where it verified the sensitivity to extreme changes in market parameters. Stress tests are described in more detail in section C.7. The Company's stress test results show that the Company would remain adequately capitalised even after stress events. The Company's solvency ratio sensitivity analysis as at 31 December 2019 shows how the solvency ratio would change under individual isolated market scenarios.

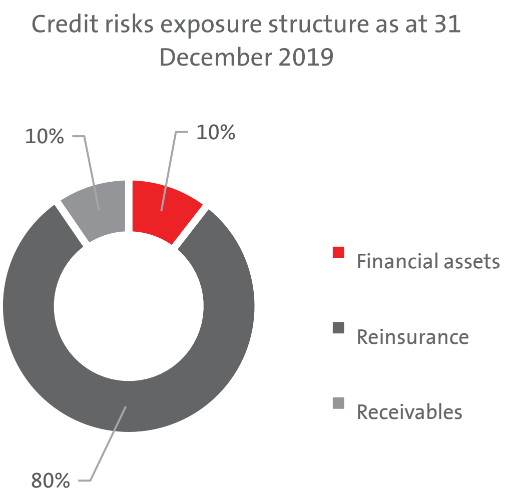
Chart 6: Company's investment portfolio sensitivity test as at 31 December 2019



In the above chart capital adequacy of the Company is presented in the event of realization of each individual shock, which is defined in observance of the standard formula.

C.3 Credit risk

Credit risks are defined as risks of loss or adverse change in the Company's financial standing resulting from the debtor's inability to meet their financial or contractual obligations in part or in full as a result of fluctuation in their credit standing. The fluctuations in the debtors' credit standing cause changes to the Company's assets as they can cause a decrease in the value or write-off of receivables, ceded liabilities under reinsurance or can affect the risk assessment via the increase in potential exposure. The Company is exposed to credit risks as a result of the increased counter-party concentration and counter-party default risk.



As at 31 December 2019, credit risks represent 9% of the Company's overall risk estimate, excluding diversification.

The risk estimate is calculated at the level of the entire Company whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2019, the risk estimate for credit risks of both ring-fenced funds came in at EUR 3.1 million.

Exposures to type 1 credit risk arise from counterparty exposures that will generally have a credit rating. Exposures to type 2 credit risk arise from counterparty exposures that will generally not have a credit rating.

Table 19: Company's risk estimate for credit risks in 2019 and 2018

In EUR thousand

	2019	**2018**
Type 1	33,047	53,850
Type 2	7,617	4,192
Diversification	1,497	1,546
Credit risks	**42,161**	**59,588**

The risk estimate on type 1 decreased by EUR 20.8 million in the reporting period mainly as a result of the change to the standard formula for non-life catastrophe risk. Exposure to reinsurance partners from these operations of the Company for individual perils (fire, aviation, marine) decreased by nearly half. The largest net policy is now observed for these segments, while the largest gross policies had to be observed in 2018. Additionally, the calculation for unrated reinsurance partners (in accordance with the Delegated Regulation) observes their solvency ratio, which decreases the risk factor of these partners and thereby the amount of the capital requirement.

RISK EXPOSURE

The Company's exposure to type 1 credit risk mainly represents the exposure to reinsurance companies and banks. The Company's exposures to type 2 credit risk is represented by past-due receivables from direct insurance operations and other past-due receivables. The Company also observes the market value of insurance subrogations in past-due receivables from insurance operations in 2019.

The Company's exposure to reinsurers and investments decreased compared to the year before. The exposure to past due insurance receivables remains at the same levels.

CONCENTRATION RISK

The Company manages exposure concentration risk by individual segments of the operations, counterparty and its credit rating and country. Concentration risk from credit risk for the Company according to the standard formula is the highest vis-à-vis the associated reinsurance partner through which it performs a major part of its reinsurance programme.

The table below shows the Company's exposure according to the reinsurers' countries.

Table 20: Company's exposure according to the reinsurers' country

31 December 2019	
Slovenia	95.6%
Switzerland	1.1%
Germany	0.7%
Other	2.7%
Total	**100.0%**

RISK MITIGATION TECHNIQUES

The Company's orientation in the area of credit risks underwriting is conservative and based on a predetermined risk appetite, assessment of underwritten risks, assurance of adequate credit quality and diversification of the investment portfolio as well as the management of exposures arising from reinsurance, non-payment of premiums and subrogations.

The Company has a credit risk management process in place that is based on a well-defined risk appetite, limits, risk measurement methodology, cooperation between all stakeholders in the process and the provision of information to all stakeholders. This enables optimum decision-making and, indirectly, also suitable credit risk management.

Credit risks from the Company's investment portfolio are balanced by depositing money, deposits and derivatives in banks with a suitable rating, whereby a professional analysis of the credit risks is performed for each bank and a sufficient rate of portfolio diversification is required. The Company has for this purpose put in place a limit system for banks defining the permitted types of investments and the maximum permitted exposures to an individual bank.

When underwriting credit risks resulting from reinsurance, the Company actively manages credit risks through a diligent assessment of the adequacy of business partners for reinsurance and by regularly monitoring their adequacy (credit rating, maximum permissible exposures, and the partner's solvency ratio). When managing credit risks, it is important to have a suitable definition of counterparty creditworthiness where the Company relies on a robustly established process that is based on credit ratings from recognised rating agencies and the publicly available solvency ratios of those European reinsurers that do not have a rating. In order to ensure the suitability of reinsurance partners' credit ratings, the Company has a system in place which precisely defines rules for the naming of partners and determining their basic information and a precisely defined procedure for the determination of the partners' credit rating which is uniform for all partners.

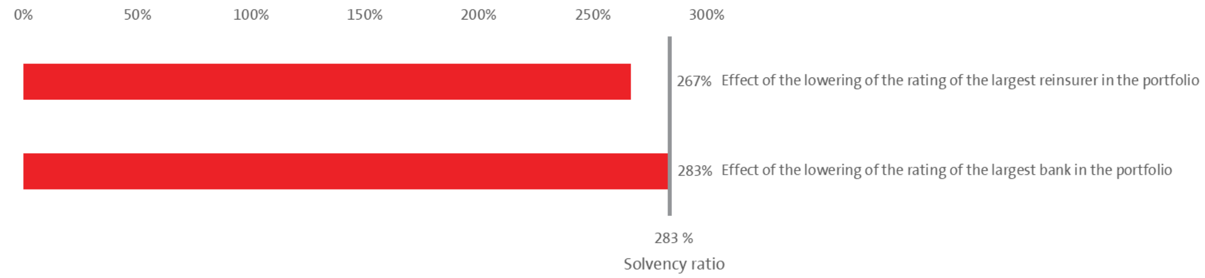
Exposure to counterparties without a credit rating is monitored and limited separately at the Company.

SENSITIVITY

The Company regularly analyses credit risks sensitivity. Exposure to credit risks resulting from the Company's reinsurance arises mainly from operations with the subsidiary Triglav Re, d.d. (hereinafter: Triglav Re). As at 31 December 2019, the abovementioned subsidiary held an A rating from S&P.

Credit risks sensitivity from reinsurance is measured by the Company through the change of the rating of the main reinsurer whereby all other risk assessment calculation parameters remain the same. It measures the credit risk sensitivity arising from the operations with the bank, at which the Company has the biggest exposure, in a similar manner.

Chart 7: Company's credit risk sensitivity test as at 31 December 2019



C.4 Liquidity risk

Liquidity risks are the risks of loss resulting from the Company's inability to meet all of its expected and unexpected current and future cash outflows and past-due liabilities as a result of inadequate or insufficient available cash assets. Liquidity risks also refer to the risk of more difficult access to financing required for the settlement of liabilities arising from insurance and other contracts. Liquidity risks usually materialise in the form of the inability to liquidate or sell financial assets at prices that are significantly lower than the current market prices.

The Company manages investments and liabilities with the aim of being able to settle all mature liabilities on time. It also ensures an appropriate structure of assets subject to their nature, tenor and liquidity. In order to ensure an adequate liquidity position, the Company plans actual and potential gross and net cash flows, holds an adequate amount and structure of liquid investments and regularly monitors the structure of liabilities.

The Company has defined a comprehensive liquidity risk management system by way of which it maintains the low liquidity risk target. An adequate liquidity position is controlled by implementing a limit system and internal indicators that show whether liquidity risk exposure is within the risk appetite at all times.

RISK EXPOSURE

The Company is most exposed to liquidity risks in case of catastrophic loss events, which can result in higher payments of indemnities, and in case of an increased rate of early insurance policy terminations (lapses) resulting in higher surrender values and lower premium income to instability on financial markets. Liquidity management enables a comprehensive review of liquidity risks which takes into account liquidity sources (specifically cash flows from investments and insurance premiums) and liquidity needs (specifically compensation and indemnity as well as other operating expense payments) and allows the analysis of potential effects of extraordinary circumstances both on the assets side and the liabilities side. The Company's liquidity risk management system ensures that the Company is exposed to liquidity risks in accordance with its risk appetite.

CONCENTRATION RISK

Concentration risk for liquidity risks arises from potential directly or indirectly related events that cause a deterioration in liquidity. In order to avoid events that could cause a potential lack of liquidity over a short period of time, the liquidity management system is geared towards the management of a suitable level of liquidity risk concentration. Such concentration management materialised in the form of internal limits on banks, limits on less liquid alternative investments and limits on the type and level of investment grade security risk. The Company did not detect elevated liquidity-related concentration risk in the period under consideration.

RISK MITIGATION TECHNIQUES

The Company has liquidity indicators with defined target values in place for the purpose of liquidity monitoring. Inflows from the Company's core operations are constant which positively affects its liquidity. The Company also has additional safeguards in place (portfolio of high quality, suitably diversified liquid assets), which also decreases its exposure to liquidity risks.

The Company concludes reinsurance contracts with the "pay-as-paid" clause (clause providing for the payment of claims only after receiving payment under the reinsurance contract) for large insurance transactions.

In order to mitigate liquidity risks, the effect of financial instruments on the liquidity position is assessed prior to the acquisition of financial instruments. Prior to the acquisition of financial instruments, limits on investments that are agreed subject to the nature of investments are considered. In case of important investments into alternative investments that are by their very nature less liquid, special attention is devoted to the effect of these on the Company's liquidity prior to investing. The second part of liquidity risks mitigation entails the ongoing monitoring of liquidity indicators that measure the liquidity position of the Company both in ordinary and extraordinary circumstances treated within the scope of the ORSA Process. This ensures that all such events are adequately considered and that measures are put in place that prevent the occurrence of a lack of liquidity. Finally, liquidity risks are directly mitigated or managed with the help of the comprehensive risk management system where the management of other types of risk enables a better overview of the exposure to banking and reinsurance institutions, overview of financial investments and liabilities as well as control and suitable adaptation of underwriting liabilities.

SENSITIVITY

The Company monitors liquidity risks sensitivity using internal indicators that allow it to measure whether it has sufficient liquid assets in stress conditions to cover all outflows in a given period. Indicators that measure liquidity risks sensitivity differ from one another both in terms of the length of measurement of the stress period as well as the capture of data and the amount of stress margins. Stress indicators are regularly calculated and presented as part of risk management reports.

EXPECTED PROFIT INCLUDED IN FUTURE PREMIUMS

The amount of the expected profit included in future premiums is the opposite value of the best estimate of net liabilities arising from future premiums. It is merged at the level of insurance segments which enables eventual losses and profits to be compensated within the segment.

Expected profits included in the future premiums under existing insurance contracts are part of the Company's own funds and are estimated at EUR 82 million. They are equal to the sum of expected profits included in the future premiums under existing insurance contracts of the Company, i.e. by insurance segments.

The amount of the expected profit included in future premiums as at 31 December 2019 and 31 December 2018 is shown in the table below.

Table 21: Amount of the expected profit included in future premiums as at 31 December 2019 and 31 December 2018

In EUR thousand

	2019	2018
Life insurance	62,929	48,145
Non-life and health insurance	19,039	14,378
Total	**81,968**	**62,523**

The main reason for the growth in the profit included in future premiums is the change to the methodology for the calculation of the life insurance product for death with premium payment in instalments. The change better reflects the amount of expected profit in future premiums, which amounts to EUR 15.9 million.

C.5 Operational risk

Operational risks are defined as the risks of loss resulting from inadequate or failed internal processes, conduct of employees, functioning of systems or the management of external events and their effects. They include IT risk with a special emphasis on cyber risk, legal risk, non-compliance risk, conduct risk, project risk, outsourcing risk and model risk.

As at 31 December 2019, operational risks represent 4% of the Company's overall risk estimate, excluding diversification, and amount to EUR 20.6 million.

The risk estimate is calculated at the level of the entire Company whereby the risk estimate for the two ring-fenced funds is added without diversification to the risk estimate for the remainder of the portfolio. As at 31 December 2019, the risk estimate for operational risks of both ring-fenced funds came in at EUR 0.6 million.

RISK EXPOSURE

The Company monitors its exposure to operational risks based on three types of information:

- recognition and assessment of potential operational risks;
- reporting of realised operational loss events;
- monitoring of the key operational risk indicators that include early warning signals.

The Company has prepared a comprehensive recognition and assessment of the exposure of all business processes to operational risks. Throughout 2019, realised operational loss events were reported via the internally developed application. Key indicators of operational risks by all divisions were monitored. Based on the collected data, the Company recognised regulatory risk and cyber risk as the key types of operational risks. In view of the identified higher exposure to cyber risk, the Company performs activities aimed at upgrading its management and upgrading the IT risk management system in general. The Company is exposed to regulatory risk as a result of the extensiveness of regulatory requirements, frequent changes in the regulatory environment and high prescribed fines – especially in connection with the GDPR. The risk is mainly the result of the potential differences in the Company's and supervisory authority's interpretation of the provisions of the GDPR and the absence of case law or comparative business practice. The planned national legislation in the area of personal data protection was also not adopted in 2019.

Based on a longer data time series of all types of data on operational risks and the improved quality of such data, the Company will in the coming years be able to quantify its exposure to operational risks with even greater reliability.

CONCENTRATION RISK

The Company is aware that computerisation and digitalisation are increasing the influence of IT on operations from the point of view of operational risks concentration and importance. The Company and its operations are highly dependent on the suitable functioning of IT which is why a major IT security incident, other IT incident or the suspension of operations can severely affect the Company's operations. This is why the Company devotes special attention to the management of IT security risk with an emphasis on cyber risk as well as disruptions or suspension of operations which it manages via the business continuity management system. A part of that system is the business continuity plans for critical business processes and IT recovery plans. The Company will continue these activities in the coming years as well.

