TUiR „WARTA" S.A.

Solvency and financial condition report

for the year ended 31 December 2020

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Definitions and acronyms

A

Accounting Act – Accounting Act 29 September 1994 (Journal of Laws of 2021, item 217, as amended).

Act on Insurance and Reinsurance Activity – Act on Insurance and Reinsurance Activity of 11 September 2015 (Journal of Laws of 2020, item 895, as amended).

ALM (Asset Liability Management) – management process of the risk of mismatch resulting from diverging structure of assets and liabilities.

B

B-1 Directors – directors of organisational units in the Company reporting directly to a Member of the Management Board.

Back-test – verification of the adequacy of the model and its parameters (applied to verify actuarial calculations).

Balance sheet date – the day as at which the statutory report as well as this Solvency and financial condition report were made.

Best estimate – a liability of the Company determined as the sum of unencumbered discounted cash flows, weighted with the likelihood probability under the concluded insurance contracts.

BIA – Business Impact Analysis.

BondSpot S.A. – a joint stock company operating the OTC market in Poland.

BPV (Basic Point Value) – sensitivity of net items (present value of future cash flows from net assets and liabilities) to a growth of interest rate curves by 1 basis point.

Business Plan – a medium-term financial plan developed annually in compliance with the Company's Articles of Association by the Company's Management Board and submitted to the Company's Supervisory Board for approval.

C

Capital Management Policy – Company's policy defining the principles of capital management in the Company.

CMP (Compliance Monitoring Plan) – an action plan pursued by the Compliance Department ensuring detection of risks to Compliance at an early stage.

Code of Commercial Companies – Act of 29 September 2016 – Code of Commercial Companies (Journal of Laws 2020.1526, as amended).

Commission Implementing Regulations (EU) concerning the calculation of the Solvency Capital Requirement – Regulations laying down implementing technical standards with regard to:

- standard deviations in relation to health risk equalisation systems in accordance with the Solvency 2 Directive (2015/2013 of 11 November 2015),
- the equity index for the symmetric adjustment of the standard equity capital charge in accordance with the Solvency 2 Directive (2015/2016 of 11 November 2015),
- the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the central government in accordance with the Solvency 2 Directive (2015/2011 of 11 November 2015),
- the supervisory approval procedure to use undertaking-specific parameters, in accordance with the Solvency 2 Directive (2015/498 of 24 March 2015),
- the adjusted factors to calculate the capital requirement for currency risk for currencies pegged to the euro in accordance with the Solvency 2 Directive (2015/2017 of 11 November 2015).

Company Management – Company's Management Board and B-1 Directors, and managers appointed by them (managerial staff, managers of organisational units).

Company's Articles of Association , Articles of Association – Articles of Association of Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" Spółka Akcyjna, approved by the Extraordinary General Assembly on 28 June 2016, registered on 27 September 2016.

CVAR (Conditional Value at Risk) – the average quantile of the worst rates of return.

D

Delegated Regulation – Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (OJ EU L 2015.12.1 as amended), issued on the basis of and additional to the Solvency 2 Directive.

Deposit ON - a deposit, which will be settled by the end of the next business day after the date of deposit.

DTA – Deferred Tax Assets.

DTL - Deferred Tax Liabilities.

Duration – a measure of interest rate risk interpreted as the average duration of an instrument.

E

Economic balance sheet – a specification of assets and liabilities valued in accordance with Solvency 2 requirements.

EIOPA – European Insurance and Occupational Pensions Authority

Entity manager (within the meaning of the Accounting Act) – a member of the management board or another managing body, and if the body is composed of several persons – members of the body, appointed to perform the function in compliance with the articles of association, Articles of Association or other legal regulations applicable to the entity. The above does not include proxies appointed by the entity.

F

Forward Contract – a derivative transaction consisting in the purchase or sale of an underlying with a pre-defined execution time and at a pre-defined execution price.

G

GUS – Central Statistical Office of Poland.

I

IBNR – Incurred But Not Reported.

Investment limits – a system of investment limits set by the Company's Management Board.

IFRS 16 - International Financial Reporting Standard no. 16 in the field of leasing (OJ EU of 9 November 2017, L291/1).

IRS contract (Interest Rate Swap) – a derivative instrument being a contract covering an exchange of interest flows.

K

Key functions – internal audit function, compliance function, actuarial function, risk management function.

KPI (Key Performance Indicators) – financial and non-financial indicators used as metrics in the measuring process of goal accomplishment by an organisation.

KRI (Key Risk Indicators) – selected parameters of business processes describing changes to the operational risk profile of the process.

M

MCR (Minimum Capital Requirement) – a capital requirement determined in compliance with the Act on Insurance and Reinsurance Activity.

N

NBP – National Bank of Poland.

NewConnect – an organised stock market of the Warsaw Stock Exchange, outside the regulated market as an alternative trading system.

O

OCK – Transportation Third Party Liability.

Organisational Unit – a department, bureau or centre equivalent to a department, with their respective component units.

Own Funds – own funds calculated in accordance with the Act on Insurance and Reinsurance Activity being unencumbered assets, available to cover losses resulting from unfavourable changes in the pursued business – both assuming continuation of the business and in the case of liquidation.

P

Persons supervising key functions – the directors managing the following: Internal Audit Department, Compliance Department, Risk Management Department and Actuarial Department.

PFSA, supervisory authority – Polish Financial Supervision Authority. The PFSA performs its tasks with the help of the Office of the Polish Financial Supervision Authority (hereinafter the OPFSA).

PUODO – President of the Personal Data Protection Office.

R

Regulation of the Minister of Finance laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments – Regulation of the Minister of Finance of 12 December 2001 laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments (Journal of Laws of 2017, item 277).

Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings – Regulation of the Minister of Finance of 12 April 2016 on specific accounting principles for insurance undertakings and reinsurance undertakings (Journal of Laws of 2016, item 562).

Report, SFCR – this Solvency and financial condition report of TUiR "WARTA" S.A.

Risk appetite – the volume of loss, adversely affecting the levels of profit or capitals that the Company is able to accept in the pursuance of its assumed goals and strategy. In the Company, risk appetite is defined in its risk budget.

Risk budget – maximum accepted level of Solvency Capital Requirement.

Risk Management Strategy – a document describing the risk management system functioning in the Company and setting forth the strategic objectives of risk management.

Risk margin – a part of technical provisions established for the purposes of Solvency 2 to ensure that the amount of technical provisions is equivalent to an amount that a third party would demand for taking over insurance and reinsurance liabilities and for complying therewith.

Risk profile – a scale and structure of risk exposure, taking into account the specifity of the business.

Risk Scan – a structured process of risk identification and assessment aimed at identifying material risks that may adversely affect the Company's financial results in one-year perspective, a description of control mechanisms for the identified risks, an assessment of risks and adequacy of the controls as well as development of additional controls mitigating residual risks.

S

SCR (Solvency Capital Requirement) – Capital requirement determined in compliance with the applicable provision of the Act on Insurance and Reinsurance Activity and the Technical Specification. The Solvency Capital Requirement is determined as economic capital that must be held by an insurance undertaking or a reinsurance undertaking, to guarantee that bankruptcy may occur not more frequently than once in 200 cases, or possibly that there is a minimum likelihood probability of 99.5 % that the undertakings will continue to be able to comply with its obligations vis-a-vis policy holders and beneficiaries for the next 12 months after the balance sheet date.

Shareholders – entities jointly holding 100% shares in the Company.

Solvency 2 (S2) – a system used to monitor the solvency of insurance undertakings, legally regulated in compliance with the Solvency 2 Directive and the regulations issued pursuant thereto. The previsions of the Solvency 2 Directive were transposed to Polish legislation in the Act on Insurance and Reinsurance Activity.

Solvency 2 Directive – Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (OJ EU of 25 November 2009, L335, as amended).

Solvency Ratio S2 – the ratio own funds and the Solvency Capital Requirement (coverage of the Solvency Capital Requirement with own funds).

Standard formula – a calculation algorithm of Solvency Capital Requirement, determined by the Technical Specification.

Statutory balance sheet – balance sheet which constitute an integral part of the statutory report. For the purposes of this Report this means: values corresponding to the statutory report values presented in accordance with relevant rules applied for Solvency 2 purposes, i.e. in the layout of the economic balance sheet.

Statutory report – financial statements prepared in compliance with the accounting principles applied in the territory of the Republic of Poland specified in the Accounting Act and prepared in compliance with the specific accounting principles specified in the Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings. For the purposes of this Report this means: values corresponding to the statutory report values presented in accordance with relevant rules applied for Solvency 2 purposes.

T

Talanx Group – capital group with Talanx A.G. being the parent entity, controlling inter alia HDI International A.G.

Technical Specification – the principles of valuation and determination of capital requirements, set forth in the Delegated Regulation, Commission Implementing Regulations (EU), concerning the calculation of the Solvency Capital Requirement, as well as in supplementary interpretations of the supervisory authority.

Treasury BondSpot Hurtowy – wholesale market for treasury bonds and treasury bills.

TUiR "WARTA" S.A. – Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. with its registered office in Warsaw, hereinafter referred to as the Company.

V

VAR (Value at risk) – a risk metric showing a limit loss level determined for a specific X which the likelihood probability that it will be reached. Another interpretation defines the term as an amount of cash that should be added to the item so that the likelihood probability of any loss (negative value) is less or equal to X.

W

WSE – Warsaw Stock Exchange.

Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. Solvency and financial condition report for the year ended on 31 December 2020

Basis of preparation

This Report was prepared to meet the requirements of Art. 284 Act on Insurance and Reinsurance Activity and in compliance with the requirements set forth in the Act on Insurance and Reinsurance Activity as well as in compliance with the requirements set forth in the Delegated Regulation and in the Guidelines on reporting and public disclosure (EIOPA-BoS-15/109).

Unless specified otherwise, the financial items disclosed in this Report are valuated in compliance with the Act on Insurance and Reinsurance Activity.

The Company valuates its assets and liabilities on a going concern basis (in compliance with Art. 7 of the Delegated Regulation).

The report is made up of five core parts as follows:

A. Business and Performance – this part contains characteristics of the Company's business profile, a description and comments of the financial results in reporting and comparative period with specific focus on results from insurance and investment activities.

B. System of Governance – this part contains basic information on the system of governance in the Company, including the applied fit and proper requirements as well as characteristics of the key functions in the Company.

C. Risk Profile – this part contains characteristics of risks split into types, affecting the Company's business and a description of management methods of the risks.

D. Valuation for Solvency Purposes – this part contains the valuation rules applied by the Company of its assets, technical provisions and other liabilities, in compliance with the Act on Insurance and Reinsurance Activity, and differences are identified in relation to the valuation principles for statutory reporting.

E. Capital Management – this part contains assumptions underlying the calculations of capital requirements and own funds, in compliance with the requirements set forth in the Act on Insurance and Reinsurance Activity, and an analysis of the calculation results of capital requirements and own funds as at 31 December 2020.

Unless specified otherwise, all financial data in this Report is presented in thousands of zlotys (hereinafter PLN '000).

President of the Management Board
JAROSŁAW PARKOT

Vice-President of the Management Board
JAROSŁAW PIĄTKOWSKI

Vice-President of the Management Board
PAWEŁ BEDNAREK

Vice-President of the Management Board
RAFAŁ STANKIEWICZ

Vice-President of the Management Board
GRZEGORZ BIELEC

Vice-President of the Management Board
ANNA ŚWIDERSKA

Vice-President of the Management Board
HUBERT MORDKA

Chief Accountant KATARZYNA KOŁODZIEJ

Vice-President of the Management Board
JAROSŁAW NIEMIROWSKI

Chief Actuary JAN SKRZYPCZAK

Warsaw, 24 March 2021

Summary

The core purpose of this Report is to help the recipient to understand business, by describing its governance system in the Company and capital position, including the methods and assumptions used in calculation of this position. An integral part of this Report is the quantitative information showing basic financial measures, including the calculation of the coverage of the Solvency Capital Requirement with own funds.

THE KEY ELEMENTS OF THE COMPANY'S BUSINESS MODEL AND STRATEGY

TUiR "WARTA" S.A., in accordance with the adopted strategy, consistently realizes the long-term goal of profitable growth, thanks to strengthening the market position, continuous improving cost-effectiveness and ensuring adequate and modernized risk management methods including actuarial risk.

The Company's goal is also further development of diversified insurance portfolio, which ensures its:

- the ability to offer comprehensive and reliable insurance protection, adequate for various customer segments,
- as low as possible vulnerability of the Companys's total market position and performance on business conditions' fluctuations in various segments of the property and personal insurance market.

The Company executes its strategy while maintaining and improving the diverse distribution network, under which:

- two separate agency networks will still operate with WARTA and HDI offer that is tailored to their target groups – partners' relations with insurance agents will remain the basis of that networks' efficiency,
- there will be dedicated network to cooperate with dealership,
- with regard to large business entities, insurance brokers will continue to be the primary source of obtaining the premium,
- the network dedicated to servicing leasing insurance will continue to be developed,
- On-line sales are intensifying, which on the one hand results from the planned increase in the Company's presence in this area, and on the other hand is a response to the challenges related to the COVID-19 pandemic,
- cooperation with banks will be treated as a tactical supplement to the above-mentioned basic elements of the Company's distribution network.

The Company increases the efficiency of the operations through the use of technological innovations as a measure to support, in particular: flexibility and efficiency of sales processes, improvement of underwriting practices and operational efficiency. One of the effects of the COVID-19 pandemic is a change in customer trends and behaviors towards individualization of offers and an electronic, fast and paperless method of insurance concluding and service. In addition to introducing the possibility of acquiring and servicing customers at a distance through traditional sales networks, the situation also translated into the intensification of work on the development of the online sales channel and a significant expansion of the range of products offered for sale in the Internet.

