Risk Management Policy

of Illyria Life sh.a.

Basic details	
Title:	Risk Management Policy of Illyria Life sh.a.
Subject:	Policy defines risk management in the company
Status:	Draft
Version:	1.0
Number of act:	
Administrator:	Key Management Function
Adopted by:	Board of Directors
Consent by:	/
Confidentiality level:	Internal Confidential
Date adopted:	November 2024
Effective date:	01.01.2025
Supersedes document:	/
Periodic review:	3 year
Scheduled date of revision:	31.12.2028
Language version:	EN

Distribution list:		
Seq. no.	**Full name**	**Position**
1.	/	All directors of the organizational units and key function holders

Prishtina, November 2024

CONTENTS

On the basis of the Insurance Law (LAW No. 05/L -045 published on OFFICIAL GAZETE OF THE REPULIC OF KOSOVA / No. 38 / 24 DECEMBER 015, PRISTINA) the Board of Directors of Illyria Life sh.a. adopted, in its regular meeting on December 19, 2024, the following document:

RISK MANAGEMENT POLICY

1 Introductory provisions

This document refers to the Illyria Life sh.a. (hereinafter: The company)

2 General provisions

The purpose of the policy is to achieve the goals set in its strategic plan. In doing so it takes into account the agreed risk strategy, which defines the risk appetite and risk limits, risk classification, and risk management methods and processes. This policy was developed to:

- ensure consistency of risk management processes with the Sava Insurance Group; (hereinafter: the "Group");
- define an effective risk management framework across the Group and for individual Group companies, including:
  - risk identification;
  - risk monitoring;
  - risk measurements;
  - risk management;
  - risk reporting;
  - roles and responsibilities of departments and bodies engaged in the risk management process;
- set up and define the risk management function;
- establish a common risk language and risk culture framework;
- ensure compliance with appropriate regulatory requirements and professional standards.

3 Scope of the policy

This policy is drafted to be in line with the Group policy in key provisions, although some exceptions and differences in the content of this policy exist, due to the legal legislation and other differences (e. g. organisational). Modifications and exceptions are documented and reported to the group risk management function holder (for more details refer to section 10). The policy is approved by the company's Board of Directors.

This policy provides a general overview of the risk management system of the company. Detailed guidance on specific risk categories is set out in separate policies.

Where the guidelines of this policy are not clear, the risk management function holder of the company should be consulted.

4 Risk management principles

The following principles constitute the core of the company's risk management system:

- In its management and operations, the company takes into account the Group's risk strategy, which defines the risk appetite.

- In order to allow for effective risk management, the three line of defence model is set in place, including a clear allocation of responsibilities and duties:
    - first line of defence: business and support activities insurance underwriting, pricing and premium tariffing, development of insurance products, sales, claims handling, reserving, reinsurance programme development, asset allocation and management, investments, accounting, controlling, IT support, other);
    - second line of defence: risk management function, actuarial function, compliance function and the risk management committee;
    - third line of defence: internal audit.
- The risk management system is based on appropriate governance, structure, committees and delegation of responsibilities.
- Risk management is integrated into all stages of business management and is composed of the following two key elements:
    - the IMMMR process (risk identification, monitoring, measurement, management and reporting) at the level of operational units (first line of defence);
    - the IMMMR process at the level of the second line of defence.
- The company only assumes risks that are manageable and within predefined limits.

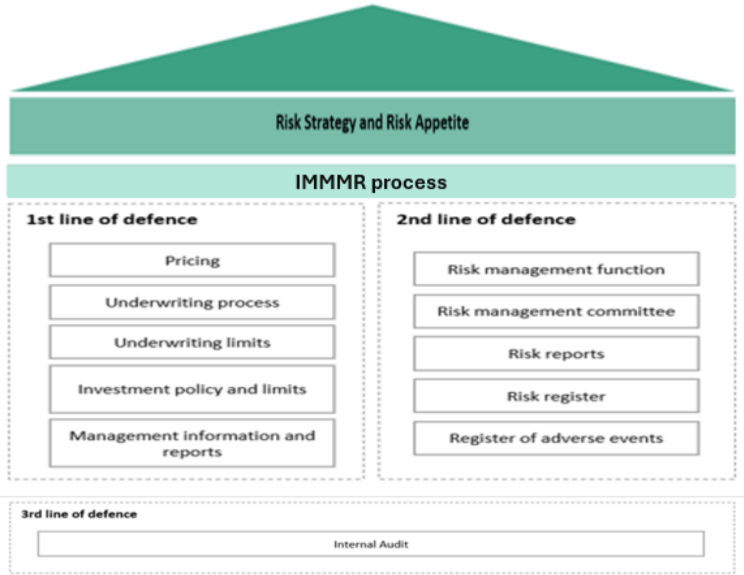
5 Overview of the risk management system

Risk management represents the sum of all actions taken by the company to manage (i.e. identify, monitor, measure, report) significant risks resulting from the company's activities and external environment to maximise the achievement of strategic business goals and minimise the possibility of loss of own funds.