RISK MITIGATION TECHNIQUES

In order to manage operational risks, the Company has a formal process in place with clearly defined roles and responsibilities of individual stakeholders of the system which enables it to suitably manage operational risks. As part of the above, the Company has in place a system or register of internal controls whereby each control has two responsible persons designated (owner and custodian). The register is updated regularly subject to the changes at the Company and in the business environment which ensures continuous reduction of operational risks exposure. The Company regularly monitors the actual exposure to operational risks based on the regular identification and assessment of potential operational risks, regular reporting of realised operational loss events and the monitoring of the key operational risk indicators which also include early warning signals. In the event of the occurrence of important (large) or repetitive operational loss events and if the operational risk appetite and tolerances are exceeded, the Company begins preparing preventative and remedial risk mitigation measures or additional internal controls aimed at risk mitigation. If the risk is mitigated to an appropriate level, i.e. it does not repeat or the frequency of reoccurrences of minor loss events of this type is reduced, the Company assesses the measures as successful. Additional measures or upgraded internal controls have an effect on the decrease in exposure to potential operational risks that are assessed regularly. In these ways, the Company can verify the success of the implementation of risk mitigation measures.

The Company is aware of the threat posed by cyber risk and the subsequent need to upgrade and regularly maintain the IT security management system. In 2019, it thus began additional activities and upgrades in order to obtain a certificate for the Information Security Management System that is compliant with the ISO 27001 standard. The Company also performs activities aimed at upgrading the business continuity management system which includes prevention and subsequent measures in case of various events such as natural disasters (earthquake, flood, etc.) and pandemics.

A key advancement in the area of improved management and subsequent reduction of operational risks will be possible in the coming period with the introduction of new application support in 2020 that will enable faster and more efficient implementation of operational risks management processes.

SENSITIVITY

Operational risks are affected by many factors, both internal (employees, processes, internal systems) and external (external systems, external factors and events). Whereas the Company can influence internal factors through the improvement of processes and internal controls, it has no major effect on external factors which are also more difficult to foresee. This is why the Company additionally tests its sensitivity to operational risks by defining and executing stress scenarios such as regular test of the transfer of IT operations from the primary server location to the backup location, the scenario of an earthquake, and the cyber scenario (intrusion into the Company's IT system and theft of its highly sensitive business information and personal data). The results of the earthquake scenario have shown a string effect of a longer suspension of operations on the commercial damage/loss sustained by the Company, which is why it is reasonable for the Company to have suitable and up-to-date business continuity plans in place for key processes. The results of the cyber scenario have shown potential negative consequences for the Company in the event of an intrusion in its IT system, which is why the measures which it implements to mitigate these risks are by all means justified.

C.6 Other material risks

NON-FINANCIAL RISK

In terms of the Company's operations, material non-financial risks include strategic risk, capital risk, reputational risk and Group risks. Non-financial risk is very closely connected to other risks, especially operational risk, and usually results from several factors within the Company and outside it.

An important aspect of non-financial risk management is the familiarity with and monitoring of events in the environment, identification of potential negative effects on the Company as well as the focus on emerging and other risks where climate change risks are especially important.

STRATEGIC RISK is the risk of incurring loss due to inappropriate strategic decisions by the management body, inconsistent implementation of strategic decisions and insufficient responsiveness to key changes in the business environment. This risk generally occurs in combination with other risks, but may also occur independently and as a result of the expansion to new markets, new acquisition and investments, new products and services; changes and fluctuations on local and global markets; changes in the behaviour of competitors, business partners and policyholders; technological changes and the development of new products; political, legal and regulatory changes; climate change and other environmental phenomena.

Strategic risk was found to include the risk associated with the future recruitment efforts, mainly due to the improvement of employment options, greater dynamics on the labour market and the consequently higher salary expectations and the change in the demographic structure of the population. The Company has identified or recognised this risk and is responding to it through various activities such as working with students within the scope of projects, the provision of scholarships and care for employee satisfaction, etc.

In view of the changes in the environment linked with the events on financial markets, technological development and legislation, the Company has classified strategic risk as important. Conditions on financial markets are the reason behind intensive consolidation processes in the financial and insurance sectors both around the world and in Slovenia. This is an important aspect for the Company as well because it changes its competitive position owing to the fact that it strengthens direct competitors on the one hand and affects business decisions of the policyholders on the other. Policyholders decide on which insurance company to use by taking into consideration the broader business relationship with transformed competitive entities on the market.

Strategic risk is difficult to quantify but can in the event of sub-optimal strategic decisions importantly affect the financial position and solvency of the Company in the future. The Company mitigates risk through effective implementation of the strategy that includes highly clear and measureable strategic goals. The ORSA process is essential in this regard as it assesses the effect of such events on the Company's solvency.

Strategic risk is suitably managed at the Company through the setup of organisation and processes that ensure that the Company's management has at its disposal up-to-date and relevant information for the adoption of business decisions.

CAPITAL RISK represents the possibility of loss due to an inappropriate capital structure given the volume and manner of operations or the problems that the Company faces when acquiring fresh capital, particularly in adverse operating conditions, or if it needs to increase capital fast. It also encompasses effects on capital adequacy as a result of regulatory and accounting changes.

This risk is regularly monitored and managed within the scope of the capital adequacy process and the ORSA Process.

The main purpose of the ORSA Process is for the Company to show its own assessment of risks arising from operations that impact the current or future capital needs. Suitable implementation of this process sets up the processes for the identification, assessment and monitoring of own risks and solvency requirements, whereby risk assessment results are regularly reported to those responsible which in turn enables the results to be used in decision-making processes at the Company.

Capital risk also includes changes in financial reporting standards, which affects the payout of dividends, and legislative amendments that affect the transferability of available capital in the Company. This risk additionally includes unfavourable conditions on capital markets that could negatively affect the acquisition of additional capital, which the Company monitors regularly as part of capital management processes.

REPUTATIONAL RISK is the risk of loss or reduction of future or current business because of a negative image in the eyes of the Company's policyholders, business partners, employees, shareholders and investors or competent or supervisory bodies and other interested public. This risk is very often associated mainly with operational risk and arises as a result of its realisation. Reputational risk also occurs as a secondary effect upon events associated with credit, liquidity and market risks.

The Company manages reputational risk mainly through the analyses of publications by external media. The Company also analyses the strength of the Triglav brand and various customer satisfaction analyses (Net promoter score – important guideline for the improvement of processes aimed at improved customer satisfaction) and other analyses.

The basic element of the reputational risk management system is a good corporate governance system that is monitored and supported at the Company by various activities or surveys that assesses the view of the Company held by the external public.

An important element of effective reputational risk management is an effective system for the internal flow of information and internal communication that ensures that all employees are familiar with and have a uniform understanding of the strategy, operations, plans and current affairs.

Another important aspect is the balanced, consistent and up-to-date provision of information to the external public on the Company's operations and activities that ensure confidence in the Company and its sound long-term relationship with all external stakeholders. The system includes the monitoring and analysis of reports about the Company in the environment.

GROUP RISKS arise from the business model of the Company, which operates as the controlling company of a group of related parties. It includes risks that may jeopardise the achievement of strategic goals due to an ineffective system of governance of the Group and insufficient knowledge of the business environment where the Group companies operate. The Company's risk profile is also affected by transactions between related companies and the increased complexity of concentration risk management. All the abovementioned risks may materialise in the form of larger or smaller deviations from the business or financial plan as a result of losses or lost business opportunities.

When striving to achieve effective integrated non-financial risk management, the Company pursues the principle of the optimal management of the ratio between risk exposure and returns as well as the cost and benefit ratio principle.

The non-financial risk appetite is defined as moderate, meaning that the internal culture and the system of governance of the Company as well as the entirety of its business conduct avoid these risks and minimise their adverse effects on operations.

SUSTAINABILITY RISKS

Sustainability risks have been gaining in importance recently. They include environmental, social and governance factors (ESG – environmental, social, governance). These risks are considered to represent key global challenges. From the point of view of insurance companies, the central role within sustainability risks is attributed to climate change. Climate change in combination with sustainability risks (ageing of the population, bacteria resistance to antibiotics, pandemics, etc.) will affect the operations of insurance companies both through liabilities and assets.
The Company will devote even more attention to this risk both in the area of investment decisions and in the area of the insurance activity (assumption of underwriting risk).

C.7 Any other information

PRUDENT PERSON PRINCIPLE

The Company manages its assets based on the prudent person principle for the best interest of its policyholders, beneficiaries and stakeholders. The Company's assets are used to cover insurance liabilities and other excess funds and are distributed in different investment portfolios. When investing dispersal of investment risk is key.

Management of investments and technical provisions at the Company is performed by pursuing the objectives aligned with policyholders' objectives: to maximise safety, liquidity, diversification, profitability and technical provision coverage with investments.

The assets of the Company are invested as far as possible so as to ensure their availability.

Target investment portfolio return is determined by the set investment targets that ensure long-term profitability in accordance with the expected risk appetite. The limit system, which is a part of investment policies, is primarily designed to at the same time take into account requirements and capabilities of each individual Company portfolio.

The management of Company's assets in investment portfolios is centralised in accordance to guidelines and restrictions defined in its investment policies. The Company follows good practice of managing assets.

The Company ensures proper liquidity of individual portfolios. Investment evaluation is being centralised for Company's portfolios. The investment evaluation for Group purposes is performed following the same standards.

Safety and profitability of investment portfolios and their compliance with set limits is being monitored on a daily, weekly and monthly basis.

The structure of Company’s financial assets remains relatively conservative with an emphasis on investments with fixed yields.

Each individual investment is treated from the point of view of the portfolio which requires the investment to be assessed primarily in terms of the effect on the existing invested assets, their variability and contribution to the return. Each investment is reviewed or analysed whereby the depth of the analysis depends on the complexity of the investment and its share in total assets.

When investing assets, the Company pursues the principle of asset and liability tenor matching. The observation of the interest of all policyholders and beneficiaries is ensured even in the case of the potential conflict of interest resulting from the assets of the Company being managed by another subsidiary.

STRESS TESTS

The Company regularly performs stress tests for all important risk types and monitors and evaluates the potential impact of stress on its risk profile and solvency.

Stress testing and scenario analysis are part of the Company's own risk and solvency assessment (ORSA) process. In stress tests, the Company determines the effect of a simultaneous change in several parameters such as simultaneous changes in various risk types that affect the insurance business and the value of financial investments. When analysing the potential effects and exposure, the actual exposure to adverse circumstances that can last for an extended period, to sudden and major events, and to combinations of the aforementioned circumstances and events are taken into account.

The stress test framework that has been set up enables the preparation of stress test scenarios based on workshops conducted with business fields where relevant scenarios for current and future operations are assessed.

In 2019, the Company simulated the financial scenario where it tested the stability of the Company's solvency in the event of a sudden and significant increase in interest rates combined with a drop in the market value of equity and real estate investments, mass cancellation of life insurance policies and an increase in non-life claims resulting from inflation. The Company also simulated an underwriting scenario where it tested the effect of a 200-year earthquake in Ljubljana which represents the largest concentration of exposure according to peril. The scenario also included other operational impacts on operations and a drop in the value of Slovenian debt securities owing to unfavourable economic conditions in the country. It also assessed the effects of the failure to fulfil obligations by the largest reinsurer of this peril.

OTHER RELEVANT INFORMATION

All other information relating to the risk profile was disclosed by the Company in sections C.1 through C.6.

D. Valuation for solvency purposes

D. Valuation for solvency purposes

The Company values its assets and liabilities for solvency purposes at fair value.

When assets and liabilities are valued, the Company uses the risk-free interest rate curve published by EIOPA and does not apply any adjustments of the curve.

The table below shows the balance sheet of the Company for solvency and financial reporting purposes. Details on the Company's balance sheet are shown in template S.02.01 in Annex to this Report.

Table 22: Balance sheet of the Company as at 31 December 2019

31 December 2019			**In EUR thousand**
Balance sheet		**Value for solvency purposes**	**Value for financial reporting purposes**
Assets		**3,062,167**	**2,901,140**
Intangible assets	D.1.1	0	61,924
Deferred tax assets	D.1.2	14,235	0
Property, plant and equipment held for own use	D.1.3	78,786	72,412
Investments	D.1.4	2,178,886	1,901,470
Assets held for index-linked and unit-linked contracts	D.1.5	642,818	642,717
Loans and mortgages	D.1.6	8,802	10,726
Reinsurance recoverables	D.1.7	78,268	98,433
Insurance and intermediaries receivables	D.1.8	25,808	73,050
Reinsurance receivables	D.1.9	11,393	17,220
Receivables (trade not insurance)	D.1.10	3,431	3,446
Cash and cash equivalents	D.1.11	16,248	16,248
Any other assets, not elsewhere shown	D.1.12	3,493	3,493
Liabilities		**2,173,034**	**2,320,660**
Technical provisions	D.2	1,979,079	2,149,014
Provisions, other than technical provisions	D.3.1	12,625	12,625
Deferred tax liabilities	D.3.2	40,335	5,707
Derivatives	D.3.3	29	29
Financial liabilities other than debts owed to credit institutions	D.3.4	1,632	1,632
Insurance and intermediaries payables	D.3.5	20,510	20,510
Reinsurance payables	D.3.6	0	15,309
Payables (trade not insurance)	D.3.7	40,183	40,183
Subordinated liabilities	D.3.8	72,989	69,999
Any other liabilities, not elsewhere shown	D.3.9	5,651	5,651
Excess of assets over liabilities		**889,133**	**580,480**

The valuation methods for solvency purposes and financial reporting purposes by asset and liability class are described in greater detail below. A comparison with the results of the previous period is also shown.

D.1 Assets

Several valuation methods may be used for the valuation of assets for the Company's financial reporting purposes, whereby the methods comply with the International Accounting Standards (hereinafter: IAS), (e.g. fair value, amortised cost, cost, etc.), while assets may be valued for solvency purposes only according to the method that is consistent with the requirements of the Delegated Regulation and the EIOPA guidelines.

The assets disclosed in financial statements in a manner that is inconsistent with solvency requirements are revalued to fair value for solvency purposes. The best estimate of the fair value is the active market quotation. If such is not available – the valuation models that reflect raw data from financial markets as much as possible are used to arrive at the fair value.

Asset-side balance sheet items are presented below.

D.1.1 Intangible assets

Intangible assets of the Company consist of software and property rights, which however are valued at zero for solvency purposes. This item includes deferred acquisition costs that are valued at zero for solvency purposes.

For financial reporting purposes, intangible assets are valued at cost. As at the balance sheet date, assets are disclosed at their cost less accumulated amortisation and any accumulated impairment loss. The amortisation period is determined subject to the useful life. Subsequent recognition of an intangible asset is possible in so far as it corresponds to the definition of an intangible asset and meets the recognition criteria. Intangible assets with an indefinite useful life are not amortised. An impairment test is performed for these assets every year.

