CROATIA OSIGURANJE®

Solvency and financial condition report 2023

Zagreb, April 2024

CONTENTS

This document is a translation of the original Croatian version and is intended to be used for informational purposes only. While every effort has been made to ensure the accuracy and completeness of the translation, please note that the Croatian original is binding.

The Management Board of CROATIA osiguranje d.d., Zagreb is responsible for the preparation of this *Solvency and financial condition report for the year 2023* in accordance with the requirements of the Insurance Act and Delegated Regulation (EU) 2015/35. The report has been prepared in accordance with the financial statements of the Company as at December 31, 2023 and gives a true and fair view of the Company's position in 2023.

April 8, 2024

For and on behalf of CROATIA osiguranje d.d.

Luka Babić
Member of the Management Board

Davor Tomašković
President of the Management Board

Vančo Balen
Member of the Management Board

Robert Vučković
Member of the Management Board

CROATIA osiguranje d.d.

Vatroslava Jagića 33

10 000 Zagreb

Croatia

SUMMARY

CROATIA osiguranje d.d. (hereinafter: the Company) has prepared this ***Solvency and financial condition report for the year 2023*** (hereinafter: the Report) in accordance with Article 168 of the Insurance Act and the requirements of Articles 290 to 298 of Delegated Regulation (EU) 2015/35, while the structure of this Report follows the structure set out in Annex XX to the Delegated Regulation. All amounts are in EUR thousands. On January 1, 2023, the euro became the official currency and legal tender in the Republic of Croatia. The fixed conversion rate was set at 7.53450 HRK for one EUR. The report presents qualitative and quantitative information comparable to that for the previous period, the year 2022. The comparative periods and balances in the report have been recalculated using the conversion rate.

BUSINESS AND PERFORMANCE

On January 1, 2023, **the euro became the official currency** and legal tender in the Republic of Croatia, and the same date marked the beginning of application of **new accounting standards IFRS 17 and IFRS 9**. The application of the financial reporting standard IFRS 17 has impacted the method of calculation of key performance indicators such as income, combined ratio, and net profit. IFRS 17 significantly impacted changes in accounting of insurance and reinsurance contracts. As a result, the Company applied a retrospective approach and adjusted comparative figures for 2022. The introduction of this standard is a novelty for the entire insurance sector in Croatia, and therefore, a calculation of market size and market share under the new standard is not yet available.

As at December 31, 2023, the Company's business was accompanied by strong capital adequacy, with the **SCR ratio of a high 308%**. In 2023, the Company reported **profit before tax in the amount of EUR 55,154 thousand,** (2022: EUR 54,048 thousand), which represented a 2.05% increase, while after-tax profit amounted to EUR 46,880 thousand. (2022: EUR 45,626 thousand). Insurance revenue amounted to EUR 395,384 thousand, which was a 10.68% increase, while insurance service expenses increased by 15.49%, amounting to EUR 375,931 thousand.

Despite inflationary pressures and destructive storms that hit Croatia and Slovenia in the summer of 2023, causing significant material damage, the achieved profit growth is largely attributed to better investment performance due to positive market trends and rising interest rates, as well as timely cost-saving measures implemented in administration. Among other significant events in 2023 affecting business, notable ones were the continuation of the war in Ukraine and sanctions imposed on Russia, as well as the conflict in the Middle East, which served as an additional driver for the rise in global uncertainty. Further development of the insurance market in Croatia will be significantly influenced by climate change, inflation, and interest rate changes, in addition to the aforementioned geopolitical upheavals.

In 2023, improvements in digital customer experience continued, and a new loyalty program, "Spektar", was launched, representing an innovation in the insurance market. It is a unique package that combines multiple insurance policies contracted for the same household, enabling savings and additional benefits in a simple and transparent manner. In November 2023, the Company introduced another innovation, namely the use of artificial intelligence (AI) in assessing motor insurance claims. It also continued to make significant investments in the healthcare segment.

More detailed information on significant business events and achieved business performance is provided in *Chapter A*.

SUMMARY

SYSTEM OF GOVERNANCE

The Company has an appropriate governance system in place that includes an appropriate organizational structure, internal control system and risk management system. Thus, all **key functions** prescribed by the Act have been established in the Company: the risk management function, the compliance function, the internal audit function, and the actuarial function.

A significant part of the risk management system is aimed at **monitoring capital adequacy**, i.e., maintaining the required level of capital appropriate to the scope and types of insurance business undertaken, considering all financial, operational, business-related, and other risks and events the Company is exposed to.

An integral part of the Company's business strategy and business planning is the implementation of its o**wn risk and solvency assessment (ORSA)**, which is continuously considered when making strategic decisions. The ORSA-based approach and techniques are applied not only once a year, which is the minimum, but also throughout the business year, whenever important business decisions are being considered. In 2023, there was no need to implement extraordinary ORSAs, despite the significant unfavourable events that took place around the world. As was evident during the year, these events did not significantly affect the Company's risk profile.

More detailed information on the governance system is provided in *Chapter B*.

RISK PROFILE

The Company's risk profile essentially consists of insurance risk (non-life, life and health insurance), market risk, credit risk, liquidity risk, and operational risk, which includes compliance risk and cyber risk. The Company regularly manages the said risks in its business operations and capital requirements are established by applying the provisions of the standard formula for the corresponding risks. Among other material risks, the Company recognizes exposure to strategic risk, reputational risk, outsourcing risk and sustainability risk.

The Company also regularly monitors external risk factors (risks of the macroeconomic, legislative, political, social and technological environment), which are mostly qualitative in nature and correlate to or affect other risks.

In 2023, there were no significant changes in the risk profile compared to the previous year. Solvency capital requirement coverage with eligible own funds was **308%** as at December 31, 2023 and it was at levels above 319% for the rest of the year 2023.

The Company calculates the SCR using the standard formula in compliance with the Solvency II requirements. The **SCR decrease compared to the previous year** was caused, for the most part, by decreased capital requirement for market risk. With Croatia joining the eurozone, the currency risk arising from the euro was completely eliminated, significantly reducing the capital requirement for currency risk compared to the previous year. Moreover, Croatian government bonds denominated in EUR have become risk-free, leading to a reduction in capital requirements for spread risk and concentration risk.

SUMMARY

Table 1 Solvency capital requirement *(EUR thousand)*

Capital requirement by risk module	2023	2022
Market risk	189,075	217,911
Counterparty default risk	16,219	27,898
Life Underwriting risks	5,936	7,604
Health underwriting risk	14,993	13,682
Non-Life underwriting risk	89,037	82,518
Diversification effects	(74,870)	(80,692)
BSCR	**240,391**	**268,920**
Operational risk	13,099	12,324
Adjustment for tax	(28,604)	(50,624)
SCR	**224,886**	**230,620**

Detailed information on the risk profile is provided in *Chapter C*.

VALUATION FOR SOLVENCY PURPOSES

The valuation of assets and liabilities for solvency purposes (SII valuation) was carried out in accordance with applicable regulations and the total assets valued for solvency purposes amounted to EUR 1,577,909 thousand, which represents a EUR 94,751 thousand increase compared to the total assets valued under IFRS (International Financial Standards Reporting). The most significant difference by asset item stems from investments in participations, since they are valued at acquisition cost under IFRS, while for solvency purposes they are valued using the adjusted equity method. Significant differences on the assets side are also present in insurance and intermediaries receivables and in investments in government bonds. On the liabilities side, a significant difference arises from the valuation of technical provisions resulting from different methodologies prescribed by IFRS on the one hand and Solvency II on the other.

Table 2 Difference between SII and IFRS valuation of assets and liabilities *(EUR thousand)*

	2023	2022
IFRS equity	**664,435**	**622,731**
Difference in the valuation of participations	106,485	96,367
Difference in the valuation of other assets	(11,733)	(12,607)
Difference in the valuation of technical provisions	23,148	(10,450)
Difference in the valuation of other liabilities	(25,290)	(29,594)
Excess of assets over liabilities	**757,043**	**666,448**
Forseeable dividends	65,000	0
Solvency II eligible own funds	**692,043**	**666,448**

More detailed information on the valuation of assets and liabilities is provided in *Chapter D*.

SUMMARY

CAPITAL MANAGEMENT

In 2023, the Company operated at **high capital adequacy ratios**. As at December 31, 2023, eligible own funds to meet the SCR and MCR totalled EUR **692,043 thousand, the solvency capital requirement (SCR) amounted to EUR 224,886 thousand,** while **minimum capital requirement (MCR) was EUR 64,952 thousand**.

The ratio between eligible own funds to meet solvency capital requirement and the SCR (SCR ratio or capital adequacy ratio) was a **high 308%**. The **19 percentage points** increase in capital adequacy compared to 2022 (2022: 289%) was the result of increased eligible own funds (+4%) and a slight SCR decrease (-2%). This growth of eligible own funds is the result of the Group's performance, primarily its comprehensive income of EUR 58,451 thousand realized in 2023 (after-tax profit). All the Company's own funds eligible for SCR coverage were tier **1 funds**, being the highest quality of own funds.

Table 3 SCR ratio *(EUR thousand)*

	2023	2022
Eligible own funds to meet the SCR	**692,043**	**666,448**
Of which tier 1	692,043	666,448
Of which tier 2	0	0
Of which tier 3	0	0
SCR	**224,886**	**230,620**
SCR ratio	**308%**	**289%**

All the Company's own funds eligible for SCR coverage are also eligible for MCR coverage. The ratio of eligible own funds to meet minimum capital requirement and the MCR (MCR ratio) is **a very high 1,065%** (2022: 1,086%).

Table 4 MCR ratio *(EUR thousand)*

	2023	2022
Eligible own funds to meet the MCR	**692,043**	**666,448**
Of which tier 1	692,043	666,448
Of which tier 2	0	0
Of which tier 3	0	0
MCR	**64,952**	**61,364**
MCR ratio	**1065%**	**1086%**

More detailed information on capital management is provided in *Chapter E*.

The **quantitative reporting templates (QRTs)** prescribed for public disclosure contained in *Chapter F* are also integral parts of this Report.

A. BUSINESS AND PERFORMANCE

A.1 Business

CROATIA osiguranje d.d. with its registered office in Zagreb, Vatroslava Jagića 33, is entered in the Court Register of the Commercial Court of Zagreb under registered company number (MBS): 080051022 and PIN (OIB): 26187994862. The basic contact information of the Company is:

- **web:** www.crosig.hr;
- **e-mail:** info@crosig.hr;
- **telephone:** 072 00 1884.

The Company's share capital has been registered with the Commercial Court in Zagreb, at a nominal value of EUR 79,924 thousand, comprising 429,697 shares of nominal value of EUR 186.00, paid in full, in cash. These shares are classified as ordinary and preference shares, whereby, given the guaranteed payment of dividends, preference shares are classified as financial liabilities. Pursuant to the Company's Articles of Association, there is no restriction or partial restriction on the voting rights of shareholders. The members of the Management Board and the Supervisory Board of the Company are not holders of the Company's shares. The Company has no treasury shares, nor has the General Assembly authorized the Company to acquire treasury shares.

The main activity of the Company is **non-life and life insurance business** and other closely related activities, as well as **reinsurance business in the non-life insurance group**.

The Company also performs the following activities:

- Activities of offering units in investment funds and activities of offering pension plans under voluntary pension funds and of pension insurance companies in accordance with legal provisions that regulate the offering of units in investment funds and offering of pension plans,
- Activities of insurance distribution for other insurance companies,
- Activities which are directly or indirectly related to the insurance business,
- Credit intermediation services in accordance with the regulations governing the services of credit intermediaries.

Since 2004, the Company's shares have been listed on the Official Market of the Zagreb Stock Exchange, Zagreb.

The **significant geographical area** in which the Company performs insurance activities is the Republic of Croatia, while the Company also operates through its branch in the Republic of Slovenia. This branch operates in legal transactions under the company name "CROATIA osiguranje d.d. podružnica Ljubljana" (name in Croatian) and "CROATIA ZAVAROVANJE d.d. podružnica Ljubljana" (name in Slovenian). Based on its decision aimed at more efficient business performance, the Company plans to close the Ljubljana branch as of March 31, 2024. The Company will continue to operate in Slovenia through cross-border distribution of insurance products based on the freedom to provide services in accordance with applicable legal regulations, which means it will continue to provide insurance services within the registered types of insurance based on the freedom to provide services to all current and future corporate clients in Slovenia.

A. BUSINESS AND PERFORMANCE

The **supervisory authority** responsible for the supervision of the Company is the **Croatian Financial Services Supervisory Agency** (hereinafter: **HANFA or the Agency**), Franje Račkog 6, Zagreb. HANFA's primary contact information is:

- web: www.hanfa.hr;
- e-mail: info@hanfa.hr;
- telephone: +385 1 6173 200.

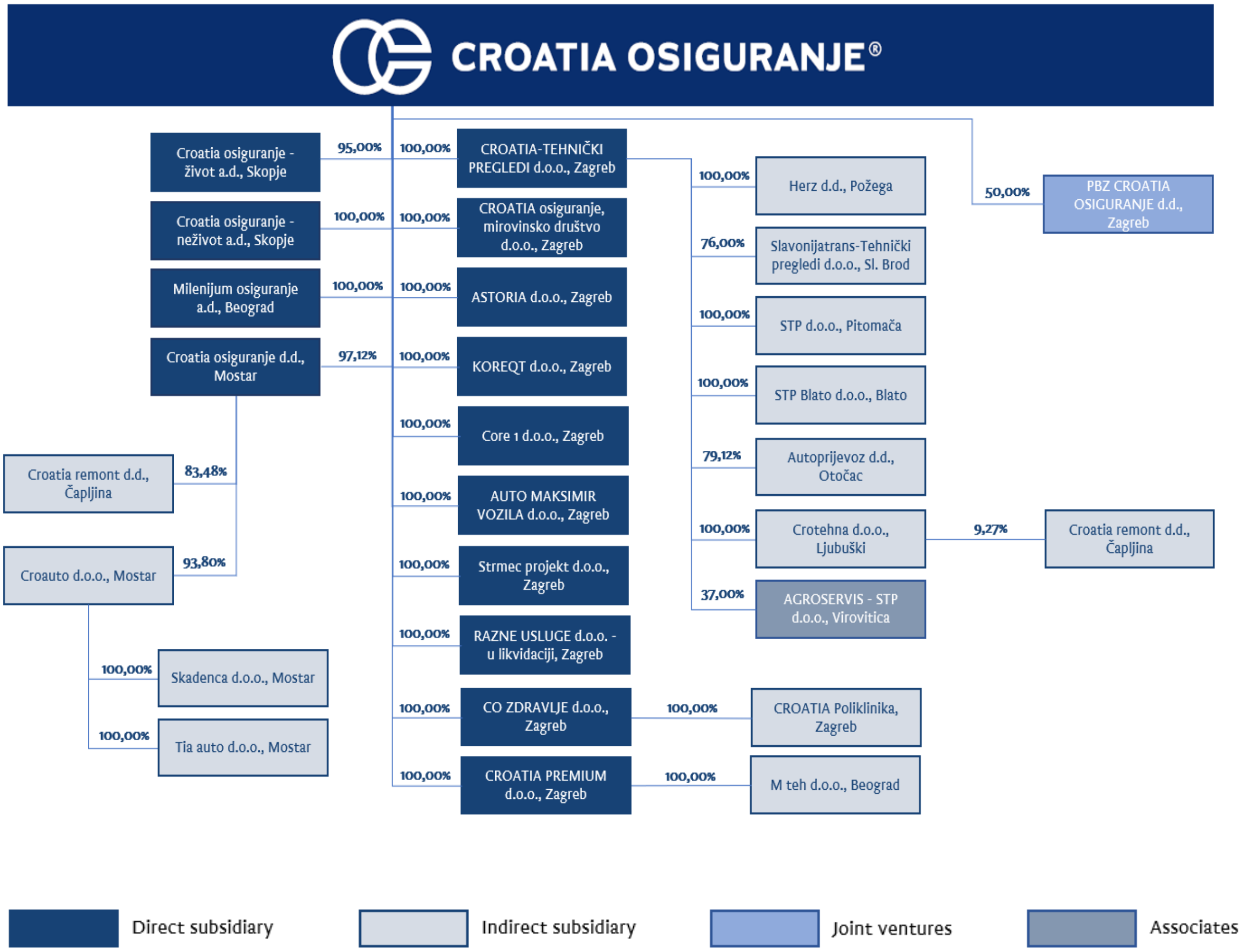
The Company's **external auditor** for the year 2023 is **Deloitte d.o.o.**, Zagreb (hereinafter: Deloitte Hrvatska **or the Auditor**), Radnička cesta 80. The Auditor's basic contact details are the following:

- web: www2.deloitte.com;
- telephone: +385 1 2351 900.

The owners of qualifying shares in the Company are **Adris grupa d.d., Rovinj with 66.96% equity** and **Restructuring and Sales Centre ("Centar za restrukturiranje i prodaju"), acting on behalf of the shareholder Republic of Croatia, with 30.10%** equity. The Company operates within the **Adris grupa**, one of the leading Croatian and regional companies. The Adris grupa structure includes three strategic business units: tourism, insurance and healthy food. As part of Adris grupa there is also Abilia d.d., established in 2006 as a company specializing in managing investment projects and real estate of Adris grupa as a whole. In addition to investing in existing ventures, in 2023 Adris grupa expanded its product portfolio to include renewable energy sources, thus positioning itself as a leader in the green transition within the region. Back in early 2014, Adris grupa became the majority owner of the Company, making Adris the regional leader in the insurance market.

CROATIA osiguranje d.d. is the governing, parent company of **CROATIA osiguranje Group** (hereinafter: **the Group**) with the principal function of consolidating and directing the Group and in most participations, it is the sole or majority owner.

A. BUSINESS AND PERFORMANCE



A.2 UNDERWRITING PERFORMANCE

The group initially adopted IFRS 17, including all subsequent amendments and modifications of other standards, as of January 1, 2023. IFRS 17 significantly impacted changes in accounting of insurance and reinsurance contracts. As a result, the Group applied a retrospective approach, adjusted comparative amounts, and additionally presented the financial position statement as at January 1, 2022.

Recognition, measurement, and presentation of insurance contracts

IFRS 17 establishes principles for recognizing, measuring, presenting, and disclosing insurance contracts, reinsurance contracts, and investment contracts with discretionary participation features. It introduced a model that measures groups of contracts based on the Company's estimate of the present value of future cash flows expected to arise as the Company fulfils contracts, the adjustments for non-financial risk, and contractual service margin.

A. BUSINESS AND PERFORMANCE

Financial income and expenses from insurance and reinsurance contracts are disaggregated into portions recognized in the income statement and portions recognized in other comprehensive income. They are presented separately from insurance contract income and insurance service expenses.

More detailed information about significant accounting policies and business performance by individual business segments are provided in the Company's *2023 Annual Report*.

As at December 31, 2023 the **Company's business was accompanied by strong capital adequacy, with the SCR ratio of a high 308%**. In 2023, the Company reported **profit before tax in the amount of EUR 55,154 thousand,** which represented a **2.05% increase**, while after-tax profit amounted to **EUR 46,880 thousand**. Insurance revenue amounted to EUR 395,384 thousand, which was a 10.68% increase, while insurance service expenses increased by 15.49%, amounting to EUR 375,931 thousand.

Despite inflationary pressures and destructive storms that hit Croatia and Slovenia in the summer of 2023, causing significant material damage, the achieved profit growth is largely attributed to better investment performance due to positive market trends and rising interest rates, as well as timely cost-saving measures implemented in administration.

The following table shows all the key components of the Income Statement.

Table A.2.1 Income Statement *(EUR thousand)*

	2023	Adjusted 2022	Δ23/22
Insurance revenue	395,384	357,229	10.68%
Insurance service expenses	(375,931)	(325,508)	15.49%
Net result of (passive) reinsurance contracts	(7,677)	(11,308)	-32.10%
Result from insurance contracts	**11,775**	**20,413**	**-42.31%**
Net investment income	52,214	42,039	24.20%
Net financial result from insurance and (passive) reinsurance contracts	(4,050)	2,486	-262.94%
Other income	5,653	7,250	-22.03%
Other financial expenses	(1,418)	(1,441)	-1.59%
Other operating expenses	(9,021)	(16,698)	-45.98%
Profit before tax	**55,154**	**54,048**	**2.05%**
Income tax	(8,274)	(8,423)	-1.77%
PROFIT FOR THE YEAR	**46,880**	**45,626**	**2.75%**

Underwriting performance is also presented based on an analysis of insurance income by line of business and an analysis of expenses from insurance contracts.

A. BUSINESS AND PERFORMANCE

Table A.2.2 Insurance revenue by material line of business *(EUR thousand)*

	2023.	2022.
Fire and other damage to property insurance	110,733	111,125
Motor vehicle liability insurance	85,316	73,479
Other motor insurance	70,907	57,263
Medical expense insurance	59,214	52,888
General liability insurance	18,873	16,678
Income protection insurance	15,790	14,582
Marine, aviation and transport insurance	13,187	11,478
Miscellaneous financial loss insurance	7,430	7,874
Other types of Non-life insurance	7,491	6,375
Total Non-life insurance	**388,942**	**351,741**
Insurance with profit participation	5,874	4,972
Other types of Life insurance	569	516
Total Life insurance	**6,442**	**5,488**
Total	**395,384**	**357,229**

The largest increase in insurance income was achieved in other motor insurance and motor vehicle liability insurance.

Table A.2.3 Insurance service expenses *(EUR thousand)*

	2023	Adjusted 2022
Claims incurred	257,715	198,256
Other expenses from insurance services	60,283	57,476
Other expenses from sale of insurance	38,510	39,059
Commission expenses	39,912	36,941
Losses on onerous insurance contracts	(2,147)	1,790
Change of liabilities for claims incurred	(18,341)	(8,013)
Total	**375,931**	**325,508**

A.3 Investment performance

Net investment income includes income from investment property, interest revenue calculated using the effective interest method, net gains/losses from financial assets at fair value through profit or loss, net impairment/reversal of impairment of financial assets, net foreign exchange differences, income generated from participating interests (dividends, shares in profits, accruals - value increases), and other income and expenses from investments.

A. BUSINESS AND PERFORMANCE

Net investment income in 2023 amounted to EUR 52,214 thousand, representing a 24.20% increase compared to 2022. Net investment income increased by EUR 10,175 thousand, mainly as a result of increased net gains from financial assets at fair value through profit and loss.

Table A.3.1 Net investment income *(EUR thousand)*

	2023	2022
Interest revenue calculated using the effective interest method	27,224	23,128
Other investment income/expenses	13,193	10,890
Net gains/losses from financial assets at fair value through profit or loss	6,050	(1,045)
Income from investment property	4,691	4,943
Net impairment/reversal of impairment of financial assets	2,019	1,103
Net foreign exchange differences	(964)	3,020
Total	**52,214**	**42,039**

Interest revenue calculated using the effective interest method pertains to net income from coupons and bonds amortization, as well as interest income from deposits and loans. Interest income increased by EUR 4,096 thousand compared to 2022, primarily due to (one-time) income from default interest on loans and higher interest income from bonds and deposits.

Other investment income/expenses include dividend income, net realized gains/losses from financial assets measured at fair value through other comprehensive income, investment staff costs, utility costs of investment properties, transaction costs, and other income and expenses from unit-linked funds.

Other investment income/expenses in 2023 increased by EUR 2,303 thousand, due to higher net dividends and changes in the value of unit-linked funds, as well as the absence of realized net gains/losses from sales of instruments classified at FVOCI.

Net gains/losses from financial assets at fair value through profit or loss include financial assets classified at FVPL, mainly investment funds and derivative financial assets. In 2023, the EUR 7,096 increase is primarily related to the increase in the value of investment funds classified at FVPL and the decrease in realized losses from derivative financial assets.

Table A.3.2 Net gains/losses from financial assets at fair value through profit or loss *(EUR thousand)*

	2023	2022
Net unrealized gains/losses	3,877	982
Interest revenue	1,115	25
Realized sales gains/losses	1,058	(2,052)
Total	**6,050**	**(1,045)**

A. BUSINESS AND PERFORMANCE

Income from investment property includes rental income as well as income/expenses from sales and fair value adjustments of real property.

Net impairment/reversal of impairment of financial assets pertain to adjustments for expected credit losses (ECLs) for debt securities, deposits, and loans.

Net foreign exchange differences include foreign exchange differences (gains/losses) from financial assets. In 2023, following the transition to EUR as the official currency, there was no effect of exchange rate differences between EUR and HRK, as opposed to 2022 when such effect was stated.

Investments in securitized instruments

The Company **does not invest in securitized instruments**.

A.4 Performance of other activities

The Company has **no other material activities** other than insurance and related activities, the results of which are presented in the previous sections.

A.5 Any other information

On January 1, 2023, **the euro became the official currency** and legal tender in the Republic of Croatia. The fixed conversion rate was set at 7.53450 HRK for one EUR. The introduction of the euro as the official currency in Croatia represents a change in the functional currency which is accounted for prospectively. On the same date, new accounting standards for insurance companies **(IFRS 17 and IFRS 9)** also came into effect, and they have been successfully implemented in the Company.