With regards to investment activity, the Company will continue its policy of a conservative investment profile, which is determined by the dominating share of debt securities in this portfolio. The supplementary component, and at the same time improving the profitability of the portfolio will be exposure to market risk. Investments in higher-risk assets, e.g. in shares, will be taken tactically and on a small scale.

The Company will continue the risk and capital management strategy oriented at ensuring long-term solvency ratio at the level of at least 130%, i.e. significantly exceeding regulatory requirements and at the same time supporting the maintenance of the high S&P credit rating.

In accordance with the adopted business model, the Company will pursue financial objectives from two streams:

- insurance activity consisting in providing protection in the event of effects of fortuitous events, measured by the level of technical result being the difference between the sum of the insurance premium paid and the sum of costs and claims paid or credited in the reporting period for future payments,
- investment activity, in the form of depositing the collected insurance premium in accordance with the "prudent investor" principle.

THE COMPANY'S UNDERWRITING AND INVESTMENT PERFORMANCE

The Company's underwriting performance, analysed below, is in compliance with the rules applicable to the statutory report.

The Company's financial results again achieved in 2020 confirm strong financial condition of the Company.

In 2020, the Company reported a record high level of gross written premium in the amount of over PLN 6 billion, which constitutes an 3.6% increase compared to 2019. Such a high level of premium was mainly due to a record high level of motor insurance (PLN 4.2 billion) and a dynamically developing portfolio of individual and corporate property insurance.

Although high sales in 2020 alone, as well as a strong increase in premiums earned (as an effect of the sales increase in 2019-2020), TUiR "WARTA" S.A. has worked out:

- technical result at the level of PLN 510 894 thousand which was of PLN 70 276 thousand lower (i.e. by 12.1%) compared to record level from 2019,
- gross profit in the amount of PLN 771 575 thousand, i.e.

lower by PLN 35 858 thousand compared to PLN 807 433 thousand in 2019,
- net profit of PLN 612 479 thousand, i.e. lower by PLN 47 702 thousand compared to PLN 660 181 thousand in 2019,
- technical profitability measured by technical result to the net earned premium ratio of 8,9% (10.8% in 2019).

The 2020 technical result includes the positive impact of the lower loss frequency in the motor vehicle segment. On the other hand, the decline in the technical result compared to the previous year is a consequence of the negative impact of the increase in disability provisions due to the reduction of the effective technical rate. The reduction in the discount rate is a consequence of the risk of lowering the profitability of assets as a result of falling interest rates. Additionally, the Company recognized the higher cost of catastrophic losses in property insurance and the negative impact of the expected higher costs of care for the injured persons provided by their family members.

The change in the level of gross financial result in 2020, apart from the higher technical result, was affected by:

- higher by PLN 38 959 thousand investment income, as a consequence of a higher level of assets due to the inflow of cash from insurance activities, significantly neutralized by the record low level of interest rates and the lack of dividends from TUnŻ "WARTA" S.A. (compared to PLN 31 692 thousand in 2019). Additionally, the level of investment income was positively influenced by exchange rate differences of eliminating which the investment income in 2020 would be by PLN 19 057 thousand lower than at the end of 2019,
- higher balance of the other operating expenses by PLN 4 542 thousand compared to 2019 as a result of the donation in the amount of PLN 9.500 thousand to help fight the pandemic COVID-19.

The significant level of the financial result for 2020 provided the Company with the ROE ratio of 20.0% compared to the record level of 26.5% in the previous year. The level of the ratio in 2020 was also affected by the increase in equity from retained earnings due to the non-payment of dividends from the financial result for 2019, in accordance with the recommendation of the PFSA.

In 2020, the net loss ratio was 63.8% and was 1.7 pp. higher compared to the 2019 level. The change in the ratio was caused by the deterioration of the loss ratio in compulsory motor insurance.

In 2020, the Company recorded an increase (by 0.8 pp) in the insurance activity cost ratio to 27.3% from 26.5% in 2019. The change in the ratio was influenced by the factor of increasing acquisition costs (by 1.1 pp.), with a simultaneous decrease in administrative costs (by 0.3 pp.). The increase resulted from the change in the portfolio structure consisting in an increase in the share of individual and corporate non-life insurance.

The combined ratio was 91.1% at the end of 2020 and was 2.5% higher compared to the last year but at the same time better compared to the assumptions of the plan for 2020 by 1.4%.

MATERIAL LINES OF BUSINESS AND MATERIAL GEOGRAPHICAL AREAS WHRE THE BUSINESS IS CARRIED

The Company operates in the field of non-life insurance in Poland and does not conduct insurance activities through foreign branches. Detailed data indicating the geographical structure of sales are presented in chapter A.2.2 of this Report.

The business of the Company covers insurance activity in non-life and life insurance, covered with Section II of the Appendix to the Act on Insurance and Reinsurance Activity.

The Company offers a range of insurance products covering inter alia non-life insurance like motor insurance, property accident insurance, civil liability insurance and personal insurance.

In order to ensure effective management of such differentiated portfolio, the Company groups its products by uniform risk types. The resultant business segmentation is used for the purposes of the strategic and operational planning as well as control of results on an ongoing basis.

For statutory purposes and in compliance with Section II of the Appendix to the Act on Insurance and Reinsurance Activity the Company classifies risks according to statutory groups.

For reporting purposes in compliance with Solvency 2, the Company classifies risks to the following business lines:

- motor vehicle liability insurance,
- other motor insurance,
- fire and other damage to property insurance,
- general liability insurance,
- marine, aviation and transport insurance,
- medical expense insurance,
- income protection insurance,
- credit and suretyship insurance,
- legal expenses insurance,
- assistance,
- miscellaneous financial loss,
- non-proportional property reinsurance,
- non-proportional casuality reinsurance,
- non-proportional MAT reinsurance,
- annuities from NL not relating to health insurance.

The detailed description of the material business lines is presented in chapter A.1.1 of this Report.

THE KEY ELEMENTS OF THE SYSTEM OF GOVERNANCE

The Company's system of governance has been established

and implemented as that at each level it ensures assurance of defined objectives of the Company, with maintaining at the same time the principle of regularity
and caution, consistent with Solvency 2 principles.

In particular, the Company has a transparent and adequate organizational structure, in which the subordination, tasks, duties and responsibilities and reporting lines are clearly and appropriately allocated as well as an effective information disclosure system ensures proper communication on each its level.

Within the system of governance, the Company ensures that persons actually managing the Company or performing other key functions meet the fit and proper requirements - proportionally to the activities performed - in accordance with the Solvency 2 principles. The remuneration system including, in particular, the management of the Company, was determined in such a way as to prevent excessive risk-taking practices, i.e. basic salary constitutes an adequately high part of total remuneration.

The Company does not outsource neither management over the Company or any key functions. Any commissioning of decision authority (supervision) with respect key functions is prohibited. However, subject to approval by the Company's Management Board, it is possible to outsource certain activities performed within key functions subject to the service provider complying with the requirements of competence and propriety as set forth in Solvency 2.

It is allowed to outsource basic or valid activities, which include:

- making declarations of will on claims for damages or other benefits due under insurance contracts and insurance guarantee contracts,
- making declarations of will on claims for damages or other benefits due under active reinsurance contracts and retrocession.

The Company's uninterrupted operations are ensured by a functioning Crisis Management System, whose elements are annually updated and tested: Business Continuity Plan (BCP) and Emergency Recovery Plan (ERP).

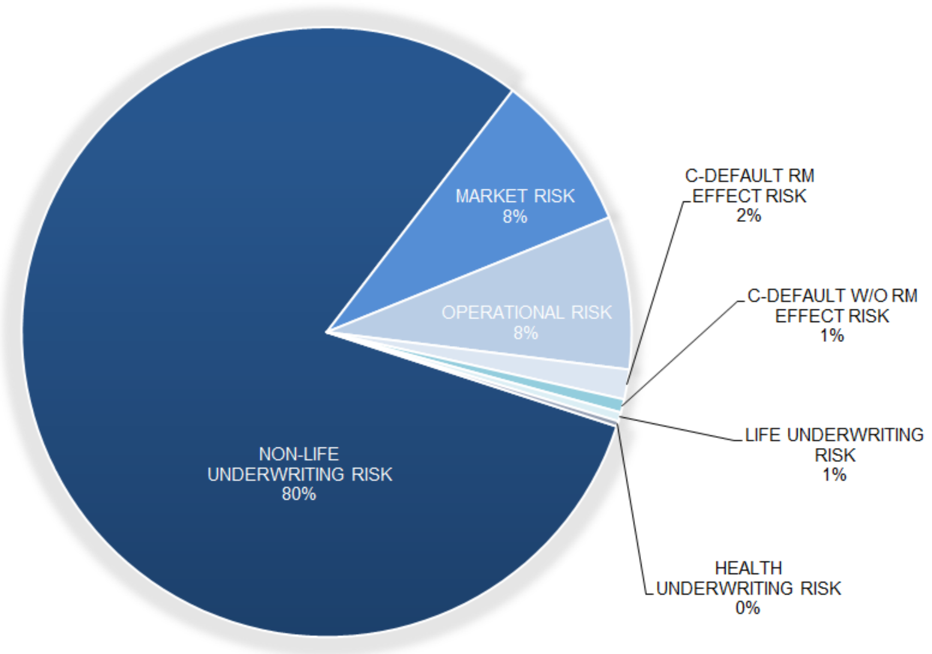
Once a year the system of governance is reviewed in terms of the nature, scale and complexity of the risks inherent in the Company's business. The Supervisory Board positively assessed the Company's system of governance in 2019 and comparative period.

THE COMPANY'S KEY RISK

The key types of risk to which the Company is exposed within its operations and which, to a large extent, determined the implementation of the Company's business strategy, are underwriting risk and market risk. Their total share in the Solvency Capital Requirement, as at 31 December 2020, was 88%, of which 80 pp. constituted underwriting risk in non-life insurance and 8 pp.- market risk. Taking into account the principle of proportionality and the scale and nature of operations, these risks are covered by the overall risk management process and additionally are subject to established internal limits and warning levels.

Other risks significantly affecting the operations of the Company and included in the standard formula are operational risk and counterparty default risk, which total share in the Capital Solvency Requirement as at 31 December 2020 were 8% and 3%, respectively.

The chart below presents the Company's risk profile at the end of the reporting period in its main modules.



Apart from the above risks the Company also recognizes as significant: individual risks identified as part of the ORSA process and identified during the preparation of the Business Plan.

A detailed description of the risks, including those identified as part of the ORSA process in 2020 and during the preparation of the Business Plan, along with the risk management process was presented in part C of this Report.

THE COMPANY'S SOLVENCY RATIO AT THE END OF REPORTING PERIOD

The CAR S2 is the ratio of eligible own funds in the amount of PLN 3 518 075 thousand to the Solvency Capital Requirement of PLN 2 165 787 thousand.

All eligible own funds were classified as Tier 1, i.e. as of the highest quality in terms of availability in case of covering losses. The duration of all Company's own funds is unlimited.

The value of eligible own funds, described in detail in part E of this Report, represents an excess of assets over liabilities of PLN 3 941 502 thousand deducted by the accrued net financial result for 2019 in the amount of PLN 370 000 thousand and an asset tax of PLN 53 427 thousand to be paid in the next 12 months.

The excess of assets over liabilities in the amount of PLN 3 941 502 thousand represents the difference between assets valued in compliance with the requirements of Solvency 2 in the amount of PLN 14 357 880 thousand and the liabilities valued in compliance with the requirements of Solvency 2 in the amount of PLN 10 416 378 thousand. Detailed information on methods and assumptions adopted for assets and liabilities and technical provisions valuation are in part D of this Report.

The Solvency Capital Requirement of PLN 2 165 787 thousand and the Minimum Capital Requirement of PLN 974 604 thousand were calculated using the standard formula and is presented in part E of this Report.

The S2 ratio at the end of 2019 amounted to 162.4% is significantly higher than the legal requirements and target level (130%) specified in the Company's Capital Management Policy, as detailed in part E of this Report.

Considering the Business Plan, it is expected that the Solvency Capital Requirement and Minimum Capital Requirement coverage will be maintained at levels significantly above regulatory requirements.

SIGNIFICANT EVENTS WITH MATERIAL IMPACT ON THE SOLVENCY AND FINANCIAL CONDITION OCCURRED OVER THE REPORTING PERIOD

In 2020 the following significant events occurred in the Company.

- the COVID-19 pandemic, the impact of which on the Company's operations is described in detail in Part C.7 of this Report,
- the changes in the composition of the Supervisory Board and the Management Board of the Company, described in detail in part B.1.1 of this Report,
- lack of dividend payment from the net profit for 2019, described in detail in part A.1.2 of this Report.

MATERIAL CHANGES OVER THE REPORTING PERIOD

The change in risk profile

Significant changes in the risk profile did not occur in 2020. There was slightly increase in share of underwritting non life insurance risk (2 pp.) and decrease in the share of market risk (2 pp.).

The change in the valuation for Solvency 2

As regards the valuation of technical provisions in 2020, the largest changes took place in the case of annuity provisions. They relied on changing the used annuity indexation model and establishing a new provision component concerning a expected increase in annuity benefits for the care of injured person by their family members.

Apart from the above other significant changes in the scope of operations, governanve system, risk profile, valuation for Solvency 2 purposes and capital management did not occur in the Company's in the reporting period

ANNUAL REPORTING IN THE SOLVENCY 2 SYSTEM

This Report prepared as at 31 December 2020, including qualitative information and quantitative information (in the form of annexes to the Report) is the Report prepared in accordance with the requirements of Solvency 2.