The aim of this section is to give an overview of the risk management system within the company and outline its most important elements and processes.

5.1 Components of the risk management system

Components of the risk management system



The **risk strategy** articulates the attitude of the Group and daughter companies towards risk based on:

- the company's risk appetite,
- key indicators; and
- risk tolerance limits.

The company's strategy is to follow the business strategy and achieve the key strategic goals, while complying with the solvency capital requirement. The Group's risk strategy sets out the framework for the company's risk appetite within the company. The company adopts the risk strategy of the Group, which is defined in the document Risk strategy of the Sava Insurance Group and Sava Re d.d. (hereinafter: risk strategy).

When preparing its business strategy and strategic plan, company must take account of the risk strategy. When preparing its business and strategic plan, company must cover the various indicators in detail, and check whether its business strategy is consistent with the risk strategy.

IMMMR (first line of defence) – IMMMR (Identification, Monitoring, Measurement, Management, Reporting) is a continuous process of risk management daily. The first line of defence constitutes the company's senior management responsible for risk assumption, sales, pricing and underwriting, claims management, asset management and other back-office operations. Business operations and the decisions taken by those managers are constrained by the risk management framework and senior management is responsible for implementation of the risk management system in their area of responsibility. The company ensures that its business processes are consistent with the risk strategy, including the risk appetite, and follow detailed regulations included in appropriate risk management policies..

IMMMR (second line of defence) – Activities within the IMMMR process understood as the second line of defence are coordinated and managed by the risk management function on a daily basis. This process consists of the following elements:

- risk identification performed on two levels: top-down and bottom-up; and regular updates of the risk register;

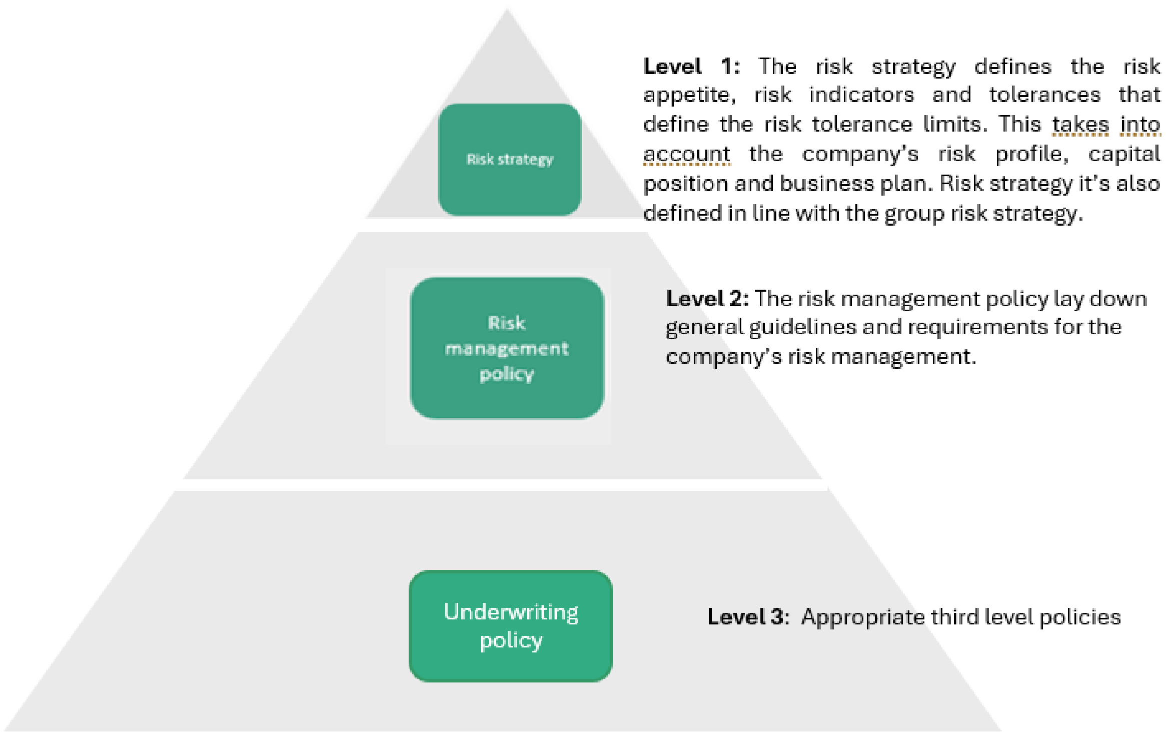
- regular risk reports for risk monitoring and risk measurement;
- analyses of risk reports and risk measures;
- risk management (accept, avoid, transfer, mitigate); in the company, this process is the responsibility of the Chief Executive Office (hereinafter: CEO) supported by the risk-management function.