The application of the financial reporting standard IFRS 17 has impacted the method of calculation of key performance indicators such as income, combined ratio, and net profit. The introduction of these standards is a novelty for the entire insurance sector in Croatia, and therefore, the calculation of market size and market share under the new standard is not yet available.

Geopolitical and macroeconomic situation

The global geopolitical situation in 2023 showed no signs of calming or significant improvement. There have been no indications of a possibility of the war in Ukraine ending or the subsequent sanctions directed against the Russian Federation being lifted. The Company respects all the imposed sanctions and does not engage in direct business with Russia and Ukraine in insurance or reinsurance activities. Based on the Sanctions & Embargo clause, reinsurance transactions involving countries under any sanctions are not permitted. Insurance terms exclude losses directly caused by war. In October 2023, Hamas's attack on Israel caused new geopolitical stress, leading to escalating tensions in strategically sensitive and resource-rich areas that are also very important in terms of transport routes.

A. BUSINESS AND PERFORMANCE

Depending on the development of the situation and the spread of the conflict, various scenarios and impacts on the global economy are possible. Despite inflation showing signs of weakening in the EU and the US in the second half of 2023, with price increases slowing down, primarily due to restrictive measures of central banks, the escalation of the geopolitical situation could still lead to different scenarios, including a new change in the inflation trend and the risk of reduced economic growth.

The end of 2023 marked the conclusion of the interest rate increase cycle by the ECB and the Fed. If there are no new macroeconomic disruptions affecting inflation rate growth, a gradual decline in central bank reference rates is expected from the second half of 2024, along with a possible correction of the yield curves that have recently been inverted. In December 2023, there was a visible decline in bond market yields due to such expectations.

However, significant macroeconomic uncertainty persists due to negative geopolitical events. Nevertheless, thanks to the Company's good capital ratio (solvency), the results of the ORSA process indicate that the Company is resilient to various stress circumstances and that even in the described scenarios it would continue to operate in accordance with the requirements set by applicable regulations.

Further development of the insurance market in Croatia will be significantly influenced by climate change, inflation, wage increases, and movements in interest rates, in addition to the aforementioned geopolitical upheavals.

The year 2023 was the warmest year on record, resulting in extremely high temperatures and wildfires in large parts of Asia, Australia, and South America, as well as significantly stronger cyclones and floods in North America and Europe. Accordingly, further tightening of insurance and reinsurance policies regarding catastrophe and climate risks can be expected. Locally in Croatia, the emergence of African swine fever further exacerbates the situation concerning reinsurance.

Although inflation in the Republic of Croatia is declining, it was one of the highest in the EU in 2023, particularly affecting food and service prices. Inflation expectations for Croatia for 2024 range between 3% and 4% (depending on the source). Wage adjustment pressure (changes in the minimum wage from January 1, 2024) is expected to be a major driver of inflation. In line with this, there is a high likelihood of price adjustments for most insurance products and changes in terms of insurance contracts.

Life insurance is heavily influenced by interest rate movements. Although interest rates have risen compared to the extremely low levels that were prevalent over a period of several years, current expectations suggest that interest rates may start to decline in the upcoming period. Due to all of these factors, it is difficult to predict the trends in life insurance in the future period.

Business improvement

Focus on clients and continued innovations are values that are at the core of market research and new product development. The objective is to provide fast and high-quality service and increase client satisfaction. In 2023, the projects to enhance offline and online customer experience continued. Clients of the Company have access to numerous digital solutions and functionalities, from making purchases, payments, policy viewing, and claim reporting to advanced features that encourage positive changes in client behaviour.

A. BUSINESS AND PERFORMANCE

The *Moja Croatia* app continues to experience growth in the number of active users, with a 29% increase compared to the previous year. It allows clients to view all insurance policies and digital health cards, and offers the options of bill payment, policy renewal, claim reporting, and tracking claim processing status in just a few clicks. Another new feature introduced in the application is Croatia FIT, which promotes physical activity and rewards healthy habits.

Observing the market needs and client expectations, after conducting research, the Company launched a new loyalty program in May 2023, *Spektar*, which is an innovation in the insurance market. It is a unique package offering that combines multiple insurance policies contracted for the same household, enabling savings and additional benefits in a simple and transparent manner. As the first in Europe to do so, in November 2023, the Company introduced the use of artificial intelligence (AI) in assessing motor insurance claims. It is a sophisticated digital system that allows for claims settlement in less than three minutes. The automated assessment system builds upon the already implemented claims reporting via QR code, allowing clients to report claims in just a few minutes without the need for physical documentation. More than EUR 400 thousand has been invested in the new claim assessment centre and in the development of the AI platform.

In 2023, the customer support service of Croatia osiguranje conducted numerous additional activities and enhancements to provide customers with the best possible user experience. Wherever possible, such as when reporting claims or requesting policy changes, processes were simplified and expedited so that clients could submit requests via email or phone call, upon which customer support service handled the entire process. The process of scheduling full physical examinations has also been improved, with appointments typically being arranged during the first contact. After the initial agreement and scheduling, clients receive an SMS reminder before the appointment.

Several product media campaigns were conducted throughout the year, which, alongside presenting insurance products, addressed broader topics important for the individual and the community, such as prevention and raising the level of security in the community by protecting health, property, and business.

In 2023, an additional health insurance campaign *("More Affordable Private Medical Examinations")* was conducted to increase awareness of the importance of regular check-ups and the benefits of additional health insurance. The Company's investments in the healthcare segment over the past three years amounted to approximately EUR 20,000 thousand, and three new Croatia Polyclinics were opened in 2023 (in Osijek, Zadar, and Varaždin), thus achieving the Company’s strategic goal of providing high-quality medical services to people residing in different parts of Croatia.

Important events after financial year end

On 5 March 2024, the Company’s General Assembly adopted a decision to pay out dividend. Furthermore, the Company announced that Member of the Management Board Vančo Balen is going to leave the company by 30 June 2024, at his own personal request, for private reasons. In accordance with a legal obligation and permitted exemption under Article 21.a of the Accounting Act, the Company has prepared a Non-Financial Report, which will be published as part of the annual financial report of the parent company, Adris Grupa d.d.

B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

In accordance with the Companies Act, the Company has adopted the **dualistic system** in the Company's organizational structure. The basic bodies of the Company are the Management Board, the Supervisory Board as the body that supervises the work of the Company and the Assembly of the Company. The obligations and responsibilities of said governing bodies are set out in the Companies Act, the Insurance Act and the Articles of Association.

The **Management Board of the Company** is a body which, in accordance with the provisions of the Companies Act, the Insurance Act and the provisions of the Articles of Association and other internal documents of the Company, manages the affairs of the Company and represents the Company, and it is independent in this respect. The Management Board of the Company consists of at least three (3) and a maximum of seven (7) members, one of whom is the President of the Management Board. The number of members of the Management Board is determined by the Supervisory Board.

A member of the Management Board may be a person who at all times fulfils the requirements prescribed by the Companies Act, the Insurance Act and the requirements prescribed by the *Ordinance on requirements for performing the function of the insurance or reinsurance undertaking's management and supervisory board member, authorized signatory of the insurance or reinsurance undertaking and authorised agent of the branch of the insurance or reinsurance undertaking* adopted by HANFA. Only a person who has previously obtained HANFA's approval may be appointed a member of the Management Board.

The Management Board has adopted the Rules of Procedure, which regulate all issues relevant to the work of the Management Board that are not regulated by the Articles of Association of the Company. The members of the Management Board of the Company, in accordance with the Articles of Association and the Rules of Procedure, conduct the business of the Company jointly and, as a rule, make decisions at meetings, but may also make decisions as part of consultations by electronic mail, as well as by any other appropriate technical means. Management Board meetings are generally held once a week. The Management Board makes decisions by the majority of votes cast and in the event of a split vote, the vote of the President of the Management Board is decisive. At least two members of the Management Board represent the Company.

The Management Board is responsible for submitting the annual report of the Company and the Group (which includes annual financial statements) to the Supervisory Board, after which the Supervisory Board is to approve the submission to the General Assembly for acceptance. The Company's Management Board is required to prepare non-consolidated and consolidated financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the results of their operations and cash flow, in accordance with applicable accounting standards. Finally, it also has the responsibility to maintain appropriate accounting records that enable the financial statements to be prepared at any time.

The affairs of the President and members of the Company's Management Board have been coordinated by a special decision of the Company's Management Board. This decision defines the division of powers between the President and members of the Management Board of the Company in relation to the organizational units of the Company.

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The **Supervisory Board** is the body of the Company which supervises the management of the Company's affairs, but its powers are not limited only to the function of supervision, but are also exercised in other affairs defined by the Companies Act and the Articles of Association of the Company.

A member of the Supervisory Board may be a person who at all times fulfils the requirements prescribed by the Companies Act, the Insurance Act as well as the requirements prescribed by the *Ordinance on requirements for performing the function of the insurance or reinsurance undertaking's management and supervisory board member, authorized signatory of the insurance or reinsurance undertaking and authorised agent of the branch of the insurance or reinsurance undertaking* adopted by HANFA. The term of office of the members of the Supervisory Board is a maximum of four (4) years with the possibility of re-election. Only a person who has previously obtained HANFA's approval may be appointed a member of the Company's Supervisory Board.

With respect to the ownership structure, as long as it holds at least 25% of the Company's ordinary shares plus one such share, the Republic of Croatia has the right, pursuant to Article 256 (3) of the Companies Act, to appoint directly two (2) members of the Supervisory Board, whereas whilst holding at least 10% of the Company's ordinary shares, it is entitled to appoint directly one (1) member of the Supervisory Board. One (1) member of the Supervisory Board shall be appointed by the Workers' Council of the Company or the employees in direct and secret elections in the manner prescribed for the election of the Workers' Council and this right shall apply to them for as long as the conditions of the Labour Act are fulfilled. The remaining four (4) or five (5) members of the Supervisory Board are elected by the General Assembly of the Company.

The Supervisory Board primarily performs the following tasks:

- appoints and recalls the President and members of the Management Board;
- supervises the running of the Company's business;
- convenes the General Assembly when needed;
- submits a written report to the General Assembly on the performed supervision;
- adopts the Annual Financial Report at the proposal of the Management Board;
- represents the Company in dealings with the Management Board;
- approves the decisions of the Management Board and decides on other matters when so required by the law or the Articles of Association;
- amends the provisions of the Articles of Association based on the decisions of the General Assembly of the Company;
- adopts its own Rules of Procedure
- performs other tasks expressly entrusted to it by the law or the Articles of Association;
- concludes contracts with the Management Board.

By a majority vote of all members and according to the Articles of Association of Croatia osiguranje d.d., the Supervisory Board approves the following decisions or documents of the Management Board:

- alienation or encumbrance of the Company's property the market value of which exceeds EUR 132,722.81;

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- concluding of legal transactions or related legal transactions that exceed fifteen percent (15%) of the Company's share capital, except the legal affairs that fall within the regular operations of the Company determined by the Insurance Act, which relate to insurance and reinsurance and investment business, on which the Management Board is obliged to report quarterly to the Supervisory Board;
- determination of the Company's business policies;
- determination of the financial plan of the Company, proposed by the Management Board;
- determination of the structure of the internal control system;
- determination of the framework of the annual internal audit work program.

The Supervisory Board may appoint certain Committees to prepare any decisions it is required to make and to supervise their enforcement. Members of the Supervisory Board may participate in the work of each Committee. The decisions of the Supervisory Board are made by a majority of the total number of members, unless otherwise provided by the Articles of Association. The work of the Supervisory Board of the Company is further regulated by the Rules of Procedure of the Supervisory Board.

The Supervisory Board has established the **Audit Committee** as an expert body that supports the Supervisory Board of the Company. The organization and manner of the work of the Audit Committee are further specified in the Rules of Procedure of the Audit Committee. The Audit Committee consists of three (3) members appointed by the Supervisory Board from its ranks. At least one (1) Audit Committee member must be proficient in accounting and/or auditing. The Audit Committee performs the following tasks set out in the Audit Act and the Rules of Procedure of the Audit Committee:

- informs the Supervisory Board of the outcome of the statutory audit, explains how the statutory audit contributed to the integrity of the financial reporting and explains the Board's role in the process;
- monitors the financial reporting process and submits recommendations or proposals to ensure its integrity;
- regarding financial reporting, monitors the effectiveness of the internal quality control and risk management systems and, where applicable, of the internal audit, without violating its independence;
- monitors the performance of the statutory audit of the annual financial statements and the annual consolidated financial statements;
- examines and monitors the independence of the audit firm and in particular the appropriateness of providing non-audit services subject to its prior approval, after adequately assessing the threats to independence and the safeguards applied, with the Committee being required to examine and approve all non-audit services that the audit firm would provide to the Company;
- it is responsible for the process of selecting an audit firm, proposes the appointment of the audit firm and makes recommendations on the terms of its engagement;
- oversees the rotation of certified auditors within the audit firm;
- monitors the integrity of the financial information of the Company and in particular the soundness and consistency of the accounting methods used by the Company and the Group to which it belongs, including the criteria for consolidation of the financial statements of the companies belonging to the Group;

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- assesses at least once a year the quality of the internal control and risk management system, in order to ensure adequate identification, public disclosure and management of the major risks to which the Company is exposed (including risks associated with compliance);
- ensures the effectiveness of the internal audit system, in particular by making recommendations on selection, appointment, re-appointment and dismissal of the head of the Internal Audit Department and on the resources at its disposal, as well as by evaluating the management process regarding the findings and recommendations of the internal audit;
- considers the effectiveness of the external audit and the conduct of senior management in accordance with the recommendations of the external auditor;
- investigates the circumstances surrounding the dismissal of the external auditor and makes appropriate recommendations to the Supervisory Board;
- may request from the audit firm, management personnel or any employee of the Company any information necessary for the performance of the role of the Committee and may request from the Management Board and the Internal Audit Department written opinions, which may, if necessary, be attached to the materials submitted to the Supervisory Board;
- performs other tasks as ordered by the Supervisory Board.

The Supervisory Board has organised the **Appointments and Remuneration Committee** which, in the area of appointments, performs the tasks of: supervising the process of appointments to the Supervisory Board and the Management Board to ensure that it is appropriate and transparent, developing a description of roles and candidates for each vacancy in accordance with the profile of the Management Board or the Supervisory Board (if necessary, in consultation with the President of the Management Board or the Supervisory Board) and the identifying and recommending of suitable candidates to the Supervisory Board, determining the competence and/or independence of the candidates for the Supervisory Board, agreeing upon the terms of appointment with potential new members of the Management Board and the Supervisory Board, including the expected time required for exercising their function, preparing a succession plan for reappointment or replacement of Supervisory Board and Management Board members, in consultation with the President of the Supervisory Board and the Management Board respectively, monitoring the progress in achieving the target percentage of female members in the management structure of the Company and monitoring the Management Board's policy in the selection and appointment of senior management.

In the area of remuneration, the Appointments and Remuneration Committee performs the tasks of: recommending to the Supervisory Board the remuneration policy for the members of the Management Board at least every three years, recommending to the Supervisory Board every year the remuneration that should be received by the President and the members of the Management Board based on the results of the evaluation of the Company's and their personal performance, recommending to the Supervisory Board the remuneration policy for the members of the Supervisory Board to be approved by the General Assembly, monitoring the amount and structure of remuneration payable to the senior management personnel and employees as a whole, making recommendations to the Management Board on its policies and monitoring the preparation of the statutory annual remuneration report for Supervisory Board approval.

The Appointments and Remuneration Committee holds thematic meetings to carry out these functions in an efficient and timely manner, which must be reported regularly to the Supervisory Board.

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The **General Assembly** is the body of the Company by which the shareholders exercise their rights in the affairs of the Company, unless otherwise provided by the law or the Articles of Association. The powers of the General Assembly are laid down in the Companies Act and the Articles of Association.

The Articles of Association of the Company define in detail the jurisdiction of the General Assembly and, in accordance with the aforementioned provision, the powers of the General Assembly include the following:

- adopting the Articles of Association and deciding on amendments to the Articles of Association of the Company;
- electing and recalling members of the Supervisory Board;
- deciding on the use of profit;
- deciding on the increase and decrease of the share capital of the Company;
- adoption of the Annual Financial Statements when put in charge of the task by the Management Board and the Supervisory Board;
- deciding on dismissal of members of the Management Board and of the Supervisory Board;
- appointing of the Company's auditor;
- deciding on the status changes of the Company;
- deciding on the Company's termination;
- deciding on other matters in accordance with the law and the Articles of Association.

The General Assembly is generally convened by the Management Board and the Supervisory Board convenes the General Assembly when it deems it necessary for the benefit of the Company.

The Management Board must convene the General Assembly immediately if it is found in the preparation of the financial statements or otherwise that there is a loss of half of the share capital in the Company. The Management Board also must convene the General Assembly immediately if so requested in writing by the shareholders who together hold at least one twentieth of the Company's share capital and state the purpose and reason for convening that General Assembly.

The General Assembly is chaired by the President of the Supervisory Board or by a person designated by him. No decision can be made at the General Assembly unless the shareholders whose shares account for half of the total share capital of the Company are present. The General Assembly makes decisions by a majority of votes cast in a public vote.

The **key functions** of the Company are organized in such a way as to cover all significant risks to which the Company is or could be exposed by its operations, to avoid conflicts of interest and to ensure that the Company's operations comply with the Company's strategies, policies and other internal documents, in accordance with the relevant legal framework. The Company has appointed **key function holders** in accordance with the provisions of the Insurance Act.

Key functions established at the Company level are:

- the risk management function established through the Risk Management Department;
- the compliance function established through the Compliance Department;
- the internal audit function established through the Internal Audit Department;
- the actuarial function established through the Actuarial Department.

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All key functions are independent in the performance of their tasks, integrated into the organizational structure of the Company in a way that prevents conflicts of interest in business processes, allowed to communicate with any employee and given all the necessary powers, resources and unrestricted access to the information necessary to perform their tasks.

The key functions report directly to the Company's Management Board in order to ensure the fulfilment of their tasks in an independent and objective manner and participate in the overall management and reporting system of the Company in the framework of conducting advisory engagements based on professional knowledge and practical experience gained in performing tasks within control functions, in order to bring added value to the Company. The Company's Management Board periodically and at least annually reviews the appropriateness of procedures and the effectiveness of key functions, while the Company's Supervisory Board reviews the appropriateness of procedures and the effectiveness of internal audit. More detailed information on each key function is given later in the text.

Company's organizational structure

The Company has a new business model that centralizes all core and support processes (the so-called back office) and reinforces the process of selling insurance through an organization based on two different criteria at the same division level (B-1) (by customer and territorially).

The organizational structure of the Company ensures the creation of professional organizational units with clearly defined responsibilities of executors, which do not conflict with the responsibilities and goals in other areas of business.

The organizational structure of the Company is formed in such a way that individual organizational units fully cover key business processes and, consequently, the following areas can be identified in the organizational structure: 1) insurance operations, 2) sales, 3) functions of support, business development and asset management, and 4) finance.

Insurance operations include: Product Development and Underwriting Department, Claims Management Department, Operations and Customer Support Department, and Information Technology Department.

Sales include: Retail Insurance Department, Corporate Insurance Department, Market Management Department, Sales Channel Development and Analytical Sales Support Department, Subsidiaries' Support Department and the SMEs Insurance Department.

Functions of support, business development and asset management include: Investments Department, Assistance to the Management Board Department, Human Resources Department, Legal Affairs Department, Compliance Department, Internal Audit Department, Transformations Department, and Digital Development Department.

Finance includes: Finance and Accounting Department, Controlling Department, Actuarial Department, and Risk Management Department.

The sales process has been significantly accelerated and digitized, a large number of products have been developed and improved, together with a price management system, and there has also been improvement in the centralization and automation of the claims processing process as well as in the areas of innovation and knowledge sharing, customer orientation and employee motivation.

B. SYSTEM OF GOVERNANCE

During 2023, the Management Board of the Company was composed of:

- **Davor Tomašković**, President of the Management Board of the Company in the period from January 1, 2023 to December 31, 2023,
- **Robert Vučković**, Member of the Management Board of the Company in the period from January 1, 2023 to December 31, 2023,
- **Luka Babić**, Member of the Management Board of the Company in the period from January 1, 2023 to December 31, 2023,
- **Vančo Balen**, Member of the Management Board of the Company in the period from January 1, 2023 to December 31, 2023.

During 2023, the Supervisory Board of the Company was composed of:

- **Roberto Škopac**, President of the Supervisory Board in the period from January 1, 2023 to December 31, 2023,
- **Željko Lovrinčević, PhD**, Deputy President of the Supervisory Board in the period from January 1, 2023 to December 31, 2023,
- **Vitomir Palinec**, Member of the Supervisory Board in the period from January 1, 2023 to December 31, 2023,
- **Hrvoje Patajac**, Member of the Supervisory Board in the period from January 1, 2023 to December 31, 2023,
- **Hrvoje Šimović, PhD**, Member of the Supervisory Board in the period from January 1, 2023 to December 31, 2023,
- **Zoran Barac**, Member of the Supervisory Board in the period from January 1, 2023 to December 31, 2023.
- **Pero Kovačić**, Member of the Supervisory Board in the period from January 1, 2023 to December 31, 2023.

Remuneration policy

Corporate remuneration policy includes motivating and retaining the best employees whose value system aligns with the company culture and goals. Each employee of the Company signs a declaration of compliance with the provisions of the Company's Code of Ethics that defines the core corporate values: customer focus, expertise, reliability and responsibility, agility and innovation.

Ethical, responsible and legally sound conduct is the duty of every employee under the Code of Ethics and employees in management positions are responsible for setting an example for other colleagues and employees through their behaviour and personal integrity. The Company is committed to creating an environment where high efficiency is expected, which involves motivating all employees to contribute to the achievement of the Company's goals, strategies and values. Recognition of work performance of different quality and differentiation in performance rating are encouraged in such a way that high, standard and low performance can be clearly identified on a scale of five (5) grades.

The Company has adopted the *Remuneration Policy* with these basic principles:

- balance of all elements of remuneration and responsibility for the achieved results
- market-oriented remuneration for jobs of the same or similar complexity
- rewarding according to work performance in a way that variable payments reflect the overall achievement of the Company's goals as well as the personal contribution of the member of the Management Board

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- short-term and long-term goals are defined as financial and non-financial goals
- good management practice and the application of value systems is key to the Company's business success, so the non-financial goal is defined through behaviours that indicate quality, efficient and ethical management of human resources and business operations
- rewarding encourages expertise and excellence, regardless of gender, ethnicity, age, disability or similar.

Remuneration structure is focused on the sustainable growth of the Company. All components of remuneration are determined appropriately, individually and in their entirety, without encouraging recipients to take unreasonable risks that are not in line with the long-term interests, business strategy, goals and values of the Company.

The *Remuneration Policy* applies to all employees of the Company. The purpose of this document is to establish, implement and maintain a remuneration practice in line with the Company's business objectives and risk management strategy, as well as long-term interests and results, while at the same time it represents measures aimed at avoiding conflicts of interest and excessive risk-taking at the expense of the Company or its stakeholders (shareholders, policyholders, partners, etc.). The components of remuneration are fixed income and variable income.

In June 2023, the Company updated its Remuneration Policies adopted in accordance with the Guidelines on System of Governance EIOPA-BoS-14/253CP-13/08 and with the Insurance Act and related subordinate legislation, by specifically indicating information pertaining to compliance with inclusion of sustainability risk.

In addition to that, eligibility criteria for earning one-off rewards for key projects have been defined as well, as was the possibility of earning a reward for good performance as an addition to one’s salary, the terms and conditions of which are defined in special labour policies.

Fixed income is the amount of basic pay that is aligned with the required qualifications and level of responsibility within the company and in relation to the labour market according to the Mercer IPE (International Position Evaluation) methodology.

The variable component of remuneration comprises monetary amounts directly related to the results achieved, which are paid monthly or annually to all employees. This component is different for administration and sales employees and is competitive in comparison with competing companies.

The remuneration policy applies to different categories of employees who are particularly important for the success of the Company, such as those who effectively run the Company, those who effectively manage the Company, holders of key functions and other individuals who have a material impact on the Company's risk profile.

When remuneration contains a variable component, it is based on the combination of:

- the results achieved by the individual, in relation to the performance and quality of performance of the assigned tasks, taking into account responsible risk management and compliance with laws, internal rules and risk management practices;
- the results of the organizational unit to which the employee belongs, considering the contribution to the fulfilment of the Company's business strategy, risk profile and goals;

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- the overall performance of the Company over a specified period (not only based on results at a specific reference date).

In accordance with the defined rules on the amount of variable remuneration, a part of the variable remuneration is paid with a deferral and the deferral period is three years. Generally, the deferred portion of variable remuneration (earned and unpaid variable remuneration) is not paid in the event of termination of employment or office due to misconduct.