Table 23: Company's intangible assets

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Intangible assets	0	0	61,924

D.1.2 Deferred tax assets

Deferred tax assets are valued for solvency purposes as the product of the currently applicable tax rate and the difference between the accounting and market values of assets, whereby this excludes the values of holdings in related undertakings, including participations and accounting values less deferred tax assets.

In financial statements, deferred taxes are accounted for all temporary differences between the value of assets for tax purposes and their carrying amount. The net value of the assets and liabilities is shown for financial reporting purposes, but as the value on the liabilities side is higher than the value on the assets side, the net value on the assets side (deferred tax assets) is disclosed as zero.

The tax rate used to account deferred taxes is 19% both for solvency and financial reporting purposes.

Table 24: Company's deferred tax assets

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Deferred tax assets	14,235	18,325	0

Deferred tax assets decreased in 2019 because of the decrease in the difference between the decreased assets for holdings in related undertakings, including participations for financial reporting and solvency purposes, which is the basis for the calculation of deferred tax assets.

D.1.3 Property, plant and equipment held for own use

Property, plant and equipment held for own use at the Company represent plant , land and buildings. These items are valued at amortised cost for financial reporting purposes. With the introduction of the IFRS 16 standard, this category includes the rights to use assets. They are valued at amortised cost of contractual cash flows.

Items of property, plant and equipment held for own use are valued at fair value for solvency purposes. The rights to use assets are valued in the same manner for financial reporting purposes. The Company works with a certified real estate valuer who values real estate over a two-year cycle. The properties were valued in this way on 31 December 2019. In the interim period, own appraisals (e.g. adjustments of appraised values in the event of significant changes of conditions on local real estate markets, adjustments in case of significant investments and other one-off events) can represent the estimated fair value.

Table 25: Company's property, plant and equipment held for own use

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Property, plant and equipment held for own use	78,786	68,751	72,412

The increase in the value of property, plant and equipment for own use compared to the year before in the amount of EUR 4 million was driven by rights to use assets, while the EUR 6 million increase in land and buildings for own use is mainly the result of additional investments and the general positive trend of rising real estate values.

D.1.4 Investments

Investments represent the major portion of balance sheet assets. Pursuant to the provisions of Delegated Regulation and the relevant guidelines, these investments are valued at fair value.

The Company values financial assets using publicly available market prices on the active markets for the same instrument. If this is not possible (e.g. no market or insufficiently deep market), such valuation is performed using publicly available data from the active markets of similar instruments. The activity of the market or the question of whether it is an active market or not is determined for an individual financial instrument subject to the available information and circumstances. Factors that need to be heeded when assessing a market's activity include the following among others: low number of transactions in the period, extensive differences between bid and asking prices, extensive price volatility in the period and between sellers. Low market activity requires an additional analysis of transactions or quoted prices.

Alternative methods include all methods that predominantly apply parameters in the valuation method, which are not obtained entirely from active markets and include a subjective component.

Table 26: Company's investments as at 31 December 2019

In EUR thousand

Assets	Value for solvency purposes	Value for financial reporting purposes
Investments	**2,178,886**	**1,901,470**
Real estate (except real estate held for own use)	60,115	46,091
Holdings in related undertakings, including participations	374,707	152,993
Equities	59,308	59,308
Bonds	1,613,929	1,572,045
Collective investment undertakings	49,478	49,478
Derivatives	0	0
Deposits other than cash and cash equivalents	19,655	19,862
Other investments	1,694	1,694

D.1.4.1 Real estate (except real estate held for own use)

The same rules apply to the valuation of investment property, i.e. real estate not held for own use, as those that apply to the valuation of property, plant and equipment held for own use as presented in section D.1.3.

Table 27: Company's real estate (except real estate held for own use)

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Real estate (except real estate held for own use)	60,115	52,936	46,091

The value of real estate (except real estate held for own use) increased by EUR 7.2 million in 2019. The biggest positive contribution to change came from the revaluation of the Slovenijales land and commercial building where the increase in the value also came from additional investments; and the other contributor to the change was the positive revaluation of the Teol land plot in Ljubljana.

D.1.4.2 Holdings in related undertakings, including participations

Subsidiaries are disclosed in financial statements at cost adjusted for potential impairments. Associated companies are disclosed at fair value. Holdings in related undertakings are valued according to the following valuation method hierarchy for solvency purposes:

a. the default valuation method: the default valuation method (hereinafter: DVM) entails valuation using publicly available market prices on the active markets for the same assets.

b. the adjusted equity method: under the adjusted equity method, holdings in related undertakings are valued subject to the share of the participating entity in the excess of assets over liabilities of the related undertaking. When calculating the excess of assets over liabilities for related undertakings, the undertakings' individual assets and liabilities are valued according to the principles of Solvency II (adjusted equity method; hereinafter: AEM S2). When calculating the excess of assets over liabilities for related undertakings other than insurance or reinsurance undertakings, the equity method may be used as set out in the IAS, where the value of goodwill and other intangible assets is deducted from the value of the related undertaking (adjusted equity method; hereinafter: AEM S1).

c. adjusted prices for similar assets in active markets or alternative valuation methods: if neither valuation method in accordance with paragraph a) nor the one in paragraph b) is possible and the undertaking is not a subsidiary undertaking, holdings in related undertakings are valued using an alternative valuation method (hereinafter: AVM), which the Company applies in the preparation of annual or consolidated financial statements. In such cases, the value of goodwill and other intangible assets is deducted from the value of an individual undertaking.

The holdings in related insurance undertakings, the insurance holding and all strategic companies for the provision of services ancillary to the Company's principal activity are valued according to the AEM. When calculating the excess of assets over liabilities for related undertakings, the assets and liabilities of these related undertakings are valued according to the basic principles in accordance with Delegated Regulation. The strategic financial undertakings (Triglav Skladi, Triglav pokojninska and Triglav penzisko društvo) and other related undertakings, with the exception of the shareholding in Nama, d.d., are valued according to the AEM whereby the calculation of the excess of assets over liabilities applies the equity method in accordance with IAS less the value of goodwill and other intangible assets. The shareholding in Nama, d.d. is valued according to the AVM which basically closely follows the AEM using the fair value of assets and liabilities.

The table below provides the values of the Company's equity holdings in related undertakings according to the valuation methods for solvency purposes.

Table 28: Values of the Company's equity holdings in related undertakings according to valuation methods

In EUR thousand

Valuation method	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
AEMS2	302,900	289,869	118,130
AEMS1	62,342	66,185	25,398
AVM	9,465	9,411	9,465
Total	374,707	365,465	152,993

The biggest difference between the value of the item for financial reporting purposes and the value for solvency purposes is the calculation method. Associated companies are valued at fair value for solvency purposes, while they are valued at cost or impaired value for financial reporting purposes. The biggest difference from this at the Company arises from companies that previously disclosed positive operating results (Triglav Re, Triglav Skladi and Triglav Zdravstvena zavarovalnica).

Table 29: Company's holdings in related undertakings, including participations

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Holdings in related undertakings, including participations	374,707	365,465	152,993

The value of holdings in related undertakings increased in 2019. The contribution to the increase is represented by the capital increase in Trigal, d.o.o., and the establishment of the new company Triglav penzisko društvo, Skopje. Successful operating performance of insurance subsidiaries and the resulting increase in their value is mostly limited by the revaluation of Triglav Skladi. The merger by acquisition of Alta Skladi has significantly increased the amount of property, plant and equipment and goodwill in the balance sheet of that company.

D.1.4.3 Equities

Investments into equities (except related undertakings) are valued – provided there is an active market for such equities – according to the closing offered buying price on that market (local stock exchange). In the event of an inactive market, the value of the investment is determined by the last known price – provided that the assessment that the economic circumstances since the last transaction have not changed substantially remains valid – by the price in a liquid grey market or by a valuation model. The valuation according to the model is carried out internally or via certified valuers. Depending on the features of the asset being valued, the appropriate valuation methods will include the discounted cash flow method, the comparable company analysis (public market multiples) and the net asset value method. Exceptionally, in cases of immateriality of an individual asset and the total value of assets valued in such a manner, the cost value is relevant for determining the value of the asset. Valuation for financial reporting purposes generally does not deviate from the valuation for solvency purposes.

Table 30: Company's equities

			In EUR thousand
Investments	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2019	**31 December 2018**	**31 December 2019**
Equities	**59,308**	**55,527**	**59,308**
Listed equities	53,307	44,813	53,307
Unlisted equities	6,001	10,714	6,001

The value of equities increased in 2019 as a result of the increase in the segment of listed equities which is mainly the result of the revaluation of investments.

Unlisted equities decreased mainly because of the sale of holdings in Gorenjska banka, d. d. and Hoteli Bernardin, d. d. in the total amount of EUR 5.4 million. Other changes are mainly the result of portfolio revaluation.

D.1.4.4 Bonds

Bonds are valued for financial reporting purposes in accordance with the requirements for the financial statement category into which they are classified upon recognition. Investments can thus be valued at fair value (financial statement category of "available-for-sale" and "at fair value through profit or loss") or at amortised cost (financial statement category of "held to maturity" and "loans and receivables").

When an investment is listed on an active market, its fair value is represented by its closing offered buying price on that market (BVAL, local stock exchange, market operator's price). If the market is not active or is not deep enough, fair value is determined using valuation techniques:

a) the price is determined by the last arm's length transaction provided the economic circumstances have not changed materially since the last transaction,

b) valuation model.

The main parameter of the model for the valuation of investments in the monetary item set (present value of contractual cash flows) is the discount curve composed of the risk-free interest rate for an individual currency and credit spread characteristic of the issuer or group of issuers. When determining an individual discount curve, the Company relies on unadjusted data from financial markets to the greatest possible extent. In the case of complex financial instruments, such as compound securities or bonds with call options, specialised models are used for valuation, which may require additional parameters (volatility, correlation, etc.). All bond investments are valued at fair value for solvency purposes.

Table 31: Company's bonds

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Bonds	**1,613,929**	**1,520,293**	**1,572,045**
Government bonds	929,167	715,057	896,520
Corporate bonds	683,610	800,892	674,372
Structured notes	1,152	4,344	1,152
Collateralised securities	0	0	0

The value of bonds increased significantly in 2019. The effect of the increase of nearly EUR 94 million is broken down into the positive cash flow of EUR 40 million and the positive revaluation of nearly EUR 54 million. The increase in government bonds totalling EUR 214 million was generated by the positive flow of EUR 199 million and the positive result of EUR 15 million. A significant portion of the cash flow that increases the balance of government bonds compared to 2018 comes from the corporate bond segment. The outflows from this segment totalling EUR 156 million and the positive revaluation of EUR 38.7 million decrease the exposure to the corporate segment by EUR 117.3 million. The segment of structured notes decreased in 2019 as a result of the natural maturity of the instruments.

Owing to the different valuation method for investments classified as "held to maturity" or "loans and receivables" in financial statements, we have a difference of EUR 41.9 million up to the value for solvency purposes. Owing to the low interest rates and narrow credit spreads, the fair value of these investments is generally higher than the amortised cost. The major portion of the revaluation comes from the government bond segment.

D.1.4.5 Collective investment undertakings

Collective investment undertakings are valued for financial reporting purposes and solvency purposes as provided in section D.1.4.3. The price of unlisted funds is additionally set by the closing price of the fund issuer.

Table 32: Company's collective investment undertakings

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Collective investment undertakings	49,478	19,813	49,478

The value of the item increased in 2019 mainly as a result of the capital calls and new investments into alternative funds. The effect of the revaluation is small because of the relatively young programme of alternative investments.

D.1.4.6 Derivatives

The value of derivatives is determined by the closing offered buying price in an active market (the stock exchange, price of the market operator). In the event that there is no active market, the value is determined by a specialised valuation model (Black-Scholes, network models). Model parameters (the discount rate, volatility, correlation, etc.) are defined as unadjusted data from financial markets to the greatest possible extent.

Table 33: Company's derivatives

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Derivatives	0	1,393	0

At the end of 2019, the Company only held one derivative as a hedge against the value of the Croatian kuna. The value of the item was slightly negative as at the cut-off date which is why the value is disclosed among liabilities. The amount of derivatives is also lower because of the sale of exchange traded derivatives.

D.1.4.7 Deposits other than cash and cash equivalents

For financial reporting purposes, deposits other than cash and cash equivalents are valued at amortised cost. These investments are valued at fair value for solvency purposes. The fair value is estimated using the valuation model outlined in section D.1.4.4.

Table 34: Company's deposits other than cash and cash equivalents

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Deposits other than cash and cash equivalents	19,655	18,492	19,862

The value of the item increased in 2019 mainly as a result of the revaluation of the investment in a long-term deposit as a result of the lowering of interest rates.

D.1.4.8 Other investments

Other Company investments represent works of art and funds in the uninsured motorist fund. For solvency purposes, the value of these assets follows the value as used for the preparation of financial statements.

Table 35: Company's other investments

In EUR thousand

Investments	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Other investments	1,694	1,689	1,694

The value of the item did not change materially in 2019..

D.1.5 Assets held for index-linked and unit-linked contracts

Assets held for index-linked and unit-linked contracts are assets arising from insurance or investment products where the policyholder assumes investment risk. These assets are valued at fair value for solvency purposes while other valuation methods may be used for financial reporting purposes, whereby these methods comply with the requirements for individual financial reporting categories (e.g. valuation at amortised cost for assets classified under "Loans and receivables").

Table 36: Company's assets held for index-linked and unit-linked contracts

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Assets held for index-linked and unit-linked contracts	642,818	576,835	642,717

The changes in assets under this item are primarily linked to the changes in the amount of insurance liabilities. These may be volatile owing to the inflows or outflows from premiums and payments respectively and partly also because of the changes in the value of liabilities that are subject to the changes in indices or reference values applying to the respective liability. The increase in the value of investments amounts to EUR 66 million, whereby EUR 16 million came from life cycle pension funds. The main reason for this increase was the positive revaluation as a result of the growth of global stock markets.

D.1.6 Loans and mortgages

Loans and mortgages are valued at amortised cost for financial reporting purposes. For solvency purposes, these assets are valued using the valuation model that is mainly based on the market assumptions regarding the discount rate. The credit spread that is a component part of the discount rate is determined for each issuer separately.

Table 37: Company's loans and mortgages

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Loans and mortgages	**8,802**	**45,276**	**10,726**
Loans on policies	2,441	2,149	2,441
Loans and mortgages to individuals	11	26	11
Other loans and mortgages	6,351	43,101	8,275

The assets listed under the loans and mortgages item decreased in 2019 as a result of the payment of two large loans.

D.1.7 Reinsurance recoverables

Reinsurance recoverables are determined for financial reporting purposes based on reinsurance contracts the Company has concluded with reinsurers. They are formed for unearned premiums and claims provisions according to the prudence principle.