This Report has been reviewed by a certified auditor and received an unqualified opinion.

The report is public and after approval is posted on the Company's website.

In the extension to this Report and in accordance with the principles of Solvency 2, the Company submits the following reports to the supervisory authority:

- Regular Report for the purpose of OPFSA supervision (RSR),
- annual reporting templates prepared on the basis of Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015.

The Reports as at 31 December 2019, including data for the financial year ended 31 December 2019, were submitted to the supervisory authority on 7 April 2020.

The date of submitting the above reports as at 31 December 2020, covering data for the financial year ended 31 December 2020, is on 8 April 2021.

CONCLUSIONS

According to the Report for 2020, the Company meets the requirements of the new Solvency 2 regime, in the scope of:

- implementation of the governance system, including key functions, fit and proper reqirements and outsourcing rules,
- valuation of assets, liabilities and technical provisions,
- calculation of own funds and capital requirements,
- reporting and monitoring the current and expected (in the perspective of the Business Plan) the CAR S2.

As at 31 December 2020 the Company's S2 ratio amounted to 162.4%. i.e. significantly higher than the legal requirements and higher by 32.4 pp. than target level specified in the Company's Capital Management Policy. Such a strong solvency ratio confirms that TUiR "WARTA" S.A., despite the crisis caused by the pandemic COVID-19, maintains a strong and stable financial condition.

A Business and Performance

This chapter contains characteristics of the Company's business profile and comments of the financial results in reporting and comparative period with specific focus on results from insurance and investment activities.

A.1 Business

A.1.1 Information on the Company

THE COMPANY'S BUSINESS NAME AND REGISTERED OFFICE

The Company was established in 1920 and operates under the name of Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" Spółka Akcyjna and it may use the following abbreviations: Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. or TUiR "WARTA" S.A. The Company's registered office is located in Warsaw, at Chmielna 85/87.

REGISTRATION WITH THE COMMERCIAL COURT

The Company is registered with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000016432. The duration of the Company is unlimited.

SHARE CAPITAL

The share capital of the Company amounts to PLN 187 938 580,00 and is composed of 18 793 858 series A ordinary registered shares having the nominal value of PLN 10,00 each.

NAME AND REGISTERED OFFICE OF THE PARENT ENTITY

The parent entity of the Company (the Core Shareholder), holding 14 234 560 shares equivalent to 75.74% votes at General Assembly, is HDI International AG with its registered office in Hannover (Federal Republic of Germany) at HDI-Platz 1.

The parent entity of the Core Shareholder is Talanx AG with its registered office in Hanover (Federal Republic of Germany) at HDI-Platz 1 which holds 100% shares in HDI International AG.

HDI VaG, a mutual insurance company, holding 79% of shares, is the largest shareholder of Talanx AG. The remaining 21% of shares are in the free float.

Talanx Group companies operate under various brands operating in over 150 countries around the world.

The Talanx Group operates in the areas shown in the organizational chart published on the website https://www.talanx.com/media/Files/talanx-gruppe/pdf/k-struktur.pdf.

NAME AND REGISTERED OFFICE OF A MINORITY SHAREHOLDER

The minority shareholder of the Company, holding 4 559 298 shares equivalent to 24.26% votes at General Assembly, is Meiji Yasuda Life Insurance Company with its registered office in Tokyo (Japan) at 1-1, Marunouchi 2-chome, Chiyoda-ku.

The ownership structure of the Company and its Shareholders, which additionally includes Polish companies included in the Talanx Group, is presented in the diagram below.

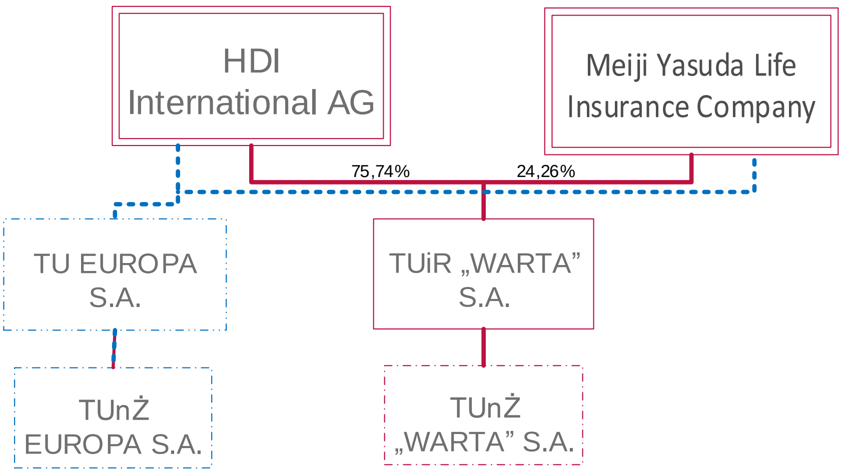


Figure 1.
The ownership structure of the Company and its Shareholders, which additionally includes Polish companies included in the Talanx Group

NAME AND REGISTERED OFFICE OF SUBSIDIARY COMPANY

The Company holds 100% shares in Towarzystwo Ubezpieczeń na Życie "WARTA" S.A. with its registered office in Warsaw, at Chmielna 85/87, registered with the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, under KRS number 0000023648.

The share capital of TUnŻ "WARTA" S.A. amounts to PLN 311 592 900,00 and is divided into 3 115 929 shares having a nominal value of PLN 100,00 each. All shares are registered shares and are held by TUiR "WARTA" S.A.

NAME AND REGISTERED OFFICE OF THE SUPERVISORY AUTHORITY

The supervisory authority of the Company is the Polish Financial Supervision Authority with its registered office in Warsaw at Piękna 20 street.

The supervisory authority of the Talanx Group is Bundesanstalt für Finanzdienstleistungsaufsicht with its registered office in Bonn (Federal Republic of Germany) at Graurheindorfer 108.

NAME AND REGISTERED OFFICE OF THE AUDITOR

The auditor responsible for the audit of this Solvency and financial condition report is Tomasz Orłowski (registration no. 12045), representing PriceWaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k with its registered office in Warsaw at Polna 11.

PriceWaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k is an entity authorised to audit financial statements, listed under number 144.

Pursuant to competences referred to in Art. 24.17 of the TUIR "WARTA" S.A. Articles of Association, the Company's Supervisory Board approved choice of the entity authorised to audit this Report in its resolution No. 01/2020 of 17 March 2020.

CHARACTERISTICS OF MAJOR BUSINESS LINES OF THE COMPANY

For reporting purposes in compliance with Solvency 2, the Company classifies risks to the following business lines:

- motor vehicle liability insurance,
- other motor insurance,
- fire and other damage to property insurance,
- general liability insurance,
- marine, aviation and transport insurance,
- medical expense insurance,
- income protection insurance,
- credit and suretyship insurance,
- legal expenses insurance,
- assistance,
- miscellaneous financial loss,
- non-proportional property reinsurance,
- non-proportional casualty reinsurance,
- non-proportional MAT reinsurance,
- annuities from NL not relating to health insurance.

Herebelow there is brief characteristics of the Company's core business lines:

Motor vehicle liability insurance

Motor vehicle liability insurance is a core business line of the Company. This line includes all kinds of civil liability insurance resulting from the ownership and use of land motor vehicles and civil liability of carriers (excluding accepted non-proportional reinsurance and annuities regarding claims incurred and related costs). The core groups within those insurance products include:

- Individual civil liability,
- Corporate civil liability.

Individual civil liability insurance is the largest part of the insurance portfolio at TUiR "WARTA" S.A. Products in this portfolio are sold under the brand of Warta and the brand of HDI. Sales are carried out primarily by the retail network of WARTA and HDI, and to a lesser extent through the corporate network and alternative distribution channels, e.g. car dealers.

Corporate civil liability insurance products are sold solely under the Warta brand. The product offer is addressed to business (fleets of minimum 5 vehicles) and to leasing companies. Sales are carried out by the corporate and the retail networks of WARTA and HDI.

Other motor insurance

The other motor insurance covers land vehicle accident and theft insurance (including rolling stock and vehicles not powered on their own), apart from risks insured under the motor insurance line and risks from accepted non-proportional reinsurance.

Similarly to motor vehicle liability insurance, the Company recognises two core segments in its vehicle accident and theft insurance:

- Individual vehicle accident and theft insurance,
- Corporate vehicle accident and theft insurance.

Both individual and corporate vehicle accident and theft insurance is offered in similar packets to civil liability insurance in order to ensure that the products are complementary and suited to the customers' varied expectations. Individual insurance products are sold under the brands of Warta and HDI while corporate insurance – solely under the Warta brand.

For distribution, the Company uses the same channels as for civil liability insurance.

Fire and other damage to property insurance

With its property insurance products, the Company insures damage caused by natural disasters, including property damage caused by: fire, explosions, storms and other disasters as well as nuclear energy, landslides and other property damage caused by hail or frost and other reasons, e.g. theft (excluding accepted non-proportional reinsurance).

There are the following groups of property insurance:

- property and technical insurance for business entities,
- property individual insurance for individuals.

Property and technical insurance products cover products insuring risks related to maintenance of buildings and premises as well as construction and erection works in the corporate insurance segment. Sales are carried out mainly by the corporate and key customer network, to a lesser extent, by the retail networks of WARTA and HDI.

For individual customers in the sphere of property insurance, TUiR "Warta" S.A. offers primarily insurance connected with the dwelling. Sold insurance keeps being based on two products: WARTA DOM+ – insurance against random events that may be extended to cover the risk of burglary, robbery and devastation with an additional assistance packet, and WARTA DOM KOMFORT+ – all risks insurance with additional options and an extensive assistance packet Products in the segment are mainly sold by the retail networks of WARTA and HDI.

This group does not cover the risks covered with other motor insurance and marine, aviation and transport insurance.

Other

In addition to the business lines described above, indicated by the Company as significant, all other business lines have been grouped for the purpose of this report to other items. The other insurance in the Company includes in particular:

- general liability insurance, covering the entire spectrum of products addressed to both large companies (products such as managers liability insurance, third party liability related to business activities, including product liability), as well as to small and medium-sized enterprises and to individual clients (third party liability related to business activities, tourist liability insurance, civil liability related to agricultural activity, civil liability insurance in private life and housing),
- marine, aviation and transport insurance, covering both aircraft hull insurance, sea and inland waterway vessels hull insurance and cargo insurance, as well as civil liability insurance related to the possession and use of aircraft and sea and inland waterway vessels (including carrier's liability insurance),
- medical expense insurance covering the costs of medical services, including travel insurance and other health products sold through the bancassurance channel,
- income protection insurance, covering personal accident insurance, also including insurance of accidents at work and occupational diseases - the above mentioned insurances applies to both motor insurance (individual and fleet), as well as travel and school insurance and consequences of unfortunate events in private life,
- credit and suretyship insurance, mainly related to contract and customs bonds,
- legal expenses insurance,
- assistance insurance, including assistance relating to motor and tourist insurance as well as assistance related to other aspects of the client's life - the above-mentioned products are offered to both individual and corporate clients,
- miscellaneous financial loss, including the risk of losing a job, as well as lost profits due to business interruption and 'OC szybka wypłata' product (motor TPL fast payment product),
- accepted non-proportional reinsurance,
- life insurance obligations - annuities from NL not relating to health insurance (regarding claims incurred and related costs).

A.1.2 Material economic events

MATERIAL BUSINESS EVENTS

Dividend for 2019

As consequence of announced the epidemics in 2020 in Poland and the possible negative economic consequences of this state and the expected impact on the insurance sector, on 26 March 2020 the Chairman of the PFSA sent all insurance companies a letter with a recomendation that they should retain all profit generated in previous years. Based on that letter the Company did not pay out any dividend from the net result from 2019.

Dividend for 2019 received from the subordinated company

Based on the PFSA's letter dated on 26 March 2020 TUnŻ "WARTA" S.A. did not pay TUiR "WARTA" S.A. any dividend for 2019.

LEGAL ENVIROMENT

In 2020, a number of amended and new legal regulations entered into force, covering also area of entities conducting insurance activity.

The most important regulatory changes include:
Act of 19 July 2019 amending the act on reducing payment gridlocks entered into force on 1 January 2020. It is the

implementation of Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions.

The amendment includes increasing payment discipline in business transactions and strengthening the legal protection of the weaker side of economic relations, i.e. micro, small and medium-sized enterprises in relation to large entities.

From insurance companies point of view the main amendment is introduction of an obligation for annual reporting on contracts concluded (excluding payments from insurance contracts) in the previous year.

Throughout 2020, the government adopted a number of legislative initiatives, commonly known as anti-crisis shields, aimed at protecting the Polish state, employers and employees against the crisis caused by the corona virus COVID-19 pandemic. Shields are packages of legislative solutions based on five pillars: protection of jobs and safety of employees, financing of entrepreneurs, health protection, strengthening the financial system, public investments.

From the employers' point of view, the most important new regulations introduced by the shields include inter alia:

- possibility of instructing an employee to go on “home office”,
- additional care allowance - if a nursery, children's club, kindergarten or school is closed due to COVID-19,
- introducing in the Commercial Companies Code the possibility of voting and participating in meetings of Management Boards, Supervisory Boards and General Assemblies by means of direct remote communication,
- changing in the Act on Statutory Auditors, Audit Firms and Public Supervision, the provision on limiting the 5 years maximum time of uninterrupted duration of statutory audit engagements carried out by the same auditing company to 10 years,
- possibility of changing payment dates and deadlines of filing tax declarations, repayment in instalments, accounting for the loss of 2020 in 2019, extending the deadlines for preparing transfer pricing documentation.

Act of 28 November 2020 amending the act on personal income tax, the act on corporate income tax, the act on flat-rate income tax on certain revenues generated by natural persons and certain other acts.