The Company is under no obligation to pay or transfer rights over a portion of deferred unpaid variable receipts or over all deferred unpaid variable receipts if the realization of previously assumed risks results in impaired performance or worse financial performance of the Company (malus).

Furthermore, the Company applies the following rules:

- persons who effectively manage the Company are appointed for the term of office determined by the appointment decision;
- persons effectively managing the Company may not receive commissions based on the sale of insurance policies;
- remuneration of members of the Supervisory Board does not contain any components related to the operating result. Remuneration of members of the Supervisory Board is decided by the Assembly of the Company.

In addition to the categories of employees mentioned above, all other employees are also covered by the fixed and variable remuneration system, as follows:

1. **Management personnel of the Company** have a fixed salary and an annual bonus in accordance with the KPIs (key performance indicators) set by the Management Board and in accordance with the business objectives set by the Supervisory Board. The Company's Management Board conducts an impact assessment based on the annual goals set:
    - corporate KPIs (33.33%);
    - Department KPIs and project goals (33.33%) and
    - core competencies related with business objectives and company values (33.33%)

After analysing the results and realized KPIs for the business year, the Management Board of the Company determines the amount and one-time payment of the annual bonus as well as the portion payable with a delay of three years in accordance with the Remuneration Policies.

2. **Other employees** have a fixed salary and quarterly and annual KPI goals in accordance with the goals of the organizational units in which they work. As a rule, the variable part of the salary is paid monthly, in accordance with the accomplishment of the team or corporate goals (25%) and personal goals (75%) of the previous quarter.

   The Company also recognizes employees holding director, manager and expert positions who contribute significantly to the achievement of the Company's goals and, instead of quarterly goals, are contractually entitled to an annual bonus even though they are not part of Company's management personnel. The Company's management personnel conducts quarterly and annual calibration of performance appraisal and distribution of ratings.

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In 2023, the Company paid a portion of the variable earnings for 2022 (bonus) to its management, by awarding them shares of Adris grupa d.d. (ADRS2).

The purpose of the *Policies on Non-material Benefits* is to determine the basic framework for nonmaterial benefits in the Company that pertains to all employees of the Company. They also represent guidelines for subsidiaries on how to arrange the nonmaterial benefits to be compliant with local procedures and these policies. *Policies on Non-material Benefits* are not necessarily connected with work performance and are determined by the Agreement on the performance of activities with special rights and obligations or this Policy. Benefits are used to replace the cash remuneration awarded in addition to the contracted salary and are generally non-monetary. Benefits have 3 main goals - compliance with the law, compliance with the market environment and compliance with the tax treatment.

Company's benefits are analysed at least once a year and the goal is for them to be at least equivalent to mid-range benefits payable in the insurance, financial and the general market. Any benefit may be granted to the Company's employees regardless of the categorization determined by this Policy based on the proposal of the competent member of the Management Board and the Director of the Human Resources Department if:

- it is estimated that such a need is cost-wise in the interest of the Company;
- the trends in rewarding certain jobs are such that the granting of such a benefit has become a common benefit in order to maintain the motivation of the employee and keep them in the Company.

The Company **has no supplementary pension system or early retirement system** for any employee or member of the Supervisory Board. The Company operates in accordance with the applicable Labour Act in the event of retirement (whether at full retirement age or early retirement) of the Company's employees.

Material related party transactions

The Company considers that it has a direct relationship with the majority owner, the company Adris grupa d.d. (ultimate controlling party) and the Republic of Croatia (CERP) as well as with majority state-owned or significantly state-influenced entities, entities under the control, joint control or significant influence of key management personnel and their close family members as defined in the *International Accounting Standard 24 Related Party Disclosures* (IAS 24). The Company considers members of the Management Board and the Supervisory Board and heads of the departments as key management personnel.

The Company pays corporate income tax and income tax in the Republic of Croatia. In terms of taxes, the Company has no outstanding due and unpaid liabilities to the Republic of Croatia. The Company invests in securities of the Republic of Croatia and other state-owned companies as indicated in the table below, with interest rates ranging from 0.25% to 6.38% and maturities from 2024 to 2041.

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The Company has granted loans to the related company CROATIA-TEHNIČKI PREGLEDI d.o.o. totalling EUR 24,069 thousand at an interest rate of 4.97%, loans to the company Core 1 d.o.o. in the amount of EUR 12,662 thousand at an interest rate of 4% and 5.14% respectively, to the company Croatia osiguranje d.d. – neživot, Skopje, in the amount of EUR 800 thousand at an interest rate of 2.63%, to the company CO Zdravlje d.o.o. in the amount of EUR 2,522 thousand at an interest rate of 6.10%, to the company STRMEC PROJEKT d.o.o. in the total amount of EUR 510 thousand at an interest rate of 6.07%, to the company CROATIA Premium d.o.o. in the total amount of EUR 1,659 thousand at an interest rate of 3.2%, to the company CROATIA POLIKLINIKA in the total amount of EUR 11,847 thousand at an interest rate of 6.07% and to the company CO LOGISTIKA d.o.o. in the total amount of EUR 450 thousand at an interest rate of 6.07%, for the purpose of additional investments. Other relations with subsidiaries, joint ventures and associates within the Group and with other entities that have a material impact on the financial statements of the Company including companies that are majority state-owned or significantly influenced by the state are shown in the table below.

Table B.1.1 Overview of related party transactions and balances *(EUR thousand)*

	2023				
	Subsidiaries	**Associates**	**Adris grupa d.d. – Parent company**	**Other Adris Group companies**	**Republic of Croatia***
Financial assets at amortized cost	37,918	0	0	1,450	298,215
Financial assets at fair value through other comprehensive income	0	0	0	0	397,591
Trade and other receivables	197	0	30	11	431
Insurance liabilities	2,024	2	2	193	1,143
Trade payables and other liabilities	340	0	156	49	327
Insurance revenue	1,362	41	76	2,887	18,949
Insurance service expenses	7,341	0	2,184	2,619	7,600
Net result of (passive) reinsurance contracts	66	0	0	0	0
Interest revenue calculated using the effective interest method	1,700	0	0	97	18,966
Net gains/losses from financial assets at fair value through profit or loss	0	0	0	0	681
Rental income	718	0	0	0	1,547
Other investment income/expenses	14	1,327	0	0	277
Other income	411	0	4	0	1
Other operating expenses	26	0	15	153	211

** Republic of Croatia and all companies that are majority state-owned or significantly influenced by the state*

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Table B.1.2 Overview of transactions and balances with parties related to key management of the Company and Adris

(EUR thousand)

	2023	2022
Insurance liabilities	0	1
Insurance revenue	21	22
Insurance expenses	3	0

Key management compensation

Key management personnel of the Company are Management Board and Supervisory Board members and department directors.

Table B.1.3 Key management compensation (EUR thousand)

	2023				2022			
	Management	Department directors	Supervisory Board	Total	Management	Department directors	Supervisory Board	Total
Key management compensation	2,695	2,680	22	5,397	2,131	2,731	21	4,882
Termination benefits	0	127	0	127	0	49	0	49
Total	**2,695**	**2,807**	**22**	**5,524**	**2,131**	**2,780**	**21**	**4,931**

Key management compensation includes gross salaries, life insurance premiums, benefits in kind, benefits in cash and in shares of the parent company, provisions for bonuses, severance pays, and remuneration payable to Supervisory Board members.

B.2 Fit and proper requirements

The Company has adopted the *Fit and Proper Policy,* which regulates the Company's conduct in the selection of Management Board members, Supervisory Board members, holders of key functions, as well as guidelines for continuous verification that the nominated holders of those positions meet the requirements of expertise and suitability (hereinafter: the Policy).

This Policy supports the Company's management system and applies primarily to the members of the Supervisory Board, members of the Management Board and holders of key functions, who are expected to ensure, apart from compliance to legal regulations and professional rules, the continued functioning of the Company's operations in accordance with the business plan and the expectations of all participants.

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Assessment of fit and proper requirements

The assessment is based on a set of guidelines regarding desirable, positive characteristics primarily of key employees. In order to ensure the optimal, continuous operation of the Company and to safeguard the interests of policyholders and owners, the Company ensures that its management personnel, as well as key functions, have the experience, professional knowledge and skills required to perform their duties with care, professionalism and competence. For the purpose of assessing expertise taking into account the tasks and responsibilities involved in the position, it is determined whether the candidate possesses the required personal and professional qualifications.

The aim of the Company is to ensure that persons who effectively run the Company continuously possess collective expertise, knowledge and experience in accordance with the Company's risk profile, at least in the following areas:

- insurance and financial markets;
- business strategy and business models;
- governance system;
- financial and actuarial analyses;
- regulatory requirements and frameworks for action.

Candidate proficiency testing for the appointment to a key function is conducted primarily based on documents certifying the completion of education and/or professional development, a certificate of mastery of certain skills, as well as any authorizations of professional bodies, regulators, etc.

It is also necessary that persons managing the Company, as well as key function holders, have an adequate reputation, exemplary moral and ethical characteristics and no history of criminal or financial misconduct or any other serious deficiencies found during the appointment procedure, in order to perform their work with the care of a conscientious businessman, taking care not to jeopardize the planned result and the reputation of the Company or lead to a conflict of interest.

In order to assess the **suitability of candidates**, the Company considers the following issues:

- Is the candidate a defendant in criminal proceedings?
- Has a final verdict been reached for the criminal offence?
- Has a competent institution previously rejected their candidacy?
- Is there a pending process of revocation or limitation of the professional license to work in financial institutions?
- Are there any proceedings for serious misdemeanour or criminal misconduct arising out of activity in a financial institution in process?
- Was the person a member of the governing or supervisory body of a legal entity over which bankruptcy or pre-bankruptcy settlement proceedings have been initiated?
- Have consumer bankruptcy proceedings been initiated?
- Are there any circumstances indicating that the candidate's personal financial instability may affect their good reputation?

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As needed or available, other sources of information, such as media disclosures, information from previous employers, regulators, professional associations, etc., are used for appropriateness review.

In the process of selecting a person to perform a key function, the Company considers the following additional criteria:

- Psychological assessment, which includes personality questionnaires, cognitive tests and a psychological interview to test the person's motives, values and attitudes, and
- Expert evaluation in the assessment of knowledge, skills and competences for a specific job by senior managers.

The final decision is made by the candidate's superior, the Management Board or the Supervisory Board upon recommendation of the Human Resources Management Department.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

Risk management system

The Company has set up a **risk management system** appropriate to the size of the Company, the scope of business and the type and nature of the risks to which it is exposed. A significant part of the risk management system is focused on monitoring capital adequacy, that is, maintaining the required level of capital that is appropriate for the scope and types of underwriting operations undertaken, considering all financial, operational and business risks and events to which the Company is exposed.

The risk management system is operationally established within the Company through the development and implementation of the following system components:

- internal documents;
- risk management processes;
- organizational structure with clearly defined roles and responsibilities;
- technological and data infrastructure and competences;
- adequate risk culture.

The components of the risk management system are established, upgraded and interconnected through the so-called annual risk management cycle that implements the principle of self-assessment of the risk management system when considering further potential and/or necessary improvements to the system.

Internal documents

The umbrella document that establishes the risk management system and articulates the propensity to take risks is the *Risk Management Strategy*, while the *Risk Management Policy* defines and further elaborates the components of the risk management system. At the quarterly level, a Risk Catalogue is produced as the result of the Company's risk profile determination.

B. SYSTEM OF GOVERNANCE

Other policies, rulebooks and methodologies prescribe the management of an individual risk or group of related risks (or activities in the area of risk management), methods of analysis, measurement and assessment of risks, a system of limits with escalation procedures for exceeding limits and monitoring and reporting of risks.

Risk management processes

Risk management processes include risk identification, risk measurement, risk assessment, stress testing, risk treatment, limit system development, limit monitoring, and alignment of risk profiles with risk appetite, risk monitoring/control and reporting. Risk management processes are defined in detail by policies and rulebooks for each type of risk to which the Company is exposed.

Risk identification in the Company involves procedures for determining the existence of risks to which the Company is or may be exposed in the future, or that have or may have a significant impact on business, that is, on achieving the Company's strategic goals. The impact is manifested as a financial loss, lost profit or loss of reputation.

Risk assessment, i.e., measurement involves the development and implementation of adequate quantitative and qualitative methods which are used to analyse the identified risk and determine its significance depending on the type and nature of the risk. The risk assessment methodology (the parameters being analysed and the determination of significance of risk) is defined by the *Risk Management Policy*.

Stress testing is a risk management technique used to assess the potential effects of contingencies on the Company's financial and capital position. It is carried out by the Company at least on an annual basis and more often for certain types of risks, in accordance with the regulations of internal documents or when necessary to better understand the nature of the risks and the potential impact on the Company.

Risk treatment represents the totality of the Company's methods, criteria and procedures for deciding and implementing decisions on the following measures: reducing or limiting risks, transferring, accepting and avoiding risks. Risk management measures are implemented on a continuous basis for all risks identified in the Company to minimize risk exposure and losses. The effectiveness of the application of risk management measures is measured by different methods and it is generally visible through the effect on the Company's capital requirement.

The Company establishes a **system of limits** to align the risk profile with the defined propensity to take risk. The decision on the specific establishment of the limit system, as well as on the measures and procedures in case of exceeding the limit, is prescribed by internal documents or through the decision of the Management Board on exposure limits. In selecting the limit system, the Company considers the results of the risk identification process, technical capabilities of the Company, developed methods of measuring and/or assessing the risks and the nature of the risk observed.

The Company has implemented appropriate monitoring and control mechanisms to ensure compliance with the prescribed limits and to enable effective corrective measures in case of exceeding them. The utilization of limits, possible exceedances and measures taken are integral parts of the risk report.

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The Company **monitors and reports of risks and capital adequacy** to ensure timely transmission of the necessary information to the Company's Management Board, Supervisory Board and senior management for the purpose of making strategic decisions, as well as to HANFA as part of the regulatory supervision process. In addition to the reports defined by regulatory requirements, the Company makes decisions on the specific types and content of risk reports by internal documents regulating the management of individual risks and individual activities within the risk management area.

Organizational structure

Internal documents in the area of risk management define the roles and responsibilities of all organizational functions, units and management bodies involved. When implementing the roles and responsibilities of individual functions within the Company's risk management system, particular attention is paid to the appropriate division of responsibilities within individual business processes and to avoidance of conflicts of interest.

An important aspect of the organizational structure of the risk management system is the **key function of risk management**. It is operationally established through the **Risk Management Department**, an independent organizational unit that reports directly to the Company's Management Board. This department is regularly coordinated with other key functions and with other organizational units which are operationally responsible for underwriting of risks or for specific areas of business for the purpose of ensuring an adequate flow and quality of all necessary information in a timely manner.

The **risk management function** has the following specific responsibilities in the area of risk management:

- drafting and updating general/umbrella risk management documents and internal risk management documents for individual risk or a group of related risks at the overall portfolio level;
- identifying the risks to which the Company is or could be exposed in its operations, determining the risk profile (risk analysis and assessment, risk measurement) and documenting it in the Risk Catalogue;
- oversight of the integration of risk management into the decision-making process and business activities;
- development of quantitative methods and models of risk measurement;
- risk reporting to the Management Board through the preparation of periodic reports as well as through other forms of information;
- conducting various ad hoc impact analyses and projections from the aspect of risk and capital adequacy regarding various strategic issues;
- contributing to the establishment of an effective internal control system;
- monitoring and reporting on regulatory compliance in connection with capital adequacy and reserve coverage of Group members;
- conducting stress testing and other tests necessary for an effective risk control system;
- participating in the development of IT and technological infrastructure needed to develop and establish a risk management system and participating in improving the data quality in the Company's internal systems;
- participating and coordinating the development and implementation of a Recovery Plan in the event of the Company's non-compliance with the solvency capital requirement;
- spreading risk management awareness, developing a risk culture;

B. SYSTEM OF GOVERNANCE

- coordinating and conducting the process of calculating the solvency ratio (capital adequacy) under Solvency II provisions;
- coordinating and conducting the own risk and solvency assessment (ORSA) process.

In addition to the risk management function, other key functions, senior management (including the Management Board) and all other organizational units of the Company, i.e., all employees of the Company, are included in the risk management system, with a clear demarcation of powers and responsibilities defined by the internal documents of the Company.

Own risk and solvency assessment (ORSA)

Own risk and solvency assessment is an integral part of business strategy and business planning and it is continuously taken into account when making strategic decisions of the Company. The **ORSA process is conducted at least once a year**, or more frequently if the Company estimates that a material change in the risk profile has occurred. In addition, the Company continuously applies ORSA techniques, i.e., it takes the ORSA approach throughout the business year when considering major business decisions.

The results of the ORSA process are documented in the so-called ORSA report, which is approved by the Management Board of the Company and submitted to the Company's Supervisory Board and HANFA. An internal document defines the establishment of processes and adequate procedures, as well as the competences and responsibilities for conducting the own risk and solvency assessment.

At its core, the ORSA process consists of the following steps:

- the process of establishing a risk profile that includes risk identification, risk assessment i.e., risks measurement and comparison with the risk appetite;
- calculation of the regulatory capital requirement and solvency ratios;
- carrying out ad hoc analyses on a continuous basis throughout the year, at the request of the Management Board and/or senior management, to test the consequences of possible decisions on the Company's operations, risk profile and risk bearing capacity;
- defining the Company's and Group's business plan and projections over the next five-year period, including assessments of capital requirements;
- analysis of the applicability of the standard formula;
- estimation of total solvency requirements (internal capital requirement);
- defining and conducting stress tests, sensitivity analyses and scenario analyses;
- continuous review and analysis of the impact of business decisions on the Company's risk profile;
- ORSA at the CROATIA osiguranje Group level;
- documenting the ORSA process and reporting and informing relevant parties.

The Risk Management Department, as an independent organizational unit through which the key risk management function has been established, operationally coordinated the implementation of the ORSA process and was responsible for the operational preparation of the **Own Risk and Solvency Report for 2023**, while the Management Board had the key, strategic role in the process.

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In 2023, there was no need to implement extraordinary ORSAs, despite the significant unfavourable events that took place around the world, primarily caused by the war in Ukraine and sanctions imposed on Russia, which in turn resulted in high inflation reflected in the prices of energy and disturbances in the chain of supply. Moreover, the conflict in the Middle East also triggered an increase in global uncertainty. As was evident during the year, these events did not significantly affect the Company's risk profile.

As part of the ORSA process in 2023, an assessment of the materiality of climate risks was conducted using qualitative and quantitative analysis techniques on the assets and liabilities sides. In addition to existing scenarios, new scenarios related to the impacts of climate risks were devised and assessed. In the upcoming years, improvements to these processes are planned in line with the availability of information, data, appropriate models, and other resources.

The Company's Management Board defines the Company's risk appetite and makes strategic decisions for the Company. In making strategic decisions, it considers any risks for the Company that may arise from such decisions. In each case, the Company's Management Board initiates and directs the analysis of possible impact scenarios for the Company and directly encourages the development of various projections and stress tests related to their impact on capital adequacy, profitability or reputation of the Company.

Apart from the Management Board and Risk Management Department, the organizational units through which other key functions of the Company have been established (Actuarial Department, Compliance Department and Internal Audit Department) as well as the Investments Department and Controlling Department have a significant direct role in the ORSA process. Other organizational units, where appropriate, also contribute to the implementation of the ORSA process within their area of responsibility.

Determination of risk profile through risk identification and assessment, i.e., risk measurement

The first step in the process of determining the risk profile is to identify all the risks the Company is or could be exposed to in the future, considering the Company’s business strategy.

The risk management function coordinates the risk identification process, in which it consults all relevant organizational units of the Company and analyses available data and information for the purpose of reviewing overall business of the Company and the risks that the Company is or may be exposed to.

The second step in determining the risk profile is risk assessment, i.e., measurement, which is continuously carried out in the Company. As part of the ORSA process, the results of risk assessment, i.e., measurement, are analysed in detail and the results obtained are also considered in determining the risk profile.

The Company's exposure to risk is determined for each identified risk that can be quantitatively measured. Furthermore, the likelihood of risk materialization as well as the impact in case of realization are measured by using one of the appropriate risk measures (e.g.: VaR, rating systems, maximum financial impact on the Company, scenario analyses, analyses of various indicators and ratios, analysis of materialization of historical losses, specific risk measures for individual risks, etc.).

Risks of a primarily qualitative nature, as well as those that are difficult to measure, are assessed by qualitative and expert methods, considering all available quantitative indicators and all available information.

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The process is finished by documenting the determined risk profile in the Risk Catalogue.

Calculation of regulatory capital requirement and solvency ratios

The Company calculates the regulatory capital requirement in accordance with the Solvency II Directive and/or the Insurance Act according to the standard formula. This step makes it possible to link the risk profile to the capital, i.e., to determine the capacity to bear risk. The Company conducted the full SCR calculation as at December 31, 2022 and as at December 31, 2023, while the recalculations of all necessary parts of solvency capital requirement that have or could have a significant effect on the Company's total solvency were carried out at the end of each quarter of 2023.

This way the Company considered the effects of all relevant changes in the insurance portfolio, such as the intensely destructive storm that hit Croatia in July 2023, changes in the ratings of banks and securities issuers with which the Company operates, the application of derivative contracts, and all other significant events.

Solvency capital requirement coverage with eligible own funds was **308% as at December 31, 2023** and it was **at levels above 319% for the rest of the year 2023**.

Defining and analysing the Company's business plan

An integral part of the ORSA process is the definition and analysis of the Company's business plan and strategy to obtain the necessary inputs on risk exposure under the business plan. This step is iterative in that the results of the other steps of the ORSA process are used therein. Business planning is carried out for a period of five (5) years. In particular, in the second half of 2023, the Company conducted **planning for the period 2024 – 2028** and the key determinants of the business plan were addressed precisely through the ORSA process.

The Company's business projections over the next five-year period, including assessments of capital requirements

Since the ORSA is conducted based on forward-looking assessment of own risk, after considering the risk profile and capital requirements, the Company makes business projections for the next five-year period, including the assessment of capital requirements.

Based on the five-year 2024-2028 business plan, at the end of 2023, the calculations of available capital and solvency capital requirement (regulatory and internal capital requirement) were carried out using the bottom-up method, whereby capital calculations were made for each subsequent year, based on available planned volumes and assumptions.

Analysis of applicability of standard formula

After calculating regulatory capital requirements and determining the risk profile, the Company assesses the deviations of its risk profile from the assumptions on which the capital calculation using the standard formula is based, or in other words, the applicability of the standard formula is analysed.

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The Company undertook additional activities in the analysis of applicability of the standard formula this year as well, especially in those parts of the standard formula that relate to the most significant risks for the Company (individual market risk sub-modules and non-life insurance sub-modules) as well as risks not covered in the standard formula, such as the risk of storms in the territory of Croatia, cyber risk and other risks of primarily qualitative nature (strategic risk, reputation risk, and compliance risk).

The results of this analysis also represent the initial data for assessing the overall solvency needs and the calculation of the internal capital requirement. Specifically, the Company calculates the internal capital based on the standard formula, adjusted based on the results of analysis of its applicability with the aim of aligning the risk profile with the internal capital requirement as closely as possible.

In carrying out this step, in addition to the Company's own analyses and considerations, the results documented in EIOPA's The *underlying assumptions in the standard formula for the Solvency Capital Requirement calculation (EIOPA-14-322)* were used. In the upcoming periods, the Company intends to improve the approach to this part of the ORSA process in accordance with the possibilities and the principle of proportionality and materiality.

<u>Estimation of total solvency requirements (internal capital requirement)</u>

After adjusting the standard formula in accordance with the results of the previous step, the internal capital requirement is calculated, i.e., the total solvency needs are determined. The results of the calculation of the internal capital requirement are compared with the solvency capital requirement and the available capital. Methodological deviations of the internal capital requirement from the regulatory capital requirement are justified and adequately documented. The results obtained both for the internal and regulatory capital requirements are used in determining the risk bearing capacity and in testing the sustainability of the business strategy and plan, as well as of planned business activities.

The Company is continuously working on a further development and review of risk quantification methodologies for risks which are not included in regulatory capital requirements, but which should be included in the internal capital requirement, with the highest emphasis being placed on the risks of a qualitative nature.

<u>Conducting stress tests, sensitivity analyses and scenario analyses</u>

To complete the previously determined overall picture of the Company's business and its capital position in ordinary, i.e., expected circumstances, the Company conducts stress tests and sensitivity analyses as part of its own risk and solvency assessment, thereby considering the impact of certain extraordinary (external and internal) situations to which the Company may be exposed.

In accordance with the results of stress tests and sensitivity analyses, the business strategy as well as the capital position of the Company are re-tested and conclusions relevant to the decision-making and planning of new activities are made. In addition to the Management Board and the Risk Management Department, the Actuarial Department and the Investments Department also play an important role in conducting stress tests.

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When needed, the Company also performs specific ad hoc stress tests and stress tests at the request of the regulator, as well as regular stress tests of individual positions/risks, the impact of which is also considered in the decision-making and planning processes.