High-level guidelines regarding second line of defence IMMMR processes are defined in subsequent sections of this policy. More detailed guidelines for particular risk categories can be found in the detailed risk management policies listed above. Risk categories defined for the purpose of systematic day-to-day risk management are defined in section 5.3 of this policy.

5.2 Risk management policy framework

When establishing the guidelines and requirements connected to risk management policies, the company incorporates the established framework of written policies that supports the group-wide risk management system. The figure below shows the hierarchy of risk strategy and policies governing risk management, which follows the Group hierarchy.

Hierarchy of risk strategy and policies governing risk management



The company designs and develops its own policies, procedures, processes and controls, methodologies and standards, taking into account the Group's guidelines. Technical standards, manuals and procedures developed and implemented on a local level include:

- Actuarial Function Policy,
- Investment Risk Management Policy,
- Liquidity Management Policy,
- Business Continuity Plan.

5.3 Risk category

In order to be consistent with the Group, individual risks are mapped to risk categories. The following classification of risk is used to the greatest extent possible:

- Underwriting and Reserving Risk;
- Market Risk;
- Counterparty Default Risk;
- Liquidity Risk;
- Operational Risk;
- Strategic Risk.

The definitions of all categories of risk are included appendix III to this policy.

5.4 Risk strategy

The company complies with the Group's risk strategy framework by adopting the Group's risk strategy. The company translates risk tolerance limits to operating limits (e.g. limits on writing (insurance covers, investment limits) to ensure that the activities of the first line of defence are conducted considering the risk management aspect.

The company determine risks measures that are monitored in the regular risk management process. Risk measures are defined in a way that allows a simplified monitoring of the risk profile. Each major risk category has corresponding minimum sets of risk measures defined that have to be monitored to ensure compliance with limits, defined in risk strategy. The company needs to ensure that in case of a breach of operational limits, it has in place well defined and established escalation paths and management actions.

6 IMMMR process

An adequate IMMMR process allows for the effective risk management and risk-based decision making on a daily basis. This subsection sets out general requirements regarding the second line of defence IMMMR process applicable to all risk categories.

A part of the IMMMR process is also taking account of the relevant materiality measure. The company takes account of the materiality measure when measuring risks, thus identifying material risks that could have a significant impact on the performance of the company if they materialised. The materiality limit assists company in the proper classification and treatment of risks. The methodology of defining the materiality limit in appendix II to this policy.

6.1 Identification

Material emerging risks are actively identified, measured, managed, monitored and reported. The company implements forward-looking risk identification, which allows the CEO to take proactive action. Identification of risks can be carried out using two different approaches:

- The top-down approach – performed by the risk management function, the risk management committee and the CEO. It is a high-level identification of new and potential risks based on monitoring of the legal and business environment, market developments and trends and expert knowledge. This approach is mainly used with strategic risks, such as reputational risk and legal risk.

- The bottom-up approach is performed by risk owners and senior management. Identification of new risks is performed on a daily basis by using specific tools, such as operational events database; this approach is mainly used for operational risk.

The company develops and maintains a risk register, which is regularly updated (at least semi-annually). All newly identified risks should be included in the risk register. Once identified, risks should be mapped to the corresponding risk category and then included in the monitoring, measurement and reporting processes. Risk identification is performed on an ongoing basis, but also as a part of the business planning process and any major projects and business initiatives such as launching of a new product, investment in a new class of assets, acquisitions etc.

6.2 Monitoring

Senior management together with risk owners monitors the level of risks on a regular basis. The company regularly monitors risk measures, such as exposure, claims statistics, investment portfolio structure, as part of quantitative risk reports. Risk measures may be defined as the risk tolerance limits. Risk limits for all risk measures must be set in accordance with the risk strategy. More detailed guidelines on quantitative risk reports for particular risk categories can be found in level 3 policies.

The risk management function is responsible for coordinating the risk reporting process and analysing the contents prepared by risk owners. In the second step, based on this information, a summary risk report is produced including most important observations. The risk report contains a summary of the current risk profile; the main changes and exposures for each risk category, including any breach of operational limits; new and emerging risks; adverse events; and recommendations of the risk management function and risk management committee.

6.3 Measurement

Risk measurement is necessary to determine the current risk profile of the company, identify the most significant risks and verify whether the current risk profile of the company is still within the set risk appetite. Company determines the frequency and complexity of risk measurement with due regard to the proportionality principle. Company measures their risks using the following metrics:

- qualitative risk assessment at least semi annually;
- stress and scenario testing: the company measures the impact of extraordinary events, which could have a significant impact on their solvency position. With due regard to the proportionality principle, the company analyses solvency in accordance with regulatory requirements;
- Risk measures (part of the IMMMR process) – allow simplified monitoring and measuring of the company's current risk profile. Company implements a minimum set of risk measures (for each risk category) to be monitored and reported on regularly.