The main objective of the act is to tighten the corporate income tax system so as to ensure that the amount of tax paid by large enterprises, in particular international enterprises, is linked to the actual place of their income. The main goal of changes in transfer pricing is to combat the so-called tax havens and the reduction of bureaucratic and administrative burdens for entrepreneurs in the field of transfer pricing, during the period of an epidemic threat or epidemic in connection with COVID-19.

MATERIAL EVENTS IN THE AREA OF RISK MANAGEMENT

On 1 January 2020, the amended Implementing Regulation 2019/2102 entered into force in the part concerning the disclosure of information used to calculate the adjustment for deferred income taxes capacity to absorb the losses. Therefore, the Company has developed a detailed policy in this regard.

The SARS-CoV-2 pandemic has significantly changed the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. The impact of the related situation from COVID-19 to the Company concerns short-term and long-term perspectives. The timing of the crisis will be decisive in determining the severity of its consequences.

During the 2020 year, the Company implemented detailed, cyclical monitoring and reporting of the impact of COVID-19 on the results and the solvency of the Company, both for internal purposes and the needs of the supervisory authority.

More detailed information in this regard is presented in chapter C.7.

A.2 Underwriting Performance

The underwriting performance, analysed below, is in compliance with the rules applicable to the statutory report.

In 2020, the company recorded an increase in both the written premium and earned premium. The net premium written in 2020 amounted to PLN 5 969 323 thousand and was higher by 3.9% compared to 2019. Net earned premium increased in the same period by 6.8%. The higher dynamics of the earned premium in 2020 compared to the written premium resulted from the distribution of sales over time, and in particular from the relatively higher dynamics of the written premium in the second half of 2019.
On the one hand, the higher level of insurance premiums in 2020 was significantly affected by the high level of sales of the motor hull portfolio and other additional motor insurance accompanying MTPL insurance (e.g. accident insurance, Assistance, etc.), with the other – a dynamically developing portfolio of property insurance, in particular fire and other damage to property insurance and general liability insurance.

The total costs of the Company in 2020 amounted to PLN 5 490 630 thousand, which means an increase by 10.8% compared to the previous year. In accordance with the approach used in Appendix 2 to this Report, the above costs include: net claims incurred, expenses incurred and other costs.

The ratio of total costs to net earned premium in 2020 was 95.2%. For individual cost components, this relation was as follows: net claims incurred – 56.2%, expenses incurred – 35.2%, other costs – 3.8%. For the total ratio of net claims in the amount of 56.2% comprised the ratio of net claims paid in the amount of 44.6% (decrease by 3.3 pp. compared to the previous year) and the ratio of changes in net claims provisions of 11.6% (increase by 6.0 pp.) due to the reduction of the effective technical rate.

Compared to the previous year, the Company recorded an increase in the ratio of total costs to the net earned premium by 3.4 pp, in particular in terms of the net claims ratio, which increased in 2020 compared to the previous year by 2.7 pp. (in particular in the field of MTPL insurance and, to a lesser extent, fire and other damage to property insurance) and the other costs ratio, which showed a increase of 0.8 pp, while the expenses incurred ratio was lower by 0.1 pp. compared to 2019.

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TABLE 1. UNDERWRITING PERFORMANCE

Data in compliance with Appendix 2	2020	2019	Y/Y
Gross premium written	6 246 293	6 029 582	4%
Net premium written	5 969 323	5 745 239	4%
Net premium earned	5 770 387	5 403 053	7%
Net claims incurred, of which:	3 243 438	2 892 167	12%
Incurred expenses, of which:	2 029 967	1 906 111	6%
liquidation costs + change of provisions for liquidation costs	437 301	463 033	-6%
investment costs	16 145	9 408	72%
Other expenses, of which:	217 226	156 541	39%
other technical costs	217 226	156 541	39%

A.2.1 Insurance activity split into material business lines

The level of gross premium written in 2020 amounted to PLN 6 246 293 thousand , which is an increase of 3.6% compared to 2019.

The structure of gross written premium split into individual business lines in 2020 and 2019 amounted as follows:

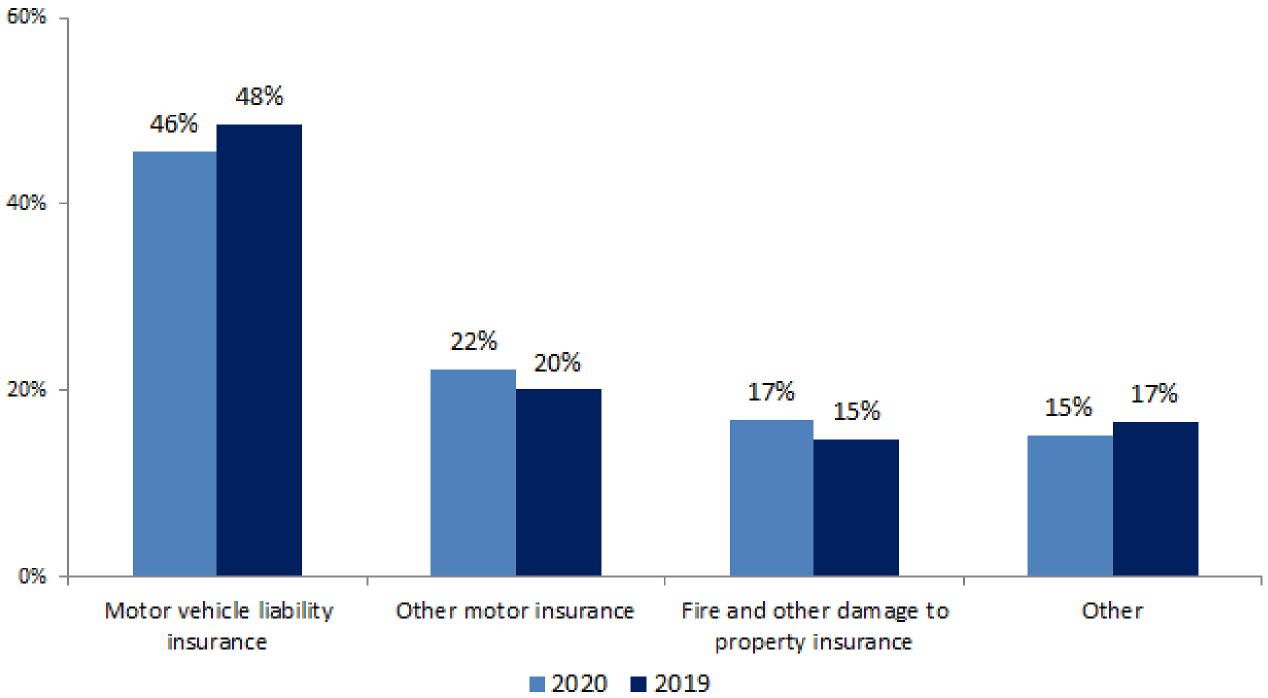


Figure 2.
Gross premium written split into business lines

The dominant share in the portfolio in 2020 have motor insurances: motor vehicle liability insurance and other motor insurance (67.9% of the premium portfolio).

At the same time, in 2020, a strong increase in the share of other motor insurance (by 2.2 pp.) and fire and other damage to property insurance (by 2.1 pp.), in the Company's portfolio should be noted.

In 2020 strongly growing share of the portfolio included, among others: the motor hull insurance and other motor insurance (covering supplementary insurance) and property insurance targeted both to individual clients (home insurance), small and medium-sized enterprises and large corporations (corporate property insurance and construction insurance). Therefore, in 2020, the highest sales dynamics was recorded by the following lines: Fire and other damage to property insurance (118.3%) and Other motor insurance (115.1%).

The amount of net earned premium as well as net claims and costs incurred together with the percentage relation these costs to the net earned premium, split into material business lines presents figure 3.

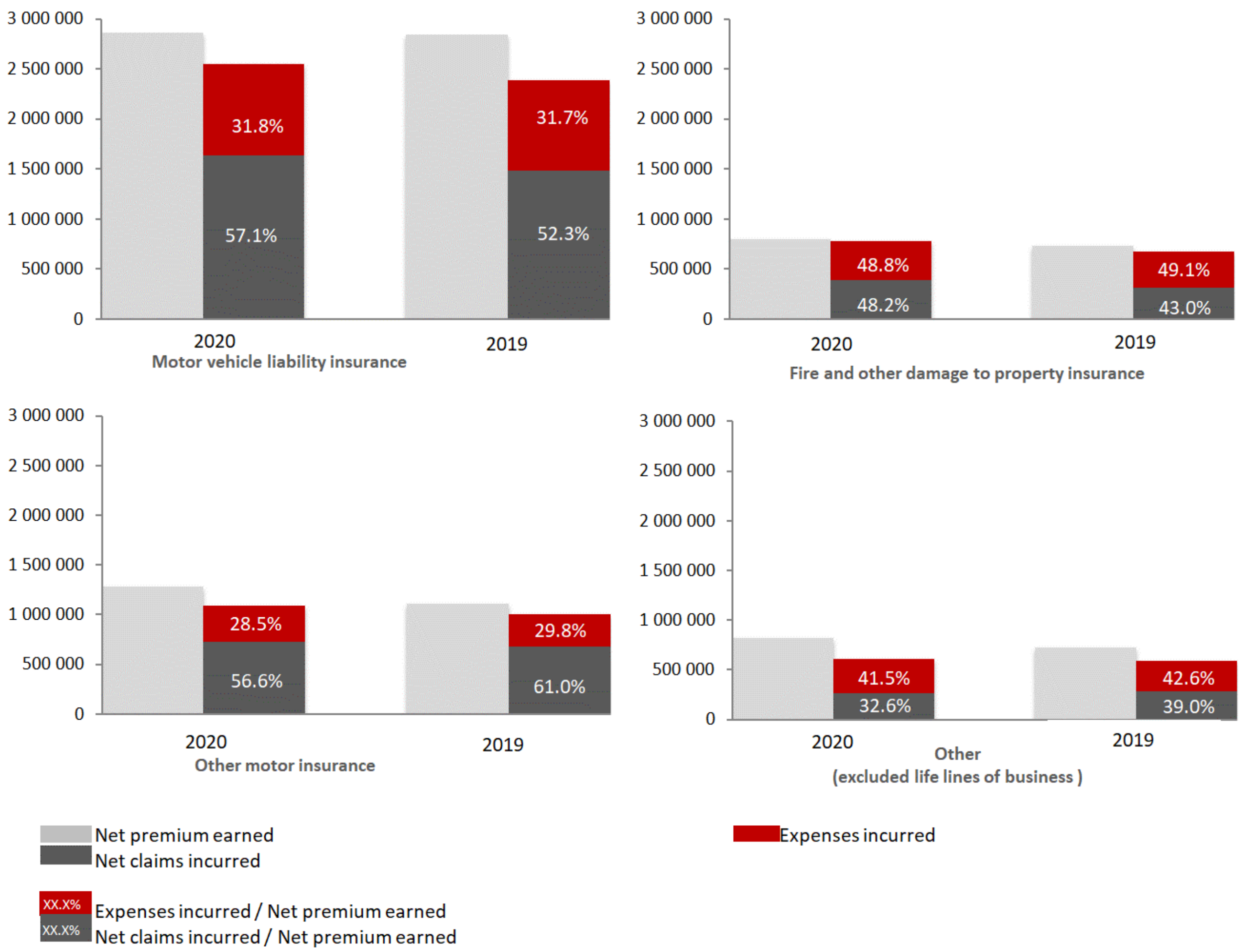


Figure 3.
Revenues and costs split into business lines

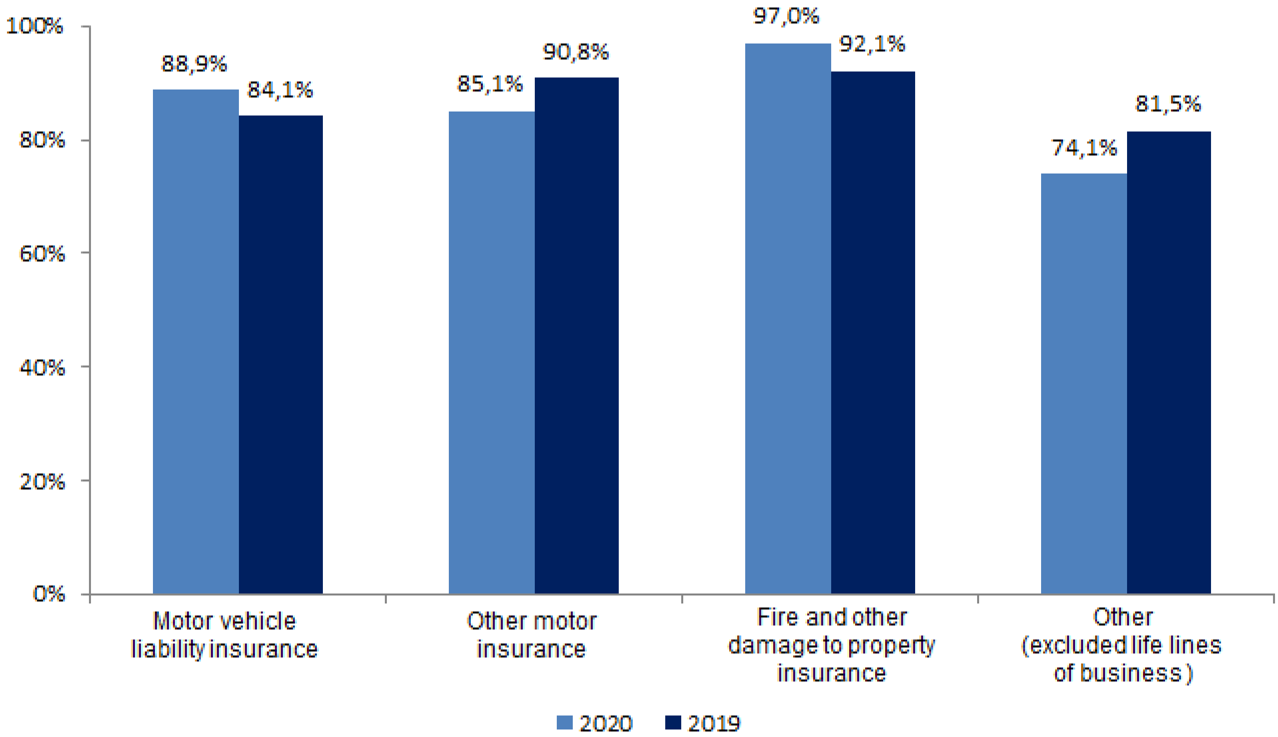
All major business lines in 2020 were characterized by a net combined ratio below 100%.