The results of the stress tests and scenarios conducted in 2023 suggest a certain decrease in the Company's solvency ratio, but it still remains at levels higher than the regulatory ones, which shows that the **Company is adequately capitalized even in stressful circumstances**.

Ad hoc analyses of possible Management Board decisions

Throughout the year, ad hoc analyses are often carried out at the request of the Management Board, Audit Board, Supervisory Board and/or senior management in order to test the consequences of possible decisions on the Company's business, risk profile and risk bearing capacity. The most important of these analyses are documented in more detail in the ORSA report, with particular emphasis on the final decisions of the Management Board and the impact of the preformed analyses on the final decision.

Documenting the ORSA process and reporting to and informing of relevant parties

All steps and calculations performed previously (ancillary calculations and data used) are adequately documented in the ORSA report. In addition to that, the Own Risk and Solvency Assessment Record is also compiled. The establishment of appropriate processes and procedures as well as the competencies and responsibilities for carrying out own risk and solvency assessment are defined by the relevant Company's internal document.

In addition to the Management Board, the Company's Supervisory Board is also informed about the implementation and the results of the ORSA process and the ORSA report is submitted to HANFA in accordance with relevant regulatory provisions.

B.4 INTERNAL CONTROL SYSTEM

The Company has established an internal control system in all business areas, that includes at least:

- adequate organizational structure;
- control activities integrated into the Company's business processes and activities, which include activities of approval (authorization), verification, compliance, efficiency monitoring, protection of assets and resources, and division of responsibilities;
- accounting and administrative procedures and policies;
- organizational culture and ethics in conducting business activities.

Adequate organizational structure defines the division of functions within the Company, business processes with relevant internal controls, levels of management, control, roles and responsibilities, as well as appropriate competencies of employees at all levels in the Company.

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Those arrangements are intended to ensure operational efficiency, precision, accuracy, and timeliness of data as well as to align the Company's operations with regulatory requirements and internal regulations with the aim of minimizing the risks in all of the Company's business processes. All employees, senior management, the Management Board and the Supervisory Board of the Company participate in the process of establishing and implementing the internal control system in a manner appropriate to their powers and responsibilities.

The internal control system itself is divided into three levels. The first (1st) level of internal control relates to the management and control of performance of day-to-day activities and includes all employees, who are first to come in direct contact with risk (Operations).

The second (2nd) level of internal control includes independent supervision of day-to-day operations, risk underwriting, and control performed by the first level. It consists of:

- **Control functions:**
  - insurance portfolio management
  - product development and underwriting
  - claims management
  - asset/investment management
  - finance and accounting
  - information technologies
  - corporate security
  - legal affairs
  - insurance distribution monitoring and control function

- **Key functions:**
  - risk management function
  - compliance function
  - actuarial function.

The third (3rd) level of internal control relates to the independent control of the first and second level and it is performed by the **key function of internal audit**. More detailed information on key functions is provided separately throughout this Chapter.

The system of internal controls in the financial reporting process ensures that the financial statements of the Company present with reasonable accuracy the financial result and financial position of the Company, as well as their compliance with the International Financial Reporting Standards and applicable laws. Internal accounting control procedures include the control of the formal, substantial, and computational correctness of an accounting document:

- control of the formal correctness of the accounting document determines whether the document has been drawn up in accordance with the applicable regulations;
- substantial control of the accounting document determines whether a business change has actually occurred to the extent indicated;

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- control of computational correctness of an accounting document implies control of mathematical operations (division, multiplication, addition, and subtraction, analytic and synthetic operations) based on which the results presented in the document were obtained.

The control of accounting documents is carried out in accordance with the organizational structure of the Company and internal documents, by the responsible person in accordance with the authorizations defined by the internal documents of the Company.

The control of formal, substantial and computational correctness is confirmed by the physical and/or electronic signature of the responsible person who performed the control and involves the following: applying the four eyes principle, system authorization, authorization and signature approval, control of logical and mathematical (computational) correctness, reconciliation of analytics and synthetics, reconciliation of business relationships and book balances, written opinions of specialized and expert persons on specific issues, etc. In the reporting process, controls additionally encompass the creation and delivery of reporting schedules to all participants in the process.

Internal Control Committee

To maintain an adequate and efficient management system in the Company and regular and good quality cooperation in this area, the Company has established the Internal Control Committee. It is responsible for considering and proposing to the Management Board decisions important for the integrity of the Company's management and internal control system, especially with regard to:

- supporting the Management Board of the Company in the conduct and management of the Company in accordance with the law and management and organizational goals;
- facilitating cooperation with key and control functions in the area of management and internal control tasks;
- providing a structured flow of data on the management system and internal controls and adopting a uniform approach regarding workflow, methodologies, projections, etc throughout the Company;
- supervising the internal control system, making recommendations, and monitoring their implementation and reporting to the Company's Management Board;
- compliance of the management system with the principles of Solvency II.

At the beginning of 2024, the Committee held a session at which it further analysed the Operational Risks and Internal Controls Database with relevant reports, at which occasion a brief conclusion was given on the established situation for 2023.

Compliance function

The compliance function is one of the key functions in the Company and it is an integral part of the management system. It is independent of other key functions, organizational units, and management functions. The subject matter of the compliance function involves overall legal risks arising from non-compliance with substantive legal requirements and requirements of supervisory authorities.

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The central task of the compliance function is to identify and assess the compliance risk for the purpose of contributing to the determination of the Company's required liquidity and solvency, consequently also contributing to the safety of policyholders and insurance beneficiaries, which is the primary objective of insurance regulations.

The compliance function is established and operationally implemented in the Compliance Department, whereas its scope of work and competence are defined by the *Compliance Monitoring Policy*. The objective of the Policy is to ensure that the Company operates in accordance with the laws and regulations, guidelines and codes of conduct and corporate governance of relevant supervisory bodies, standards and internal documents of the Company, namely through effective prevention of exposure to legal and regulatory sanctions and financial and reputational losses.

During 2023, the Compliance Department performed the following:

- undertaking activities necessary to achieve compliance of the Company's operations with the new regulations relevant to the Company's operations, regarding:
    - The Insurance Act,
    - The Anti-Money Laundering and Counter-Terrorist Financing Act;
    - The Consumer Protection Act,
    - The Compulsory Health Insurance Act,
    - The Civil Obligations Act, and
    - The Sanctions Act.
- proposing the adoption of new and revising the Company's existing internal documents;
- conducting training;
- analysing petitions sent to HANFA and HANFA recommendations on petitions;
- analysing general HANFA recommendations,
- monitoring and assessing compliance risk,
- participating in the preparation of the Report on the adequacy of procedures and the effectiveness of the internal control system and preparation of the Report on regular review of the procedure of publishing and communicating information;
- improving and updating the internal controls database;
- keeping a register of conflicts of interest and participating in the work group for conflict- of-interest management;
- participating in and coordinating the procedures of supervisory bodies;
- other regular Compliance Department activities.

The compliance function continuously monitors the appropriateness and compliance of certain business processes and activities adopted and carried out in the Company with the relevant regulations by adopting direct supervision measures, requiring statements on compliance in the work of individual organizational units, reviewing the Company's business documentation and performing other actions as required. All organizational units of the Company actively participate in the implementation of the compliance function.

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The Company's Management Board adopts the annual compliance function plan and evaluates at least annually the effectiveness of compliance risk management. The annual report of the compliance function holder is submitted to the Company's Management Board and the Supervisory Board.

B.5 INTERNAL AUDIT FUNCTION

Internal audit, as one of the key functions in the Company, through a systematic and disciplined approach, assesses and improves the effectiveness of the risk management, control, and corporate governance processes in the Company. Its scope includes all the Company's processes and activities, at all levels of management responsibility. Internal audit examines, evaluates, and reports on the state of controls as a contribution to the proper management of operations, economical and efficient use of resources, and the achievement of the Company's goals in relation to the set business performance standards.

The primary task of internal audit is to provide objective expert opinion and advice on the existence, adequacy, application, and effectiveness of such controls, to achieve business objectives in accordance with established standards and at reasonable costs.

To be able to perform its tasks, internal audit function has unrestricted access to all functions, documentation, data, reports, assets, and employees. It fully and freely communicates with the Management Board, Audit Committee and Supervisory Board of the Company and independently organizes internal audit activities and allocates audit resources.

The internal audit function is established through the Internal Audit Department. It is administratively accountable to the Company's Management Board and functionally to the Supervisory Board, in accordance with the International Standards for the Professional Practice of Internal Auditing and international best practices.

The Director is the person responsible for the work of the Department and the holder of the key internal audit function. The key internal audit function holder meets the requirements prescribed by the Insurance Act and the Ordinance on requirements for performing key functions in insurance undertakings or reinsurance undertakings, as well as the requirements defined by the internal acts of the Company. The Director of the Company's Internal Audit Department, as the holder of key internal audit function, does not perform any tasks other than internal audit tasks in the Company or in closely related companies.

The Internal Audit Charter defines the vision and mission, objectives and scope of internal audit, authority and responsibility, as well as the methodology of internal audit work. In addition, the Charter establishes the independence and position of internal audit within the Company, defines access to documentation, personnel and tangible assets that are material for conducting the audit. The Internal Audit Charter is issued by the Company's Management Board with the consent of the Supervisory Board and upon preliminary review by the Audit Committee, whereas the Director of the Internal Audit Department ensures that it is relevant and up-to-date. The Internal Audit Department works according to the annual and strategic internal audit plan, adopted by the Supervisory Board for the next year/next three years. Before being adopted by the Supervisory Board, the Annual and Strategic Plans are submitted to the Management Board for their opinion and to the Audit Committee for review. Furthermore, the internal audit performs ad hoc reviews at the request of the Management Board, Audit Committee and/or Supervisory Board or HANFA.

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After each conducted audit, an internal audit report is issued, which includes the identified findings and conclusions, as well as specific and applicable recommendations for improvement of processes and controls. The report on each performed audit is submitted to the Management Board of the Company, which takes note of it and approves the implementation of the recommendations made in the report.

Internal audit function reports to the Management Board on the status of conducted audits and other activities on a quarterly, semi-annual and annual basis. It also reports to the Audit Committee and the Supervisory Board on a semi-annual and annual basis.

These reports include a list of all audits performed, an assessment of the appropriateness and effectiveness of the internal control systems, any findings identified during the audits and recommendations for their elimination, as well as the status of recommendations with respect to the activities undertaken by the management.

B.6 Actuarial function

The **actuarial function** within the Company is performed by the Actuarial Department, which is organized directly under the Management Board of the Company. This department is organized through two organizational units dealing with life and non-life insurance. Directors of these units are also holders of the actuarial function for non-life and life insurance.

During 2023, the actuarial function performed the following activities under Solvency II and in accordance with the Insurance Act:

- Related to technical provisions:
  - coordinating the calculation of technical provisions;
  - ensuring that the methodologies, models and assumptions underlying the calculation of technical provisions are appropriate;
  - assessing the sufficiency and quality of the data used in the calculation of technical provisions;
  - comparing best estimates with previous experience;
  - informing the Company's Management Board and the Supervisory Board on the reliability and adequacy of the calculation of technical provisions;
- giving opinions on the overall insurance risk underwriting policy;
- expressing the opinion on adequacy of the reinsurance program;
- participation in the effective implementation of the risk management system.

Actuaries involved in actuarial functions have the requisite knowledge and experience in actuarial affairs.

B.7 Outsourcing

Outsourcing is the contractual transfer of certain tasks, key or important business functions that the Company otherwise performs within the scope of registered activities, to service providers. The Company outsources tasks or functions when there are justified reasons for doing so, such as cost optimization, knowledge transfer, increasing service quality, and similar.

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The Company's outsourcing policy is defined through an internal document which defines the minimum standards for managing outsourced activities or functions and defines the criteria and procedures related to:

- determining the reasons for outsourcing jobs or functions and the process of deciding on the outsourcing of jobs or functions;
- an assessment of the risks associated with outsourcing jobs or functions;
- criteria for selection and analysis of service providers and managing contractual relationships with providers;
- overseeing, controlling, monitoring and reporting on outsourced jobs or functions;
- monitoring and reporting to the Management Board on oversight activities and exposure to risks associated with the outsourcing of jobs or functions;
- the tasks and responsibilities of organizational units or persons responsible for overseeing and managing the outsourcing of jobs or functions;
- the Company's exit strategy in case of early termination of contractual relationship and/or inability to fulfil contractual obligations.

More detailed information on outsourced activities in the Company is provided in *Chapter C6, Other material risks (Outsourcing risk)*.

B.8 Any other information

Since 2004, the company has had an ISO certificate for the development and provision of life insurance services, since 2007 an ISO certificate for the development and provision of property insurance services, since 2017 an ISO certificate for the development and provision of voluntary health insurance services and since 2018 an ISO certificate for the development and provision of motor vehicle insurance services. In April 2023, the regular supervision by the accredited certification company Lloyds Register LRQA was successfully completed, confirming the compliance of the Company's quality management system with the ISO 9001: 2015 standard and the continued validity of the ISO certificate. Once a year, a review of the quality management system (QMS) is conducted by the Management Board to assess the adequacy, suitability and effectiveness of the QMS and product and service compliance and to validate the implementation of business processes in accordance with the requirements of ISO 9001: 2015.

Development activities and training

In 2023, activities were carried out to strengthen sales channels through more efficient distribution of information about additional products and types of coverage that meet clients' needs. Training and mentorship programs focused on raising the level of knowledge and skills of sales representatives, as well as overall service quality and information provision in the Company's branch offices. Activities within the SFE (Sales Force Efficiency) project for increased productivity of the sales network and long-term development of sales representatives continued. The success of these activities is measured every month, and the results are used for making improvements, with the best representatives being rewarded for their good work.

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In cooperation with the global IT company Liferay, the Company is developing and implementing an innovative digital platform for sales representatives (an advanced agents' portal), which project is aimed at improving user experience and increasing the quality of the service provided to the clients. The specialist postgraduate study programme of Products, Digital Innovations and Technologies in Insurance (INSURTECH), developed in cooperation with the Faculty of Electrical Engineering and Computing in Zagreb, continues for the fourth consecutive year. An agreement on collaboration has been signed with the Faculty of Economics for a newly launched innovative educational module called Economic Analytics. This is a four-semester module where students will acquire a combination of knowledge and skills aimed at enhancing their competitiveness in the job market

C. RISK PROFILE

In accordance with Article 94 of the Insurance Act, the Company divides the risks to which it is exposed into 5 main categories:

- **Underwriting (insurance) risk** (non-life underwriting risk, life underwriting risk, and health underwriting risk);
- **Market risk;**
- **Credit risk;**
- **Liquidity risk;**
- **Operational risk (which includes compliance risk and cyber risk);**
- **Other risks.**

Among other material risks, the Company recognizes exposure to **strategic risk, reputational risk, outsourcing risk, and sustainability risk**. The Company also regularly monitors **external risk factors** (risks of the macroeconomic, legislative, political, social, and technological environment), which are mostly qualitative in nature and correlate to or affect other risks.

Viewed in accordance with Solvency II principles, in the total capital requirement (solvency capital requirement) **the Company is by far most exposed to market risks, followed by non-life insurance risk**.

Exposure to market risks arises from the Company's investments in financial assets and other investments with the primary investment objective of preserving and increasing the value of financial investments for the period most consistent with the nature and duration of the Company's liabilities. The investment objective is achieved by maximizing returns at a given level of risk, that is, in accordance with the Company's risk appetite, while considering the **safety, profitability, and marketability** of investments, as well as the appropriate diversification and dispersion of investments. In accordance with the **principle of prudence**, the Company invests only in assets and instruments that carry risks that can be adequately identified, measured, and monitored, appropriately managed and reported, and appropriately taken into account when assessing the Company's overall solvency needs.

Financial assets are invested in accordance with the rules of the industry and the principles of due care which are described below:

Principle of economic security of investment

Investments are considered to be economically secure if they involve maintaining the value of capital, taking into account small variations in the value of invested assets, a reliable and prudent valuation method, trading on regulated markets, asset quality, appropriate credit rating, etc.

Principle of legal certainty of investment

Investments in financial assets are considered legally secure if unrestricted disposal of the assets is enabled, that is, the unlimited possibility of trading the assets and transactions of the assets.

Principle of return on investment

Investing in financial assets is profitable if the goal is to achieve returns in line with market trends.

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Principle of marketable investment

An investment meets the marketability criterion if it can be exchanged for cash or cash equivalents within a reasonable timeframe, if needed. The marketability of the investment depends on the time period of the availability of the assets, i.e., on the possibility of trading on the market.

Principle of diversity and investment dispersion

When selecting assets, the Company is guided by the following criteria: different issuers and borrowers, as well as their different geographical and sectoral business areas, expected return, and the relationship between different types of investments.

Furthermore, regarding investment risk management, the Company has adopted **internal investment limits**, defining the maximum exposure of the Company to certain types of financial instruments and in particular to individual issuers of financial instruments, or categories of issuers, depending on credit rating. This way, the Company's risk appetite for market risks related to individual instruments, for credit risks related to issuers, and for concentration risk have been defined.

To manage the open foreign exchange position more efficiently, the Company uses the following derivatives: currency forward and swap contracts (FX Forward and Swap contracts).

The Company's portfolio is dominated by fixed income instruments and of the total bond investments, 89% relates to investments in government bonds, mainly bonds of the Republic of Croatia, while the remainder comprises corporate bonds. The company also holds assets in its portfolio that are not traded on the regulated financial market; these are valued by valuation methods and maintained at a level that does not have a significant impact on the portfolio.

In light of the foregoing, it is evident that the Company is familiar with the risks arising from investing activities and is able to manage them appropriately.

The structure of the Company's portfolio in the SII balance sheet was as follows:

Structure of the Company's portfolio	2023	2022
Bonds	58.16%	62.71%
Deposits	3.83%	1.44%
Loans	3.89%	4.89%
Equity	9.96%	8.72%
Investment Property	4.86%	5.73%
Holdings in related undertakings, including participations	11.52%	12.20%
Collective Investments Undertakings	7.78%	4.30%
Total	**100.00%**	**100.00%**

The following section offers more detailed information on particular risk categories to which the Company is exposed. As a rule, the Company presents and classifies risks in accordance with the specification (classification) of risks in the standard formula.

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C.1 Underwriting risk

Underwriting (insurance) risk is the risk arising from underwriting of insurance liabilities and represents the risk of loss or adverse change in the value of insurance liabilities due to inappropriate pricing and provisioning assumptions arising from changes in the timing, frequency, and severity of insured events, and changes in the amount of claims and the timing of their maturity, as well as from significant uncertainties in the pricing and provisioning assumptions associated with extreme or exceptional events.

In accordance with the standard formula, underwriting risk includes the following risk modules:

- **non-life** underwriting risk module;
- **life** underwriting risk module;
- **health** underwriting risk module.

The following table shows the capital requirements for the above risk modules.

Table C.1.1 Capital requirement by underwriting risk module *(EUR thousand)*

	Capital requirement	
	2023	**2022**
Non-life underwriting risk module	89,037	82,518
Life underwriting risk module	5,936	7,604
Health underwriting risk module	14,993	13,682

Non-life underwriting risk module

Non-life insurance risk is the risk that arises from non-life insurance obligations and, according to the standard formula, covers at least the following sub-modules:

- non-life premium and reserve risk sub-module
- non-life catastrophe risk sub-module.

Total capital requirement for the non-life underwriting risk module as at December 31, 2023 was **EUR 89,037 thousand**, which is EUR 6,520 thousand more than in 2022. Capital requirement increase was generated mainly by portfolio increase and interest rate decrease, which in turn resulted in increased non-life reserve risk.

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The structure of the non-life underwriting risk module is given in the following table.

Table C.1.2 Capital requirement for non-life underwriting risk by risk sub-module *(EUR thousand)*

Non-life underwriting risk	Capital requirement	
	2023	2022
Non-life premium and reserve risk sub-module	84,986	78,887
Non-life catastrophe risk sub-module	12,760	11,502
Diversification effects	(8,708)	(7,871)
Total non-life underwriting risk	**89,037**	**82,518**

Non-life premium and reserve risk is the risk of loss or adverse change in the value of insurance liabilities arising from changes in the timing, frequency, and severity of insured events, and changes in the amount of claims as well as the timing of their maturity.

Capital requirement for the non-life premium and reserve risk sub-module amounted to **EUR 84,986 thousand**. It was determined in accordance with the standard formula, based on the exposure measures of net earned premiums and net claims provisions for certain types of non-life insurance, using standard parameters.

Non-life catastrophe risk is the risk of loss or adverse change in the value of insurance liabilities arising from the existence of significant uncertainties in the pricing and provisioning assumptions associated with extreme or exceptional events.

Capital requirement for non-life catastrophe risk sub-module in the amount of **EUR 12,760 thousand** was determined in accordance with the standard formula, based on prescribed exposure measures for natural disasters, for human-caused disasters, and for other non-life insurance catastrophe risks.

Life underwriting risk module

Life underwriting risk is the risk that arises from life insurance obligations and covers the following sub-modules according to the standard formula:

- mortality risk sub-module;
- longevity risk sub-module;
- disability-morbidity risk sub-module;
- lapse risk sub-module;
- life-expense risk sub-module;
- revision risk sub-module;
- life catastrophe risk sub-module.

Total capital requirement for the life underwriting risk module as at December 31, 2023 was **EUR 5,936 thousand** and the structure thereof is given in the following table.

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Table C.1.3 Capital requirement for life underwriting risk by risk sub-module *(EUR thousand)*

Life underwriting risk	Capital requirement	
	2023	**2022**
Mortality risk sub-module	543	567
Longevity risk sub-module	2,780	1,891
Disability-morbidity risk	74	72
Lapse risk sub-module	1,194	1,834
Life-expense risk sub-module	2,825	4,898
Revision risk sub-module	1,256	993
Life-catastrophe risk sub-module	597	725
Diversification effects	(3,332)	(3,376)
Total life underwriting risk	**5,936**	**7,604**

Mortality risk is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of mortality rates, whereby an increase in the mortality rate leads to an increase in the value of insurance liabilities.

The Company established the capital requirement for the mortality risk sub-module in accordance with the standard formula in the amount of **EUR 543 thousand**, applying the shock of a permanent increase of 15% to the mortality rates used in the calculation of technical provisions. This increase in mortality rates was applied only to those insurance policies in which an increase in mortality rates caused an increase in technical provisions with no risk margin.

Longevity risk is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of mortality rates, whereby a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

The Company established the capital requirement for the longevity risk sub-module in accordance with the standard formula in the amount of **EUR 2,780 thousand**, applying the shock of a permanent reduction of 20% to the mortality rates used in the calculation of technical provisions. This reduction in mortality rates was applied only to those insurance policies in which a decrease in mortality rates caused an increase in technical provisions with no risk margin.

Disability-morbidity risk is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of disability, illness and sickness rates.

The Company determined the capital requirement for the disability-morbidity risk sub-module in accordance with the standard formula in the amount of **EUR 74 thousand**. The shock of a 35% increase in the rate of disability-morbidity in the next 12 months and the shock of a 25% increase in the rate of disability-morbidity thereafter were applied.

Lapse risk is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of expiration, termination, renewal, and redemption rates of policies.

The Company has determined the capital requirement for the lapse risk sub-module in accordance with the standard formula in the amount of **EUR 1,194 thousand.**

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Life-expense risk is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred in servicing the insurance contract.

The Company established the capital requirement for the life-expense risk sub-module in accordance with the standard formula in the amount of **EUR 2,825 thousand**. The assumption of a permanent increase in costs by 10% compared to those considered in the calculation of technical provisions and the assumption of an increase in the inflation cost rate (expressed as a percentage) by 1 percentage point compared to that considered in the calculation of technical provisions were applied simultaneously. The change compared to the previous calculation is the result of a change and calibration of the model for estimating costs under life insurance contracts, portfolio changes, and changes in the risk-free interest rate curve.

Revision risk is the risk of loss or adverse change in the value of insurance liabilities arising from changes in the level, trend or volatility of the revision rates applied to annuities due to changes in the legal environment or health status of the insured person.

The Company has determined the capital requirement for the revision risk sub-module in accordance with the standard formula in the amount of **EUR 1,256 thousand.** The calculation applied the shock of a permanent increase in the amount of insurance annuity liabilities by 3% in those cases where the benefits paid under the respective insurance policies could be increased due to changes in the legal environment or health status of the insured person.

Life catastrophe risk is the risk of loss or adverse change in the value of life insurance liabilities arising from the existence of significant uncertainties in the pricing and provisioning assumptions associated with extreme or exceptional events.

The Company determined the capital requirement for the life catastrophe risk sub-module in accordance with the standard formula in the amount of **EUR 597 thousand EUR**. An increase of 0.15 percentage points in the percentage of mortality rates used in the calculation of technical provisions was applied to reflect mortality experience over the next 12 months.

This increase in mortality rates was applied only to those insurance policies in which an increase in mortality rates used to reflect mortality experience over the next 12 months caused an increase in technical provisions with no risk margin.