Materiality criteria is established at the Group level for all daughter companies and using the same methodology (methodology of defining the materiality limit is included in appendix II to this policy).

6.4 Management

The CEO and senior management of the company are responsible for the risk management of risks, which can take a variety of forms such as rejecting, transferring or accepting the risk. Decisions are made considering recommendations (prepared by the risk management function and the risk management committee of the company) and the cost versus benefit aspect of such decisions.

Action plans for risks not in line with the risk appetite or risks breaching risk tolerance limits are documented; and once agreed by the company, followed without undue delay.

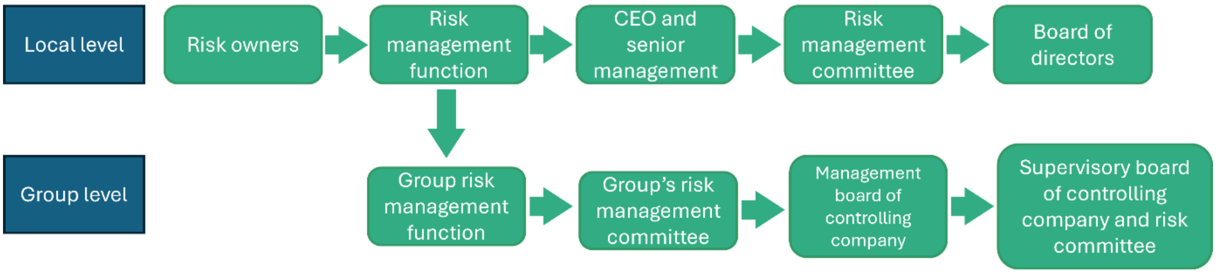
6.5 Reporting

This section covers regular risk reporting and a description of reporting on information important for risk management activities within the company and information flow between the local and the Group risk management function. Company develops and implements the risk monitoring and reporting process separately for each risk category, including the following elements:

- clearly defined roles and responsibilities (who is responsible for preparing information, who for compiling and reviewing information and who for decision-making);
- reporting period;
- escalation paths and potential management actions.

The chart below is a simplified process flow chart on risk reporting at the company.

The process of reporting on risks



As set out in the graph above, the risk management function is responsible for all activities related to risk management. However, the company's and group risk management functions should cooperate tightly in order to manage risks on a local and group level in an effective way:

- The reporting and information flow is based on regular reporting as well as on ad hoc reporting and information sharing.
- The company's and Group risk management functions should have sufficient and prompt information about significant risks faced by the company;
- The company's and Group risk management functions should have information (prior to decision-making) about important strategic and operative business decisions that could have a significant impact on the company's risk profile and its capital position. The company should also consult the Group risk management committee on important issues.
- In the event of a material change or potential material change in any company's risk profile, the company's risk management function immediately informs thereof the Group risk management function.
- The company's risk management function must inform the Group risk management function immediately of any material breach of any risk tolerance limits set for such company.

Responsibilities of the risk management and business functions involved in risk reporting:

Risk owners – first line of defence is the staff, such as the actuarial, underwriting, claims handling, asset management, marketing and human resources staff – are responsible for gathering information on risk measures/factors and for assessing risks. Members of senior management are also in the first line of defence and can therefore have the role of risk owners.

Risk management function – the risk management function holder of the company is responsible for gathering and analysing information prepared by risk owners. The risk management function holder reports to the risk management committee to the senior management and CEO on new risk and exceeded risk limits. Risk management function holder can directly inform the risk management committee or the board of directors about any risk related matters. If required, the Group risk management function is also notified.

Risk management committee – second line of defence body, is responsible for reviewing the risk reports prepared by the risk management function, for supporting the CEO and for giving advice to the board of directors on risk exposure and future risk strategy.

CEO and senior management – responsible for making decisions on risk acceptance, risk mitigation actions, risk rejection. CEO has the final responsibility for decision making. When important decisions are taken, the risk-management function also reports them to the Group's risk management committee.

7 Roles and responsibilities

Clear segregation of duties is a key element of the risk management system, ensuring an effective risk-based decision-making process. The following subsections defines the risk management roles and responsibilities of all bodies of the company involved in the risk management system.

7.1 Board of directors

The Board of directors has the following responsibilities:

- approval of the business strategy and the business plan;
- approval of the risk appetite;
- approval of risk-management policies;
- appointment of members for risk management committee;
- appointment the risk management function holder and other key function holders;
- ultimate responsibility for implementation of the risk management framework consistent with Group standards and regulations.