The combined ratio was 91.4% (87.1% excluding the life line) and increased by 2.6 pp compared to the previous year (by 0.9 pp. excluding life line).
The evolution of the ratio in the individual business lines is due to the strong impact of COVID-19 in 2020, in particular, from the positive impact of the decrease in the frequency of claims in the motor vehicle segment, the negative impact of the reduction in the effective technical rate in connection with the decline in interest rates and the negative impact of higher claims ratio in the life insurance line. Additionally, the company recognized the higher cost of catastrophic claims in property insurance and the negative impact of the expected higher costs of caring for the victims of motor accidents.

These factors resulted in an increase in the combined ratio in the following lines: Motor vehicle liability insurance (by 4.8 pp.) and Fire and other damage to property insurance (by 4.9 pp.), as well as an increase in the negative impact of the life line on the combined ratio compared to 2019.

At the same time, a decrease in the combined in the Other vehicle insurance line by 5.7 pp. and the Other line by 7.5 pp. ratio in relation to 2019 should be noted (detailed specification of the Other line can be found in chapter A.1.1).

Evolution of the net combined ratio* split into material business lines presents figure 4:



* Net combined ratio is calculated as the ratio of net claims and benefits plus costs incurred compared to the net premium earned

Figure 4.
Net combined ratio split into business lines

A.2.2 Insurance activity split into geographical areas (regions)

The majority of sales in 2020 concerned risks located in Poland.

The Company does not operate insurance business through foreign branches.

The share of sales of the Polish risks was similar to the last year and was 99.7% for gross premium written and the same for net premium written.

The largest country in terms of sales outside of Poland was, similar to the last year, Germany with 0.1% share in the gross written premium.

A.3 Investment Performance

The investment performance, analysed below, is in compliance with the rules applicable to the statutory report.

TABLE 2. INVESTMENT PERFORMANCE

Investment activity	2020	2019	Y/Y
Investment income	480 992	465 534	3%
Investment income from real estate	122	116	5%
Investment income from subordinates	0	31 692	-100%
Investment income from interests, shares, other variable-income securities, participations units and investment certificates in investment funds	510	3 169	-84%
Investment income from debt securities and other securities with fixed income	231 341	222 543	4%
Investment income from deposits with credit institutions	956	2 955	-68%
Investment income from other investments	24 891	31 745	-22%
Gain on revaluation of investments	0		0%
Gain on realisation of investments	223 171	173 313	29%
Unrealised gains on investments	199 037	58 509	240%
Costs of investments activities	165 550	125 532	32%
Real estate maintenance costs	334	243	37%
Other costs of investments activities	36 076	31 238	15%
Loss on revaluation of investments	5 269	11 773	-55%
Loss on realisation of investments	123 872	82 278	51%
Unrealised losses on investments	131 097	36 951	255%
Investment revenue	383 381	361 560	6%
Changes of revaluation reserve	139 354	59 876	133%
Total investment revenue	522 735	421 436	24%

The most important components of investment income in 2020 were:

- income from debt securities and other fixed-income securities,
- gains on the realization of investments, achieved on the sale of financial instruments, including redemptions of investment fund participation units, as well as positive performance of results on derivatives; strong growth relative to previous year is due to higher valuation changes of realizes positions resulting from increase of volatilities in interest rate, currency and equity markets,
- income from other investments.

In the case of income from investments in subsidiaries, the drop to zero is due to lack of dividend from the subsidiary TUnŻ „WARTA" S.A.

Unrealized gains on investments include positive revaluation of the financial instruments recognized in the profit or loss. Their strong increase relative to previous year is due to higher valuation changes of financial instruments, mainly due to rising currency rates against zloty and partially also due to decreasing interest rates.

In terms of the investment charges, the most important elements were:

- losses on the realization of investments resulting from the sale of the financial instruments and negative realization of results on derivatives, the increase compared to the previous year resulted from stronger losses in valuations of realized positions due to increase of volatilities in interest rate, currency and equity markets,
- other investment charges.

Unrealized losses on investments result from the negative revaluation of financial instruments in the financial result. This item largely compensates for the item "Unrealized gains on investments", in particular in the case of hedging a currency position by derivatives that remain open as at the end of the reporting period.

Profits and losses recognized directly in equity as a change in revaluation reserve result, similarly to the year before, mainly from a change in the valuation of financial assets classified as Available for Sale (PLN 183 042 thousand against PLN 139 371 thousand a year earlier) and sale of financial assets classified as Available for Sale and consequent realization of results related to revaluation recognized earlier in revaluation reserve (PLN -73 162 thousand against PLN -74 954 thousand a year earlier). Additionally, there was a strong increase of the fair value of the subsidiary TUnŻ "WARTA" S.A. with the equity method valuation (PLN 45 204 thousand vs PLN 2 977 thousand a year before).

A.3.1 Asset classes

The volume of investment assets as of 31 December 2020 was 20% higher compared to the end of 2019. This significant growth is the result of dynamic development of gross written premium in the motor insurance business, as well as increase of bonds' valuations due to falling yields.

The growth of investments level was mainly due to growth of debt securities and other fixed-income securities.

The structure of asset portfolio at the end of reporting period is presented below.

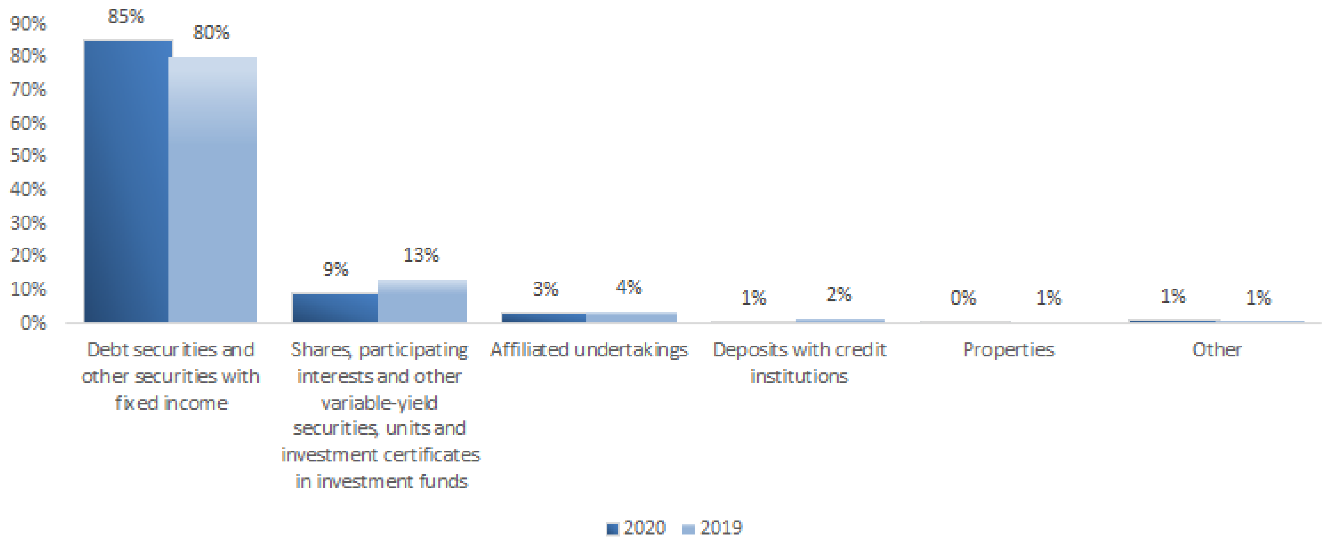


Figure 5.
Structure of investment portfolio

Except for affiliated company TUnŻ "WARTA" S.A. and relatively small value of properties the investment portfolio consists mostly of safe assets, like bonds or bank deposits. The position "Shares, participating interests and other variable-yield securities, units and investment certificates in investment funds" consists mainly of units of investment funds of debt character and in a small part also equities or ETFs based on equity and commodity markets. The investment results by asset classes are presented below:

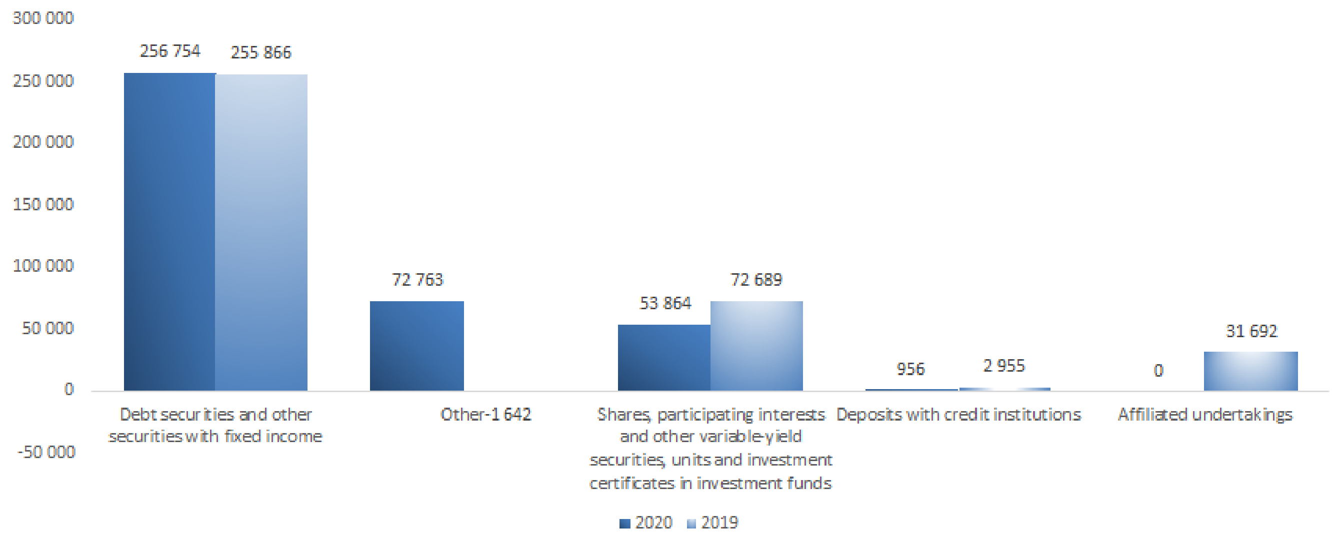


Figure 6.
Investment results by asset classes in reporting and comparative period

Income from debt securities and other fixed-income securities, i.e. the main part of the investment portfolio, was mostly regular interest income and relatively small component was the result of fair value revaluation of securities or realization of gains and losses previously recognized in revaluation capital. The change vs. the previous year was small which resulted mainly from compensation of increase of this part of portfolio volume with drop of interest rates and yield of debt securities portfolio.

Income from shares, participating interests and other variable-yield securities, units and investment certificates in investment funds resulted mainly from revaluation of units of debt-type investment funds recognized in P&L as well as realization of results due to redemption of units. Main reason of the decrease vs previous year were impairments on equity investments and lower revaluation of units of investment funds recognized in P&L.

Income from investments in affiliated undertakings are due to dividend from TUnŻ "WARTA" S.A. Because of regulatory requirements related to the COVID-19 crisis the subsidiary did not pay dividend in 2020.

Income from deposits with credit institutions resulted mainly from short-term investment of cash hold for liquidity needs of investment portfolio as well as for operating activity of the Company (premiums, claims, cost payments). Decrease vs previous year results from interest rate cuts.

Other investment income was caused mainly by the result on derivatives hedging FX and equity risks , as well as in the FX-related revaluation of securities, deposits and cash denominated in foreign currencies. The increase vs previous year was related to positive revaluation of derivatives due to high market volatilities and increase of currency exchange rates vs PLN while a year before the market volatilities, including FX, were much lower.

A.3.2 Securitization investments

In the reporting period the Company did not invest in securitization.

A.4 Performance of other activities

A.4.1 Other operating expenses and income

The table 3 presents results on the core areas of other activity.

TABLE 3. PERFORMANCE OF OTHER ACTIVITIES

Other activity	2020	2019	Y/Y
Performance of other activity	-49 560	-45 019	-10%

The main item of the performance from other operating activities is the other operating expenses related to the introduced asset tax from certain financial institutions. The value of the tax in 2020 amounted to PLN 45 386 thousand (compared to PLN 48 456 thousand in 2019). The increase in the balance of other operating expenses compared to 2019 is due to the donation in the amount of PLN 9 500 thousand to help in the fight against the COVID-19 pandemic.

A.4.2 Leasing arrangements

For the purposes of the statutory report leasing arrangements where the lessor maintains substantially all risks and rewards incidental to ownership of the leased assets are classified as an operating leasing agreements.