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Health underwriting risk module

Health underwriting risk reflects the risk arising from health insurance obligations, regardless of whether it is provided on a similar technical basis as non-life or life insurance. It covers at least the following risks:

- risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred in servicing the insurance contract;
- risk of loss or adverse change in the value of insurance liabilities arising from changes in the timing, frequency, and severity of insured events, and changes in the timing and amount of claims settlement at the time the provisions are determined;
- risk of loss or adverse change in the value of insurance liabilities resulting from the existence of significant uncertainties in the pricing and provisioning assumptions associated with the outbreak of major epidemics and the unusual accumulation of risk in such extreme circumstances.

According to the standard formula, it covers the following sub-modules:

- NSLT health insurance underwriting risk sub-module (health insurance similar to non-life insurance);
- SLT health insurance underwriting risk sub-module (health insurance similar to life insurance);
- health catastrophe risk sub-module.

Total capital requirement for the health underwriting risk module as at December 31, 2023 amounted to **EUR 14,993 thousand**, which represents an increase of EUR 1,311 thousand compared to 2022. The increase was generated by an increase in capital requirement for the NSLT health insurance underwriting risk sub-module. The structure of the health underwriting risk module is given in the following table.

Table C.1.4 Capital requirement for health underwriting risk by risk sub-module *(EUR thousand)*

Health underwriting risk	Capital requirement	
	2023	2022
NSLT health insurance underwriting risk sub-module	14,841	13,568
SLT health insurance underwriting risk sub-module	0	0
Health catastrophe risk sub-module	570	433
Diversification effects	(417)	(318)
Total Health underwriting risk	**14,993**	**13,682**

The Company has no exposure to health insurance underwriting risk similar to life insurance. Furthermore, the capital requirement for the health insurance underwriting risk similar to non-life insurance according to the standard formula is determined on a similar principle to the capital requirement for non-life underwriting risk module and as at December 31, 2023 it amounted to **EUR 14,841 thousand**.

Capital requirement for the health catastrophe risk sub-module was also determined by the Company in accordance with the standard formula, and it amounted to **EUR 570 thousand**.

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Underwriting risk management

For managing underwriting risk, the Company has prescribed detailed Underwriting Guidelines for each type of insurance that effectively contribute to the reduction of risk in day-to-day direct business. The Guidelines prescribe acquisition limits, methods of risk assessment when making policies, taking into account profitability, concentration of risk and exposure.

Furthermore, the risk of underwriting is reduced through the placement of excess risk in reinsurance. When contracting reinsurance, the Company considers the cost of reinsurance, the reputation of the reinsurer, the indicators of its financial position, the experience gained in the previous cooperation, and the reinsurer's rating determined by a recognized rating agency.

Also, the Company continuously monitors the effectiveness of insurance risk mitigation techniques by monitoring the effectiveness of the reinsurance program in use. Moreover, it also conducts hypothetical analyses, e.g., it examines the impact on the results with the assumption that a different amount of self-retention or a different type of reinsurance has been agreed upon than those currently in use and it does so by significant lines of insurance. By doing so, the Company analyses various indicators such as the required regulatory capital, the likelihood of capital falling below the regulatory minimum, the likelihood of achieving the targeted profit and similar, as well as their movements depending on the types of reinsurance contracts by lines of insurance.

In addition, the Company is exposed to underwriting risk through contracting active reinsurance business and manages this risk in the same way as other insurance risks.

The Company also manages the underwriting risk through the provisions calculation processes, with the controlling role of the actuaries in the respective processes. In addition to the annual report of the Company, the appointed actuary gives an opinion on the adequacy of insurance provisions and premiums, while the actuarial function, through a separate report, confirms the adequacy of own shares in the tables of maximum coverage of the insurance or reinsurance company.

The Company also regularly monitors performance indicators relevant to the risk concerned, such as claims ratio and combined ratio, and conducts run-off analysis of provisions.

In addition, the Company conducts analyses of mortality, lapse, and expense experience at least once a year. Following the entry of Solvency II into force, the Company allocates capital requirements for exposure to underwriting risk, using the standard formula as previously stated.

C. RISK PROFILE

C.2 Market risk

Market risk is the risk of potential losses arising from changes, i.e., fluctuations in exchange rates, interest rates, market prices of assets, liabilities, and financial instruments. In accordance with the standard formula, it includes the following:

- interest rate risk;
- equity risk;
- property risk;
- spread risk;
- currency risk;
- concentration risk.

The Company allocates capital requirements for market risk exposure and applies the standard formula to calculate them. Total capital requirement for market risk as at December 31, 2023 amounted to **EUR 189,075 thousand.** The following shows the capital requirements for market risk sub-modules according to the standard formula.

Table C.2.1 Capital requirement for market risk by risk sub-module *(EUR thousand)*

Market risk	2023	2022
Interest rate risk sub-module	11,417	17,553
Currency risk sub-module	19,908	94,489
Equity risk sub-module	119,117	85,622
Property risk sub-module	24,311	25,485
Spread risk sub-module	18,859	36,144
Market risk concentrations sub-module	100,926	111,084
Diversification effects	(105,463)	(152,465)
Total market risk	**189,075**	**217,911**

Interest rate risk

Interest rate risk is the risk of potential loss that would result from a change in the fair value of assets and liabilities resulting from changes in market interest rates. The Company's assets are exposed to the interest rate risk through the portfolio of investments in debt securities, loans, deposits (including all those assets to which the Company is indirectly exposed through investments in investment funds, as the result of the application of the look-through principle, where possible) and the reinsurance recoverables, while on the liabilities side it is the technical provisions, i.e., their best estimate (BEL), that is subject to it.

Capital requirement for interest rate risk in the amount of **EUR 11,417 thousand** is equal to the decrease in available capital after the valuation of assets and liabilities using the risk-free interest rate curves to which the standard formula shocks were applied. Decrease in the capital requirement for interest rate risk was generated by decreased EIOPA risk-free curves and changes in the assets and liabilities portfolio.

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The Company regularly monitors the interest rate risk exposure, measures and monitors risk indicators such as asset and liability durations, performs sensitivity analyses, and optimizes the maturity of assets with respect to the maturity of the liabilities and other objectives of the Company.

The Company monitors the effectiveness of the interest rate risk mitigation technique by conducting the duration gap analysis and the interest rate sensitivity analysis.

Currency risk

Currency risk is the risk of a potential loss that would result from a change in the fair value of assets and liabilities due to changes in foreign currency rates.

In 2023, the Company was exposed to this risk through investments and other business activities and transactions in foreign currencies, with USD, RSD, MKD, and BAM being the most significant ones. In addition to the premium income and the calculation of related technical provisions and liquidation of claims under insurance contracts with a currency clause, the Company is exposed to currency risk in the part of its investment activities through equity, credit, deposit, and other forms of investment (including all the above assets to which the Company is indirectly exposed through investments in investment funds, as the result of applying the look-through principle, where possible). The Company actively manages the currency risk by monitoring and adjusting its net open currency position and it has used currency forward and swap agreements (FX Forward and FX Swap) to manage its open position in USD more effectively. Throughout 2023, when calculating the capital requirement for currency risk using the standard formula, the Company also took derivatives into account, which led to a reduced capital requirement for currency risk.

As part of the risk management system self-assessment, the Company regularly monitors the effectiveness of the currency risk mitigation technique, i.e., the efficiency of the use of derivatives, among other things, by reviewing the changes in capital requirements for currency risk and the effect on capital adequacy.

The Company has determined the capital requirement for currency risk in the amount of **EUR 19,908 thousand**, calculated as the sum of the largest losses from the assumed shock of increase and decrease of the exchange rate of individual currencies by 25%.

The significant decrease in the capital requirement for currency risk in 2023 occurred primarily due to Croatia's joining the Eurozone in 2023 and the euro becoming its official currency, which resulted in complete elimination of the currency risk arising from EUR in 2023.

Equity risk

Equity risk is the risk of potential loss from changes in the fair value of assets that include investments in equities, units, holdings in related undertakings, including participations, and funds (including all of those assets to which the Company is indirectly exposed through investment in investment funds as the result of applying the look-through principle where possible).

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These assets are classified into two categories: **type 1** - assets listed on regulated markets within the EEA and OECD and **type 2** - other assets. The capital requirement is calculated as follows:

- **for type 1 assets:** 22% of the value of strategic type 1 investments and 39% + SA (the so-called symmetric adjustment) of the value of other type 1 assets;
- **for type 2 assets:** 22% of the value of type 2 strategic investments, 36% + 92% of the SA of value of investments in type 2 infrastructure funds and 49% + SA of the value of other type 2 assets.

As at December 31, 2023, the **symmetric adjustment (SA) was 1.46%**, so the shocks calculated as described above and applied to calculate capital requirements amounted to:

- for non-strategic type 1 investments: **40.46%;**
- for non-strategic type 2 investments: **50.46%**;
- for investments in type 2 infrastructure funds: **37.34%**.

Total capital requirement for this risk as at December 31, 2023 amounted to **EUR 119,117 thousand** and it was obtained by aggregating capital requirements for both types of assets. Increase in the capital requirement resulted primarily from increase in the symmetric adjustment by 4.47 percentage points and increased equities.

Equities on the SII balance sheet amounted to EUR 139,200 thousand, of which 99.8% related to equities listed on regulated markets.

Considering the possibility of trading in these investments, the Company is able to adjust its positions in a relatively short period of time and consequently react in a timely manner to changes in the capital market, in order to realize profits or to prevent further losses.

Holdings in related undertakings, including participations on the SII balance sheet amounted to EUR 161,015 thousand.

With these investments, the Company strives to achieve the long-term strategic goals of sustainable organic growth, regional expansion, and the achievement of targeted returns on investments, with the ultimate goal of ensuring long-term growth of the economic value of the Company.

Property risk

Property risk relates to the risk of potential losses due to fluctuations in the market prices of property owned by the Company. Exposure to the said risk includes property used for business activities and property that is not used for business purposes but held for investment purposes (investment property), as well as investments in equipment and other tangible assets.

Investments in the property portfolio on the SII balance sheet amounted to EUR 97,245 thousand.

Capital requirement for property risk amounted to **EUR 24,311 thousand** and, according to the standard formula, it was calculated as 25% of the total value of property in the portfolio.

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Spread risk

Spread risk is the risk of potential losses arising from the sensitivity of the value of assets exposed to credit risk to changes in interest rates above the level of risk-free interest rates (changes in credit spreads). This risk includes all interest-sensitive assets exposed to credit risk that are not considered risk-free (i.e., that have a credit spread) under the relevant regulations.

This effectively relates to government and corporate bonds in the Company's portfolio, all loans and all deposits with banks (including all the above assets to which the Company is indirectly exposed through investments in investment funds, as the result of applying the look-through principle, where possible).

Capital requirement in the amount of **EUR 18,859 thousand** was calculated by adding together individual capital requirements according to the type of assets, modified duration of each instrument and the credit rating of the issuer, in accordance with the requirements of the standard formula. With Croatia's joining the Eurozone, Croatian government bonds denominated in EUR became risk-free, leading to a reduction in the capital requirement for spread risk.

Investments in government debt securities relate to the bonds issued by the Ministry of Finance of the Republic of Croatia, Croatian Bank for Reconstruction and Development (HBOR) and other government bodies of EU and OECD member states. The fair value (value on the SII balance sheet) of those investments amounted to EUR 720,879 thousand. Calculation of the capital requirement for spread risk includes bonds that are not denominated in the domestic currency of the issuer or are issued by a non-EU issuer.

In order to manage said risk, the Company regularly monitors the macroeconomic and political environment and credit rating of the Republic of Croatia and the issuing countries, as well as credit spread (CDS) and ultimately allocates capital requirements.

Investments in corporate debt securities on the SII balance sheet amounted to EUR 92,143 thousand. They relate to the Company's investments in bonds and commercial papers issued by companies domiciled in the Republic of Croatia and the EU. The Company manages the said risk through a detailed analysis of the issuer's investments and operations, as well as an analysis of the macroeconomic and political environment of the issuing country.

Investments in deposits with banks on the SII balance sheet amounted to EUR 53,515 thousand. Said investments relate to the depositing of funds through commercial deposits with banks domiciled in the Republic of Croatia that have a high capital adequacy ratio and have been given an acceptable internal rating according to the Company's internal methodology.

The Company deposits funds with banks to maintain an adequate structure of liquid assets and to achieve returns on investment. There is an embedded early termination clause in almost all of the Company’s deposit arrangements.

To assess credit risk when investing in deposits and corporate bonds, the Company has developed an internal rating system for assessing credit risk. Each bank or bond issuer has been assigned an internal rating, which rates and describes the credit quality of the issuer.

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In addition to the established internal rating system, the risk management system includes regular monitoring of exposures, monitoring of compliance with limits, taking partial or timely reduction of exposures as necessary, monitoring of banks' operations, monitoring of the macroeconomic environment, allocating capital requirements, and maintaining a relatively short-term structure of the relevant exposure.

Investments in loans on the SII balance sheet amounted to EUR 54,403 thousand. From the assets covering life insurance liabilities, loans are granted based on life insurance policies with assignment that allows transferring rights under an insurance policy in favour of the Company, which also represents a first-class security instrument.

Other loans are granted in accordance with internal regulations. The Company manages this risk through a detailed analysis of the operations of the borrowers and an analysis of the macroeconomic and political environment of the Republic of Croatia.

Concentration risk

Concentration risk is the risk arising from insufficient diversification within the asset portfolio, or in other words, from accumulation of the Company's exposure to counterparties. This risk in the Company includes exposure to investments in bank deposits, equities, loans, property, and debt securities (including the assets to which the Company is indirectly exposed through investment in investment funds, as the result of applying the look-through principle, where possible).

Capital requirement for concentration risk amounted to **EUR 100,926 thousand**. With Croatia's joining the Eurozone, Croatian government bonds denominated in EUR became risk-free, leading to a reduction in the capital requirement for concentration risk compared to the previous period.

Individual exposure to concentration risk is determined based on affiliation with a corporate group (the so-called Single Name Exposure - SNE) and the capital requirement is calculated by aggregating the capital requirements for individual SNEs. Capital requirements for individual SNEs are calculated based on exposure amounts that exceed certain thresholds defined for each asset category based on the size of the total portfolio and the credit rating of the issuer, as required by the standard formula.

Capital requirement for concentration risk essentially arises from the Company's exposure to investments in holdings in related undertakings, including participations, deposits with banks, and bonds of the Republic of Croatia.

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C.3 Credit risk

Credit risk is the risk of potential losses arising from a default of the Company's counterparty.

In its portfolio, the Company is exposed to credit risk arising from the following positions:

- investments in debt securities (government and corporate);
- investments in deposits with banks;
- investments in loans;
- insurance premiums receivables and reinsurance contracts receivables and other receivables;
- reinsurance recoverables;
- bank exposure through business accounts;
- investments in derivatives.

Credit risk arising from investments in government and corporate debt securities, investments in deposits with banks and investments in loans (including all those assets to which the Company is indirectly exposed through investment in investment funds as the result of applying the look-through principle) was included in the market risk module - spread risk sub-module in accordance with the standard formula (see the previous chapter). The other sources of credit risk mentioned above are discussed below and, according to the standard formula, they are included in the counterparty default risk module.

For all assets through which the Company is exposed to credit risk (other than bonds, deposits, and loans included in the market risk module as indicated above), the capital requirement for the counterparty default risk module is determined according to the standard formula used by the Company to calculate capital adequacy. Assets considered within said module are classified into two groups:

- **type 1 exposure** includes exposure to reinsurers through the share of reinsurance in technical provisions, exposure to banks through business accounts (also including indirect exposure through investment funds, as the result of applying the look-through principle) and derivatives used for risk mitigation;
- **type 2 exposure** covers all other types of receivables.

Capital requirement for counterparty default risk as at December 31, 2023 was **EUR 16,219 thousand** and the significant decrease compared to 2022 was influenced by lower balance of cash in the business accounts, seeing as most of the assets in the business accounts were invested in overnight deposits and other forms of assets for generating yields. Capital requirement was calculated by determining the loss given default (LGD) for both types of assets, with the LGD for type 1 exposure being determined for each individual exposure. Probability of default (PD) is additionally determined for type 1 exposure, depending on the counterparty's credit rating.

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Table C.3.1 Capital requirements for counterparty default risk module *(EUR thousand)*

Counterparty default risk	Capital requirement	
	2023	2022
Type 1 exposures	9,834	22,041
Type 2 exposures	7,482	7,256
Diversification effects	(1,097)	(1,398)
Total counterparty default risk	**16,219**	**27,898**

Insurance and intermediaries receivables, reinsurance receivables and other receivables on the SII balance sheet amounted to EUR 49,063 thousand.

In addition to calculating capital requirements, some of the methods used in analysing and evaluating credit risk exposures based on these receivables are the analysis of debt premium collection (by years of collection and years of concluding policies), analysis of the age structure of debt, analysis of impairments of receivables and debtor credit analysis.

Reinsurance recoverables on the SII balance sheet amounted to EUR 45,437 thousand. The management of the said risk is based on monitoring the credit quality of the reinsurer, adequate portfolio diversification and regular monitoring of the reinsurance market state, as well as changes in the financial strength of the reinsurer.

Amount in **business accounts with banks** on the SII balance sheet was EUR 1,662 thousand.

The Company is also exposed to credit risk through **derivatives** that are used for hedging, primarily currency risk hedging. The value of derivatives as at December 31, 2023 was **EUR 395 thousand** (net amount).

The Company has put in place the necessary processes for these investments, with the necessary measures established to control the credit risk of investing in FX contracts. Credit risk arising from FX contracts is of very low significance, due to the relatively low fair values of these contracts and stipulated variation margins, i.e., collateral, precisely with the intention of reducing credit risk.

C.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to cash in on its investments and other assets to meet its financial liabilities on their maturity.

To ensure continued operations and compliance with legal requirements, the Company has a portfolio of liquid assets as part of its liquidity risk management strategy. The Company has a very good liquidity position and has always been able to settle its liabilities as they come due without any problems.

The **liquidity risk management system** consists of:

- regular monitoring of the maturity structure of assets and liabilities;
- defining liquid assets and their regular monitoring and maintenance in sufficient amount;

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- maintaining liquidity reserves;
- regular planning of inflows and outflows;
- appropriate prior announcement procedures for major inflows and outflows;
- defined risk appetite and established limits;
- conducting stress tests and sensitivity analyses;
- established reporting process;
- defined procedures in case of illiquidity and threatening illiquidity.

Particular attention in planning cash inflows and outflows is given to adjusting them in terms of amount and maturity, as well as to the currency structure of cash inflows and outflows when it comes to transactions in foreign currencies.

In accordance with Article 295 (5) of Delegated Regulation (EU) 2015/35, the Company reports that, as at December 31, 2023, the **total amount of expected profits included in future premiums (so-called EPIFP)** calculated in accordance with Article 260 (2), was EUR 15,618 thousand for non-life insurance and EUR 22,173 thousand for life insurance.

C.5 Operational risk

Operational risk is the risk of potential losses due to inadequate or faulty business processes or events caused by employee errors, system errors or the occurrence of adverse external events. In addition to legal risk, it also includes compliance risk and cyber risk.

Operational risk correlates with the size of the Company and the complexity of the organization, processes, projects, number of employees, branching of the sales network and size of the IT system, and it is present at all stages of business processes.

Capital requirement for operational risk under the provisions of the standard formula as at December 31, 2023 was **EUR 13,099 thousand** (2022: EUR 12,324 thousand) and was determined as a function of earned premiums, technical provisions and unit-linked product costs.

As the first aspect of operational risk management, with the aim of timely identification of risks, adoption of measures necessary to achieve business goals and minimizing risks, the Company has established a system of internal controls. As part of the internal control system, the Company has established an Operational Risk Database (OR Database), in which it records information about identified risks, risk escalation and materialization, controls in place, materiality estimate, and further planned risk management measures. The necessary controls, control procedures and administrative and accounting procedures and responsibilities in certain processes and activities are regulated by the internal documents of the Company. More detailed information on the internal control system is provided in *Chapter B4*.

Moreover, the Company has set up a quality management system in accordance with the standard ISO 9001:2015.

C. RISK PROFILE

Another aspect of operational risk management relates to the organization of separate operational risk monitoring areas regulated through activities and regulations by separate entities such as:

- IT risk management;
- information, corporate security and fraud risk management;
- business continuity risk management;
- occupational safety, fire protection, and environmental protection risk management;
- money laundering and terrorist financing risk management;
- GDPR (General Data Protection Regulation) risk management;
- risk management in insurance/reinsurance distribution (Insurance Act/IDD);
- risk management in an area of protection of market competition;
- compliance risk management.

The Company continuously monitors **compliance with regulatory requirements,** drafts new internal documents and makes necessary changes to the existing documents, educates employees and proposes technical and other protection measures to the organizational units to reduce the risk of non-compliance with the relevant acts and subordinate legislation.

Cyber risk is manifested in terms of the Company's exposure to malicious cyber-attacks (hackers) that may cause software changes or IT malfunctions as a result of comprehensive digitization. The risk is monitored within the framework of information security and IT and the information security measures implemented in the Company are continuously monitored and improved.

In 2023, a business impact analysis (BIA) was conducted with regard to critical and other related IT services (BIA) was conducted, along with an assessment of IT risks. Significant enhancements were made to incident management processes for information security, and activities were carried out to check vulnerabilities and conduct penetration testing on important IT services. In addition to regular measures, testing, and controls, the Company also develops and regularly conducts training in the field of information security for all users of the information system.

C.6 Other material risks

Under other material risks, the Company has identified reputational risk, strategic risk, outsourcing risk and sustainability risk. These risks are primarily of a qualitative nature and, as such, are difficult to quantify by means of quantitative methods. Therefore, managing these risks involves continuous monitoring and analysis of appropriate risk indicators and timely undertaking of activities aimed at reducing or preventing potential negative consequences of their materialization. The company also regularly monitors external risk factors (risks of the macroeconomic, legislative, political, social, and technological environment), which are mostly qualitative in nature and correlate to or influence other risks.

C. RISK PROFILE

Reputational risk

Reputational risk is defined as the risk of loss arising from a possible adverse effect on the Company's reputation as the result of a negative public perception. It basically arises in the context of the client's or the general public's assessment of the way in which the Company manages its business or the quality and efficiency of its products and services. Reputational risk is partly an exogenous risk for the Company, since the public perception of the Company may also be affected by third parties and this risk arises mainly due to the materialization of some other risks.

The Company's reputational risk management system consists of:

- adequate and timely strategic decisions of the Company's management at all levels, i.e., their quick and effective reactions to changes in the market, regulations and communication with the public;
- adequate internal regulations and procedures for operation and their continuous improvement in all business segments;
- regular monitoring of reputational risk by monitoring the Company's image and through analysis of customer satisfaction and complaints, which serves to identify risks and make decisions about corrective action aimed at improvement of services;
- effective marketing strategies and allocation of marketing budget;
- continuous promotion of business culture;
- further development and improvement of controlling/key functions in the Company.

Strategic risk

Strategic risk is the risk that results from strategic business decisions and the maladaptation of business decisions to changes in the environment. It includes competition risks, policyholder risks, industry change and demand change risks, as well as the risks of all other relevant changes in the environment. The Company is aware of the qualitative nature of this risk, its correlation with other risks and the impact of external risk factors, i.e., the environment. The Company's strategic risk management system includes a timely and effective response of the Company to environmental changes, which involves:

- regular analysis and monitoring of the environment in which the Company operates, with an emphasis on macroeconomic circumstances and competition activities;
- systematic strategic and financial planning, including monitoring the implementation of plans and taking measures in the event of significant deviations;
- established quality management process;
- development and introduction of new products and distribution channels: investment in the sales network, development of sales channels, employee training, improvement of customer relations, development of new and redesigning of existing products, prompt and high-quality claim settlement in accordance with customer needs;
- business optimization with the aim of rationalization, but also improving of business processes that result in better customer experience and satisfaction (digitalization of operations, administrative and cost rationalization and modernization of all business processes, optimization of investment portfolio);

C. RISK PROFILE

- growth and development of all the companies operating within the Group with the goal of improving their market positions.

In 2023, the most significant impact on strategic risk was the unfavourable geopolitical environment due to the continuation of the war in Ukraine, sanctions imposed on Russia, and conflicts in the Middle East, which further increased global uncertainty. These events correlated with negative macroeconomic and sociological effects (high inflation, greater volatility in financial markets, increased credit risk, disruptions in supply chains, rising prices, and a decline in living standards, reduced consumption) with implications for both the Company's operations and those of its subsidiaries. Moreover, in addition to the mentioned geopolitical upheavals, further development of the insurance market in the Republic of Croatia will be greatly influenced by climate change as well.

Despite the mentioned events, the Company has continued its successful performance trend, continuing with a wave of transformation initiatives and investments.

The possible impact of the environment on business operations is regularly analysed and preventive risk mitigation measures are implemented. Moreover, the ORSA process involves regular stress testing, developing of scenarios and analysing sensitivity to the effects of extraordinary (external and internal) circumstances and events that the Company could be exposed to, including possible activities aimed at their prevention.