7.2 Risk management committee

The role of the risk management committee is to support the CEO and Board of directors in the risk management process and monitoring of the company's risk profile. It also plays a crucial role in the communication process as it acts as a discussion forum on elements of risk management system. In addition, the committee is responsible for the verification of the effectiveness of risk management processes in place. The responsibilities of the risk management committee include:

Validation role:

- evaluation of the effectiveness and integrity of the established risk management processes of the company and the related mitigation measures;

- monitoring of risk profile with regard to the risk strategy (limits, tolerances, requirements) and reviewing of regular reports on the risk management of the company and asseesses whether the management addresses relevant issues sufficiently and in timely manner;
- verification of contents and provisions of risk management policies;
- assessement of the independence and objectivity of the risk management function;
- verification and approval of stress test and scenarios fot the needs of the company, as proposed by the risk management function.

Role within risk management processes (IMMMR):

- monitoring of the company's risk profile;
- identification new strategic risks (top-down identification);
- monitoring and supervision of the effectiveness of internal controls and the risk management system.

Advisory role:

- drafting recommendations for the CEO and Board of dierectors relating to risk management, risk appetite and future risk strategy;
- issuing of opinions relating to major business decisions with a significant impact on the risk structure;

Membership of the risk management committee is defined by CBK regulation for corporate governance. Membership in the Committee should be organised in such a way that key areas are covered in regard to risk management..

Depending on the subject matter to be discussed, members of the senior management may be invited to attend committee meetings and, if need be, any other employees of the company may be invited to attend committee meetings.

When appointing the risk management committee, Board of directors takes into account the nature, size and complexity of its business and the risk to which it is exposed.

7.3 Chief executive officer (CEO)

The CEO bears the final responsibility for effective risk management processes in place and has the following responsibilities:

- approval of the business strategy and the business plan;
- approval of the risk appetite;
- approval of risk-management policies;
- giving recommendations on key function holders;
- implementation of the risk management framework consistent with Group standards and regulations approved by Board of Directors;
- implementation of the business strategy, business plan and risk strategy at the local level (consistent with Group guidance and based on the proposal of the risk management function);
- implementation of the risk management policies and procedures;
- risk management and decision-making process (accept, avoid, transfer or mitigate risks);
- adoption of risk tolerance and operational limits based on approved group risk strategy;
- identification of new strategic risks (top-down identification).

7.4 Senior management

The senior management plays a key role in the risk management system and decision-making process and has the following responsibilities:

- risk management and decision-making process (accept, avoid, transfer or mitigate risks);
- taking account of risk tolerance and operational limits based on approved risk strategy;
- monitoring of other risk reports, and using the information in making business decisions;
- identification of new strategic risks (top-down identification).

The risk management function holder is also part of the senior management in the company and is responsible for effective risk management system.

7.5 Risk management function

The risk management function is mainly responsible for setting up effective risk management processes and for coordination of risk management processes in place. The role of the risk management is to support the CEO and senior management in the risk management process and monitoring of the company's risk profile. The risk management function may be performed by a group of people (risk management department) or one person, but in either case designated person for the function must exist (function holder). The responsibilities of the risk management function include:

Coordination/monitoring role:

- implementation of Group standards and requirements on a company level;
- coordination and monitoring of all elements of the risk management system;
- coordination and monitoring of all risk management processes:
    - IMMMR process;
    - risk reports preparation process,
    - preparation of the data for the solvency capital requirement calculation for the Group (in line with Solvency II);
    - preparing ad hoc risk reports in case of extraordinary events that have a material impact on the company's risk profile (e.g. acquisitions, mergers);
- arrangement of risk management committee meetings at least on a quarterly basis;
- ensuring that all processes included in the risk management system are performed in a timely manner;
- verification whether risk mitigation activities ordered by the CEO are exercised in a timely manner.

Role in the IMMMR process:

- monitoring of the company's risk profile;
- identification of new strategic risks (top-down identification);
- analysing newly identified risks;
- analysis of information on risk measures and preparation of the summary risk report presented to the risk management committee and the CEO and senior management;
- presentation of most significant findings and observations resulting from the IMMMR processes to the risk management committee and the CEO and senior management;
- proposal of risk mitigation activities to CEO;
- regular updates of the risk register;

- regular updates of local procedures and technical standards connected to the risk management system;
- reporting to the Group risk management function;
- monitoring risk mitigation measures (risk transfer).

Evaluation and advisory role:

- preparation of risk evaluation and analysis and consequently preparation of proposed action plans for the risk management committee and CEO based on the results;
- ongoing support of the CEO and senior management in the decision-making process (including in relation to the strategic affairs such as corporate strategy, and major projects and investments);
- active cooperation in setting the risk tolerance limits for individual risk categories;
- initial proposal of stress tests and scenarios;
- at least annual review of the effectiveness of risk management processes in place and presentation of proposals for improvement.