As at 31 December 2020 all leasing arrangements concluded by the Company were classified as an operating lease due to the extent to which the risk and rewards incidental to ownership of the leased assets are held by the Company as the lessee or the lessor.

A lessee recognizes lease payments under an operating lease and the subsequent lease instalments as operational expenses in P&L on a straight-line basis over the lease term.

A lessor recognizes lease instalments under an operating lease as income in P&L on a straight-line basis.

TUiR „Warta” S.A. as a lessee

Significant lease arrangements where the Company is a lessee are presented in table 4. With regard to the leased properties, the costs included rent expenses and additionally – in accordance with IFRS 16 – values of right-of-use assets and lease liabilities were presented.

Information presented in table 4 refer to the lease of office space, including part which is subleased to the subsidiary TUnŻ "WARTA" S.A.

TUiR “Warta” S.A. as a lessor

There is no significant lease arrangements signed by the Company which would have to be disclosed in this Report.

TABLE 4. SIGNIFICANT LEASE ARRANGEMENTS

Asset type	Contract start date	Contract end date	Expense 2020	Right-of-use assets	Lease liabilities	Security deposit and terms for its return	Renewal terms (contractual options)
Property	11.12.2006	10.12.2021	23 765	30 022	30 550	none	possible renewal for subsequent 5 years with the same conditions (except for rent and fee level); condition: lessee has to send a renewal statement to the lessor at least 6 months before a contract end date

A.5 Any other information

All material information was presented above.

B System of Governance

This chapter contains basic information on the system of governance in the Company, including the applied fit and proper requirements as well as characteristics of the key functions in the Company.

B.1 General information on the system of governance

B.1.1 Structure of the system of governance

AUTHORITIES OF THE COMPANY

The bodies of the Company, in compliance with Art. 17 of the Company's Articles of Association are as follows:

- The General Assembly,
- The Supervisory Board,
- The Management Board.

THE GENERAL ASSEMBLY

The TUiR "WARTA" S.A. General Assembly performs its tasks on the basis of the provisions of the Commercial Companies Code and the Company's Articles of Association, during convened by the Company's Management Board, ordinary General Assemblies that are held within 6 months of the end of each financial year, and at extraordinary General Assembly convened as need arises, held in the Company's premises. Minutes of General Assembly documenting the proceedings, are made as notary deeds and kept in the Corporate Legal Office in the Legal Department.

In accordance with the provisions of the Company's Articles of Association, the tasks of the General AssemblyAssembly include in particular:

- consideration and approval of the Management Board report from operations of the Company and financial statements of the Company for the previous financial year,
- determination of profit distribution, including dividend payment or loss coverage,
- setting up and releasing of special purpose funds and capitals,
- appointment and dismissal of members of the Supervisory Board, determination of their remuneration and granting a vote of approval to members of the Company's bodies for the performance of their responsibilities,
- decisions related to merger, dissolution or liquidation of the Company,
- any change concerning share capital (in particular increase or decrease of the Company's share capital) and issuance of the Company's new shares,
- other matters stipulated in the provisions of the Commercial Companies Code.

SUPERVISORY BOARD

The Supervisory Board performs its tasks on the basis of the Code of Commercial Companies and the Company's Articles of Association and the Regulations of the Supervisory Board. The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation. Decisions of the Supervisory Board are made in the form of resolutions at its Assemblys or in justified circumstances with the use of means of remote communication or by correspondence. Minutes documenting the proceedings of the Assembly and resolutions approved outside of Assembly, are stored in the Corporate Legal Office in the Legal Department or – in case of confidential personnel decisions – in the HR Department.

In accordance with the provisions of the Company's Articles of Association , the tasks of the Supervisory Board include in particular:

- evaluating of the Management Board report on the Company's operations and financial statements for the previous financial year with regard to their conformity with the books and documents as well as with the actual state of affairs,
- evaluating proposals made by the Management Board concerning profit allocation or loss coverage,
- submission to the General Assembly of an annual written report from the results of the above reviews,
- appointment of the external auditor to perform audits of the Company's financial statements,
- appointment and dismissal of members of the Management Board,
- conclusion, amendment or termination of employment contracts with members of the Management Board or other contracts related to the function of members of the Management Board; those tasks are performed by the Chairman or Vice Chairman on behalf of the Supervisory Board,
- approval of performing important actions e.g. acquisition or sale of significant real estate, acquisition of an enterprise or disposal of it or its part, merger with another entity,
- approval of Business Plans and Budgets,
- approval and amendments to the Regulations of the Supervisory Board and approval of the Regulations of the Management Board,
- approval of other issues related inter alia to:

- purchase or disposal of the enterprise,
- purchase of shares, ownership rights or perpetual usufruct rights,
- merger or joining a joint venture,
- expenditures by the Company resulting in an excess of the Budget approved for the year,
- granting of loans to third parties,
- modifications to the Company's share capital and dividend payment.

As at 31 December 2020, the Supervisory Board was composed of:

- Sven Fokkema – Chairman of the Supervisory Board,
- Oliver Schmid – Vicechairman of the Supervisory Board,
- Takeshi Kamoshita – Member of the Supervisory Board,
- Krzysztof Kokot – Member of the Supervisory Board,
- Christian Müller - Member of the Supervisory Board,
- Michael Schmidt-Rosin - Member of the Supervisory Board,
- Wiesław Thor – Member of the Supervisory Board.

On 26 November 2020, Mr. Sven Fokkema resigned from the function of the Chairman of the TUiR "WARTA" S.A. Supervisory Board and from membership in the TUiR "WARTA" S.A. Supervisory Board effective at the end of 31 December 2020. On 22 December 2020 the Extraordinary General Assembly appointed Mr. Wilm Langenbach to the Company's Supervisory Board, who by resolution of the Supervisory Board of 15 January 2021 was appointed the Chairman of the Compny's Supervisory Board.

COMMITTEES ESTABLISHED IN THE COMPANY BY THE COMPANY'S SUPERVISORY BOARD

In 2020 the following committees established by the Supervisory Board functioned in the Company:

- Audit Committee,
- Remuneration Committee.

Audit Committee

The main purpose of operations of the Audit Committee is to support the Supervisory Board in the exercise of its statutory supervisory duties, mainly by providing the Supervisory Board with reliable information and opinions to facilitate efficient decision making on monitoring the financial reporting, monitoring the effectiveness of the internal control system (including internal audit function) and the risk management system, cooperation with certified auditors and monitoring of financial statements auditing activities and ensuring the independence of internal and external auditors.

Remuneration Committee

The core objective of the Remuneration Committee is to control the development, implementation and functioning of rules and practices related to remuneration of members of the Management Board and employees of TUiR "WARTA" S.A.

MANAGEMENT BOARD OF THE COMPANY

The Management Board of the Company is a managing body, established to manage the affairs of the Company and to represent the Company, operating pursuant to applicable laws, Articles of Association of the Company, Regulations of the Management Board taking care of the Company's interests and ensuring maximisation of its capital value.

The Company may be represented by two members of the Company's Management Board or one member of the Management Board jointly with a proxy, or by two proxies.

The Management Board may not take any decisions reserved to the sole competences of the General Assembly or the Company's Supervisory Board.

The core document that sets forth the authority and duties, principles of operation, mode of proceedings and methods to documents with works of the Company's Management Board is the Regulations of the Management Board in compliance with which the following decisions require resolutions of the Company's Management Board:

- approval of draft resolutions and materials submitted to the General Assembly and the Supervisory Board,
- purchase or disposal of the enterprise, stock or shares in other companies or property or rights held by the Company, purchase or sale of property rights or perpetual usufruct rights, joining a joint venture, decisions on obtaining financing from third parties, subject to the provisions of the Company's Articles of Association,
- determination of the scope of tasks and split of authority between individual members of the Management Board, approval of the Company's Organisational Regulations, establishment and liquidation of the Company's organisational units,
- approval of general insurance terms and conditions and approval of premium tariffs and commission rates,
- determination of assumptions underlying the investment policy, risk management strategy, accounting policies, rules and mode of establishing technical provisions and other provisions, Work Regulations and Regulations of the Company Social Benefit Fund, principles of personnel selection and approval of candidates for managerial positions,
- other issues generating high economic risk or otherwise materially affecting the Company's business as well as matters submitted by the President or other members of the Company's Management Board.

Assembly of the Management Board are held once a week. In urgent instances, the President of the Management Board may convene an additional Assembly of the Management Board. Minutes documenting Assembly of the Company's Management Board are kept in the Corporate Legal Bureau of the Management Department; in case of confidential personnel decisions – in the HR Department.

Due to the scale of the Company's business, the Management Board acting within its authority decided to split the tasks among the individual members of the Management Board and identified their respective reporting organisational units for which they are responsible (a detailed description with a graphic illustration presenting the split into organisational divisions is presented in the section Company's organisational structure and key processes).

In accordance with the split, members of the Management Board in their reporting areas have been assigned authority to manage the Company's business, including to issue regulations with the exception of decisions reserved to the sole competences of the Management Board.

The Company's business is controlled by the Management Board at all stages of operations and in all business areas, and is supported with the following:

- structural mechanisms – tasks of each organisational unit embedded in the Company's organisational structure whereby decisions have been split from control mechanisms,
- process mechanisms – principles implemented in the Company's internal regulations with details of process in the Company, with tasks of all participants and their interrelations and responsibilities (including selection mechanisms of managerial staff ensuring effective and legally compliant functioning of the Company),
- control mechanisms – covering functional and institutional control systems (carried out by competent organisational units and described in more detail is chapter B.4.1 hereof).

The mechanisms referred to above and the implemented reporting system provide the Management Board with comprehensive knowledge on material events relating to the Company's operations, supporting effective and legally compliant functioning of the Company and ensure that the Management Board receives adequate information on the functioning of the Company. Such comprehensive information supports the Company's Management Board in flexible responding to market conditions in the insurance market and internal events in the Company.

As at 31 December 2020, the Company's Management Board was composed of:

- Jarosław Parkot – President of the Management Board,
- Paweł Bednarek – Vice President of the Management Board,
- Grzegorz Bielec – Vice President of the Management Board,
- Hubert Mordka – Vice President of the Management Board,
- Jarosław Niemirowski – Vice President of the Management Board,
- Jarosław Piątkowski – Vice President of the Management Board,
- Rafał Stankiewicz – Vice President of the Management Board,
- Anna Świderska – Vice President of the Management Board.

On 28 April 2020, Mr. Witold Walkowiak submitted his resignation from membership in the Company's Management Board, effective as of 30 June 2020. On 12 May 2020, the Supervisory Board appointed Mrs. Anna Świderska to the Company's Management Board as of 1 July 2020.

COMMITTEES ESTABLISHED IN THE COMPANY BY THE COMPANY'S MANAGEMENT BOARD

Within its competences in the Company's organisational structure, the Company's Management Board established the following additional committees that are to support the Management Board in the performance of its duties:

- Underwriting Committee,
- Risk Committee,
- Asset and Liability Committee – ALCO,
- Project Committee,
- Data Quality Committee,
- Systems Development and Maintenance Committee.

Underwriting Committee

The tasks of the Underwriting Committee include decisions relating to risk acceptance, amounts of reserved portions and insurance terms and conditions of individual insurance contracts / risks (also as part of inward reinsurance).

Risk Committee

The core task of the Risk Committee is to support the Management Board and the risk management function in maintaining an effective risk management system in the following areas: insurance risk, credit risk in reinsurance activity and operational risk.

The tasks of the Risk Committee include in particular:

- coordination of tasks related to risk management,
- support of organisational units in the process,
- development of recommendations relating to business operations affecting risk levels,
- recommending actions in risk management,
- coordination of the provision validation process,
- ensuring compliance of the solutions relating to risk management with the Risk Management Strategy,
- acting as an arbiter in case of disputes between various organisational units with respect to the process,
- reporting to the Management Board via the Risk Management Department of all material information and recommendations approved by the Committee.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is a body established by the Company's Management Board to coordinate and supervise the investment process and the market and credit risk management process with respect to investment activities and monitoring of the Company's capital position.

ALCO issues opinions and recommendations relating to the operations of the organisational units that materially affect the levels of market and credit risk.

The competences of the Committee include in particular:

- supervision over the allocation of assets and utilisation of investment limits,

- support to investment and business decisions,
- implementation and supervision over the market and credit risk management process,
- support to the Management Board in determining the risk appetite and economic capital allocation for the purposes of market and credit risk as well as reporting on the capital,
- modification of investment limits,
- making investment decisions,
- ongoing supervision over the capital management process.

Within the Committee there is a specialised body – Investment Committee, established and supervised by ALCO. The tasks of the Investment Committee include operational monitoring and analysis of financial markets, their current condition as well as short- and medium-term prospects. On the basis of such analysis, opinions are formulated on investment decisions with respect to individual market risk types, within the approved investment limits.

Project Committee

The Project Committee supervises implementation of material changes to the organisational structure, ICT or process structure that frequently require high capital outlays, intensified or additional involvement of managers and that are different than current routine operations of the Company. The Company carries out such tasks in the form of special-purpose projects.

The Company's Management Board is responsible for managing projects in the Company. Each member of the Management Board directly supervises the projects in their respective areas of responsibility, acting as project sponsors.

Data Quality Committee

The Data Quality Committee is a body established by the Management Board to provide support in maintaining an effective data quality management system in the Company.

- the tasks and authority of the Committee include in particular:
- decisions concerning the strategy of data quality management in the Company,
- identification of priorities and materiality of each area and process in terms of management of the area,
- monitoring of core data quality metrics, implementation of initiatives and projects aimed at improvement thereof on a quarterly basis,
- annual verification of the control mechanisms applied adequately to the Company's needs,
- acting as an arbiter in case of disputes relating to the data quality management system between organisational units,
- periodic reporting to the Management Board of all material information and recommendations approved by the Committee,
- issue of recommendations and approval of procedures relating to data quality management to the Company's organisational units.