Detailed information on the geopolitical and macroeconomic situation as significant factors affecting strategic risk is provided in *Chapter A. Business and performance (A.5 Any other information).*

Outsourcing risk

Outsourcing risk is the risk arising from contracting service providers to perform the Company's services that the Company would otherwise perform itself. This risk was identified in the Company in 2017 based on outsourcing mailroom and office document management to Microsoft Office 365. With a view to increasing work efficiency, the security operations centre (SOC) activities were also outsourced in late 2021. In 2022, activities involved in CRM (Customer Relationship Management) and CTI (Computer Telephony Integration) solutions in a cloud were outsourced, as well as travel health insurance assistance. In 2023, a decision was made to outsource the activities related to the storage, protection, transportation, collection, and handling of archival and documentary material.

The Company has an internal document that defines the elements of management of this risk, risk assessment, selection of service providers, oversight and control of outsourced activities, monitoring and reporting on control and risk exposure, exit strategy in case of early termination of the contractual relationship, as well as the roles and responsibilities of the holders of individual activities in the process of outsourcing.

Persons responsible for monitoring and managing the outsourced services regularly monitor the quality of service, the occurrence of issues related to the outsourced activities, the performance of relevant agreements, and SLA (Service Level Agreement) reports to verify whether the parameters defined in the agreements are met. Based on this, corrective measures are taken with the service provider as needed.

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Sustainability risk

Sustainability risk is the risk of loss resulting from environmental, social or governance-related events or circumstances (ESG factors) which could, if they arise, cause an actual or potential negative impact on the Company (whether financial, reputational or strategic). It covers at least the following areas:

- environmental protection: reduced contribution to climate change, reduced greenhouse gas emissions, sustainable use of resources, energy efficiency, transition to circular economy;
- social responsibility: responsibility to the community, respect for human rights and labour rights, labour standards, healthcare and occupational health and safety, equality in all respects, client/customer satisfaction, data and privacy protection;
- corporate governance: responsibility, corporate ethics and culture, dialogue with interest groups, transparent reporting, anti-corruption measures.

Sustainability risk management in the Company generally involves continuous review of adequate procedures and methods for collecting and analysing data in the areas where it is exposed to risk (insurance activities, investments, operations management, market management, and other), monitoring the integration of ESG goals in the Company, inclusion of relevant areas of sustainability risk into the ORSA process, assessment of materiality of the impact of those risks on the risk profile, defining adequate methods to control or mitigate identified risks (defining sustainable processes, development of products and services, price list adjustment, reinsurance) and internal and external reporting on the foregoing.

In the field of ESG, processes for identifying and assessing the materiality of sustainability risks were improved in 2023. Additionally, the Company published on its website a Statement on the principal adverse impacts of investment decisions on sustainability factors, along with an independent Sustainability Report for the year 2022. This report is typically published as part of the Non-Financial Report of Adris grupa.

One of the most significant components of sustainability risk, which is climate change and environmental risks in general, are increasing year after year, representing a challenge for the Company. The effects that could be triggered by climate change and events caused by it are closely monitored. In this context, the Company identifies transition risks and physical risks.

In terms of transition risks, the Company finds that the most significant ones are the effects that reflect on investments, i.e. on prices of financial instruments of certain companies that the Company invests in. This also includes risks connected with the market segment, in terms of expectations on the market of a sudden shift and orientation to green products, as well as compliance risk, regulatory risk and reputational risks, which could all reflect on the Company's operations.

As appropriate, the Company continuously adapts its internal documents to ensure sustainable operations across all business segments where this is relevant. The Company has recognized the importance of implementing a sustainable financing policy in its investment processes and is committed to integrating sustainable financing into its business strategy, considering its duty to act in the best interests not only of clients but also of the community as a whole.

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With the aim of assessing the materiality of the investment portfolio in the context of the impact of climate transition risks, an analysis was conducted in 2023 based on the distribution of the Company's total investments according to the NACE classification of economic activities. This analysis involved a methodology based on Climate Policy Relevant Sectors (CPRSs), which allows for sector allocation based on the use of the NACE classification of economic activities into nine classes, six of which are exposed to potential transition risks (fossil fuels, infrastructure (electricity production), energy-intensive investments, real estate, transportation, and agriculture), while the remaining three represent sectors that are only indirectly related to transition risk or are less significant (such as the financial sector and state exposure). This classification is based on greenhouse gas emissions, roles in energy supply chains, and the classification of so-called carbon leakage risk.[1]

As at December 31, 2023, the share of the Company's investments in six climate policy relevant sectors (CPRSs) in its total investments was 9.4%, indicating a very low proportion of investments in CPRS sectors and contributing to assessments of low materiality (or immateriality) of the Company's climate change risks from this aspect of investment.

Physical risks connected with climate change are evident through various indicators, one of them being increased frequency and/or intensity of extreme weather, such as floods, droughts, heatwaves or storms, which increase acute risks and the risks of the negative consequences of such events. The Company analyses the effects of climate change and the events it could lead to as part of its ORSA process, trying to incorporate them in its products, while at the same time taking into consideration the observed patterns of storms, hail, flooding and drought periods.

In addition to environmental risks, which represent the most significant component of sustainability risk, the Company also recognizes social and governance-related risks, which can largely materialize through operational risks and reputational risk. These risks relate to equality, social cohesion and integration, employee relations, occupational health and safety, appropriate governance structure, responsibility towards the local community, transparency in business operations, and more. In these areas, too, the Company actively manages the risks and takes steps to create better conditions and opportunities for the stakeholders and exert a positive influence on the social community.

In 2023, an employee volunteering initiative was launched, called *"A Day to Do More"*. In the first part of the year, it focused on voluntary blood donation, while in the second part, it was aimed at reforestation efforts. The Company's employees collected 67 units of blood through voluntary blood donation. Subsequently, through the reforestation campaign they planted 2,000 pedunculate oak and beech saplings and restored 2,000 square meters of forest area.

[1] Battiston 2017, Application guidance on running climate change materiality assessment and using climate change scenarios in ORSA.

C. RISK PROFILE

C.7 Sensitivity analysis and stress tests

As part of the calculation of capital requirements, the Company conducts solvency ratio sensitivity analyses and stress tests to show changes in the Company's solvency ratio in different shock ranges. By doing so, through the risk profile, the Company revises the risks arising from its operations and defines a plan of activities that can be implemented in case of adverse events. In addition, the Company considers the results of analyses in the decision-making and planning processes.

- An interest rate sensitivity analysis was conducted and it analysed the effect of reducing and increasing risk-free interest rates by 100 basis points on interest-sensitive assets and liabilities. Increasing interest rates by 100 bp resulted in a decrease in the SCR ratio by 3.9 percentage points. By analogy, the reduction in interest rates resulted in an inverse effect the SCR ratio (+3.0 p.p.).
- A sensitivity analysis with regard to changes in the symmetric adjustment was performed, at which occasion the Company analysed the effects of using the symmetric adjustment of +10% and -10%. The effect on the solvency ratio was observed through change in the capital requirement for equity risk, which resulted in a change of the SCR by +6.0% and -7.5%, respectively, and a change of the SCR ratio by -17.3 p.p. and +25.1 p.p., respectively.
- The Company conducted a 25% drop test for equity securities quoted in active EU markets. The result of the test was a 4.1% decrease in eligible own funds and a decrease in capital requirements for equity risk and concentration risk, which ultimately resulted in a 1.4% decrease in the total SCR. These reductions led to a negative impact of 8.4 percentage points on the SCR ratio.
- The impact of the change in the value of property on eligible own funds and the SCR was analysed assuming a 10% decrease in property value. The test results showed a reduction of own eligible funds by 1.2% and the reduction of the total SCR by 0.1% through the reduction of property risk and concentration risk, with the impact on the Company's solvent position through a change in the SCR ratio of 4.0 percentage points.
- An analysis of the impact of growth in the credit spread of government debt securities of the Republic of Croatia by 75 bp for all maturities was conducted. This effect caused a drop in the prices of debt securities of the Republic of Croatia, which resulted in a decrease in own eligible funds of 2.7% and a decrease in the SCR ratio of 13.7 percentage points.

The Company was adequately capitalized in each of the conducted stress tests. In 2023, the Company also considered a number of stress tests and scenarios that have been deemed reasonable and necessary to observe. Their results and the assumptions used are documented in detail in the Own Risk and Solvency Assessment Report for 2023 submitted to the regulatory agency (HANFA).

D. VALUATION FOR SOLVENCY PURPOSES

In accordance with Article 105 of the Insurance Act, the Company valued assets at the amount that could be exchanged between well-informed willing parties in an arm's length transaction, whereas the liabilities were valued at the amount that could be transferred or settled between well-informed willing parties in arm's length transaction. The Company did not take into account its own credit position when evaluating its liabilities.

For valuation of assets at fair value, the Company used market prices if the requirement of existence of active markets was met, as defined in the International Accounting Standards, in accordance with Article 10 (4) of the Delegated Regulation.

For valuation of other assets that do not meet the requirement of existence of active markets, the Company used alternative valuation methods in accordance with Article 10 (5) of the Delegated Regulation.

Later in this chapter, a detailed description of the SII valuation for each asset and liability item is provided.

As of January 1, 2023, new international accounting standards IFRS 17 and IFRS 9 are in effect. The implementation of the International Financial Reporting Standard (IFRS) 17 significantly impacted changes in accounting for insurance and reinsurance contracts, leading to the adoption of a retrospective approach and adjustments to comparative figures for the year 2022.

The following is a summary of the balance sheet under the SII rules (SII value) based on the balance sheet in accordance with the International Financial Reporting Standards (IFRS), detailing the differences between the IFRS and SII values only for those items where the SII value differs from IFRS values. For all other items, the IFRS value is consistent with the SII valuation.

D. VALUATION FOR SOLVENCY PURPOSES

Table D.1 IFRS and SII balance sheets - assets

(EUR thousand)

	2023		2022	
Assets	**SII**	**IFRS**	**SII**	**IFRS**
Intangible assets	0	15,767	0	15,418
Deferred tax assets	0	0	0	0
Property, plant & equipment held for own use	65,867	62,647	66,113	64,172
Investments (other than assets held for index-linked and unit-linked contracts)	1,343,933	1,210,718	1,154,237	1,074,295
Property (other than for own use)	67,926	67,926	69,394	69,394
Holdings in related undertakings, including participations	161,015	54,531	147,879	51,512
Equities	139,200	139,200	105,721	105,721
Equities - listed	138,929	138,987	96,751	96,751
Equities - unlisted	271	213	8,970	8,970
Bonds	813,022	829,918	759,873	784,720
Government Bonds	720,879	739,734	690,575	715,334
Corporate Bonds	92,143	90,184	69,297	69,386
Collective Investments Undertakings	108,769	108,769	52,095	52,095
Derivatives	486	486	1,806	1,806
Deposits other than cash equivalents	53,515	9,889	17,469	9,047
Assets held for index-linked and unit-linked contracts	15,037	15,037	25,733	25,733
Loans and mortgages	54,403	56,481	59,308	58,223
Loans on policies	1,753	56,481	32	32
Other loans and mortgages	52,650	0	59,277	58,192
Reinsurance recoverables from:[2]	45,437	48,007	33,328	39,243
Non-life and health similar to non-life	45,437	48,007	33,325	39,235
Non-life excluding health	45,421	48,126	33,331	39,224
Health similar to non-life	17	-120	-5	11
Life	0	0	3	9
Insurance and intermediaries receivables	26,113	4,277	33,477	4,902
Reinsurance receivables	15,401	14,829	5,838	5,359
Receivables (trade, not insurance)	7,549	7,549	8,569	7,203
Cash and cash equivalents	1,662	45,289	106,166	114,589
Any other assets, not elsewhere shown	2,505	2,556	7,626	7,500
Total assets	**1,577,909**	**1,483,157**	**1,500,396**	**1,416,635**

[2] In the IFRS financial statements, under the item "Reinsurance recoverables," total reinsurance contracts are presented, including liabilities and assets from reinsurance contracts.

D. VALUATION FOR SOLVENCY PURPOSES

Tabl D.1 IFRS and SII balance sheets - liabilities

(EUR thousand)

	2023		2022	
Liabilities	**SII**	**IFRS**	**SII**	**IFRS**
Technical provisions – non-life[3]	310.553	372.301	290.104	318.613
Technical provisions – non-life (excluding health)	304.427	360.402	287.258	308.685
Best Estimate	270.918	335.167	256.383	285.019
Risk margin	33.509	25.234	30.875	23.666
Technical provisions - health (similar to non-life)	6.125	11.899	2.846	9.929
Best Estimate	1.643	11.630	(808)	9.623
Risk margin	4.482	269	3.654	306
Technical provisions - life (excluding index-linked and unit-linked)	381.424	342.824	399.915	360.956
Technical provisions – life (excluding health and index-linked and unit-linked)	363.481	324.772	369.729	330.871
Technical provisions calculated as a whole	0	0	0	0
Best Estimate	361.684	322.580	367.596	327.758
Risk margin	1.797	2.191	2.133	3.113
Technical provisions – index-linked and unit-linked	17.943	18.052	30.186	30.085
Technical provisions calculated as a whole	15.037	0	25.733	0
Best Estimate	2.900	18.024	4.435	30.043
Risk margin	6	28	18	43
Provisions other than technical provisions	6.834	6.767	6.463	6.537
Deferred tax liabilities	28.604	8.275	28.522	19.121
Derivatives	91	91	82	82
Financial liabilities other than debts owed to credit institutions	37.058	37.058	48.116	48.327
Insurance & intermediaries payables	10.730	9.955	10.969	8.082
Reinsurance payables	3.642	0	4.062	0
Payables (trade, not insurance)	14.486	14.814	14.435	15.950
Any other liabilities, not elsewhere shown	27.443	26.637	31.279	16.237
Total liabilities	**820.865**	**818.723**	**833.947**	**793.904**
Excess of assets over liabilities	**757.043**	**664.435**	**666.448**	**622.731**

[3] In the IFRS financial statements, under the item "Technical provisions - Non-life," total insurance contracts are presented, including liabilities and assets from insurance contracts.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

For each significant asset category, an indication of the asset value and a description of the bases, methods and principal assumptions used for solvency valuation (SII valuation) are provided separately below.

A quantitative and qualitative explanation of all significant differences between the bases, methods and principal assumptions used by the Company for the purpose of valuation in the financial statements (IFRS valuation) is also provided.

Valuation of investments

Government bonds

The Company values investments in government bonds at fair value for solvency purposes.

For government bonds traded in the Republic of Croatia, fair value is calculated by applying the average trading price weighted by the amount of securities traded on the stock exchange and the reported institutional and OTC transactions. For government bonds traded on regulated markets of other EU member states and OECD member states, the fair value is defined based on the last bid price achieved on that day on the issuer's home stock exchange or the stock exchange defined as the primary source of price for the relevant security, and price is officially listed on the financial information service (Bloomberg).

The most representative fair value is the price of a financial instrument in an active market. Active or inactive market is defined by the minimum number of trading days and minimum trading volume for a particular security in the previous quarter. If it is detemined that there is no active market for a particular financial instrument, valuation methods are used to determine fair value aiming to assess the price at which the financial instrument would have been sold in a regular transaction between market participants at the valuation date, taking into account the risk associated with the underlying asset. These methods include discounting cash flows, determining applicable yield curves, using BVAL bid prices for domestic and foreign bonds listed on markets outside the Republic of Croatia, and other similar procedures.

Investments in government bonds that do not have a quoted market price are valued using the discounted cash flow method by applying yield to maturity of instruments with similar characteristics for which market data are available, or by applying the best estimate of market yield to maturity.

The value of government bonds is mostly determined based on market prices in active markets. The difference in the Solvency II balance sheet results from the valuation of bonds at their fair value, whereas in financial statements, they are valued at amortized cost.

D. VALUATION FOR SOLVENCY PURPOSES

Corporate bonds

The Company values investments in corporate bonds at fair value for solvency purposes.

For corporate bonds traded in the Republic of Croatia, fair value is calculated by applying the average trading price weighted by the amount of securities traded on the stock exchange and the reported institutional and OTC transactions.

For corporate bonds traded on regulated markets of the EU member states and OECD member states, fair value is defined based on the last bid price made on that day on the issuer's home stock exchange or the stock exchange defined as the primary source of price for the relevant security, and price is officially listed on the financial information service (Bloomberg). Identifying an active or inactive market is the same as for government bonds.

Investments in corporate bonds that do not have a quoted market price are measured using the discounted cash flow method by applying yield to maturity of instruments with similar characteristics for which market data are available, or by applying the best estimate of market yield to maturity.

The difference in the value of corporate bonds in the Solvency II balance sheet results from the valuation of bonds at their fair value, whereas in financial statements, they are valued at amortized cost.

Collective Investments Undertakings

The Company values investments in Collective Investments Undertakings (investment funds) at fair value for the purposes of solvency calculation. The fair value of investment fund units is calculated by applying the unit price (net asset value) for a particular investment fund published by the investment fund management company or posted on a financial information service.

The value of investment funds in the financial statements of the Company is equivalent to the value on the SII balance sheet, since investment funds are stated at fair value in the financial statements of the Company.

Equities

For the purposes of solvency calculation, the Company measures investments in equities at fair value.

For equities listed in the active market in the Republic of Croatia, fair value is calculated by applying the average trading price weighted by the amount of securities traded on the stock exchange, including reported block transactions. For equities listed on regulated active markets of EU member states and OECD member states, fair value is defined based on the average price made on that day on the issuer's home stock exchange or the stock exchange defined as the primary source of price for the relevant security, which the price is officially listed on the financial information service.

The process of distinguishing between active and inactive markets is the same as with bonds except that the defined minimum number of trading days is higher than for bonds (a stricter criterion).

For non-traded and/or unlisted equities and equities with no active market, fair value is determined by alternative valuation methods. The following alternative valuation methods are used to determine the fair value of a financial asset:

- discounted free cash flow method;

D. VALUATION FOR SOLVENCY PURPOSES

- discounted cash flow method;
- comparable company method;
- dividend discount method;
- residual value method;
- other applicable methods in practice.

The Company applies one of the above methods that has been estimated to be the most representative, i.e., by which the value of the equities in question can be most accurately determined.

The value of equities in the financial statements of the Company is equivalent to the value shown in the SII balance sheet, since equities are stated at fair value in the financial statements of the Company. The stated value of equities is mostly determined on the basis of market prices in active markets.

Deposits other than cash equivalents

The difference in the value of deposits in the financial statements of the Company compared to their SII value was the result of adjustment of the IFRS balance sheet to the SII balance sheet, considering that deposits with maturity of up to three months are treated in the IFRS balance sheet as cash and cash equivalents, whereas in the SII balance sheet they are still treated as deposits.

Loans and mortgages

In the financial statements, the Company presents investments in loans and mortgages at the carrying amount determined at amortized cost using the effective interest method and impairment for expected credit losses.

For the purpose of solvency calculation, the Company discloses investments in loans at fair value, which is determined by adjusting the effective interest rates used for determining the carrying value to market interest rates.

The difference in the value of loans in the financial statements of the Company compared to the SII balance sheet relates to a different valuation methodology.

Derivatives

For the purposes of solvency calculation, the Company measures derivatives at fair value, whereby derivatives with a positive value are reported on the assets side, while those with a negative value are reported on the liabilities side.

The value of derivatives in the financial statements of the Company is equivalent to the value shown on the SII balance sheet, since derivatives are stated at fair value in the financial statements as well.

Holdings in related undertakings, including participations

For the purposes of solvency calculation, the Company discloses investments in holdings in related undertakings, including participations using the adjusted equity method, differences in assets and liabilities, whereby all items of assets and liabilities are measured at fair value, in accordance with Article 13 (1) (b) of the Delegated Regulation.

D. VALUATION FOR SOLVENCY PURPOSES

The value of investments in related undertakings in the financial statements of the Company was determined in the amount of the acquisition cost subsequently adjusted for any impairment loss (in cases where it is determined that the value of the investment is not recoverable, an impairment test is carried out for the purpose of measuring the investment value at the estimated recoverable amount).

The difference was the result of application of different valuation methodologies for investments in related undertakings.

Property (other than for own use)

Property (other than for own use), i.e., investment property of the Company, is measured at fair value in the financial statements at the end of each reporting period based on the valuation made by the appointed valuation expert. As the fair value of property investment is stated in the financial statements of the Company derived using the comparative or income method, which is consistent with the fair value measurement under Solvency II, the same value is disclosed in the SII balance sheet as well.

Valuation of other assets

Assets held for index-linked and unit-linked contracts

In the Company's financial statements, these investments are measured at fair value and therefore the amounts reported on the SII balance sheet are the same.

Property, plant and equipment for own use

In the financial statements of the Company, land and buildings are measured at a revalued amount that represents their fair value as at the revaluation date, subsequently adjusted for depreciation, while the equipment and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses.

The value of property for own use shown in the SII balance sheet is based on estimations of the fair value of properties, while to determine the revalued amount of properties for own use in the financial statements, the Company examined whether there were indications of impairment and it recognized impairment of those properties for own use with respect to which there was a significant difference of its net book value in relation to the previously determined value.

Under this item in the financial statements, the Company recognizes right of use assets based on the application of IFRS 16. As the value of right of use assets in the financial statements is calculated based on the present value of future lease payments (for more details see the accounting policies in the Company's financial statements), the same value is shown in the SII balance sheet.

In the Company's financial statements, equipment and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. To better reflect the fair value of the SII balance sheet, the Company measures equipment and other tangible assets at fair value by applying a haircut.

D. VALUATION FOR SOLVENCY PURPOSES

This adjustment is determined based on the Company's best estimate, considering that the residual value of those assets reflects their fair value, i.e., the value for which those assets could be exchanged with another willing party. In the financial statements, inventories are recognized under other assets, while on the SII balance sheet, they are recognised as part of property, plant and equipment for own use, which resulted in an adjustment of the IFRS item to the SII item.

Intangible assets

In the valuation of intangible assets, a conservative approach was used, i.e., the assumption that they cannot be regarded as a separate entity and there was no evidence of a transaction of the same or similar property indicating that the property could be sold on the market. As a result, it was not possible to determine the fair value of intangible assets and therefore they were stated at a value of EUR zero (0), in accordance with Article 12 of Delegated Regulation. In the Company's financial statements, these assets are valued at cost less accumulated depreciation and accumulated impairment losses.

Reinsurance recoverables

A description of the differences in the valuation of reinsurance recoverables in accordance with Solvency II in relation to the valuation presented in the financial statements of the Company is given later in the section that addresses the valuation of technical provisions.

Insurance and intermediaries receivables

The receivables from insurance and intermediaries of the Company in the financial statements are disclosed as other receivables, net, and include other receivables from insurance activities not included in the valuation of insurance liabilities, stated at amortized cost reduced by impairment. For the purpose of preparing the SII balance sheet, the amount of premium receivables includes the amount of receivables based on premiums as at the valuation date that was not taken into account in the calculation of the best estimate of premium reserves and is an integral part of insurance liabilities or assets in the financial statements.

Reinsurance receivables

Reinsurance receivables include receivables from reinsurers based on their share of claims settlements, reinsurance commission receivables and co-insurance premium receivables. Reinsurance receivables are disclosed in the Company's financial statements under other receivables, net. For the purpose of preparing the SII balance sheet, the amount of reinsurance commission receivables includes the amount of receivables based on commission as at the valuation date that was not taken into account in the calculation of the best estimate of premium reserves and is an integral part of insurance or reinsurance liabilities or assets in the financial statements.

D. VALUATION FOR SOLVENCY PURPOSES

Receivables (trade, not insurance)

Receivables (trade, not insurance) in the Company's SII statements include receivables for investment income and other receivables. Receivables for investment income are disclosed under receivables for investment yields, while other receivables are disclosed under other receivables, net, in the financial statements.

Cash and cash equivalents

For the purpose of solvency calculation, the Company presents the balance of cash and cash equivalents at fair value, which is equivalent to the carrying value in the financial statements.

The difference between the value of cash and cash equivalents for solvency calculation purposes and the value in the financial statements pertains to deposits with maturity of up to three months, which are disclosed under this item in the financial statements.

Deferred tax assets

Value of deferred tax assets in the Company's financial statements is stated net of deferred tax liabilities. Deferred tax assets are largely recognized on the basis of losses from reduction to fair value of investment property and impairment of financial assets at amortized cost.

Deferred tax assets are recognized to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that a sufficient taxable profit will be available to recover all or part of the tax assets. Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on tax laws in force or in the process of adoption by the end of the reporting period. The calculation of deferred tax assets reflects the total amount expected to be recovered in the future as at the reporting date.

Any other assets, not elsewhere shown

The value of any other assets, not elsewhere shown on the SII balance sheet relates to prepaid expenses, current tax assets and checks received. In the financial statements, these items are disclosed under prepaid expenses, current tax assets, and other assets. The difference compared to the SII balance sheet relates to inventories, that are stated i in the financial statements under this item, whereas in the SII balance sheet, they are presented under the category of property, plant, and equipment for own use.