7.6 Risk owners

The company has appointed risk owners (recorded in the risk register) for certain risk categories are typically employed in departments of the first line of defence, e.g. the actuarial department, insurance operations, claims department, asset management, information technology and other departments. Department directors and risk owners are responsible for carrying out the activities related to the IMMMR process:

- risk monitoring and measurement (using defined risk reports and risk measures);
- preparation of information on risks for particular risk areas;
- identification of new risks (bottom-up identification);

7.7 Actuarial function

All roles and responsibilities assigned to the actuarial function are defined in the actuarial function policy. The main duties of the actuarial function related to the risk management system are:

- identification and reporting on information on underwriting and reserving risks to the risk-management function;
- issuing an opinion on the adequacy of reinsurance arrangements;
- independent verification and challenge of technical provision calculations including assumptions, methods and expert judgment.

7.8 Internal audit function

The internal audit function is an independent body playing the role of the third line of defence. All roles and responsibilities assigned to the internal audit function are defined in the internal audit policy. In the context of the risk management system, the internal audit function is responsible for independent analysis and verification of the effectiveness of risk management processes in place, particularly the bottom-up identification process performed by risk owners.

7.9 Compliance function

All roles and responsibilities assigned to the compliance function are defined in the compliance policy. The duties of the compliance function related to the risk management system are:

- identification, management and reporting on the company's non-compliance with regulations, including monitoring of the legal environment, analysis of existing processes regarding their compliance with internal and external rules, any changes of the regulations;

8 Employee risk culture

A strong risk culture is essential to the safety and financial stability of the company. The company follows the guidelines set out below to establish good risk management practices.

Training and talent development

- Understanding key risks and essential elements of the risk management system and the risk culture of the company is considered a critical skill for senior employees and is reflected in development plans for employees.
- Training programmes are available for all employees to develop risk management competencies and skills.

Internal communication

- Roles and responsibilities related to risk management and consequences for not adhering to the desired risk management behaviour are clearly communicated to all employees at all levels.
- The senior management and CEO promotes an open exchange of views and provides escalation paths and mechanisms to share information on emerging risks.
- The risk management function has appropriate direct access to the CEO, risk management committee and senior management.

9 Review of implementation and compliance of this Policy

The risk management function reviews the compliance of this policy triennially, the Group's corporate governance policy, other policies in the governance system and other internal documents, legislation and other regulations. Before adopted, the risk management function of the Group reviews the policy and confirms the content and inclusion of all key provisions. In the event of any changes introduced to the policy, the company shall promptly inform the Group risk management function about the nature of those changes. All changes of the policy must be communicated to the Group risk management function. Group risk management function should promptly inform the company about any changes introduced to the risk management policy. In the event of any change in the legal environment or other objective circumstances, a policy review is to be carried out more frequently.

10 Policy adoption

The CEO of the company is responsible for the introduction and implementation of this policy in the company. Any delegation of authority must be clearly documented and submitted to the administrator of the Group framework policy.

Adjustments and deviation from framework policies of the Insurance Group Sava are documented and reported in line with the procedure of adopting and reviewing policies in Insurance Group Sava, as set out in the Group's corporate governance policy.

11 Final provisions

This risk management policy becomes effective upon adoption by the management board and approval by Board of Directors, and applies as of 1 January 2025.

Prishtina, December 2024

Board of Directors of Illyria Life Insurance Company;

Rok Moljk, Chairman

Appendix I – Glossary of Terms

English term	Definition of term
First line of defence	First line in the three lines of defence risk management model comprising operations (underwriting, sales, claims handling, asset management, planning, accounting and controlling). The first line of defence has primary responsibility for risk identification, measurement, management, monitoring and reporting.
Second line of defence	Refers to the second line in the three lines of defence risk management model comprising coordination, validation and challenge. The second line of defence comprises the risk management function, actuarial function, risk management committee. The second line of defence is accountable for providing quantitative and qualitative oversight and challenge of activities performed by the first line of defence.
Third line of defence	Refers to the third line in the three lines of defence risk management model. The third line of defence consists of the internal audit function. Responsible for assessing and reporting on the effectiveness of processes making up the company's (i) internal control system, (ii) risk management system and (iii) system of governance. It operates independently from operational functions.
Compliance function	Function or department responsible for advising the management body on compliance with the laws and other regulations. Furthermore, it assesses the potential impact of any changes in the legal environment on the operations of the company as well as identifies and assesses compliance risk.
Internal audit function	Independent body playing the role of the third line of defence.
Risk management function	Second line of defence body: risk management department or risk management function holder responsible for coordination of risk management processes in place.
Chief risk officer / Risk management function holder	The risk management function holder is a person authorised by the board of directors responsible for coordinating the risk management processes in place.
Risk management committee	Second line of defence body established at local or group level playing an advisory role and responsible for supporting the CEO and Board of directors with any material decisions.
Bottom-up approach	Risk identification process carried out by risk owners and department directors. It is mainly used for operational risk.
Top-down approach	Risk identification process carried out by the risk management function, risk management committee and senior management. It is a high-level identification of new and potential risks based on monitoring of legal and business environment, market developments and trends and expert knowledge. This process is mainly used for strategic risk.
Business operating limits	Limits, such as underwriting or investment limits, used in daily risk management by first line of defence employees.
Emerging risks	Emerging risks can be defined as: • Unknown risks that are yet to emerge, • Known risks with impact that is currently not well understood, uncertain or difficult to quantify, and • known risks that are currently envolving in unexpected ways.
IMMMR	Identification, Monitoring, Measuring, Management, Reporting.
Risk appetite	An upper bound on the risk that can be taken articulated in terms of equity (solvency ratio), asset liquidity, operating profitability and reputational risk.
Risk categories	Categories along which company manages the risks it is exposed to. It includes the following risk categories: • underwriting and reserving risk, • market risk,