Reinsurance recoverables are calculated for solvency purposes separately for premium and claims provisions. When calculating the provisions from the premium part, non-past due receivables from reinsurance contracts are taken into account. The Company determines reinsurance recoverables for non-life annuities and presents them (similarly as in the case of provisions for the same) among life insurance.

For both purposes, reinsurance recoverables are determined based on recoverable amounts from reinsurance contracts that are calculated in accordance with the thresholds from insurance and reinsurance contracts to which the amounts relate.

Table 38: Company's reinsurance recoverables

In EUR thousand

Balance sheet	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Reinsurance recoverables	**78,268**	**62,513**	**98,433**
Non-life and health insurance	59,817	43,262	98,433
Life insurance	18,451	19,251	0

The value of reinsurance recoverables increased in 2019 which is in line with the growth in premium and claims provisions compared to the year before. Their movement thus corresponds with the amount of the provisions and the dynamics of the Company's payment of indemnities.

D.1.8 Insurance and intermediaries receivables

Insurance and intermediaries receivables are measured for financial reporting purposes at amortised cost using the effective interest rate method.

Items are valued in the same manner for solvency purposes, while data gathering differs. For solvency purposes, this item only includes past due receivables because non-past due receivables from policyholders are included for solvency purposes into the calculation of the best estimate and are correspondingly excluded from this item.

Table 39: Company's insurance and intermediaries receivables

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Insurance and intermediaries receivables	25,808	14,822	73,050

Insurance receivables increased in 2019 due to the growth of the portfolio. In 2019, the Company additionally upgraded the method of market valuation of insurance subrogations which increases the financial statement value of the item by EUR 11.3 million.

D.1.9 Reinsurance receivables

For financial reporting purposes, reinsurance receivables are valued at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes; however, the data capture method is not the same. Only past due receivables are included in this item for solvency purposes because non-past due reinsurance receivables are included for solvency purposes into the calculation of the best estimate and are correspondingly excluded from this item.

Table 40: Company's reinsurance receivables

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Reinsurance receivables	11,393	18,158	17,220

Assets in the reinsurance receivables item decreased in 2019 as a result of the different data capture method since in the previous year this item also included non-past due receivables from active reinsurance.

D.1.10 Receivables (trade not insurance)

Receivables (trade not insurance) at the Company comprise receivables from financing activities and receivables from operating activities. For financial reporting purposes, these receivables are generally measured at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes; however, the data capture method is not the same as the current insurance receivables are reposted under insurance receivables for solvency purposes.

Table 41: Company's receivables (trade not insurance)

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Receivables (trade not insurance)	3,431	4,740	3,446

Receivables (trade not insurance) decreased in 2019 mainly due to the decrease in receivables from financing activities.

D.1.11 Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash on hand. This item is valued according to its nominal value for both valuation purposes.

Table 42: Company's cash and cash equivalents

In EUR thousand

Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Cash and cash equivalents	16,248	20,307	16,248

The values under this item decreased in 2019 as a result of outflows to other more profitable investment classes.

D.1.12 Any other assets, not elsewhere shown

The item includes short-term deferred costs and accrued revenue, inventories and other assets. Valuation for financial reporting purposes is the same as for solvency purposes.

Table 43: Company's any other assets, not elsewhere shown

In EUR thousand

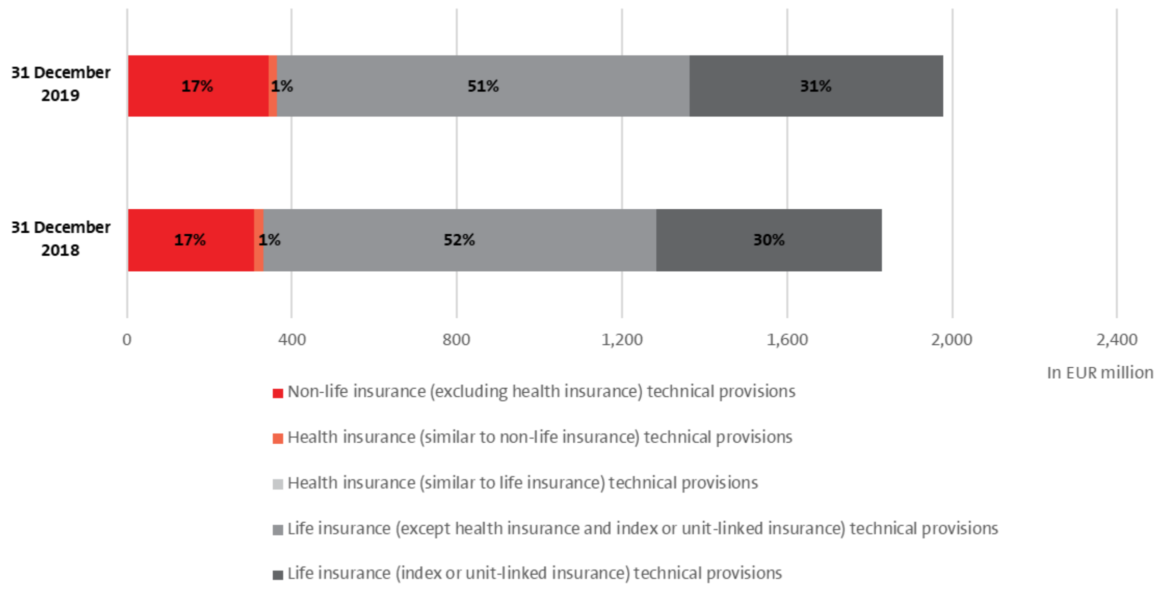
Assets	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Any other assets, not elsewhere shown	3,493	3,296	3,493

The value of any other assets, not elsewhere shown remained practically unchanged in 2019.

D.2 Technical provisions

Company's technical provisions represent the amount of the Company's liabilities arising from insurance contracts. The value of technical provisions for solvency purposes is equal to the sum of the best estimate and the risk margin. The best estimate and the risk margin are calculated separately. The best estimate corresponds to the present value of expected future cash flows from the Company's insurance contracts. The Company calculates technical provisions separately for non-life and health as well as life insurance separately and allocates them according to the selected calculation method.

Chart 8: Company's technical provisions as at 31 December 2019 and 31 December 2018



CONTRACT BOUNDARIES AND HOMOGENEOUS RISK GROUPS

The Company recognises an insurance liability immediately upon the entry into force of a contract. A recognised insurance liability is derecognised when it is extinguished, discharged, cancelled or expired. Insurance contract boundaries are applied mutatis mutandis in the valuation.

The Company's technical provisions are broken down subject to the property of insurance and subsequently the actuarial methods used to value the liabilities. Non-life insurance liabilities are thus broken down into non-life and health insurance liabilities and also comprise the segment of liabilities that are allocated to life insurance liabilities for solvency purposes. Life insurance actuarial techniques are applied for the valuation of life insurance liabilities. This part of technical provisions is represented by non-life insurance claims, which are paid out in the form of annuities. Other liabilities from the non-life insurance portfolio are divided at least subject to lines of business.

The life insurance portfolio liabilities is mostly allocated to the segment of life insurance liabilities and partly to the health insurance segment. This group includes additional accident insurance that is concluded on top of basic life insurance and liabilities are determined using techniques characteristics of non-life insurance. Life insurance liabilities are divided into at least into life insurance segments.

Technical provisions of the Company are divided into homogeneous risk groups in accordance with the nature of the risks covered by the policies, actuarial judgement and historical developments subject to an empirical analysis.

When calculating the present market value of calculated nominal cash flows, the Company uses the basic risk-free interest rate term structure without a matching adjustment, transitional measure for adjustment or volatility adjustment.

The Company does not use adjustments in the calculation of capital adequacy.

D.2.1 Technical provisions for non-life and health insurance

Non-life and health technical provisions at the Company comprise claims provisions, premium provisions and the risk margin. They are set aside based on the generally recognised actuarial techniques, whereby the costs of acquisition, administrative costs and claim adjustment costs are taken into account in accordance with Delegated Regulation.

The Company has established a data quality monitoring and quality assurance system for the data which are the basis for the calculation of technical provisions for non-life and health insurance whereby the data comply with the criteria regarding suitability, completeness and adequacy.

Non-life and health insurance technical provisions are segmented at least into the insurance segments prescribed by Delegated Regulation.

The table below shows the results of technical provisions by the largest insurance segments as at 31 December 2019. The results are broken down into premium and claims provisions, and the risk margin. Non-life and health insurance technical provisions are shown in greater detail in template S.17.01 in Annex to this Report.

Table 44: Non-life and health insurance technical provisions of the Company for solvency purposes as at 31 December 2019 with a comparison with the balance as at 31 December 2018

31 December 2019 — **In EUR thousand**

Non-life and health technical provisions	Claims provision	Premium provision	Risk margin	Technical provisions
-- Motor vehicle liability insurance (LoB 4)	90,200	22,324	3,593	116,116
-- Fire insurance and other damage to property insurance (LoB 7)	34,179	30,023	7,155	71,357
- General liability insurance (LoB 8)	61,559	3,227	1,897	66,683
-- Other motor insurance (LoB 5)	15,279	29,952	2,921	48,151
-- Other non-life and health insurance segments	41,697	14,833	5,251	61,782
Total	**242,914**	**100,359**	**20,817**	**364,090**

31 December 2018				In EUR thousand
Non-life and health technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
-- Motor vehicle liability insurance (LoB 4)	72,320	21,412	3,288	97,019
-- Fire insurance and other damage to property insurance (LoB 7)	32,362	25,458	5,587	63,408
- General liability insurance (LoB 8)	54,986	3,929	1,999	60,913
-- Other motor insurance (LoB 5)	14,584	29,299	2,923	46,806
-- Other non-life and health insurance segments	45,538	11,316	6,812	63,667
Total	**219,790**	**91,414**	**20,609**	**331,813**

The Company recorded premium and claims provisions growth in the non-life and health insurance segment in 2019 which was the result of portfolio growth.

D.2.1.1 Best estimate of non-life and health insurance technical provisions

The best estimate of technical provisions is calculated separately for claims incurred up to the calculation date and for claims incurred after the calculation date. The first calculation is termed the best estimate of the claims provision and the second is termed the best estimate of the premium provision.

The best estimate of the premium provision as at 31 December 2019 amounted to EUR 100.4 million.

The basis for the best estimate of the premium provision is future cash flows from premiums, claims, subrogations, costs, bonuses and discounts, terminations and commissions. The key assumption in the calculation is matching the pattern of development of future cash flows from the premium provision with the pattern that is calculated and used in claim provisioning. Unearned premium calculated as at the calculation date is used as the measure of exposure.

The best estimate of the claims provisions as at 31 December 2019 amounted to EUR 242.9 million.

The best estimate of the claims provisions is calculated separately for incurred reported claims, i.e. all claims incurred up to the last day of the reporting period, and for incurred unreported claims, i.e. claims incurred but not sufficiently reported and reopened claims, which are claims that have not been finally resolved by the last day of the reporting period.

The best estimate of incurred reported claims is monitored at the level of an individual claim file. Individual claim adjustment departments are responsible for adjusting individual claims, whereby data that affect the estimates is entered concurrently.

Provisions for incurred unreported claims are calculated at the level of insurance segments, for which a combination of established actuarial techniques is used, i.e. Chain-ladder and Bornhuetter-Ferguson. Inflation is also taken into account appropriately in the calculation.

The best estimate of the claims provision is reduced by the best estimate of expected subrogations and increased by expected claim adjustment costs. The best estimate of expected subrogations refers to the claims in the part for which the best estimate of the claims provision was made.

When calculating non-life and health insurance liabilities, the following parameters are used: expected claim development pattern, future inflation, final claims ratio and costs. The parameters are determined based on past experience and are, as appropriate, adjusted so as to best correspond with the expected development of insurance liabilities. If there is a suspicion for an individual segment or specific insured group of insurance products that the past will not reflect the future development, professional actuarial judgement is applied in the selection of parameters. This ensures that insurance liabilities reflect the amount of insurance liabilities as much as possible.

D.2.1.2 Risk margin for non-life and health insurance

As at 31 December 2019, the risk margin amounted to EUR 20.8 million.

The risk margin comprises the separate calculation for the portfolio of non-life and health insurance and the calculation for non-life insurance claims that are paid out in the form of annuities that are calculated using life insurance techniques. The calculation is based on the estimated future capital requirements of the selected portfolio, i.e. separately for individual risk categories. The approach used is the one under the first method according to the hierarchy of the EIOPA Guidelines on the valuation of provisions (section 1.113).

D.2.1.3 Material differences between the bases, methods and main assumptions used for valuation for solvency purposes and the bases, methods and key assumptions used for valuation in financial statements

Table 45: Difference between technical provisions for non-life and health insurance for solvency purposes and for financial reporting purposes

In EUR thousand

Liabilities	Value for solvency purposes	Value for financial reporting purposes*
Non-life and health technical provisions	364,090	662,916

* The value relates to technical provisions presented in the Annual Report, section 3.15 in the Accounting Report

As at 31 December 2019, non-life and health insurance technical provisions for financial reporting purposes amounted to EUR 662.9 million, while they stood at EUR 364.1 million for solvency purposes. The basic difference between both valuation methods lies in the level of prudence that is used in the calculation of insurance liabilities which is higher in the valuation of technical provisions for financial reporting purposes. When valuing the best estimate for solvency purposes, prudence is not applied in the calculation. Provision calculation applies slightly different portfolio segmentation.

Other reasons for the higher value of technical provisions for financial reporting purposes include:

- application of discounting for solvency purposes;

- in the valuation of the unearned premium for financial reporting purposes, the basis for the calculation is the deferral of the gross written insurance premium where the loss ratio is also deferred. Gross written insurance premiums are not deferred for solvency purposes as future cash flows are taken into account, including future cash flows from premiums. Future profits thus decrease the premium provision;
- non-past due receivables from direct insurance operations are not taken into account for the provision for financial reporting purposes, whereas these receivables decrease the provisions for solvency purposes;
- the valuation of the claims provision for financial reporting purposes takes into account the claims ratios on a more conservative basis mainly for the insurance segments of Motor vehicle liability insurance and general liability;
- in the calculation of the provisions for incurred and unreported claims for financial reporting purposes, the list of provisioned claims is additionally reduced by large claims. The entire list is thus added to the provisions for incurred unreported claims calculated in this manner so as to arrive at the claims provision;
- non-life insurance annuities are disclosed for financial reporting purposes under non-life insurance, while they are disclosed under life insurance for solvency purposes; the difference amounts to EUR 66.4 million;
- the reinsurance share of provisions is valued on a similar basis as provisions. For solvency purposes, this basis is the best estimate, while it is the precautionary estimate for financial reporting purposes. The difference amounts to EUR 20.1 million.