Systems Development and Maintenance Committee

The primary task of Systems Development and Maintenance Committeeis managing current change in ICT from the moment the idea appears to the post-implementation review by allocating resources necessary to maintain ICT systems and introduce modifications and system improvements to a smaller scale in line with the Company's business priorities.

COMPANY'S ORGANISATIONAL STRUCTURE AND KEY PROCESSES

The Company's organisational structure is split into 8 divisions:

- CEO,
- Individual Products,
- Bancassurance Products,
- Development & Corporate Insurance
- Sales,
- Operations & Claims Handling,
- Finance,
- IT.

In December 2019, the Management Board adopted a resolution on organizational changes in the Development and Corporate Insurance Division, consisting in the liquidation of the Motor Leasing Office as of 31 December 2019 and the creation of the Leasing Department and the Direct Sales Department on 1 January 2020.

In February 2020, the Management Board adopted a resolution on organizational changes in the Individual Products Division, consisting in the liquidation of the Department of Motor Products Development and Tariffs on 29 February 2020 and the creation of Motor Insurance products Department, Tarriffication Department, Insurance Offer Development Office. On 1 July 2020 within the Sales Department three new Regional Sales Centers were established: RCS Bydgoszcz, RCS Tarnów and RCS Katowice 3.

The final organizational structure as at 31 December 2020 is presented in the diagram below.

Figure 7.
The organizational structure of the Company

Additionally, the Company’s organisational structure contains the positions of the Proxy for Classified Information and the Data Protection Officer, directly reporting to the President of the Management Board.

CEO Division

Mr Jarosław Parkot is the President of the Management Board and he is responsible for managing the Company and supervising the organisational units, functions and processes within the Division of the President of the Management Board.

The main tasks of the Division of the President of the Management Board include: ensuring the functioning of the Company in compliance with law and internal regulations, making independent assessment of processes as well as identification and assessment of risks relevant to the Company's operations occurring in these processes, managing the human potential, HR and payroll handling and marketing strategy as well as public relations activities.

Individual Products Division

Jarosław Niemirowski is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Individual Products Division.

The main tasks of the Individual Products Division include: development and modification of the product offer in each product group (e.g. motor insurance, other non-life, SME), monitoring the portfolio of individual motor insurance, creating and implementing product strategy for corporate motor insurance.

Development & Corporate Insurance Division

Grzegorz Bielec is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Development & Corporate Insurance Division.

The main tasks of the Development & Corporate Insurance Division include: management of implementation of projects aimed at sales development, analyzing new development areas, optimization of service processes, in particular those related to claims settlement and operations as well as those related to adapting the Company’s processes to new regulatory requirements, management of corporate insurance sales through brokers, reinsurance (construction, execution and settlement of reinsurance programs and contrats) and management of sales of bancassurance and leasing products as well as as well as developing and implementing a strategy for the sale of insurance in direct channels

Bancassurance Products Division

Paweł Bednarek is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Bancassurance Products Division.

The main tasks of the Bancassurance Products Division include: development of a product offer and risk measurement and tariff establishment in developing cooperation with bancassurance partners as well as through affinity programs

Sales Division

Jarosław Piątkowski is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Sales Division.

The main tasks of the Sales Division cover sale processes of insurance products to individual and corporate customers (acquisition, sale, sale support), implementing modern and effective models for managing sales structures. Insurance is sold to individual customers and SMEs via exclusive agents, multi agencies and car dealers. Sales to corporate customers is performed in compliance with the processes set up in the Development & Corporate Insurance Division (see above) via brokers. Another, no less important task of the Division is, among others: providing all distribution channels with training processes in order to increase sales efficiency and achieve goals in line with the Company's strategy.

Operations & Claims Handling Division

Rafał Stankiewicz is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Operations & Claims Handling Division.

The main tasks of the Operations & Claims Handling Division include: loss adjustment as well as handling of recourses and average survey, policy registration, collection and after sale services, managing the network of workshops, ensuring high-quality direct customer service, including intermediaries cooperating with the Company.

Finance Division

Anna Świderska is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Finance Division.

The main tasks of the Finance Divisions include: accounting records and reporting, management accounting, business planning, management of investment portfolios, actuarial calculations, risk management and property management as well as general administrative support.

IT Division

Hubert Mordka is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the IT Division.

The main tasks of the IT Division include: designing, development and maintenance of ITC infrastructure in the Company as well as ensuring ICT security.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE REPORTING ORGANISATIONAL UNITS

In accordance with the corporate governance principles, the Company has a transparent and adequate organizational structure, in which the subordination, tasks, duties and responsibilities and reporting lines are clearly and appropriately allocated to the scale of the activity and risks involved. The organizational structure is precisely defined in the Company's Organizational Regulations, so that there are no doubts as to the scope of tasks and responsibilities of appropriate organizational units and management positions, and in particular, so that duties and responsibilities are not overlapped.

Endeavouring to ensure an adequate level of internal communication, at least once a week members of the Management Board hold regular meetings with their reporting B-1 directors. The meetings are held to exchange information within each organisational division and to discuss the completed, current and future tasks of each organisational unit. In 2020, due to the Covid-19 pandemic prevailing in the country, most meetings were held using means of direct remote communication.

Meetings of the Management Board with all B-1 directors held at least once a year have similar objectives. The objectives of such meetings also include integration of the Company’s managerial staff, discussion of financial results, current condition of the Company and its market position as well as its plans and future objectives. However, due to the exceptional situation in 2020, the Management Board resigned from the annual meeting with B-1 directors, and instead a remote meeting of the Management Board with all employees of the Company was organized.

In order to optimise the cooperation between the Company’s Management Board and department directors, attention is paid at the recruitment stage for managerial positions that the future managers meet the following criteria: compliance of the candidate's profile with the position profile in terms of competences, experience, knowledge, motivation, managerial skills as well as personality and team building skills that is to achieve the assumed objectives.

KEY FUNCTIONS

In order to ensure an effective system of governance that is a material element of the Solvency 2 system, the Company operates the following key functions:

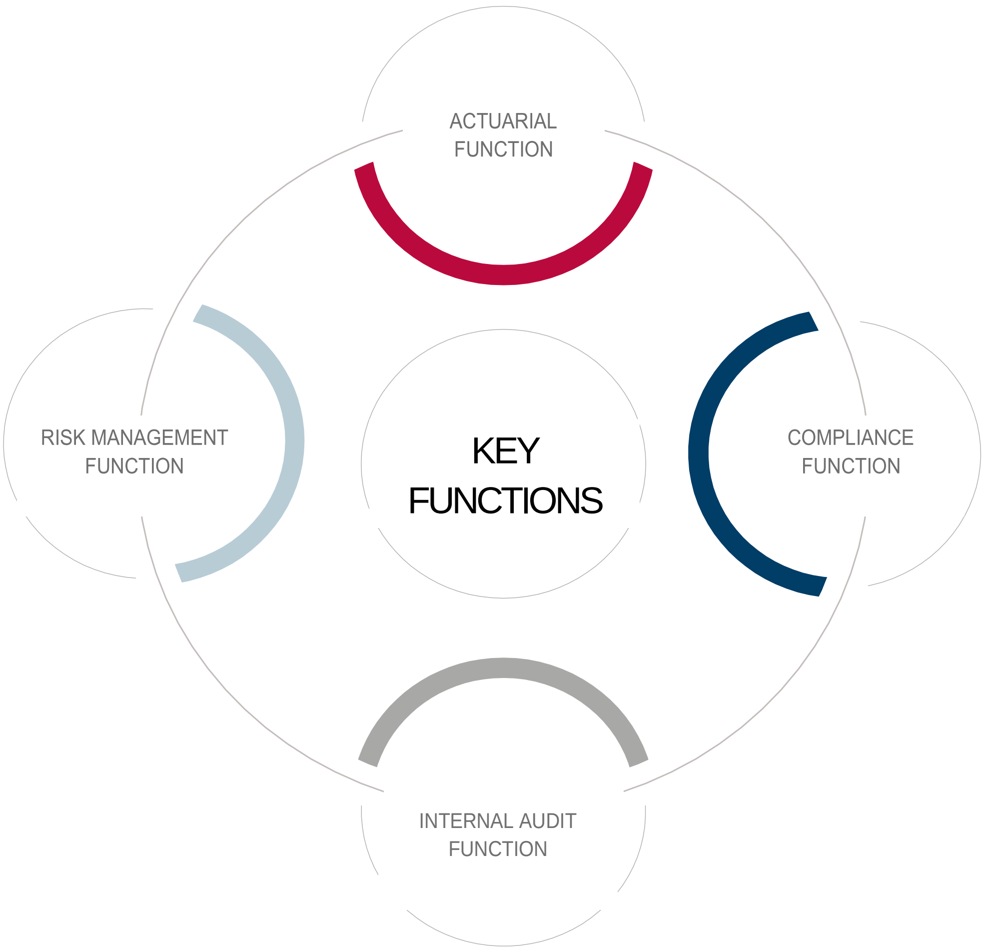


Figure 8.
Key functions in the Company

Each key function contains developed and documented rules of its operation, roles and responsibilities of the organisational units that perform the activities related to each function as well as reporting processes have been developed related to their cooperation with the Management Board and the Supervisory Board and their supporting committees.

The tasks performed within the key functions serve to ensure prudent and stable risk, capital and liquidity management; additionally, with the three lines of defence they create conditions to ensure good standing of the Company.

A detailed description of implementing the key function is presented below:

B.3.2 (risk management function), B.4.2 (compliance function), B.5 (internal audit function) and B.6 (actuarial function) of this Report.

THREE LINES OF DEFENCE MODEL

Business Owners

1st Line of Defence

RISK OWNERS

- Risk management, i.e. risk identification, valuation and assessment, response to risk and risk monitoring and reporting
- Proceeding in compliance with the risk management process
- Compliance with law and internal regulations that have impact on the effective and efficient functioning of the internal control system and the risk management system

Customer Service,
Selling activities
Loss adjustment
Underwriting
Marketing

Developed by Procedures

2nd Line of Defence

OWNERS OF THE RISK MANAGEMENT PROCESS

- Development of strategies, methods, processes and procedures of risk identification, assessment, monitoring and reporting
- Relationship of risk management with the Company's strategy
- Advisory services and coordination of actions by risk owners
- Identification of trends, synergies and opportunities

Function: actuarial
compliance,
risk management

Independent Assessment

2nd

3rd Line of Defence

INDEPENDENT ASSESSMENT OF THE RISK MANAGEMENT PROCESS

Objective and independent assessment of the adequacy and effectiveness of the internal control system and other element of the system of governance, in particular with respect to risk management and implementation and application of control mechanisms

Internal audit function

Figure 9.
Three lines of defence model

INFORMATION DISCLOSURE SYSTEM

The Company applies an effective information disclosure system by effective reporting within each competence area and adequate communication at all levels of the organisational structure. The effectiveness of the process is assessed additionally within an annual review performed by key function holders and the results are submitted to the Company's Management Board.

With respect to information disclosure to external addressees, in particular to the supervisory authority, the Company acts in compliance with the internal regulation Rules of information disclosure and providing responses to letters of the Office of the Polish Financial Supervision Authority and public administration bodies and compliance with reporting duties at TUiR "WARTA" S.A., approved by a Resolution of the Management Board. On the basis of the regulation, the Company set forth the rules of developing, registration and submission of reports and other required documents to public administration bodies and the organisational unit responsible for performing the duties is identified.

B.1.2 Remuneration scheme

REMUNERATION POLICY

Remuneration policy at TUiR „WARTA" S.A. in force with the Company is developed in compliance with the Company's operating strategy, in particular with the risk management strategy, risk profile, objectives, practices of risk management as well as long-term interests and results of the entire Company.

The Remuneration policy at TUiR „WARTA" S.A. concerns the Company's employees, including the persons who supervise the key functions.

In 2020, the Employee rules of remuneration for Towarzystwo Ubezpieczeń I Reasekuracji "WARTA" S.A. operated in the Company.
According to the above mentioned rules of remuneration employee's remuneration covers the following remuneration components:

- base salary,
- variable component of remuneration.

Base salaries are set on the basis of a valuation of the tasks performed within the working time (function) and subject to the position as set forth in the employment contract. The base salary level is set subject to an internal and external benchmark.

The base salary is a sufficiently high proportion of the employees' total remuneration which prevents the employees from being excessively relying on variable components and supports the Company in applying fully flexible rules applicable to bonus thus providing for non-payment of the variable component of remuneration in objectively justified situations.

The type and structure of variable components of remuneration (bonus or discretionary bonus) are subject to the type of work performed (function) and assignment of the employee to one of three groups (sales, operations, support). Employees in the sales and operational areas are covered with bonus plans while employees in the support area are covered with an annual discretionary bonus.

Bonus plans provide for the specific nature of work of each employee and the tasks of their respective organisational unit which is translated into varied bonus systems such as:

- annual bonus plan – for employees in the asset management area and employees performing underwriters' tasks in international programs,
- quarterly bonus plan – for employees assigned to the sales and operations groups,
- monthly task-related bonus plan – in the area of loss adjustment and the Contact Center Department,
- monthly bonus plan for selling car dealership insurance,
- annual discretionary bonus with the amount subject to the result of each employee's annual assessment – for employees in the support area, including those supervising the key functions, to which no bonus plan applies.

The core criteria underlying the awarding and amount of a variable component of remuneration include the Company's performance, employee's individual performance and assessment of employee's work and attitude. Considering the specific nature of tasks performed, adjustments are made in that respect for certain employee groups.