	• counterparty default risk, • liquidity risk, • operational risk, • strategic risk.
Risk management system	The risk management system represents the sum of all actions taken by a company to manage (i.e. identify, monitor, measure, report) significant risks resulting from the company's activities and external environment in order to maximise the achievement of strategic goals and objectives and minimise the possibility of loss in own funds.
Risk measures	Risk measures are measures defined in a way that allows the monitoring of the current capital position of a company in a simplistic and approximate way.
Risk owners	Employees of the departments constituting the first line of defence responsible for the monitoring and measuring of risk measures/factors and assessing risks for the purpose of the risk register.
Risk profile	All risks the company is exposed to and quantification of the exposure.
Risk register	Register containing all identified risks maintained and updated on a regular basis.
Risk report	Report compiled of relevant risk measures and their quarterly observations; risk owners prepare analyses and information for each risk category on a regular basis. The executive summary of the risk report regularly drawn up by the risk-management function compiles the most important findings for each risk category.
Risk strategy	Document reflecting the company's attitude towards risk through risk appetite, performance indicators and risk tolerance limits, taking into account defined strategic goal.
Risk tolerance limits	Limits for risk categories included in a company's risk profile and for risk measures monitored as part of the day-to-day risk management process.
Stress and scenario testing	Shifting values of individual parameters and determining the effect on the company's financial position. Scenario testing is stress testing with a wider range of parameters being varied simultaneously.

Appendix II – Materiality criteria

Below are set out materiality criteria for Group companies to be used for determining:

- the materiality of individual risks and risk aggregations of a single event,
- material changes in the risk profile,
- material impact on the amount of eligible Own Funds (OF) and the Solvency Capital Requirement (SCR).

Criteria differ somewhat for Group companies that calculate their capital adequacy ratio in accordance with Solvency II ("companies subject to SII") and companies that do not calculate capital adequacy in accordance with Solvency II ("other companies").

Materiality of individual risks, risk aggregation in a single event

A risk is material if its realisation would have a significant impact on the performance of the company. In determining materiality, we need to also to consider a potential aggregation of multiple risks in the same event (the individual risk may not be relevant, but an aggregation of several risks may become material).

At the Group level, it is also necessary to identify any risks of aggregation of individual group companies.

The materiality limit assists Group companies in the proper classification and treatment of risks. Based on materiality limits, Group companies determine classes for the assessment of risks in the risk register and the consideration of individual risks in the ORSA process.

Determining the absolute materiality limit

Group companies identify material risks based on the combined application of two criteria:

1. **Basic absolute amount** of group company: 1 % of the eligible own funds for Sava Re and 2 % of the eligible own funds for all other group companies. In this context, eligible own funds for companies subject to SII are determined in accordance with the Solvency II standard formula. Other group companies determine own funds in accordance with local regulations.
2. **Adjustment of the absolute amount** considering the levels of the solvency ratio defined in the risk strategy:
    - Companies subject to the SII capital regime: companies compare the actual solvency ratio with the solvency ratio in the middle of the optimum level set out in the risk strategy to **adjust** the absolute amount referred to in point 1.
    - Other companies: companies compare the actual solvency ratio calculated based on local regulations with the required solvency ratio set in the risk strategy and based on this **adjust** the absolute amount referred to in point 1.

The **materiality limit** (MAT) is defined in absolute terms.

In the same manner, the materiality of risks is determined for the group, considering the consolidated capital adequacy calculation in accordance with the Solvency II standard formula.