D.2.2 Technical provisions for life insurance

Two types of liabilities are valued within the scope of life insurance technical provisions at the Company: life insurance liabilities and liabilities under health insurance that is provided on a similar technical basis as life insurance. The Company calculates the best estimate of technical provisions separately for expired perils, i.e. claims provisions, and for unexpired covered perils, i.e. premium provision.

The table below shows the life technical provisions for solvency purposes.

Table 46: Life insurance technical provisions for solvency purposes as at 31 December 2019 and 31 December 2018

31 December 2019 | **In EUR thousand**

Life insurance technical provisions	Claims provision	Premium provision	Risk margin	Technical provisions
Insurance with profit participation (LoB 30)	1,066	924,872	16,546	942,484
Index-linked and unit-linked insurance (LoB 31)	626	599,093	15,855	615,574
Other life insurance (LoB 32)	251	-14,058	4,379	-9,428
Annuities from non-life insurance contracts (LoB 34)	66,063	0	297	66,360
Total	**68,005**	**1,509,907**	**37,078**	**1,614,990**

31 December 2018				In EUR thousand
Life insurance technical provisions	**Claims provision**	**Premium provision**	**Risk margin**	**Technical provisions**
Insurance with profit participation (LoB 30)	848	875,167	13,742	889,756
Index-linked and unit-linked insurance (LoB 31)	498	528,038	17,817	546,353
Other life insurance (LoB 32)	199	-12,326	4,260	-7,867
Annuities from non-life insurance contracts (LoB 34)	69,898	0	346	70,244
Total	**71,443**	**1,390,879**	**36,164**	**1,498,486**

Life insurance technical provisions of the Company are shown in greater detail in template S.12.01 in Annex to this Report.

D.2.2.1 Best estimate of life insurance technical provisions

The best estimate of life insurance technical provisions is determined based on the estimated future cash flows from concluded insurance.

For the purpose of the best projection of cash flows, the Company uses an appropriate set of assumptions relevant for the homogenous risk group taking into account its specificity. For unexpired perils, the best estimate of liabilities is calculated using future cash flow projections, subject to the associated assumption, i.e. separately for each policy. For expired perils, the Company recognises the best estimate of liabilities separately subject to the insured event – in the case of endowments, the best estimate of liabilities is calculated by policy; in the case of other risks, it is calculated at the level of homogenous risk groups using the Bornhuetter-Ferguson (BF) methodology of actuarial triangles, which is a loss reserving technique used for non-life insurance. The theoretical concept defines the best estimate of liabilities as the market value of technical provisions, which is difficult to realise in practice on the market. Therefore, the best estimate of liabilities is calculated as the present value of all estimated future income and expenses, separately by insurance policy and weighted by the probability of occurrence. Income includes gross premiums, charged costs and other income (e.g. refunds), while expenses include actual costs, fees and commissions, claims and other eventual expenses. Return on assets is not included in income. The risk-free interest rate curve published by EIOPA is used for discounting cash flows.

Expenses related to future actual costs are calculated using a cost model that contains the following cost types required to the performance of insurance contracts, i.e. insurance management costs, investment management costs, claim management costs, and insurance acquisition costs

With regard to cash flows, due account is taken of the expected future developments in the external environment such as mortality, interest rates, inflation and other types of uncertainty:

- uncertainty regarding the timing and probability of insured events;
- uncertainty regarding the amounts of claims;
- uncertainty regarding the amount of actual costs;
- uncertainty regarding the expected future development of the external environment;

- uncertainty regarding policyholder behaviour.

The above uncertainties are included in the assessment of future cash flows using basic input assumptions regarding the probability of distribution of relevant insurance events such as probability tables for mortality, policy capitalisation, policy surrenders, etc.). The default probability distributions depend on the relevant risk factors and may change over time. These are probability tables for longevity depend on the gender, age and generation to which a person belongs.

The Company performs separate calculations of the best estimate of liabilities for the guaranteed and the discretionary part of entitlements from concluded insurance.

The calculation of cash flows also takes into account certain future measures for the management of the Company with regard to the distribution of profits to policyholders, depending on the economic situation and in accordance with the existing internal acts and rules.

Using a range of economic scenarios that correspond to market conditions and are risk-neutral, the Company calculates the part of the best estimate of technical provisions that represents the time value of embedded contractual options and financial guarantees. This allows it to estimate the present value of uncertainties that arise from them.

The assumptions regarding policyholder behaviour are considered in a deterministic manner, meaning that the actions of insurers are not dependent on the economic scenario, but rather depends on other risk factors such as age of the policy, type of insurance product, etc. The calibration of dependencies between economic conditions and policyholder behaviour must be based on a statistically characteristic result that is derived from relevant statistical analyses of empirical data from both sources (past policyholder behaviour and economic conditions). Based on the currently available data, such a connection cannot be derived correctly.

The best estimate for non-life insurance claims that are paid in the form of annuities is the sum of the best estimates for the existing and expected future annuity. The best estimates are calculated using life insurance valuation techniques. In doing so, relevant mortality tables are observed, i.e. those that are also used for the valuation of capitalised annuities. The provision for planned annuities for insurance cases, for which no claim was yet filed, but can justifiably be expected, is also calculated. These are generally annuities of underage persons who already receive an annuity and will be entitled to an income protection annuity when turning a certain age. The calculation takes into account the costs of claim adjustment.

The best estimate of liabilities changed in the following segments in the reporting period:

-insurance with profit participation where it increased by EUR 49.9 million mainly as a result of changes of the risk-free interest rate curve and the newly underwritten risks in the reporting period;
-index or unit-linked insurance where it increased by EUR 71.2 million mainly as a result of actual investment movements in the period and the increase in the time value of options and guarantees;
-other life insurance where it increased by EUR 1.7 million mainly as a result of the newly underwritten risks in the reporting period;

- annuities under non-life insurance which decreased by EUR 3.8 million mainly as a result of changes to non-economic assumptions in the valuation which includes the termination of 79 annuities and the change of mortality tables. The termination of annuities is the consequence of regular administration of claim files and in some cases court decisions.

D.2.2.2 Risk margin for life insurance

The definition of the risk margin contains difficult to calculate future solvency capital requirements for all future periods until the maturity of the existing portfolio of liabilities. Therefore, the Company calculates them by applying a simplification based on the calculation of the future values of partial solvency capital requirements for individual categories of life insurance risks (e.g. mortality, longevity, costs, etc.) on the basis of values of substitutes which can be calculated in practice.

An appropriate substitute is therefore determined for every risk included in the standard formula, which is expected based on an actuarial assessment and empirical evidence to develop with roughly the same dynamic as the capital requirement for the relevant risk. In this manner, the risk margin is calculated for the entire life insurance portfolio within an individual ring-fenced fund or within the remaining part of the portfolio. This risk margin is then broken down by individual line of business in proportion to their virtual isolated risk margins.

D.2.2.3 Material differences between the bases, methods and main assumptions used for valuation for solvency purposes and the bases, methods and key assumptions used for valuation in financial statements

The reasons for differences between the valuations of technical provisions for solvency purposes and for financial reporting purposes are the discrepancies between the bases, methods and main assumptions.

The methodology and the bases used for the valuation of technical provisions for financial reporting purposes state that the greater of the estimate of realistic technical provisions (according to the LAT methodology) or the conservative value of technical provisions is selected in certain segments of the portfolio. The said conservative calculation of technical provisions is based either on a prospective method using the net Zillmer premium (traditional life insurance) or on a retrospective method (unit-linked life insurance and pension insurance).

The first method takes into account the present value of the limited set of expected future cash flows relating to an insurance contract, while the other takes the accumulated value of realised past cash flows (premium payments, claim payouts, imputation of the return, valorisation, etc.).

Table 47: Differences between technical provisions for life insurance for solvency purposes and for financial reporting purposes

In EUR thousand

Liabilities	Value for solvency purposes	Value for financial reporting purposes*
Life insurance technical provisions	1,614,990	1,486,099

* The value relates to technical provisions presented in the Annual Report, section 3.15 in the Accounting Report

The methodology and bases for the valuation of technical provisions for solvency purposes stipulate the method for the calculation of the present value of a realistic estimate of all relevant cash flows, which is also referred to as the "best estimate of liabilities", including the risk margin.

In addition to the differences in the bases and methodologies, the two valuation approaches also differ in terms of the set of assumptions used. As a rule, technical parameters defining the premium are used in the prospective valuation of technical provisions (traditional life insurance) for financial reporting purposes, but with certain exceptions. The constant technical interest rate embedded in the individual tariff or the selected interest rate, provided the latter is lower, is applied for discounting. The Slovenian annuity tables are used for the valuation of technical provisions arising from annuity and pension insurance in the annuity pay-out period.

The assumptions about cost parameters are generally identical to those set in the tariff of a product upon the conclusion of an insurance contract, while an empirical valuation parameter needs to be applied in certain cases. Policyholder behaviour, such as surrender, capitalisation, cancellation, and annuitisation, is not taken into account in the valuation of technical provisions for financial reporting purposes. Technical provisions are calculated using actuarial mathematical formulas consisting of traditional actuarial factors.

When it comes to the valuation for solvency purposes, all selected assumptions are of the best estimates type, meaning that the values are neither overestimated nor underestimated, allowing for a realistic valuation. It is important to note the fact that the regulator prescribes the basic risk-free interest rate term structure for each relevant currency, meaning that this rate is uniform for all insurance companies.

For insurance with profit participation, the positive difference between the valuation of technical provisions for solvency and the valuation for financial reporting purposes is mainly the result of the use of the abovementioned term structure, which is generally lower that the interest rates applied for discounting in financial statements. In index-linked or unit-linked insurance, the negative difference occurs as a result of using the best estimate of parameters (which generally result in lower technical provisions compared to the parameters used in the calculation for financial reporting purposes) and permitting negative technical provisions for profitable insurance for solvency purposes. A similar explanation is also applicable to other types of life insurance.

The material difference between the two valuations results from annuities under non-life insurance, which are presented under life insurance for solvency purposes and amount to EUR 66.4 million. They are presented under non-life insurance for financial reporting purposes.

D.3 Other liabilities

D.3.1 Provisions, other than technical provisions

The calculation of provisions for long-term employee benefits such as jubilee benefits and severance pay upon retirement is performed in accordance with the actuarial mathematics methodology considering the relevant IAS.

The calculation of provisions refers to two categories of employee entitlements:

- post-employment benefits which represent an employee entitlement upon retirement in the form of a lump sum payment. The amount of the entitlement is determined in advance and risks with regard to the final amount of the payment are borne by the company, which is why this scheme is classified under "DBF"[6];
- jubilee benefits which represent other long-term employee benefits during the time of employment.

The total cost of the pre-determined employee entitlement is affected by a number of variables, such as wage growth, inflation, the termination of employment contract and the mortality of employees. The total cost of the entitlement remains uncertain throughout the period, which is why the valuation of the present value of post-employment benefits and related costs during the time of employment takes into account the following:

- actuarial valuation methods;
- attribution of benefits during the time of employment;
- defined actuarial assumptions.

Provisions for jubilee benefits and severance pay upon retirement are calculated for each individual employee separately based on the methodology described above, the applied parameters and employee data.

Provisions for jubilee benefits and severance pay upon retirement for solvency purposes match the provisions calculated for financial reporting purposes. The calculation applies the interest rate curve for Eurozone debt securities rated AAA, which is published by the European Central Bank. The application of the abovementioned curve has no material effect on the amount of provisions.

This class of liabilities also includes provisions for unused annual leave which are valued in the same manner for both solvency and financial reporting purposes. Similar is true of other provisions included here – mostly provisions for legal disputes.

Table 48: Company's provisions, other than technical provisions

In EUR thousand

Liabilities	**Value for solvency purposes**		**Value for financial reporting purposes**
	31 December 2019	**31 December 2018**	**31 December 2019**
Provisions, other than technical provisions	12,625	11,926	12,625

Other technical provisions did not change materially in the reporting period.

[6] Defined Benefit Plan.

D.3.2 Deferred tax liabilities

In accordance with International Accounting Standards, deferred taxes are calculated for all taxable temporary differences between the value of liabilities for tax purposes and their carrying amounts.

Deferred tax liabilities are valued for solvency purposes as the product of the tax rate and the difference between the value of liabilities for financial reporting purposes and the value of liabilities for solvency purposes (excluding deferred tax liabilities), to which net deferred tax liabilities for financial reporting purposes are added. The tax rate of 19% is applied in the calculation of deferred taxes.

Table 49: Company's deferred tax liabilities

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Deferred tax liabilities	40,335	48,990	5,707

Deferred tax liabilities for solvency purposes decreased in 2019 because of the decrease in the difference between the Company's balance sheet liabilities for solvency purposes and those for financial reporting purposes. On the other hand, the decrease in the value of deferred tax liabilities for financial reporting purposes has a smaller effect.

D.3.3 Derivatives

The value of derivatives is determined by the closing offered buying price in an active market (the stock exchange, price of the market operator). In the event that there is no active market, the value is determined by a specialised valuation model (Black-Scholes, network models). Model parameters (the discount rate, volatility, correlation, etc.) are defined as unadjusted data from financial markets to the greatest possible extent.

Table 50: Company's derivatives

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Derivatives	29	0	29

At the end of 2019, the Company only held one derivative as a hedge against the value of the Croatian kuna. The value of the item was slightly negative as at the cut-off date which is why the value is disclosed among liabilities this year. The amount of derivatives is also lower because of the sale of exchange traded derivatives.

D.3.4 Financial liabilities other than debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions are liabilities arising from the purchase of securities. For financial reporting and solvency purposes, these liabilities are measured at cost.

Table 51: Company's financial liabilities other than debts owed to credit institutions

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Financial liabilities	1,632	1,580	1,632

Financial liabilities other than debts owed to credit institutions did not change materially in 2019.

D.3.5 Insurance and intermediaries payables

Insurance and intermediaries payables represent liabilities from direct insurance operations and other current liabilities from insurance operations.

For financial reporting purposes, they are valued at amortised cost using the effective interest rate method. They are valued in the same manner for solvency purposes.

Table 52: Company's insurance and intermediaries payables

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Insurance and intermediaries payables	20,510	16,550	20,510

Insurance and intermediaries payables increased in 2019 due to the increase in insurer payables and other current liabilities from insurance operations.

D.3.6 Reinsurance payables

For financial reporting purposes, reinsurance payables are valued at amortised cost using the effective interest rate method.

The same method is used for solvency purposes, whereby the non-past due reinsurance payables are included in the reinsurance share of the premium provision, which is why they are not included in this item.

Table 53: Company's reinsurance payables

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Reinsurance payables	0	0	15,309

The Company had no past due reinsurance payables in the reporting period.