D. VALUATION FOR SOLVENCY PURPOSES

D.2 TECHNICAL PROVISIONS

Valuation of non-life technical provisions

The following is a comparison of non-life technical provisions and reinsurance recoverables valued according to the Solvency II valuation rules with respect to the values presented in the financial statements (IFRS).

Table D.2.1 Comparison between SII and IFRS gross technical provisions – non-life *(EUR thousand)*

Gross technical provisions – non-life	2023		2022	
	SII	IFRS	SII	IFRS
Technical provisions – non-life[4]	355,883	372,301	326,867	318,613
Technical provisions – non-life (excluding health)	347,342	360,402	321,203	308,685
▪ Best Estimate	313,438	335,167	290,002	285,019
▪ Risk margin	33,904	25,234	31,201	23,666
Technical provisions - health (similar to non-life)	8,540	11,899	5,664	9,929
▪ Best Estimate	4,725	11,630	2,642	9,623
▪ Risk margin	3,815	269	3,023	306
Other technical provisions – non-life	0	0	0	0
Total gross technical provisions – non-life	**355,883**	**372,301**	**326,867**	**318,613**

Table D.2.2 Comparison between SII and IFRS reinsurance recoverables – non-life *(EUR thousand))*

	2023		2022	
	SII	IFRS	SII	IFRS
Total reinsurance recoverables - non-life	**45,437**	**48,007**	**33,325**	**39,235**

Below is a summary of the value of the liabilities, for each significant liability category, including the amount of the best estimate and risk margin and a description of the bases, methods, and principal assumptions used for the solvency valuation (SII valuation).

A quantitative and qualitative explanation of all significant differences between the bases, methods, and principal assumptions used by the Company for the purpose of valuation in the financial statements (IFRS valuation) is also provided.

[4] To ensure comparability of values, the total gross non-life technical provisions under Solvency II exclude the supplementary accident insurance portfolio but include the portfolio of compulsory motor third-party liability insurance for vehicle owners or users. Additionally, within the risk margin as one of the values reported in the financial statements (IFRS), a risk adjustment is made for non-financial risk (RA). Furthermore, the value under IFRS for 2022 includes gross technical provisions according to IFRS 17 to ensure comparability of 2022 and 2023 data.

D. VALUATION FOR SOLVENCY PURPOSES

Segmentation

Non-life technical provisions are determined by homogeneous risk groups and, at a minimum, by types of insurance or lines of business. The best estimate of technical provisions was determined on a gross basis without deduction for reinsurance or retrocession and the best estimate for the reinsurance recoverables and retrocession for active reinsurance business was determined separately. The Company has no special purpose vehicles (SPVs).

Best estimate

The best estimate of non-life technical provisions is estimated separately for the premium provision and separately for the claims provision. It is determined by estimating the present value of expected cash flows. The valuation of technical provisions is based on the principle of best estimate (for gross and reinsurance share) by currencies in which liabilities are estimated to be significant.

Claims provisions

The Company uses actuarial software to support the calculation of best estimates. Best estimates are calculated four times a year, at the end of each quarter. The Company uses actuarial methods based on claims development triangles.

The minimum amount of data used for calculation of the best estimate is the amount of claims settled, direct claims costs, recourse paid less recourse costs, the amount of provision for claims reported and one of the exposure measures that well describes the riskiness of a homogeneous portfolio (earned premium or relevant number of risks).

For reinsurance business, the basis for determining the gross provision for claims reported is information obtained from the cedents, in accordance with the type of reinsurance contract. The basis for determining the gross provision for incurred but not reported claims for active reinsurance business is estimated depending on the characteristics of each reinsurance contract and the type of insurance, based on statistical data and on the basis of reported claims data. The gross claims provision also includes a provision for indirect claims handling costs, which is estimated based on historical claims costs data, using the simplification provided in the Guidelines on the valuation of technical provisions.

Premium provision

Reinsurance gross premium provision is formed in such a way that the present value of future cash flows is estimated based on the contracts in force on the date of calculation but for events that have not yet occurred.

Furthermore, since the expected cash flow pertaining to future collection of receivables as well as commission payables are included in the calculation of the premium provision, they are adequately considered under receivables in assets or under liabilities.

Reinsurance recoverables

The reinsurance recoverables in the balance sheet are recognized as an asset of the Company. The methods and procedures for determining the reinsurance recoverables take into account the terms of the reinsurance contract.

D. VALUATION FOR SOLVENCY PURPOSES

The adjustment for the expected losses due to default of a reinsurer was included in calculation of the reinsurance recoverables.

Discounting of technical provisions

Cash flows for technical provisions are discounted using the risk-free interest rate curve for the relevant currency. The Company does not use the volatility adjustment.

Risk margin

To evaluate the risk margin, the Company uses Method 2 - the Proportional Approach Method in accordance with the Guidelines on the valuation of technical provisions (EIOPA-BoS-14/166). The Company has determined the appropriateness of using Method 2 in accordance with the elements of the Guidelines, taking into account run-off data of best estimate, exposure to underwriting risks, counterparty default risk and operational risk. The following table presents the results of valuation of non-life technical provisions in accordance with Solvency II terms for material types of insurance.

Table D.2.3 Valuation of SII technical provisions by material line of non-life business *(EUR thousand)*

Material line of business	2023			2022		
	Best estimate	Risk margin	Gross technical provision	Best estimate	Risk margin	Gross technical provision
Motor vehicle liability insurance	119,552	9,448	129,000	116,501	8,435	124,936
Other motor insurance	35,676	5,309	40,985	29,239	3,549	32,788
Marine, aviation and transport insurance	8,324	2,297	10,621	11,707	1,713	13,420
Fire and other damage to property insurance	65,062	7,437	72,499	52,441	8,051	60,492
General liability insurance	48,984	4,947	53,931	45,733	4,607	50,340
Other lines of non-life business	(5,038)	8,554	3,516	(47)	8,174	8,128
Total - non-life	**272,561**	**37,992**	**310,553**	**255,575**	**34,529**	**290,104**

MateriaL changes in the calculation of technical provisions compared to the previous reporting period

In 2023, there were no significant changes in the calculation methodology compared to the previous reporting period.

Total gross technical provisions increased by EUR 20,449 thousand compared to 2022, while the best estimate increased by EUR 16,986 thousand. The most significant changes in this reporting period stem from the increase in the best estimate in the fire and other damage to property insurance line due to storm and hail damage, as well as the decrease in interest rates, resulting in an increase in the best estimate in the motor vehicle liability insurance line, which we also refer to as long-tail business.

D. VALUATION FOR SOLVENCY PURPOSES

Uncertainty associated with the value of technical provisions

Technical provisions contain some uncertainties due to the following facts: the most significant deviations are caused by possible changes in the behaviour of the policyholder/insured, in the process of claim settlement, in the quality of available data, in the legal environment, in the economic environment, and especially in interest rate curves.

Various sensitivity analyses have been carried out regarding the best estimate of non-life technical provisions and they suggested that changes in different assumptions do not significantly affect the best estimate of non-life. For example, the effects of changes in interest rates used for discounting in the calculation of the best estimate have been analysed.

Increase in interest rates by 100 bps would result in a 3.85% decrease in the best estimate, while a 100 bps decrease in interest rates would result in a 4.50% increase in the best estimate.

Differences in valuation of non-life technical provisions under accounting regulations (IFRS) and SII regulations

Segmentation

Segmentation by accounting regulations against the SII principles is balanced to the reported but not settled annuity claims, which are valued under SII according to the principles of life insurance, whereas the supplementary accident insurance (supplementing life insurance) is valued according to the principles of non-life insurance.

Discounting

Technical provisions for each significantly represented currency are discounted at risk-free interest rates as required by the Solvency II regulations. The technical provisions, valued according to the new accounting regulations, are discounted using the risk-free curve determined in accordance with the methodology based on the provisions of IFRS 17 standard. Discounting reduces the best estimate gross of reinsurance by EUR 34,662 thousand, and the share of reinsurance or and retrocession in the best estimate decreases by EUR 3,867 thousand.

Claims provisions

When making valuations for the requirements of financial statements, the Company assesses estimates the liability for claims incurred. The liability for claims incurred is determined for those claims that have arisen but have not yet been settled. It consists of the best estimate of cash flows of claims, which are associated with performing the obligations arising from insurance contracts, and risk adjustment (RA).

With the implementation of the new accounting standard IFRS 17, the differences in the amounts of estimated best estimate of cash flows of claims under Solvency II compared to IFRS 17 have been reduced. Differences in the amounts of the best estimate of claims are primarily due to the application of a different time structure of interest rates.

D. VALUATION FOR SOLVENCY PURPOSES

Premium provision

Under Solvency II principles, the premium reserve is valued based on the principle of cash inflows and outflows, while in valuation for financial statements, the liability for remaining coverage is determined in accordance with IFRS 17, using the Premium Allocation Approach (PAA) or the General Measurement Model (GMM), as described in the Company's financial statements.

Comparison

The table below compares the Solvency II gross technical provisions with respect to the valuation reported in the financial statements (IFRS) by material lines of business. Amounts under IFRS for 2022 represent amounts valued in accordance with IFRS 17.

Table D.2.4 Comparison between SII and IFRS gross technical provision by material line of non-life business *(EUR thousand)*

Material line of non-life business	2023		2022	
	SII	IFRS	SII	IFRS
Motor vehicle liability insurance	171,915	180,879	158,881	161,047
Other motor insurance	40,985	44,504	32,788	34,503
Marine, aviation and transport insurance	10,621	12,194	13,420	15,226
Fire and other damage to property insurance	72,499	68,401	60,492	50,085
General liability insurance	53,931	49,581	50,340	49,217
Other lines of non-life business	5,931	16,742	10,946	8,535
Total - non-life	**355,883**	**372,301**	**326,867**	**318,613**

D. VALUATION FOR SOLVENCY PURPOSES

Valuation of life technical provisions

The tables below provide a comparison of the Solvency II total gross technical provisions with respect to the values presented in the financial statements (IFRS).

Table D.2.5 Comparison between SII and IFRS gross technical provisions – life

(EUR thousand)

Gross tehnical provision - life	2023		2022	
	SII	IFRS	SII	IFRS
Technical provisions – life (excluding index-linked and unit- linked)[5]	318,151	324,772	332,966	330,871
▪ Technical provisions calculated as a whole	0	0	0	0
▪ Best Estimate	316,081	322,580	330,527	327,758
▪ Risk margin	2,070	2,191	2,439	3,113
Technical provisions – index-linked and unit-linked	17,943	18,052	30,186	30,085
▪ Technical provisions calculated as a whole	15,037	0	25,733	0
▪ Best Estimate	2,900	18,024	4,435	30,043
▪ Risk margin	6	28	18	43
Total gross technical provisions – life	**336,094**	**342,824**	**363,152**	**360,956**

Reinsurance receivables in the life insurance segment are not significant.

The most common products in the life insurance technical provisions of the Company are traditional life insurance products.

Best estimate

Best estimate of technical provisions for life insurance is calculated as the present value of future gross expenses less the present value of gross future income for each policy in force at the relevant date. Cash flow is calculated gross of reinsurance. The best estimate of provisions is calculated separately by type of insurance:

- endowment assurance;
- pure endowment assurance;
- term assurance;
- critical illness assurance;
- endowment assurance with units of investment funds;
- annuities (including annuities stemming from motor vehicle liability insurance).

[5] To ensure comparability of values, the total gross life technical provisions under Solvency II exclude the portfolio of compulsory motor third-party liability insurance for vehicle owners or users but include the supplementary accident insurance portfolio. Additionally, under the item Risk margin as one of the values reported in the financial statements (IFRS), an allowance for risk is recognized.

D. VALUATION FOR SOLVENCY PURPOSES

The best estimate of technical provisions has been calculated as the present value of the future expected cash flow for all subsequent years for the portfolio active as at December 31, 2023.

Assumptions used for projections of future cash flows

Mortality

The mortality assumption was calculated by applying the actual mortality experience in the Company's life insurance portfolio to the official and up-to-date population mortality data.

Lapses

The lapse assumption was based on the actual lapse experience in the Company's life insurance portfolio, taking into account the time component. Lapse assumptions vary depending on the type of insurance, age / volume of the portfolio, and the sales channel.

Expenses

Expense assumptions used include acquisition and administrative expenses. The assumptions are based on the analysis of available data for the expenses incurred, which is carried out at least once a year on different types of data and levels of complexity.

Inflation

Inflation is included in projected budgeted costs and is not separately modelled.

Exchange rate

The mid exchange rate of the Croatian National Bank as at December 31, 2023, USD 1 = EUR 0.904977, was applied.

Interest rates

The interest rate curves for EUR without adjusting for volatility were used for discounting, in accordance with item 74 (b) of the EIOPA's document titled *Technical documentation of the methodology to derive EIOPA's risk-free interest rate term structures (EIOPA_BoS_15/035)*. The Company does not use the volatility adjustment.

Future distribution of profit

The assumption of future profit distribution is not included in the calculation of technical provisions.

Material changes in the calculation of technical provisions compared to the previous reporting period

Changes in technical provisions compared to the previous period are mostly the result of changes in the portfolio and a different term structure of interest rates.

D. VALUATION FOR SOLVENCY PURPOSES

Risk margin

To calculate the risk margin, the Company uses Method 2, that is, the Proportional Approach method, as an adequate method considering the size of the Company and its exposure to risks, to absorb the uncertainties of future events.

The following table shows the results of valuation of technical provisions according to SII principles by the most common types of life insurance.

Table D.2.6 Valuation of SII technical provisions by material line of life business *(EUR thousand)*

Material line of life business	2023			2022		
	Best estimate	Risk margin	Gross technical provision	Best estimate	Risk margin	Gross technical provision
Insurance with profit participation	319,402	1,386	320,787	334,105	1,792	335,897
Annuities stemming from non-life contracts	42,520	395	42,915	33,619	326	33,945
Other lines of life business[6]	17,699	23	17,722	30,039	34	30,073
Total - life	**379,621**	**1,803**	**381,424**	**397,763**	**2,152**	**399,915**

Differences in valuation of technical provisions for life insurance under accounting regulations (IFRS) and SII regulations

With the implementation of the new accounting standard IFRS 17, the differences in the amounts of technical provisions under Solvency II compared to IFRS have been reduced. The remaining differences observed, particularly in the portfolio of life insurance with profit participation, are primarily due to the application of a different time structure of interest rates and expense assumptions.

Table D.2.7 Comparison between SII and IFRS gross technical provision by material line of life business *(EUR thousand)*

Material line of life business	2023			
	SII	IFRS	SII	IFRS
Insurance with profit participation[7]	318,372	324,737	333,078	330,761

[6] Other lines of insurance include index-linked and unit-linked insurance. For that type of insurance, part of the technical provisions in the amount of EUR 15,037 thousand as at December 31, 2023 and EUR 25,733 thousand as at December 31, 2022 was calculated as a whole and is shown in this table in the column relating to the best estimate.

[7] For comparability purposes, the amounts of life insurance technical provisions under Solvency II also include the supplementary accident insurance portfolio, as it is valued together with the basic life insurance according to IFRS standards.

D. VALUATION FOR SOLVENCY PURPOSES

Uncertainty associated with the value of technical provisions

Uncertainty in technical provisions arises from the uncertainty of the deviation of actual future experience from the assumptions used for the calculation of technical provisions that relate to economic and non-economic assumptions which could not have been known at the time of calculation. A change in the behaviour of the policyholder or a change in the legal or economic environment may lead to deviations in the most important assumptions, such as interest rates, lapse rates, and mortality rates.

Therefore, various sensitivity analyses with regard to the best estimate of life insurance technical provisions have been conducted and they suggest that changes in different assumptions have the following impact.

The effects of changes in interest rates used to discount the best estimate have been analysed. Increase in interest rates by 100 bps would result in a 5.59% decrease in the best estimate, while a 100 bps decrease in interest rates would result in a 6.51% increase in the best estimate.

The effects of reducing and increasing the lapse rate by 10% have been analysed. With these shocks, the best estimate of technical provisions would change insignificantly, by less than 0.00%

In addition, a sensitivity analysis assuming an increase in the mortality rate by 15% and a decrease in the mortality rate by 20% has been conducted as well. An increase in the mortality rate causes a decrease of the best estimate by 0.32%, while a decrease in the mortality rate causes an increase of the best estimate by 0.55%.

D.3 Other liabilities

The value of other liabilities disclosed in the financial statements (IFRS) and in accordance with the provisions of Solvency II, as well as the differences in the valuation amounts are described below.

Provisions other than technical provisions

Provisions other than technical provisions in the SII balance sheet include provisions for regular jubilee awards, severance pay, and incentive severance payments under the employee redundancy plan, as well as provisions for non-insurance litigation, provisions for expected expenses, housing, and other non-insurance liabilities provisions. In the Company's financial statements, these items are included under provisions and payables (trade, not insurance) and other liabilities.

Additional difference in the amount recognized in the financial statements of the Company and on the SII balance sheet results from different valuations of provisions for regular jubilee awards and severance pay as well as provisions for litigation. Provisions for employee benefits for years of service and retirement (regular jubilee benefits and severance pay) in the Company's financial statements have been determined as the present value of future cash outflows using a discount rate aligned with IFRS requirements, while for the SII balance sheet, EIOPA's risk-free interest rate curve for EUR was used for discounting. In the financial statements of the Company, reserves for litigation are valued on the basis of probability of winning or losing in the dispute and the estimated value of the matter in dispute. For the purposes of the SII balance sheet, provisions for litigation are determined by discounting cash flow using the risk-free interest rate curve for EUR.

D. VALUATION FOR SOLVENCY PURPOSES

Deferred tax liability

Deferred tax liability in the financial statements of the Company is netted against deferred tax assets and is recognized based on the revaluation of land and buildings for business operations, financial assets measured through other comprehensive income, and insurance and reinsurance contracts. Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on tax laws in force or in the process of adoption by the end of the reporting period. The calculation of deferred tax liability reflects the amount that is expected to arise as at the reporting date as a liability or return in the future.

The difference in the amount of deferred tax liability on the SII balance sheet and in the financial statements arises from the difference between the amount of assets and liabilities recognized in the financial statements and on the SII balance sheet. On the SII balance sheet, the amount of deferred tax liability is obtained by determining, on the basis of the IFRS amount of deferred tax liability and differences in the valuation of individual items on the SII balance sheet compared to the IFRS balance sheet, any potential increase in the deferred tax liability or assets for each item and by carrying out appropriate netting.

The biggest difference between the amount of deferred taxes in the financial statements and the SII balance sheet comes from the valuation of technical provisions. Due to the difference in valuation of non-life technical provisions in accordance with accounting regulations (IFRS) and SII regulations, significant deferred tax liability was recognized on the SII balance sheet.

Derivatives

For the purposes of solvency calculation, the Company measures derivatives at fair value, whereby derivatives with a positive value are reported on the assets side while those with a negative value are reported on the liabilities side.

Derivatives are disclosed at the same value in the financial statements of the Company and on the SII balance sheet, as derivatives in the financial statements of the Company are also stated at fair value.

Financial liabilities

Financial liabilities in the financial statements are composed of financial liabilities based on preference shares, lease liabilities, and other financial liabilities, and the same value is disclosed on the SII balance sheet.

Insurance & intermediaries payables

The difference between the amount of insurance payables recognized in the Company's financial statements and the amount on the SII balance sheet was due to different valuation of liabilities for the Guarantee Fund of the Croatian Insurance Bureau, particularly in the part of the Guarantee Fund claims provisions. The Guarantee Fund claims provisions in the financial statements of the Company are recognized in accordance with the calculation, estimation, and schedule of the Croatian Insurance Bureau, while for the purposes of the SII balance sheet the provision is discounted using the risk-free interest rate curve for EUR.

D. VALUATION FOR SOLVENCY PURPOSES

Reinsurance payables

Reinsurance payables in the SII balance sheet relate to payables for reinsurance premiums. For the purpose of preparing the SII balance sheet, the amount of reinsurance premium payables includes the amount of premium payables as at the valuation date that was not taken into account in the calculation of the best estimate of premium reserves and is an integral part of reinsurance liabilities or assets in the financial statements.

Payables (trade, not insurance)

The value of payables (trade, not insurance) in the financial statements of the Company and on the SII balance sheet is determined in the same way. In the Company's financial statements, the amount of these payables is presented under the item Trade payables and other liabilities.

Any other liabilities, not elsewhere shown

This item of the SII balance sheet also includes accrued expenses, deferred income, and current tax liability, which are recognised in the same amounts in the financial statements as well. In addition to the above, negative Solvency II values of investments in subsidiaries are also disclosed under this item.

D.4 Alternative methods for valuation

The Company uses **alternative valuation methods** in accordance with Article 10 (5) of the Delegated Regulation for the following assets:

- investments in bonds with no quoted market price and no active market;
- investments in non-traded and/or unlisted equities and equities with no active market;
- investments in investment funds with no publicly available price and no active markets;
- property (investment property and property for business activities);
- equipment and other tangible assets;

as set out in Chapter D.1.

For those assets, the criterion set out in Article 10 (4) of the Delegated Regulation on the existence of market prices in active markets is not fulfilled, which justifies the use of alternative valuation methods.

In the process of valuing assets using alternative methods, the Company documents the assumptions underlying the valuation approach and performs a sensitivity analysis of the valuation against the assumptions used.

The Company also regularly compares the results of valuation by alternative methods with previous experience and updates the valuation of those assets.

D. VALUATION FOR SOLVENCY PURPOSES

D.5 Any other information

The Company **does not apply the matching adjustment** regarding the relevant risk-free interest rate term structure referred to in Art. 111 of the Insurance Act nor the **volatility adjustment** to the relevant risk-free interest rate term structure referred to in Article 113 of the Insurance Act and Article 77b of Directive 2009/138/EC.

Also, the Company **does not apply transitional measures regarding the relevant risk-free interest rate term structure or transitional measures on technical provisions** referred to in Articles 455 and 456 of the Insurance Act and Articles 308c and 308d of Directive 2009/138/EC.

The Company **has no special purpose vehicles.**

E. CAPITAL MANAGEMENT

E.1 Own funds

The Company **operated at high capital adequacy ratios**. The **SCR ratio of the Company as at December 31, 2023 amounted to 308%**, while the **MCR ratio as at the same date was 1,065%**.

The Company's main objectives regarding capital management are the following:

- ensuring the continuity of the Company's operations;
- compliance with the laws and regulations of the Republic of Croatia and the EU, as well as the regulations and instructions of the regulators on capital management;
- maintaining a high level of capitalization to ensure financial stability, thus providing an adequate level of security to policyholders and insurance beneficiaries;
- achieving efficient and optimal allocation of capital as well as maximizing return on equity;
- ensuring continuous alignment of the Company's business strategy with the risk-taking appetite and the target levels of capital adequacy;
- ensuring a high level of capitalization, i.e., sufficient capital surplus for further investments in the development and growth of the Company and the Group.

The excess of assets over liabilities as at December 31, 2023 was **EUR 757,043 thousand**. This excess of assets, reduced by foreseeable dividends, provides eligible own funds according to Solvency II in the amount of **EUR 692,043 thousand.** Own funds are classified into three (3) categories (tier 1, tier 2 and tier 3) and a test of availability and eligibility of own funds is carried out to determine eligible own funds to meet solvency capital requirement and to meet the minimum capital requirement.

All own funds items have the characteristics of a tier 1 capital. Share capital paid based on ordinary shares, including related premiums on ordinary shares, is permanent and not subject to distribution to owners until a potential liquidation of the Company and any losses may be covered from share capital funds. This fulfils the criterion of continued availability and subordination. The reconciliation reserve contains capital reserves and accumulated profit from the financial statements, as well as the differences in the valuation of assets and liabilities for solvency purposes in comparison with the IFRS, which are permanent and available to cover potential losses of the Company and are also classified in high quality own funds, i.e., as tier 1.

The structure of eligible own funds to meet the SCRs and eligible own funds to meet the MCR is shown below. In this context, it is emphasized that all the Company's own funds eligible for SCR coverage are also eligible for MCR coverage.

The excess of assets over liabilities (equity) in the Company's financial statements as at December 31, 2023 was EUR 664,435 thousand. Differences in the amount of excess of assets over liabilities calculated under Solvency II arise from the different principles of valuation of certain items included in IFRS balance sheet and balance sheet according to the principles of Solvency II, as shown in Chapter D, *Valuation for solvency purposes*.

According to the Solvency II principles for valuation of deferred taxes, as stated in *Chapter D,* the **calculated deferred tax assets**, without estimating their probable use, amount to **EUR 15,774 thousand** and are recognized in full.

E. CAPITAL MANAGEMENT

The probability of using the deferred tax assets in full arises from the fact that, at the same time, the amount of deferred tax liabilities under Solvency II principles was estimated in the amount of EUR 44,377 thousand so the total amount of deferred tax assets is likely to be used in regard to the refund of deferred tax liabilities related to the income tax. Also, due to the higher determined amount of deferred tax liabilities than the determined amount of deferred tax assets, there are no net deferred tax assets in the balance sheet according to the Solvency II principles.