Formula for determining the materiality limit:

$$MAT = \begin{cases} M * OF + add * abs(OF - x * SCR), & if\ SR \geq x \\ M * OF - ded * abs(OF - x * SCR), & if\ SR < x \end{cases}$$

M = 2%

add = 1% ... ratio of addition in case of excess capital over the arithmetic mean of the optimum level of the solvency ratio

ded = 1% ... ratio of deduction in case of a deficit of capital with regard to the arithmetic mean of the optimum level of solvency ratio

AC ... Available Capital

RRC – Required Regulatory Capital

SR = Available Capital/Required Capital ... solvency ratio

x ... optimum level of solvency ratio (arithmetic mean of optimal capitalisation for companies subject to the SII capital regime or required capitalisation for other companies)

Based on both criteria, group companies determine the MAT in an absolute amount, which is rounded appropriately, – **all risks with an impact larger than the MAT are material to the company.**

In addition, the risk management function or another person in the company is responsible for quarterly monitoring of changes in input data affecting the materiality limit. In the event of a significant change in input data (the amount of eligible own funds, SCR, changes in the risk strategy), the company's risk management function or another person designated is responsible to adjust the company's absolute materiality limit and notify the group's risk management function.

Criteria for determining **whether an extraordinary adjustment of the materiality limit is required:** if the materiality limit changes by more than 0.5 % of eligible own funds, the materiality limit is adjusted immediately.

It is recommended that the risk assessment classes in the risks register of individual group companies are set considering absolute limits. In case the materiality limit is changed, the company will consider adjusting the risk assessment classes.

Material change in the risk profile

The company's risk profile at a given time represents the sum of all the risks to which the company is exposed. The value of a company's risk profile is measured in several ways by group companies. The basic criterion for the risk profile is the solvency capital requirement, while the companies subject to the SII regime additionally calculate assessments of solvency needs as part of the ORSA.

In line with the risk strategy, the companies subject to the SII capital regime have a risk tolerance limit (modules on the first level of the standard formula) of +10 % depending on the level of the solvency capital requirement in the central plan scenario for the current year.

A significant change in the risk profile of companies subject to the SII capital regime is **an unplanned** increase in individual main risk categories (modules at the top level of the standard formula) **of more than 10 %** or an unplanned change in overall SCR **of more than 10 %.**

For other companies, an important change in the risk profile is defined as any unplanned change in overall solvency capital requirement **of more than 10 %.**

In the case of activities, external or internal factors, that could result in such a change in risk profile, such a group company assesses the impact on its solvency position.

For risks that are not included in the calculation of the solvency capital requirement (strategic risk, liquidity risk, reputational risk, etc.) and that are evaluated qualitatively, the materiality of the impact of these risks on the company's risk profile is determined by reference to the impact and likelihood as per the risk register. If the risk register is amended by adding a new or increased existing risk of a very high level, such a risk must be appropriately managed (measured, monitored and reported).

Material impact on OF and the SCR calculation

To determine the materiality in relation to:

- the revaluation of the balance sheet to Solvency II standards,
- the calculation of eligible own funds (OF) by tier,
- the calculation of the SCR and the application of simplifications in the SCR calculation,

the **materiality limit (MAT)** as defined above is to be applied. In doing so, **the overall impact on the eligible own funds** or **the aggregate impact on the** SCR must not exceed the materiality limit. All simplifications or alternative calculations of the company must be appropriately documented. The same criteria apply in the event of any error in the calculation. The only exception applies to errors that directly affect the solvency position of the company (insolvency).

Immaterial risks

Immaterial risks are risks with an impact below the upper limit of the first severity rating. The procedure for managing such risks is set out in the risk management rules.

Appendix III – Description of risk categories

Underwriting risk

Underwriting risk can be defined as the risk relating to underwriting and claims management and the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of liabilities (unexpected losses resulting from inadequate pricing or reserving). Examples of sub risks of underwriting risk include: non-life underwriting risk, health underwriting risk and life underwriting risk. These are further broken down into subcategories, such as premium risk, reserve risk, lapse risk, catastrophe risk, life (mortality) risk, morbidity risk.

Counterparty default risk

Counterparty default risk can be defined as an unexpected loss resulting from the counterparty's failure to perform its financial obligations or payment overdue.

Market risk

Market risk can be defined as the risk that arises from fluctuations in the values of assets, liabilities and parameters influencing market prices (including the risk of unexpected decrease in the market value of the assets portfolio due to deterioration in the credit standing of the counterparty). Examples of sub risks of market risk include interest rate risk, equity risk, property risk, concentration risk, credit risk etc.

Liquidity risk

Liquidity risk can be defined as the risk of not meeting or meeting on unfavourable altered conditions (e.g. liquidating assets at a discount) current or short-term obligations. Liquidity risk should be understood as risk arising from short term cash flows rather than risk arising from long-term mismatch of assets and liabilities.

Strategic risk

Strategic risk is the risk of an unexpected decrease in the company's value due to the adverse effects of management decisions, changes in business and legal environment and market developments. Examples of sub risks of the strategic risk include political risk, reputational risk, competition risk.

Operational risk

Operational risk can be defined as the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. Examples of sub risks of operational risk include risk of internal and external fraud, risk of IT system failure, employment practices and workplace safety risk, risk of process management and execution.