D.3.7 Payables (trade not insurance)

The biggest component of these payables is the current liabilities to employees, trade payables and other current liabilities.

For both financial reporting and solvency purposes, they are valued at amortised cost using the effective interest rate method.

Table 54: Company's payables (trade not insurance)

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Payables (trade not insurance)	40,183	36,559	40,183

These liabilities increased in 2019 due to the higher current liabilities to employees and trade payables.

D.3.8 Subordinated liabilities

Subordinated liabilities are disclosed in financial statements at amortised cost without accrued interest. For solvency purposes, subordinated liabilities are valued at market value whereby the change in the issuer's creditworthiness is not taken into account.

Table 55: Company's subordinated liabilities

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Subordinated liabilities	72,989	22,483	69,999

Subordinated liabilities increased in 2019 because of the issue of a new 30.5-year callable subordinated bond with first-call available in 10.5 years in the nominal amount of EUR 50 million.

D.3.9 Any other liabilities, not elsewhere shown

The item includes all other liabilities of the Company that are not included in any of the previous liability items of the balance sheet. Valuation for financial reporting purposes is the same as for solvency purposes.

Table 56: Company's any other liabilities, not elsewhere shown

In EUR thousand

Liabilities	Value for solvency purposes		Value for financial reporting purposes
	31 December 2019	31 December 2018	31 December 2019
Any other liabilities, not elsewhere shown	5,651	4,823	5,651

The value of the item did not change materially in 2019.

D.3.10 Lease agreements

In the reporting period the lease agreement liabilities amounted to present value of future payments, where the Company only has leases for business purposes. The details for legislative changes are presented in section A.4.2 of this Report.

D.4 Alternative methods for valuation

In the reporting period, the Company did not use any alternative valuation methods for solvency purposes other than those disclosed in the previous sections of this Report.

D.5 Any other information

This section outlines additional data on the Company as per the requirement stipulated in Article 296 (4) of Delegated Regulation.

The Company's largest off-balance-sheet exposure is to the alternative investments item. Detailed information on off-balance sheet items not reported by the Company are presented in the Annual Report, in section 5.6 in the Accounting Report.

OTHER RELEVANT INFORMATION

All other information relating to the valuation for solvency purposes was disclosed by the Company in sections D.1 through D.4.

E. Capital management

E. Capital management

The capital management system and related processes are based on strategic goals, regulatory requirements, good practices and internally established methodologies that take into account the characteristics of the Company as a whole, especially the nature, volume and complexity of operations.

The Company has defined objectives and principles for medium-term capital management, bases and guidelines to define the dividend policy, the main elements of the capital management system, responsibilities, including key processes and criteria for identification, measurement and monitoring of capital requirements or needs and the capital adequacy as well as reporting.

Capital management is a continuous process involving the determination and maintenance of a sufficient volume and quality of the Company's capital. The capital management system also encompasses the management of regulatory capital risk, which also includes potential changes in financial reporting standards, which may affect the payout of dividends, and legislative amendments that affect capital adequacy at the Company.

The objective of the capital management system, which has been put in place, is the efficient use of available own funds, which provides for:

- safety and profitability of operations at the Company level;
- a high level of confidence of all stakeholders;
- meeting the regulatory capital adequacy requirements;
- achievement of an appropriate capital adequacy level in the ORSA process and the resulting suitable exposure to capital risk;
- meeting the criteria of external rating agencies to maintain at least the A credit rating.

Through its capital management system, the Company has also established a system for transparent and optimum economic allocation of capital by functional area based on risk-adjusted profitability criteria for the optimum achievement of strategic goals.

The objective of capital management is also the assurance of long-term and stable returns on the owners' investment which is reflected through the returns from the increase in the share price and the received dividends or other distributions of profit or capital. Dividend distributions are carried out based on the pre-defined criteria of the dividend policy which enable the Company to ensure stable operations, growth, attainment of strategic goals over the long-term, satisfaction of all stakeholders and a stable ownership structure of investments.

The Company maintains a surplus of available capital in excess of the capital requirements for the performance of the core activity and the coverage of potential losses. The surplus provides protection against losses resulting from unforeseen unfavourable events and the volatility of capital requirements. In addition to the capital adequacy, the future adequacy of the amount of capital and capital adequacy are planned and assessed regularly. Potential future capital risk and future solvency requirements are estimated based on scenarios from the annual plan within the scope of the regular ORSA process.

The Company is retaining the set capital management objectives and the existing dividend policy. The Company manages capital in a centralised manner at the Group level by ensuring optimum and cost-effective capital allocation and use through capital concentration at the parent company. Within the scope of the capital management process, the Company takes into account the capital needs as well as the options and restrictions for capital transfer between individual functional areas and from subsidiaries to the parent company. Capital management relies on the abovementioned risk management system and is based on the strategic goals of the Group, regulatory requirements, good practices and internally established methodologies.

The objective of the capital management process is to achieve an optimum return according to the use of economic capital criterion at the Company level and represents continuous implementation of the following activities:

- setting of mutually coordinated and clearly communicated objectives, and defining the long-term business strategy of each functional area;
- adoption of business decisions that are suitable in terms of profitability and assumed risk as well as strategic guidelines for capital management;
- monitoring and measurement of economic capital value, profitability and use for each functional area and subsidiary as well as analysing changes in the risk profile;
- evaluation of operating results whereby the movements of operating performance indicators or other measures of risk-weighted returns of individual functional areas or subsidiaries are calculated and monitored;
- implementation of measures for optimum economic capital allocation and monitoring of its use.

In the context of monitoring and measurement of economic capital value, profitability and use for each functional area and subsidiary as well as analysing the changes in the risk profile, regular implementation of the ORSA process, which defines the guidelines and measures for the optimisation of operations for the attainment of strategic goals, is of the utmost importance. The ORSA process is explained in detail in section B.3.6 of this Report.

CAPITAL ADEQUACY OF THE COMPANY

As at 31 December 2019, the Company was adequately capitalised and had sufficient own funds available to meet both the solvency capital requirement (283%) and the minimum capital requirement (803%).

Capital adequacy is defined as the ratio between the eligible own funds and the solvency capital requirement.

Eligible own funds include all Tier 1 own fund items, and Tier 2 and Tier 3 own fund items up to the regulatory specified amounts.

Only eligible own funds, which are without restrictions, are used to meet the MCR, whereby they comprise all Tier 1 own fund items, and Tier 2 own fund items, which may not exceed 20% of the MCR within the scope of the regulatory restriction.

Table 57: Capital adequacy of the Company as at 31 December 2019 and 31 December 2018

In EUR thousand

Company's capital adequacy	31 December 2019	31 December 2018
Total eligible own funds to meet the SCR	905,284	861,066
Total eligible own funds to meet the MCR	853,567	858,766
Solvency capital requirement (SCR)	320,091	324,920
Minimum capital requirement (MCR)	106,359	100,913
Capital adequacy to SCR	283%	265%
Capital adequacy to MCR	803%	851%

The Company's capital adequacy increased by 18 pp in the reporting period, which is the result of the increase in eligible own funds and at the same time the decrease of solvency capital requirement. Eligible own funds are described in more detail in section E.1 of this Report.

Details on the values for the calculation of the Company's capital adequacy are provided in template S.23.01 in Annex to this Report.

E.1 Own funds

As at 31 December 2019, the Company only had basic own funds totalling EUR 905.3 million. They were composed of the Company's share capital (EUR 73.7 million), subordinated liabilities (EUR 73 million) and the reconciliation reserve (EUR 758.6 million). The reconciliation reserve consists of the excess of assets over liabilities in the amount of EUR 889.1 million less the value of expected dividends for the 2019 financial year (EUR 56.8 million) and the Company's share capital.

The Company did not have any ancillary own funds as at 31 December 2019. It also had no available capital deductible items.

The structure of the Company's own funds according to tier as at 31 December 2019 and 31 December 2019 is shown in the table below and in template S.23.01 of Annex to this Report.

Table 58: Structure of own funds according to tier as at 31 December 2019 and 31 December 2018

31 December 2019 — In EUR thousand

Own funds	Total	Tier 1 (without restrictions)	Tier 2*	Tier 3
Available own funds to meet the SCR	905,284	832,295	72,989	0
Available own funds to meet the MCR	905,284	832,295	72,989	0
Eligible own funds to meet the SCR	905,284	832,295	72,989	0
Eligible own funds to meet the MCR	853,567	832,295	21,272	0

31 December 2018				In EUR thousand
Own funds	**Total**	**Tier 1 (without restrictions)**	**Tier 2***	**Tier 3**
Available own funds to meet the SCR	861,066	838,583	22,483	0
Available own funds to meet the MCR	861,066	838,583	22,483	0
Eligible own funds to meet the SCR	861,066	838,583	22,483	0
Eligible own funds to meet the MCR	858,766	838,583	20,183	0

* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

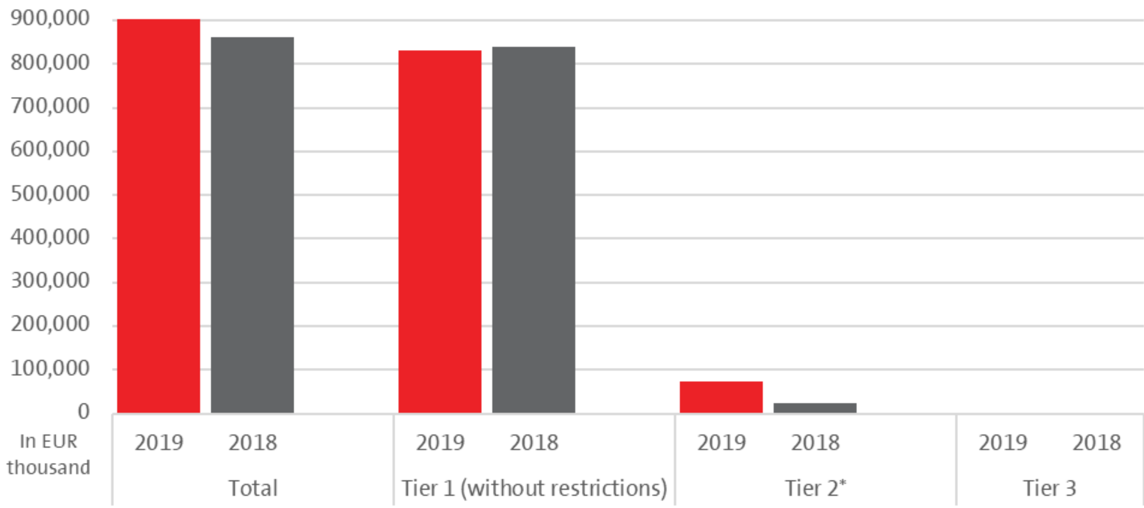
The Company's own funds increased by EUR 44.2 million in the reporting period whereby they decreased by EUR 6.3 million on account of the decrease in the reconciliation reserve and increased by EUR 50.5 million on account of the increase in subordinated liabilities from the newly issued 30.5-year callable subordinated bond with first-call available in 10.5 years in the nominal amount of EUR 50 million issued in April 2019.

Own funds do not comprise items that include restrictions affecting fungibility and transferability.

The Company's eligible own funds to meet the MCR as at 31 December 2019 amounted to EUR 853.6 million, whereby Tier 2 funds that exceed 20% of the MCR are already excluded from the said amount.

The Company holds the highest quality own funds and thus classifies its entire share capital and the reconciliation reserve as Tier 1 assets, while it classifies subordinated bonds as Tier 2 assets.

Chart 9: Comparison of available eligible own funds to meet the SCR as at 31 December 2019 and 31 December 2018

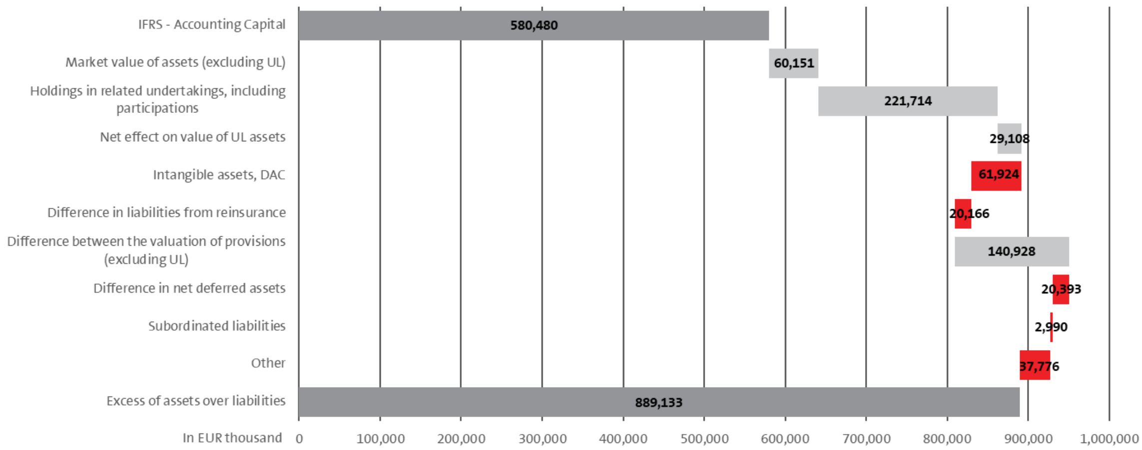


* Tier 2 own funds are suitable for the coverage of the MCR as long as they do not exceed 20% of the MCR.

DIFFERENCES IN THE VALUATION OF CAPITAL FOR FINANCIAL REPORTING PURPOSES AND OWN FUNDS

The differences between capital for the Company's financial reporting purposes and own funds calculated for solvency purposes arise from the difference in the valuation of assets and liabilities. Own funds are namely calculated as the difference between assets and liabilities whereby both sides of the balance sheet are valued at market value.

Chart 10: Differences in the valuation of the Company's capital and own funds for financial reporting purposes as at 31 December 2019



UL – unit-linked asset
DAC – deferred acqusition costs

Capital for financial reporting purposes as at 31 December 2019 amounted to EUR 580.5 million, while the excess of assets over liabilities for solvency purposes amounted to EUR 889.1 million. The difference is most affected by the different valuation of technical provisions (EUR 140.9 million) and assets, mostly the amount of holdings in related undertakings, including participations (EUR 281.9 million). The difference is in most part lowered by intangible assets (EUR 61.9 million), difference in net deferred assets (EUR 20.4 million) and insurance and intermediaries receivables (EUR 47.2 million) which is shown in the above chart as Other.

E.2 Solvency capital requirement and minimum capital requirement

The Company calculates capital adequacy based on the standard formula in accordance with the ZZavar-1 and Delegated Regulation. In order to calculate the solvency capital requirement, the Company applies the standard formula using the prescribed parameters and not using any simplifications and parameters specific for the Company.