For the sake of completeness, the full reconciliation of the excess of assets over liabilities in the financial statements of the Company and its own funds in accordance with SII principles is presented below.

Table E.1.1 Reconciliation of excess of assets over liabilities under SII principles *(EUR thousand)*

Structure of own funds	2023	2022
Ordinary share capital (gross of own shares)	78,296	78,217
Share premium account related to ordinary share capital	90,448	90,448
Preference shares	0	0
Total of reserves and retained earnings from financial statements	495,690	454,066
IFRS equity	**664,435**	**622,731**
Difference in the valuation of assets	94,751	83,761
Difference in the valuation of technical provisions	23,148	-10,450
Difference in the valuation of other liabilities	(25,290)	(29,594)
Excess of assets over liabilities	**757,043**	**666,448**
Forseeable dividends	65,000	0
Solvency II eligible own funds	**692,043**	**666,448**
Of which tier 1	692,043	666,448
Of which tier 2	0	0
Of which tier 3	0	0

The Company points out that there are **no ancillary own funds** and **no deductions** from own funds.

Furthermore, the Company does not have any basic own funds subject to the **transitional measures** referred to in Article 454 (9) and (10) of the Insurance Act and Article 308b (9) and (10) of Directive 2009/138/EC. Finally, the Company points out that there are **no restrictions** that could affect the availability and transferability of own funds within the Company.

E. CAPITAL MANAGEMENT

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

As at December 31, 2023, the solvency capital requirement (**SCR) of the Company amounted to EUR 224,886 thousand**.

The Company had a high capital adequacy ratio (SCR ratio) amounting to 308% as at December 31, 2023, which is calculated as the ratio of eligible own funds to meet the SCR and the solvency capital requirement (SCR). The **19-p.p.** increase in the capital adequacy ratio compared to 2022 was the result of increased eligible own funds (+4%) and a slight SCR decrease (-2%). This growth of eligible own funds is the result of the Company's and the Group's performance, primarily its comprehensive income (after-tax profit) of EUR 58,451 thousand realized in 2023, while the SCR decrease resulted from Croatia's joining the Eurozone.

As at December 31, 2023, the minimum capital requirement **(MCR) of the Company amounted to EUR 64,952 thousand**. The **MCR ratio** is calculated as the ratio of eligible own funds to meet the MCR and the minimum capital requirement (MCR). As at December 31, 2023, the Company had a very high MCR ratio of **1,065%**.

Solvency capital requirement (SCR)

The company uses **the standard formula to calculate the SCR**. The basic results of the calculation of capital requirements by risk modules are given in Table E.2.1., where it is evident that the SCR structure is dominated by market risk, while the risk of non-life insurance is also very significant.

Table E.2.1 Capital requirements by risk modules *(EUR thousand)*

Capital requirement by risk module	2023	2022
SCR	**224,886**	**230,620**
Adjustment for deferred taxes	(28,604)	(50,624)
Operational risk	13,099	12,324
BSCR	**240,391**	**268,920**
Market risk	189,075	217,911
Counterparty default risk	16,219	27,898
Life Underwriting risks	5,936	7,604
Health underwriting risk	14,993	13,682
Non-Life underwriting risk	89,037	82,518
Diversification effects	(74,870)	(80,692)
Eligible own funds to meet the SCR	**692,043**	**666,448**
SCR ratio	**308%**	**289%**

Solvency capital requirement has been adjusted by **EUR 28,604 thousand**, taking into account the **loss-absorbing capacity of deferred taxes**. This amount is usable through the reduction of net deferred tax liability from the balance sheet according to Solvency II principles.

E. CAPITAL MANAGEMENT

The Company provided the Agency (HANFA) with the required reporting forms (annual quantitative reporting templates for individual undertakings (solo reporting) - ARS) within the statutory deadlines.

The Company **does not use simplified calculations** neither for standard formula risk modules nor risk sub-modules.

Furthermore, the Company **does not use company-specific parameters** in accordance with Article 135 (7) of the Insurance Act and Article 104 (7) of Directive 2009/138/EC.

Minimum capital requirement (MCR)

The Company calculates the minimum capital requirement pursuant to Articles 248 – 253 of Delegated Regulation (EU) 2015/35. The following information is used in the calculation:

- non-life and life insurance and reinsurance technical provisions without risk margin;
- premiums written for insurance liabilities by segments during the last 12 months;
- capital at risk (CAR) for life insurance;
- risk factors for non-life and health insurance liabilities;
- calculated amount of SCR;
- the minimum regulatory capital of a non-life and life insurance company, determined by the Insurance Act for each of the two segments mentioned, in the amount of EUR 4,000 thousand.

The following table shows the basic elements and intermediate results of the calculation of the minimum capital requirement, which is the sum of the non-life insurance MCR and the life insurance MCR.

Table E.2.2 MCR calculation *(EUR thousand)*

	2023		2022	
MCR component	**Non-life activity**	**Life activity**	**Non-life activity**	**Life activity**
Linear MCR	52,754	12,198	48,440	12,850
SCR	182,653	42,232	182,051	48,295
MCR cap	82,194	19,005	81,923	21,733
MCR floor	45,663	10,558	45,513	12,074
Combined MCR	52,754	12,198	48,440	12,850
Absolute floor of the MCR	4,000	4,000	3,993	3,993
MCR	52,754	12,198	48,440	12,850
Total MCR	**64,952**		**61,291**	
Eligible own funds to meet the MCR	**692,043**		**665,653**	
MCR ratio	**1065%**		**1086%**	

E. CAPITAL MANAGEMENT

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

The Company **does not use** the duration-based equity risk sub-module calculation method in calculating its solvency capital requirement, so this chapter is not applicable.

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

The Company **does not use an internal model** for the calculation of solvency capital requirement (it uses the standard formula), so this chapter is not applicable.

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

The Company is **fully compliant** with the minimum capital requirement and solvency capital requirement, so this chapter is not applicable.

E.6 Any other information

The Company has **no other material information** to report relating to capital management.

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

An integral part of this document are also the quantitative reporting templates (QRTs), which are prescribed for public release.

The following table shows a list of templates applicable for the Company.

Table 1 List of templates applicable for the Company

No.	Template	Name of the template
1	S.02.01.02	Balance sheet
2	S.05.01.02	Premiums, claims and expenses by line of business
3	S.12.01.02	Life and Health SLT Technical Provisions
4	S.17.01.02	Non-life Technical Provisions
5	S.19.01.21	Non-life insurance claims
6	S.23.01.01	Own funds
7	S.25.01.21	Solvency Capital Requirement — for undertakings on Standard Formula
8	S.28.02.01	Minimum Capital Requirement — Both life and non-life insurance activity

The templates are shown below, noting that all monetary values are expressed in thousands of EUR (in EUR 000). The templates S.04.05.21, S.22.01.21, S.25.05.21, and S.28.01.01 are not applicable to the Company and are therefore omitted.

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.02.01.02 Balance sheet - Assets

Assets		Solvency II value
		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	**65,867**
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	**1,343,933**
Property (other than for own use)	R0080	67,926
Holdings in related undertakings, including participations	R0090	161,015
Equities	R0100	139,200
Equities - listed	R0110	138,929
Equities - unlisted	R0120	271
Bonds	R0130	813,022
Government Bonds	R0140	720,879
Corporate Bonds	R0150	92,143
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	108,769
Derivatives	R0190	486
Deposits other than cash equivalents	R0200	53,515
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	**15,037**
Loans and mortgages	R0230	**54,403**
Loans on policies	R0240	1,753
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	52,650
Reinsurance recoverables from:	R0270	**45,437**
Non-life and health similar to non-life	R0280	45,437
Non-life excluding health	R0290	45,421
Health similar to non-life	R0300	17
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	**0**
Insurance and intermediaries receivables	R0360	**26,113**
Reinsurance receivables	R0370	**15,401**
Receivables (trade, not insurance)	R0380	**7,549**
Own shares (held directly)	R0390	**0**
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	**0**
Cash and cash equivalents	R0410	**1,662**
Any other assets, not elsewhere shown	R0420	**2,505**
Total assets	R0500	**1,577,909**

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.02.01.02 Balance sheet - Liabilities

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	**310,553**
Technical provisions – non-life (excluding health)	R0520	304,427
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	270,918
Risk margin	R0550	33,509
Technical provisions - health (similar to non-life)	R0560	6,125
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	1,643
Risk margin	R0590	4,482
Technical provisions - life (excluding index-linked and unit-linked)	R0600	**363,481**
Technical provisions - health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	363,481
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	361,684
Risk margin	R0680	1,797
Technical provisions – index-linked and unit-linked	R0690	**17,943**
Technical provisions calculated as a whole	R0700	15,037
Best Estimate	R0710	6
Risk margin	R0720	0
Contingent liabilities	R0740	**0**
Provisions other than technical provisions	R0750	**6,834**
Pension benefit obligations	R0760	**0**
Deposits from reinsurers	R0770	**0**
Deferred tax liabilities	R0780	**28,604**
Derivatives	R0790	**91**
Debts owed to credit institutions	R0800	**0**
Financial liabilities other than debts owed to credit institutions	R0810	**37,058**
Insurance & intermediaries payables	R0820	**10,730**
Reinsurance payables	R0830	**3,642**
Payables (trade, not insurance)	R0840	**14,486**
Subordinated liabilities	R0850	**0**
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	**27,443**
Total liabilities	R0900	**820,865**
Excess of assets over liabilities	R1000	**757,043**

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.05.01.02 Premiums, claims and expenses by line of business – Non-life insurance

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		Medical expense insurance	Income protection insurance	Workers compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross - Direct Business	R0110	63,959	16,473	0	92,694	78,960	17,812	106,814	20,544	2,383
Gross - Proportional reinsurance accepted	R0120	0	0	0	(0)	0	297	4,540	1	37
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	552	60	0	591	0	4,737	41,690	2,688	332
Net	R0200	63,407	16,414	0	92,103	78,960	13,372	69,664	17,858	2,088
Premiums earned										
Gross - Direct Business	R0210	60,190	16,897	0	85,092	71,748	18,243	104,287	19,618	5,880
Gross - Proportional reinsurance accepted	R0220	0	(42)	0	0	0	254	3,220	1	21
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	579	66	0	554	0	3,796	36,877	2,661	391
Net	R0300	59,611	16,790	0	84,538	71,748	14,701	70,630	16,958	5,510
Claims incurred										
Gross - Direct Business	R0310	36,692	3,123	(2)	41,763	46,296	(1,612)	85,425	7,769	(4,881)
Gross - Proportional reinsurance accepted	R0320	0	(18)	0	0	0	88	3,073	(56)	0
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	19	24	0	1,500	129	(696)	38,484	(348)	80
Net	R0400	36,673	3,082	(2)	40,263	46,167	(828)	50,014	8,060	(4,960)
Expenses incurred	R0550	21,465	5,963	1	34,052	23,091	3,742	44,062	8,481	1,680
Balance - other technical expenses/income	R1200									
Total expenses	R1300									

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.05.01.02 Premiums, claims and expenses by line of business – Non-life insurance

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of Business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross - Direct Business	R0110	4	3,701	3,597	-	-	-	-	406,942
Gross - Proportional reinsurance accepted	R0120	0	0	331	-	-	-	-	5,206
Gross - Non-proportional reinsurance accepted	R0130	-	-	-	0	978	29	992	1,999
Reinsurers' share	R0140	0	0	1,483	0	639	0	1,765	54,536
Net	R0200	4	3,701	2,445	0	339	29	(773)	359,611
Premiums earned									
Gross - Direct Business	R0210	5	3,751	3,518	-	-	-	-	389,229
Gross - Proportional reinsurance accepted	R0220	0	0	334	-	-	-	-	3,789
Gross - Non-proportional reinsurance accepted	R0230	-	-	-	0	1,099	29	1,091	2,218
Reinsurers' share	R0240	0	0	1,435	0	788	0	1,109	48,255
Net	R0300	5	3,751	2,418	0	311	29	(19)	346,980
Claims incurred									
Gross - Direct Business	R0310	0	1,936	404	-	-	-	-	216,913
Gross - Proportional reinsurance accepted	R0320	0	0	453	-	-	-	-	3,540
Gross - Non-proportional reinsurance accepted	R0330	-	-	-	0	558	(21)	2,284	2,820
Reinsurers' share	R0340	0	0	(103)	0	95	0	1,698	40,882
Net	R0400	0	1,936	959	0	463	(21)	587	182,391
Expenses incurred	R0550	11	1,221	2,470	0	0	0	(9)	146,231
Balance - other technical expenses/income	R1200								9,283
Total expenses	R1300								155,514

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.05.01.02 Premiums, claims and expenses by line of business – Life insurance

		Line of Business for: life insurance obligations						Life reinsurance 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	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	0	30,715	1	329	0	0	0	0	31,045
Reinsurers' share	R1420	0	0	0	0	0	0	0	0	0
Net	R1500	0	30,715	1	329	0	0	0	0	31,045
Premiums earned										0
Gross	R1510	0	30,715	1	329	0	0	0	0	31,045
Reinsurers' share	R1520	0	0	0	0	0	0	0	0	0
Net	R1600	0	30,715	1	329	0	0	0	0	31,045
Claims incurred										0
Gross	R1610	0	2,016	(14)	64	0	3,862	0	0	5,928
Reinsurers' share	R1620	0	0	0	0	0	0	0	0	0
Net	R1700	0	2,016	(14)	64	0	3,862	0	0	5,928
Expenses incurred	R1900	0	734	2	1	0	0	0	0	738
Other expenses	R2500									187
Total expenses	R2600									925
Total amount of surrenders	R2700	0	8,172	275	0	0	0	0	0	8,447

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.12.01.02 Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees				
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010	0	15,037			0			0	0	15,037
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	0	0			0			0	0	0
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030	319,402		2,900	0		(238)	0	42,520	0	364,584
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	0		0	0		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	319,402		2,900	0		(238)	0	42,520	0	364,584
Risk Margin	R0100	1,386	6			17			395	0	1,803
Technical provisions - total	R0200	320,787	17,943			(221)			42,915		381.424

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.12.01.02 Life and Health SLT Technical Provisions

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C016	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0210	0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0220	0			0	0	0
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	R0030		0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090		0	0	0	0	0
Risk Margin	R0100				0	0	0
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110				0	0	0
Best estimate	R0120		0	0	0	0	0
Risk margin	R0130	0			0	0	0
Best Estimate	R0200	0			0	0	0

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.17.01.02 Non-life Technical Provisions

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	R0060	(2,310)	(2,814)	0	28,781	22,003	148	4,486	818	5,866
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	17	0	0	0	0	(359)	53	(18)	167
Net Best Estimate of Premium Provisions	R0150	(2,327)	(2,814)	0	28,781	22,003	508	4,432	836	5,699
Claims provisions										
Gross	R0160	2,693	4,002	73	90,770	13,674	8,176	60,577	48,166	(21,484)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	0	5,307	0	573	32,738	4,687	40
Net Best Estimate of Claims Provisions	R0250	2,693	4,002	73	85,463	13,674	7,603	27,839	43,479	(21,524)
Total Best estimate - gross	R0260	383	1,187	73	119,552	35,676	8,324	65,062	48,984	(15,618)
Total Best estimate - net	R0270	366	1,187	73	114,244	35,676	8,110	32,271	44,316	(15,825)
Risk margin	R0280	2,900	1,577	6	9,448	5,309	2,297	7,437	4,947	1,891
Technical provisions - total										
Technical provisions - total	R0320	3,283	2,765	78	129,000	40,985	10,621	72,499	53,931	(13,727)
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	17	0	0	5,307	0	214	32,791	4,669	206
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	3,266	2,764	78	123,693	40,985	10,407	39,708	49,263	(13,934)

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.17.01.02 Non-life Technical Provisions

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	'Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligations
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	R0060	0	266	584	0	0	0	(18)	57,808
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	0	0	0	0	0	0	(142)
Net Best Estimate of Premium Provisions	R0150	0	266	584	0	0	0	(18)	57,950
Claims provisions									
Gross	R0160	114	183	1,182	0	3,849	70	2,709	214,753
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	240	0	545	0	1,448	45,579
Net Best Estimate of Claims Provisions	R0250	114	183	942	0	3,304	70	1,261	169,174
Total Best estimate - gross	R0260	114	449	1,766	0	3,849	70	2,690	272,561
Total Best estimate - net	R0270	114	449	1,525	0	3,304	70	1,243	227,123
Risk margin	R0280	10	291	763	0	612	491	14	37,992
Technical provisions - total									
Technical provisions - total	R0320	124	740	2,529	0	4,460	561	2,705	310,553
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	240	0	545	0	1,448	45,437
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	124	740	2,288	0	3,915	561	1,257	265,115

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.19.01.21 Non-life insurance claims

Accident year / Underwriting year	Z0020	Accident year

Gross Claims Paid (non-cumulative)
(absolute amount)

		Development year											In current year	Sum of years (cumulative)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											1,136	1,136	0
N-9	R0160	101,717	41,203	8,959	1,112	202	(72)	182	(190)	171	(416)		(416)	152,868
N-8	R0170	100,623	36,198	3,447	707	469	754	375	1,949	(177)			(177)	144,345
N-7	R0180	107,732	33,354	3,945	1,463	727	440	1,047	(86)				(86)	148,621
N-6	R0190	102,380	36,893	3,726	2,369	996	1,420	538					538	148,321
N-5	R0200	100,042	35,683	5,280	2,540	1,466	1,175						1,175	146,185
N-4	R0210	110,870	35,074	7,273	4,242	1,877							1,877	159,335
N-3	R0220	109,262	49,840	7,622	6,799								6,799	173,522
N-2	R0230	112,643	28,967	4,717									4,717	146,327
N-1	R0240	125,387	39,191										39,191	164,578
N	R0250	163,363											163,363	163,363
Total	R0260												218,117	1,547,466

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.19.01.21 Non-life insurance claims

Gross undiscounted best estimate Claims Provisions
(absolute amount)

		Development year										
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											35,935
N-9	R0160	0	0	12,824	10,356	8,010	5,815	4,406	4,132	4,298	3,349	
N-8	R0170	0	22,007	16,663	14,588	13,112	9,599	8,285	5,204	4,005		
N-7	R0180	61,459	21,933	14,736	12,323	10,550	9,215	8,412	7,240			
N-6	R0190	65,887	23,004	16,040	13,721	10,470	10,374	8,219				
N-5	R0200	66,101	23,408	17,710	13,081	12,032	9,999					
N-4	R0210	65,978	32,218	22,421	17,555	13,920						
N-3	R0220	94,411	30,167	28,557	22,677							
N-2	R0230	59,397	25,621	17,995								
N-1	R0240	68,012	31,780									
N	R0250	91,667										

		Year end (discounted data)
		C0360
	R0100	27,341
	R0160	2,399
	R0170	3,114
	R0180	5,902
	R0190	6,446
	R0200	8,040
	R0210	11,754
	R0220	20,189
	R0230	15,283
	R0240	28,291
	R0250	85,995
Total	R0260	214,753

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.23.01.01 Own funds

-		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	78,296	78,296	-	0	-
Share premium account related to ordinary share capital	R0030	90,448	90,448	-	0	-
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0	-	0	-
Subordinated mutual member accounts	R0050	0	-	0	0	0
Surplus funds	R0070	0		-	-	-
Preference shares	R0090	0	-	0	0	0
Share premium account related to preference shares	R0110	0	-	0	0	0
Reconciliation reserve	R0130	523,299	523,299	-	-	-
Subordinated liabilities	R0140	0	-	0	0	0
An amount equal to the value of net deferred tax assets	R0160	0	-	-	-	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0	-	-	-	-
Deductions		-	-	-	-	-
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	-
Total basic own funds after deductions	R0290	**692,043**	**692,043**	**0**	**0**	**0**
Ancillary own funds		-	-	-	-	-
Unpaid and uncalled ordinary share capital callable on demand	R0300	0	-	-	0	-
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0	-	-	0	-
Unpaid and uncalled preference shares callable on demand	R0320	0	-	-	0	
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0	-	-	0	
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0	-	-	0	-
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0	-	-	0	
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0	-	-	0	-
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0	-	-	0	0
Other ancillary own funds	R0390	0	-	-	0	0
Total ancillary own funds	R0400	0	-	-	0	0
Available and eligible own funds		-	-	-	-	-
Total available own funds to meet the SCR	R0500	692,043	692,043	0	0	0
Total available own funds to meet the MCR	R0510	692,043	692,043	0	0	-
Total eligible own funds to meet the SCR	R0540	692,043	692,043	0	0	0
Total eligible own funds to meet the MCR	R0550	692,043	692,043	0	0	-
SCR	R0580	**224,886**	-	-	-	-
MCR	R0600	**64,952**	-	-	-	-
Ratio of Eligible own funds to SCR	R0620	**308%**	-	-	-	-
Ratio of Eligible own funds to MCR	R0640	**1065%**	-	-	-	-

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.23.01.01 Own funds

Reconciliation reserve		C0060
Excess of assets over liabilities	R0700	757,043
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	65,000
Other basic own fund items	R0730	168,744
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	**523,299**
Expected profits		0
Expected profits included in future premiums (EPIFP) - Life business	R0770	22,173
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	15,618
Total Expected profits included in future premiums (EPIFP)	R0790	37,792

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.25.01.21 Solvency Capital Requirement — for undertakings on Standard Formula

-		Gross solvency capital requirement	Undertaking specific parameters have	Simplifications
		C0110	C0090	C0120
Market risk	R0010	189,075	-	
Counterparty default risk	R0020	16,219	-	-
Life underwriting risk	R0030	5,936	0	0
Health underwriting risk	R0040	14,993	0	0
Non-life underwriting risk	R0050	89,037	0	0
Diversification	R0060	(74,870)	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	**240,391**	-	-

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	13,099
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(28,604)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	**224,886**
Capital add-on already set	R0210	0
of which, capital add-ons already set - Article 37 (1) Type a	R0211	
of which, capital add-ons already set - Article 37 (1) Type b	R0212	
of which, capital add-ons already set - Article 37 (1) Type c	R0213	
of which, capital add-ons already set - Article 37 (1) Type d	R0214	
Solvency capital requirement	R0220	**224,886**
Other information on SCR		-
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

		Yes/No
		C0109
Approach based on average tax rate	R0590	Yes

		LAC DT
		C0130
LAC DT	R0640	(28,604)
LAC DT justified by reversion of deferred tax liabilities	R0650	(28,604)
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	(28,604)

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.28.02.01 Minimum Capital Requirement — Both life and non-life insurance activity

		Non-life activities	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	51,862	80

		Non-life activities		Life activities	
		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
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	366	63,407	0	0
Income protection insurance and proportional reinsurance	R0030	4,270	15,471	0	943
Workers' compensation insurance and proportional reinsurance	R0040	73	0	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	114,244	92,103	0	0
Other motor insurance and proportional reinsurance	R0060	35,676	78,960	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	8,110	13,372	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	32,271	69,664	0	0
General liability insurance and proportional reinsurance	R0090	44,316	17,858	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	2,088	0	0
Legal expenses insurance and proportional reinsurance	R0110	114	4	0	0
Assistance and proportional reinsurance	R0120	449	3,701	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	1,525	2,445	0	0
Non-proportional health reinsurance	R0140	0	0	0	0
Non-proportional casualty reinsurance	R0150	3,304	339	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	70	29	0	0
Non-proportional property reinsurance	R0170	1,243	0	0	0

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.28.02.01 Minimum Capital Requirement — Both life and non-life insurance activity

		Non-life activities	Life activities
		$MCR_{(L,NL)}$ Result	$MCR_{(L,L)}$ Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200	893	12,118

		Non-life activities		Life activities	
		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
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210	0		319,402	
Obligations with profit participation - future discretionary benefits	R0220	0		0	
Index-linked and unit-linked insurance obligations	R0230	0		17,937	
Other life (re)insurance and health (re)insurance obligations	R0240	42,520		0	
Total capital at risk for all life (re)insurance obligations	R0250		0		248,746

F. DODATAK: KVANTITATIVNI OBRASCI (QRT)

S.28.02.01 Minimum Capital Requirement — Both life and non-life insurance activity

Overall MCR calculation		C0130
Linear MCR	R0300	64,952
SCR	R0310	224,886
MCR cap	R0320	101,199
MCR floor	R0330	56,221
Combined MCR	R0340	64,952
Absolute floor of the MCR	R0350	8,000
Minimum Capital Requirement	R0400	64,952

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	52,754	12,198
Notional SCR excluding add-on (annual or latest calculation)	R0510	182,653	42,232
Notional MCR cap	R0520	82,194	19,005
Notional MCR floor	R0530	45,663	10,558
Notional Combined MCR	R0540	52,754	12,198
Absolute floor of the notional MCR	R0550	4,000	4,000
Notional MCR	R0560	52,754	12,198