In accordance with the provisions of the ZZavar-1, the Company reports at least once a year to the supervisory authority on the amount of the SCR and at least once every quarter on the MCR.

E.2.1 Solvency capital requirement

The Company's SCR as at 31 December 2019 amounted to EUR 320.1 million, a decrease of EUR 4.8 million compared to the year before. The main reason for the decrease of SCR is the decrease in basic solvency capital requirement by EUR 14 million.

The decrease in the loss-absorbing capacity of net deferred tax assets by EUR 6 million results in the increase in SCR. The increase in the loss-absorbing capacity amount is the consequence of the decrease in the amount of net deferred tax assets that are described in more detail in sections D.1.2 and D.3.2 of this Report.

Table 59: SCR of the Company as at 31 December 2019 and 31 December 2018

In EUR thousand

Company's SCR	31 December 2019	31 December 2018
Underwriting risks	191,941	188,957
Market risks	221,083	228,599
Credit risks	42,161	59,588
Diversification	-139,300	-147,258
Basic solvency capital requirement	**315,884**	**329,886**
Operational risks	20,645	19,580
Loss-absorbing capacity of technical provisions	0	0
Loss-absorbing capacity of deferred taxes	-23,246	-29,258
Adjustment for ring-fenced fund risk diversification	6,808	4,712
SCR	**320,091**	**324,920**

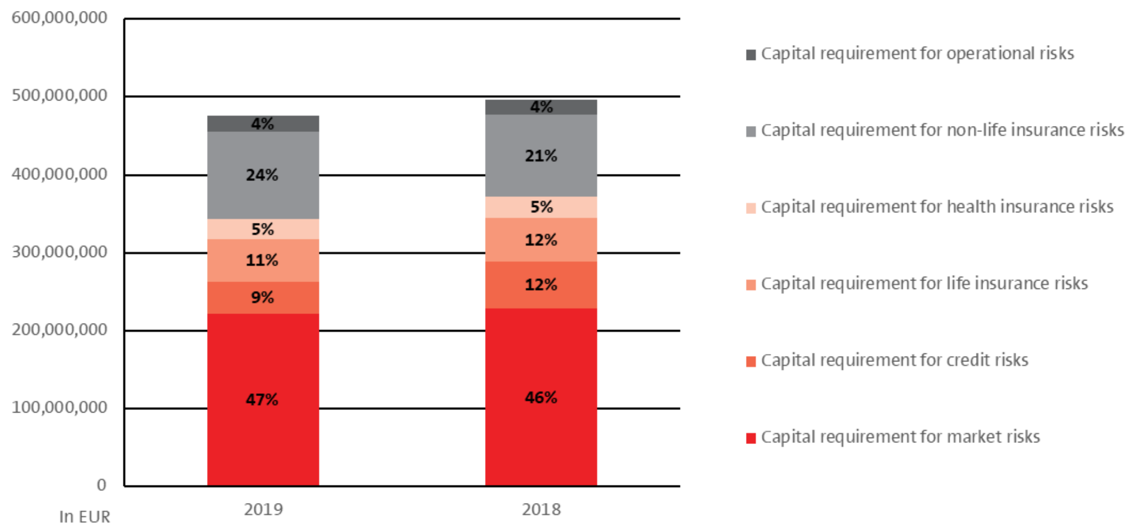
Changes in the basic SCR result from increased capital requirements for underwriting as well as from the decrease in capital requirements for credit and market risks. The increase in the capital requirement for underwriting risks is the result of the increase in the capital requirement for non-life underwriting risks, which is the result of portfolio growth and new requirements for the inclusion of two new perils (hail and windstorm) in the calculation of capital requirement for non-life underwriting risks.

The capital requirement for market risks decreased in the reporting period resulting from the change in the investment structure, mainly because of the increase in government bonds and decrease in corporate bonds which results in the decrease in spread risk. There was also a decrease in the capital requirement for interest rate risk which is the result of planned decrease in duration gap between assets and liabilities mainly due to increase in duration of higher rated investments. On the other hand the capital requirement for equity risk increased due to increase in market value of equities and collective investment undertakings that are exposed to equity risk.

The capital requirement for credit risks decreased significantly in the reporting period mainly because of the decrease in exposure to reinsurance partners which is the result of the change of standard formula for individual perils (fire, aviation, marine). For these segments the base for the calculation now is highest net exposure, whereas in 2018, the base for the calculation was the highest gross exposure in the insurance segment portfolio. In 2019 the Company has upgraded its credit quality assessment for unrated reinsurance partners for which, according to the Delegated Regulation, it can use their solvency ratio. The abovementioned change decreases the risk factor of said partners and has an effect on capital requirement.

The chart below shows the structure of capital requirements for individual risks whereby the presentation also takes into account the capital requirement for operational risks that is not an element of the basic SCR.

Chart 11: Presentation of the capital requirements of the Company as at 31 December 2019 and 31 December 2018



Details on the changes in the value of capital requirements by individual risks are presented in section C of this Report.

In the reporting period, the Company took into account the ring-fenced funds and calculated the SCR using method 3 – simplification at risk module level defined in the EIOPA Guidelines on ring-fenced funds. This means that capital requirements for ring-fenced funds and the remaining part of the Company's portfolio are only summed up, while the effects of diversification between funds are not taken into account. When calculating the SCR, it is necessary to additionally calculate the adjustment for the aggregation of the theoretical SCR of ring-fenced funds. Details on the calculation are shown in template S.25.01 in Annex to this Report.

E.2.2 Minimum capital requirement

The Company calculates the minimum capital requirement in accordance with the Delegated Regulation methodology. The minimum capital requirement is calculated as a linear function of the following variables:

a) technical provisions;
b) written premium;
c) risk capital;
d) deferred taxes and

e) management costs.

The Company calculates the minimum capital requirement using the method for composite insurance companies, where the linear minimum capital requirements are calculated first. The linear minimum capital requirement for non-life and health insurance is linked to the activities from non-life and health insurance, also taking into account accident insurance that are added to life insurance. The linear minimum capital requirement for life insurance is calculated including the activities related to non-life insurance annuities that are already being paid out. The Company's minimum capital requirement is calculated from linear minimum capital requirements for non-life and life insurance so that the requirement is never lower than 25% or higher than 45% of the solvency capital requirement and that the absolute floor of the minimum capital requirement for non-life insurance (EUR 3.7 million) and life insurance (EUR 3.7 million) is exceeded.

Table 60: Notional MCR of the Company as at 31 December 2019 and 31 December 2018

31 December 2019 — **In EUR thousand**

Notional minimum capital requirement	**Non-life and health insurance**	**Life insurance**
Notional linear minimum capital requirement	64,849	41,510
Notional SCR (excluding capital add-ons)	195,166	124,925
Notional minimum capital requirement cap	87,825	56,216
Notional minimum capital requirement floor	48,791	31,231
Notional combined minimum capital requirement	64,849	41,510
Absolute cap for notional minimum capital requirement	3,700	3,700
Notional minimum capital requirement	**64,849**	**41,510**

31 December 2018 — **In EUR thousand**

Notional minimum capital requirement	**Non-life and health insurance**	**Life insurance**
Notional linear minimum capital requirement	61,539	39,374
Notional SCR (excluding capital add-ons)	188,733	120,755
Notional minimum capital requirement cap	84,930	54,340
Notional minimum capital requirement floor	47,183	30,189
Notional combined minimum capital requirement	61,539	39,374
Absolute cap for notional minimum capital requirement	3,700	3,700
Notional minimum capital requirement	**61,539**	**39,374**

The notional MCR for non-life and health insurance increased in the reporting period by EUR 3.3 million and for life insurance by EUR 2.1 million. The increase in both cases is because of the increase in technical provisions.

Details on the MCR are shown in template S.28.02 in Annex to this Report.

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

The Company does not use the duration-based equity risk sub-module to calculate and monitor capital adequacy.

E.4 Difference between the standard formula and any internal model used

The Company does not use internal models to calculate and monitor capital adequacy.

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

According to the balance as at 31 December 2019, the Company did not find any non-compliance with the minimum capital requirement and the solvency capital requirement.

E.6 Any other information

All relevant information relating to the management of capital was disclosed by the Company in sections E.1 through E.5.

Annexes

Annexes

Quantitative Reporting Templates (QRT) of the Company as at 31 December 2019:

1. S.02.01.02 - Balance sheet for solvency purposes
2. S.05.01.02 - Premiums, claims and expenses by line of business
3. S.05.02.02 - Premiums, claims and expenses by country
4. S.12.01.02 - Technical provisions for life insurance and health insurance
5. S.17.01.02 - Technical provisions for non-life insurance
6. S.19.01.21 - Information on non-life insurance claims
7. S.23.01.01 - Own funds
8. S.25.01.21 - Solvency capital requirement for undertakings using the standard formula
9. S.28.02.01 - Minimum capital requirement for life and non-life insurance products

Annex 1: S.02.01.02 - Balance sheet for solvency purposes

Assets	Solvency II value
Intangible assets	
Deferred tax assets	14,235
Pension benefit surplus	
Property, plant and equipment held for own use	78,786
Investments (other than assets held for index-linked and unit-linked contracts)	**2,178,886**
Property (other than for own use)	60,115
Holdings in related undertakings, including participations	374,707
Equities	**59,308**
Equities - listed	53,307
Equities - unlisted	6,001
Bonds	**1,613,929**
Government Bonds	929,167
Corporate Bonds	683,610
Structured notes	1,152
Collateralised securities	
Collective Investments Undertakings	49,478
Derivatives	
Deposits other than cash equivalents	19,655
Other investments	1,694
Assets held for index-linked and unit-linked contracts	642,818
Loans and mortgages	**8,802**
Loans on policies	2,441
Loans and mortgages to individuals	11
Other loans and mortgages	6,351
Reinsurance recoverables from:	**78,268**
Non-life and health similar to non-life	59,817
Non-life excluding health	59,250
Health similar to non-life	567
Life and health similar to life, excluding health and index-linked and unit-linked	18,451
Health similar to life	
Life excluding health and index-linked and unit-linked	18,451
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	25,808
Reinsurance receivables	11,393
Receivables (trade, not insurance)	3,431
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	16,248
Any other assets, not elsewhere shown	3,493
Total assets	**3,062,167**

Liabilities	Solvency II value
Technical provisions - non-life	**364,090**
Technical provisions - non-life (excluding health)	**343,739**
TP calculated as a whole	
Best estimate	324,048
Risk margin	19,691
Technical provisions - health (similar to non-life)	**20,351**
TP calculated as a whole	
Best estimate	19,225
Risk margin	1,127
TP - life (excluding index-linked and unit-linked)	**999,416**
Technical provisions - health (similar to life)	122
TP calculated as a whole	
Best estimate	121
Risk margin	1
TP - life (excluding health and index-linked and unit-linked)	**999,294**
TP calculated as a whole	
Best estimate	978,073
Risk margin	21,222
TP - index-linked and unit-linked	**615,574**
TP calculated as a whole	
Best estimate	599,718
Risk margin	15,855
Contingent liabilities	
Provisions other than technical provisions	12,625
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	40,335
Derivatives	29
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	1,632
Insurance and intermediaries payables	20,510
Reinsurance payables	
Payables (trade, not insurance)	40,183
Subordinated liabilities	**72,989**
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	72,989
Any other liabilities, not elsewhere shown	5,651
Total liabilities	**2,173,034**
Excess of assets over liabilities	**889,133**

Annex 2: S.05.01.02 - Premiums, claims and expenses by line of business

	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
Premiums written						
Gross - Direct Business	586	54,933		98,296	124,329	13,391
Gross - Proportional reinsurance accepted	358	65		6	44	3,431
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	262	1,145		9,392	9,722	6,629
Net	**682**	**53,854**		**88,910**	**114,651**	**10,193**
Premiums earned						
Gross - Direct Business	673	54,867		95,351	121,983	13,093
Gross - Proportional reinsurance accepted	442	67		6	37	2,719
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	261	1,143		8,985	9,624	6,097
Net	**854**	**53,791**		**86,372**	**112,396**	**9,715**
Claims incurred						
Gross - Direct Business	301	15,134		52,056	79,083	6,442
Gross - Proportional reinsurance accepted	250	-80			5	413
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	3	482		1,488	3,983	955
Net	**547**	**14,572**		**50,567**	**75,106**	**5,899**
Changes in other technical provisions						
Gross - Direct Business	-20	8		55	48	12
Gross - Proportional reinsurance accepted		0		0	0	209
Gross - Non-proportional reinsurance accepted						
Reinsurers' share						
Net	**-20**	**8**		**55**	**48**	**222**
Expenses incurred	**910**	**15,660**		**24,369**	**30,176**	**3,853**
Other expenses						
Total expenses						

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
Premiums written						
Gross - Direct Business	136,573	34,242	24,109	700	17,549	2,604
Gross - Proportional reinsurance accepted	31,619	4,863	1,268		293	230
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	72,035	11,824	4,613	169	935	1,564
Net	**96,157**	**27,281**	**20,764**	**531**	**16,907**	**1,269**
Premiums earned						
Gross - Direct Business	129,865	33,287	24,167	626	15,382	2,607
Gross - Proportional reinsurance accepted	28,967	4,731	1,227		293	232
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	65,598	11,688	4,670	153	855	1,541
Net	**93,234**	**26,330**	**20,724**	**473**	**14,820**	**1,298**
Claims incurred						
Gross - Direct Business	55,053	106	10,910	-37	10,581	1,099
Gross - Proportional reinsurance accepted	11,769	1,993	1,124		240	4
Gross - Non-proportional reinsurance accepted						
Reinsurers' share	17,642	5,056	2,126	0	533	1,447
Net	**49,179**	**-2,957**	**9,907**	**-37**	**10,287**	**-344**
Changes in other technical provisions						
Gross - Direct Business	-20	12	2	1	6	-38
Gross - Proportional reinsurance accepted	-2	-1	0		0	-7
Gross - Non-proportional reinsurance accepted						
Reinsurers' share						
Net	-22	10	2	1	6	-45
Expenses incurred	**40,620**	**10,954**	**4,265**	**232**	**5,359**	**387**
Other expenses						
Total expenses						

	Line of Business for: accepted non-proportional reinsurance				
	Health	**Casualty**	**Marine, aviation, transport**	**Property**	**Total**
Premiums written					
Gross - Direct Business					**507,313**
Gross - Proportional reinsurance accepted					**42,176**
Gross - Non-proportional reinsurance accepted		43	102	645	**790**
Reinsurers' share		19		542	**118,851**
Net		23	102	103	**431,427**
Premiums earned					
Gross - Direct Business					**491,903**
Gross - Proportional reinsurance accepted					**38,722**
Gross - Non-proportional reinsurance accepted		43	102	629	**774**
Reinsurers' share		16		387	**111,020**
Net		26	102	242	**420,378**
Claims incurred					
Gross - Direct Business					**230,726**
Gross - Proportional reinsurance accepted					**15,717**
Gross - Non-proportional reinsurance accepted				290	**290**
Reinsurers' share				297	**34,014**
Net				-7	**212,719**
Changes in other technical provisions					
Gross - Direct Business					**66**
Gross - Proportional reinsurance accepted					**200**
Gross - Non-proportional reinsurance accepted					**0**
Reinsurers' share					**0**
Net					**266**
Expenses incurred		4	11	60	**136,860**
Other expenses					**10,390**
Total expenses					**147,250**

	Line of Business for: life insurance obligations							
	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**	**Life reinsurance**	**Total**
Premiums written								
Gross		55,411	89,448	6,994				**151,854**
Reinsurers' share		30	33	609				**672**
Net		55,381	89,415	6,385				**151,181**
Premiums earned								
Gross		55,425	89,448	6,990				**151,863**
Reinsurers' share		30	33	609				**672**
Net		55,395	89,415	6,381				**151,190**
Claims incurred								
Gross		79,487	68,995	1,344	6	5,505		**155,337**
Reinsurers' share		6	19	278				**304**
Net		79,481	68,975	1,066	6	5,505		**155,033**
Changes in other technical provisions								
Gross		7,441	70,167	1,605				**79,213**
Reinsurers' share								**0**
Net		7,441	70,167	1,605				**79,213**
Expenses incurred		9,010	16,496	3,232		49		**28,787**
Other expenses								**584**
Total expenses								**29,372**

Annex 3: S.05.02.02 - Premiums, claims and expenses by country

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		FI	BG	GR	RO	HR	
Premium written	**532,420**	**5,906**	**5,695**	**2,337**	**1,630**	**556**	**548,545**
Gross - Direct Business	489,455	5,906	5,695	2,337	1,630	556	505,580
Gross - Proportional reinsurance accepted	42,176						42,176
Gross - Non-proportional reinsurance accepted	790						790
Reinsurers' share	114,426	1,464	1,411	579	404	138	118,422
Net	**417,994**	**4,443**	**4,284**	**1,758**	**1,226**	**419**	**430,124**
Premium earned	**514,114**	**5,716**	**5,512**	**2,262**	**1,578**	**539**	**529,721**
Gross - Direct Business	474,619	5,716	5,512	2,262	1,578	539	490,225
Gross - Proportional reinsurance accepted	38,722						38,722
Gross - Non-proportional reinsurance accepted	774						774
Reinsurers' share	106,887	1,367	1,318	541	377	129	110,619
Net	**407,228**	**4,349**	**4,194**	**1,721**	**1,200**	**410**	**419,102**
Claims incurred	**244,874**	**0**	**0**	**1,685**	**0**	**113**	**246,672**
Gross - Direct Business	228,867			1,685		113	230,665
Gross - Proportional reinsurance accepted	15,717						15,717
Gross - Non-proportional reinsurance accepted	290						290
Reinsurers' share	33,730			258		17	34,005
Net	**211,145**	**0**	**0**	**1,427**	**0**	**95**	**212,667**
Changes in other technical provisions	**-263**	**-1**	**-1**	**0**	**0**	**0**	**-265**
Gross - Direct Business	63	1	1				65
Gross - Proportional reinsurance accepted	200						200
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share							0
Net	**263**	**1**	**1**	**0**	**0**	**0**	**265**
Expenses incurred	**132,276**	**1,516**	**1,462**	**600**	**418**	**143**	**136,415**
Other expenses	**0**	**0**	**0**	**0**	**0**	**0**	**10,390**
Total expenses	**0**	**0**	**0**	**0**	**0**	**0**	**146,805**

	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
Premium written	**151,854**		**151,854**
Gross	151,854		151,854
Reinsurers' share	672		672
Net	**151,181**		**151,181**
Premium earned	**151,863**		**151,863**
Gross	151,863		151,863
Reinsurers' share	672		672
Net	**151,190**		**151,190**
Claims incurred	**155,337**		**155,337**
Gross	155,337		155,337
Reinsurers' share	304		304
Net	**155,033**		**155,033**
Changes in other technical provisions	**79,213**		**79,213**
Gross	79,213		79,213
Reinsurers' share	0		0
Net	**79,213**		**79,213**
Expenses incurred	**28,787**		**28,787**
Other expenses			**584**
Total expenses			**29,372**

Annex 4: S.12.01.02 - Technical provisions for life insurance and health insurance

		Index-linked and unit-linked insurance		Other life insurance	
	Insurance with profit participation	**Contracts without options and guarantees**	**Contracts with options or guarantees**	**Contracts without options and guarantees**	**Contracts with options or guarantees**
Technical provisions calculated as a whole					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole					
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	925,937		599,718		-13,807
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**925,937**		**599,718**		**-13,807**
Risk margin	16,546	15,855		**4,379**	
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole					
Best estimate					
Risk margin					
Technical provisions - total	**942,484**	**615,574**		**-9,428**	

	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Lifeother thanhealth insurance, includingUnit -Linked)	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
Technical provisions calculated as a whole								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole								
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	65,943		**1,577,791**			121		**121**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	18,451		**18,451**					
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**47,492**		**1,559,340**			121		**121**
Risk margin	**296**		**37,077**			1		**1**
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole								
Best estimate								
Risk margin								
Technical provisions - total	**66,238**		**1,614,868**			**122**		**122**

Annex 5: S.17.01.02 - Technical provisions for non-life insurance

	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**
Technical provisions calculated as a whole						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	69	-10,159		22,324	29,952	254
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-30	-26		789	1,477	-674
Net Best Estimate of Premium Provisions	98	-10,132		21,535	28,474	927
Claims provisions						
Gross - Total	125	29,189		90,200	15,279	5,883
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3	620		7,781	850	1,091
Net Best Estimate of Claims Provisions	122	28,569		82,419	14,429	4,792
Total Best estimate - gross	**194**	**19,031**		**112,523**	**45,231**	**6,137**
Total Best estimate - net	**220**	**18,437**		**103,954**	**42,903**	**5,719**
Risk margin	89	1,038		3,593	2,921	767
Amount of the transitional on Technical Provisions						
TP as a whole						
Best estimate						
Risk margin						
Technical Provisions						
Technical provisions - total	**283**	**20,068**		**116,116**	**48,151**	**6,904**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**-27**	**593**		**8,570**	**2,327**	**418**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**310**	**19,475**		**107,547**	**45,824**	**6,486**

	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
	Direct business and accepted proportional reinsurance					
Technical provisions calculated as a whole						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	30,023	3,227	18,404	58	6,182	6
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	7,827	-93	1,246	-21	195	-125
Net Best Estimate of Premium Provisions	22,196	3,320	17,159	79	5,988	131
Claims provisions						
Gross - Total	34,179	61,559	2,631	28	1,448	1,875
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	14,377	22,477	644	2	66	1,341
Net Best Estimate of Claims Provisions	19,802	39,082	1,987	26	1,382	533
Total Best estimate - gross	**64,202**	**64,786**	**21,035**	**86**	**7,630**	**1,881**
Total Best estimate - net	**41,998**	**42,402**	**19,146**	**104**	**7,370**	**665**
Risk margin	7,155	1,897	2,683	15	481	90
Amount of the transitional on Technical Provisions						
TP as a whole						
Best estimate						
Risk margin						
Technical Provisions						
Technical provisions - total	**71,357**	**66,683**	**23,718**	**101**	**8,112**	**1,971**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**22,204**	**22,384**	**1,889**	**-19**	**260**	**1,216**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**49,154**	**44,299**	**21,829**	**120**	**7,851**	**755**

	Accepted non-proportional reinsurance				
	Non-proportional health reinsurance	**Non-proportional casualty reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligations**
Technical provisions calculated as a whole					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole					
Technical Provisions calculated as a sum of BE and RM					
Best estimate					
Premium provisions					
Gross - Total				19	**100,359**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					**10,565**
Net Best Estimate of Premium Provisions				**19**	**89,794**
Claims provisions					
Gross - Total				519	**242,914**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0	**49,252**
Net Best Estimate of Claims Provisions				519	**193,662**
Total Best estimate - gross				**538**	**343,273**
Total Best estimate - net				**538**	**283,456**
Risk margin				87	**20,817**
Amount of the transitional on Technical Provisions					
TP as a whole					
Best estimate					
Risk margin					
Technical Provisions					
Technical provisions - total				**625**	**364,090**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total					**59,817**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total				**625**	**304,273**

Annex 6: S.19.01.21 - Information on non-life insurance claim

Gross Claims Paid (non-cumulative)	Development year (absolute amount)											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											1,221	1,221	1,615,731
2010	213,965	72,132	11,958	5,271	2,828	1,767	906	1,734	1,345	737		737	312,643
2011	179,218	61,837	16,366	6,522	2,695	1,648	1,892	1,351	388			388	271,917
2012	176,509	62,220	10,185	6,361	2,899	1,411	1,786	778				778	262,150
2013	165,396	52,139	10,584	4,699	1,997	1,749	637					637	237,201
2014	176,349	51,002	9,266	5,679	4,535	1,091						1,091	247,922
2015	155,631	47,364	10,561	6,039	2,112							2,112	221,708
2016	157,054	50,315	13,577	6,193								6,193	227,139
2017	165,632	70,588	16,667									16,667	252,887
2018	171,504	64,605										64,605	236,109
2019	171,280											171,280	171,280
											Total	**265,709**	**4,056,685**

Gross undiscounted Best Estimate Claims Provisions	Development year (absolute amount)											Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											8,868	8,921
2010							4,613	3,055	1,919	1,277		1,265
2011						5,733	3,981	3,947	3,649			3,660
2012					19,352	16,481	12,205	11,726				11,751
2013				11,848	9,333	7,799	7,859					7,887
2014			15,044	11,607	7,009	6,525						6,572
2015		20,726	13,012	8,260	4,610							4,630
2016	79,936	31,108	16,284	9,757								9,791
2017	102,780	34,550	19,490									19,347
2018	98,054	35,498										34,937
2019	105,789											106,937
											Total	**215,696**

Annex 7: S.23.01.01 - Own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	**73,701**	73,701			
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings					
Subordinated mutual member accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	**758,593**	758,593			
Subordinated liabilities	**72,989**			72,989	
An amount equal to the value of net deferred tax assets					
Other own fund items approved by the supervisory authority as basic own funds not specified above					
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					
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	**905,284**	**832,295**		**72,989**	

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Available and eligible own funds					
Total available own funds to meet the SCR	**905,284**	**838,583**		**72,989**	
Total available own funds to meet the MCR	**905,284**	**838,583**		**72,989**	
Total eligible own funds to meet the SCR	**905,284**	**838,583**		**72,989**	
Total eligible own funds to meet the MCR	**853,567**	**832,295**		**21,272**	
SCR	**320,091**				
MCR	**106,359**				
Ratio of Eligible own funds to SCR	**283%**				
Ratio of Eligible own funds to MCR	**803%**				

Reconciliation reserve	
Excess of assets over liabilities	**889,133**
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	56,838
Other basic own fund items	**73,701**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	**758,593**
Expected profits	
Expected profits included in future premiums (EPIFP) - Life Business	62,929
Expected profits included in future premiums (EPIFP) - Non- life business	19,039
Total Expected profits included in future premiums (EPIFP)	**81,968**

Annex 8: S.25.01.21 - Solvency capital requirement for undertakings using the standard formula

	Gross solvency capital requirement	USP	Simplifications
Market risks	221,083		
Credit risks	42,161		
Life underwriting risks	54,234		
Health underwriting risks	25,712		
Non-life underwriting risks	111,995		
Diversification	-139,300		
Intangible asset risk	0		
Basic Solvency Capital Requirement	**315,884**		

Calculation of Solvency Capital Requirement	
Operational risks	20,645
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	-23,246
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	320,091
Capital add-on already set	
Solvency capital requirement	**320,091**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	302,291
Total amount of Notional Solvency Capital Requirements for ring fenced funds	17,799
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF SCR aggregation for article 304	

Annex 9: S.28.02.01 - Minimum capital requirement for life and non-life insurance products

	Non-life activities	Life activities
Linear formula component for non-life insurance and reinsurance obligations	63,849	2,377

	Non-life activities		Life activities	
MCR calculation Non Life	**Net (of reinsurance /SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance) written premiums in the last 12 months**	**Net (of reinsurance /SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance) written premiums in the last 12 months**
Medical expense insurance and proportional reinsurance	220	682		
Income protection insurance and proportional reinsurance	18,887	25,893		27,961
Workers' compensation insurance and proportional reinsurance				
Motor vehicle liability insurance and proportional reinsurance	103,954	88,910		
Other motor insurance and proportional reinsurance	42,903	114,651		
Marine, aviation and transport insurance and proportional reinsurance	5,719	10,193		
Fire and other damage to property insurance and proportional reinsurance	41,998	96,157		
General liability insurance and proportional reinsurance	42,402	27,281		
Credit and suretyship insurance and proportional reinsurance	19,146	20,764		
Legal expenses insurance and proportional reinsurance	104	531		
Assistance and proportional reinsurance	7,370	16,907		
Miscellaneous financial loss insurance and proportional reinsurance	665	1,269		
Non-proportional health reinsurance				
Non-proportional casualty reinsurance		23		
Non-proportional marine, aviation and transport reinsurance		102		
Non-proportional property reinsurance	538	103		

Linear formula component for life insurance and reinsurance obligations

	Non-life activities		Life activities	
MCR calculation Life	**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**	**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
Obligations with profit participation - guaranteed benefits			915,594	
Obligations with profit participation - future discretionary benefits			10,344	
Index-linked and unit-linked insurance obligations			599,718	
Other life (re)insurance and health (re)insurance obligations	47,612			
Total capital at risk for all life (re)insurance obligations				2,279,660

	Non-life activities	**Life activities**
Linear formula component for life insurance and reinsurance obligations	1,000	39,133

Calculation of minimum capital requirement (MCR)	
Linear MCR	106,359
SCR	320,091
MCR cap	144,041
MCR floor	80,023
Combined MCR	106,359
Absolute floor of the MCR	7,400
Minimum Capital Requirement	**106,359**

Notional non-life and life MCR calculation	**Non-life activities**	**Life activities**
Notional linear MCR	64,849	41,510
Notional SCR excluding add-on (annual or latest calculation)	195,166	124,925
Notional MCR cap	87,825	56,216
Notional MCR floor	48,791	31,231
Notional Combined MCR	64,849	41,510
Absolute floor of the notional MCR	3,700	3,700
Notional MCR	64,849	41,510