REMUNERATION OF PERSONS SUPERVISING THE COMPANY'S KEY FUNCTIONS

The remuneration principles of employees supervising the Company's key functions are compliant with the Delegated Regulation, in particular, they take into account the degree of implementation of tasks related to these functions.

REMUNERATION TO THE MANAGEMENT BOARD MEMBERS

The remuneration principles applicable to members of the Company's Management Board in force in 2020 were approved by the Company's Supervisory Board.

The amount of individual remuneration of the Company's Management Board is set by the Supervisory Board in the form of a resolution, subject to recommendations by the Remuneration Committee.

Remuneration of each member of the Management Board is composed of:

- base salary,
- annual bonus,
- other benefits.

The remuneration structure of the Management Board members is composed in such a way as to limit the potential propensity to take excessive risk. This ensures, in particular, maintaining the relationship of mutual significance between fixed and variable components of remuneration. It should also be noted that the amount of the variable (bonus) depends not only on the extent to which the quantitative business objectives are met, but also on the qualitative assessment of a given member of the Management Board, which takes into account aspects relating to the effectiveness of risk management. In addition, there is a possibility of non-payment of bonuses under the applicable bonus rules.

The right to an annual bonus and the amount thereof are subject to:

- accomplishment level of key performance indicators (KPIs) set by the Supervisory Board for each calendar year,
- result of an annual assessment of each member of the Management Board – together with individual target realization – subject to their respective responsibility in terms of managing the Company's operations, including risk profile and capital cost, and covering in particular the following elements:
  - capital position,
  - data on the utilisation of the budget risk and investment limits,
  - results of an analysis of material risks along with information on mitigating efforts/control mechanisms.

Payment of a significant part of the annual bonus is deferred for a period of not less than 3 years.

REMUNERATION OF MEMBERS OF THE COMPANY'S SUPERVISORY BOARD

With respect to members of the Supervisory Board, as a matter of principle the membership in the Supervisory Board generates no remuneration, unless the General Assembly of the Company decides to award remuneration for a given member of the Supervisory Board of the Company.

Pursuant to the adopted rule, in 2019 the right to remuneration for performing functions in the Audit Committee of the Supervisory Board was granted only to independent persons, within the meaning of art. 129 § 3 of the Act on Certified Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws 2020.1415 unifortm text) to members of the Supervisory Board.

PENSION SCHEME

In 2020, the Employee Capital Plans (ECP) introduced on the basis of the ECP management agreement concluded by the Company (operating on the principles set out in the Act of October 4, 2018 on Employee Capital Plans_ was in operation In the Company.

B.1.3 Material changes to the system of governance

Apart from the changes in the composition of the Supervisory Board and the Management Board of the Company described above, there were no other significant changes in the management system in the reporting period.

B.1.4 Information on material transactions with shareholders, persons with material impact on the Company, members of the Management Board and of the Supervisory Board

During 2020 the Company granted no loans, guarantees or advances to:

- Shareholders and members of their management or supervisory bodies,
- members of the Company's Management Board and Supervisory Board and members of their families,
- other persons with material impact on the Company, including the key function holders.

B.1.5 Assessment of the adequacy of the system of governance

The review of the management system in the Company is carried out in the 4Q of each year and includes the following areas:

- organisational structure,
- information flow and reporting system,
- risk management and business continuity,
- compliance function,
- internal audit function,
- actuarial function,
- outsourcing,
- fit & proper requirements and their fulfilment,
- internal control system
- insurance distribution.

The review of individual elements of the management system is carried out by selected organisational units. Analysis conducted in 2020 did not reveal a need to introduce significant changes within the management system of the Company. The review report was approved by the Management Board of the Company.

The internal audit unit independently assesses the internal control system of the Company. In 2020 no areas of operations was identified as a subject of urgent corrective actions. The results of assessment are presented to the Management Board and the Audit Committee of the Company which performs its own assessment of adequacy and effectiveness of the internal control system of the Company, concerning, in particular, financial reporting, compliance function and internal audit function.

Taking into account the above information as well as the results of regular reporting of other key functions, results of financial statements audit and reports from external controls, the Management Board assessed that in 2020 the management system including the internal control system was adequate to the scale and complexity of business operations and allowed to effectively identify and manage risks that could have affected achievement of business goals by the Company.

The Supervisory Board of the Company issued a positive assessment of the management system as well as the adequacy, efficiency and effectiveness of the internal control system in the Company in 2020.

B.2 Fit and proper requirements

The Company has implemented Policy of TUiR “WARTA” S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions. The Policy was approved by the Company's Extraordinary General Assembly.

The Policy sets criteria to be satisfied by members of the Management Board, members of the Supervisory Board and employees supervising the key functions in the Company.

The objective of the Policy is to ensure continuous compliance of the fit and proper requirements – within the meaning of Art. 42 of the Solvency 2 Directive – by persons who actually manage the Company or perform other key functions.

As part of *The TUiR Policy "WARTA" S.A. in the scope of meeting the competence and reputation requirements by persons who actually manage the Company or perform other key functions*, the principle of annual self-assessment of members of the Management Board and the Supervisory Board is in operation.

B.2.1 Fit and proper policy

The details of the fit and proper requirements are presented in the figure 10:

FIT AND PROPER REQUIREMENTS

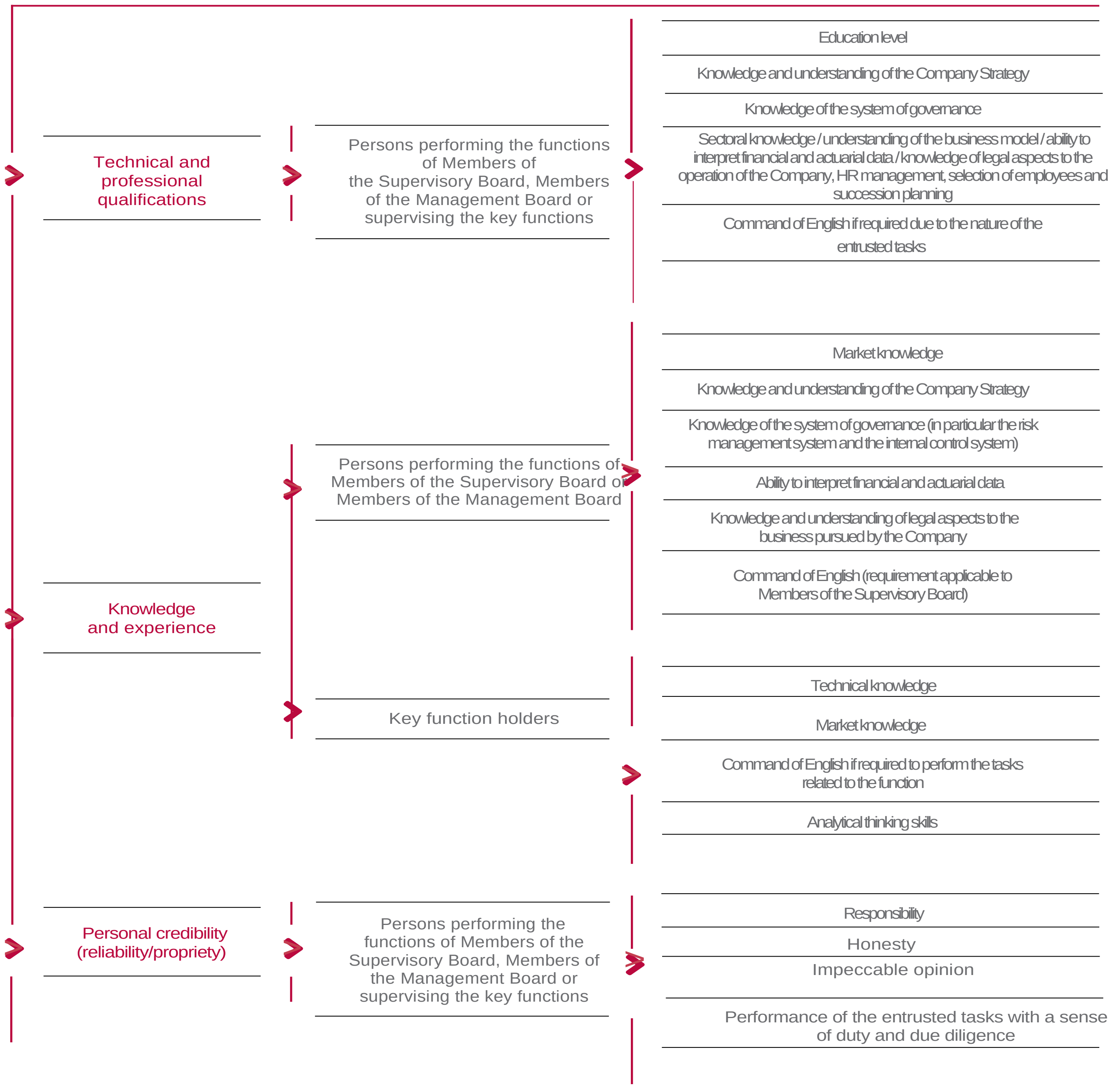


Figure 10.
Requirements concerning fitness and propriety

The requirements specified above, relating to fitness and propriety, have to be complied with all the persons who actually manage the Company and supervise the key functions, and subject to the following:

- individual fitness of each member of the Management Board / Supervisory Board shall be complementary in order to ensure an adequate level of collective management / supervision over all business areas of the Company,
- in case of personal changes in the composition of the Management Board / Supervisory Board, collective management / supervision over the Company and technical and professional skills of the members of the Management Board / Supervisory Board shall be maintained,
- the requirements concerning technical and professional knowledge of the key function holders are closely related to the specific tasks assigned to each function,
- the assessment of the technical and professional knowledge of the key function holders is subject to the proportionality principle which means that risks are taken into account that are related to the Company's business and the tasks assigned to each key function,
- the key function holder shall have professional experience required to perform such tasks,
- the key function holders shall regularly improve their professional qualifications and submit appropriate evidencing documents to the Company,
- before a person is appointed to the Management Board / Supervisory Board or before a person is entrusted with the supervision over a key function, it is necessary to verify if the candidate meets the requirements specified in the Act on Insurance and Reinsurance Activity.

When the Company decides to outsource a key function, the Company shall ensure that persons employed by the service provider responsible for the services have adequate technical and professional qualifications and appropriate personal credibility (reliability/propriety).

REQUIREMENTS APPLICABLE TO EMPLOYEES PERFORMING ACTIVITIES WITHIN THE KEY FUNCTIONS

Candidates for the positions where key functions are performed shall comply with the requirements of competences (required professional experience) and warranty to perform the tasks in a reliable manner – in proportion to the performed tasks.

B.2.2 Assessment process of fitness and propriety

ASSESSMENT OF FITNESS AND PROPRIETY AT THE RECRUITMENT STAGE

The employee recruitment policy, including for positions responsible for supervising the key functions, provides that the core criterion underlying candidate selection is compliance with the required position profile in terms of competences, experience, knowledge, motivation, integrity and fairness. The requirements concerning education, knowledge in specific areas, experience and skills required for correct performance of tasks in specific positions are specified in the job description questionnaire.

In compliance with the Policy of TUiR "WARTA" S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions, a function in the Company's Management Board, the Company's Supervisory Board may be entrusted or a person may be employed to supervise a key function or to perform operations for a key function, solely subject to prior verification if such person meets the requirements specified in the Policy and the regulations issued pursuant thereto.

With respect to candidates to the Management Board, such verification is performed by the Company's Supervisory Board. With respect to candidates for positions to supervise a key function or to perform operations for a key function, the verification process is compliant with the detailed principles set forth in the Recruitment Policy and the Internal Manual Detailed requirements concerning recruitment to positions related to the supervision of key functions and to functions performing operations of key functions within the requirements of Solvency 2 at TUiR "WARTA" S.A.

The recruitment process covers two stages of interviews (in line with the four-eye principle). The final decision on the employment of a candidate to the Management Board of the Company belongs to the Supervisory Board and the employment of a person supervising the key function and the position at which activities are performed for a given key function, to a member of the Management Board supervising the organizational unit in the Company or B-1 responsible for supervising the key function, respectively. In case of the person managing the Internal Audit Department, the employment of a candidate is to be agreed with the Audit Committee.

ONGOING ASSESSMENT OF FITNESS AND PROPRIETY

Compliance with the requirements by members of the Management Board and all employees, including key function holders and employees performing activities within key functions, is verified by the Supervisory Board and the employee's line manager respectively. The verification covers inter alia the scope of correct performance of the entrusted duties and appropriate approach requirements.
Regular assessment of performance is carried out in compliance with the principles set forth in the Policy of annual assessment at TUiR "WARTA" S.A. and such assessment covers the performance level of the employee's targets, quality of work, displayed attitude and commitment in comparison to other employees. Such assessment is

performed on the basis of effectiveness and behavioural criteria. B-1 directors are subject to annual assessment performed by the members of the Management Board with the use of an assessment sheet developed for persons in managerial positions.

The employees, including those who are responsible for supervising key functions, are obliged to adhere to the Code of Conduct of TUiR "WARTA" S.A. containing a set guidelines, principles and rules resulting from general moral and ethical standards that are for particular importance for the business of the Company. This means that in the performance of their duties, the employees of the Company are expected to follow the principles of fairness, loyalty, professionalism, reliability and diligence.

The Policy of TUiR "WARTA" S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions further provides for:

- periodic verification performed at least every 5 years, of the requirements relating to persons actually managing the Company or performing other key functions in the Company, in order to ensure they remain adequate to the tasks performed by each affected person or the changing market environment,
- verification, irrespective of the periodic assessment referred to above, of the requirements relating to persons actually managing the Company or performing other key functions in the Company, in the following instances:
  - the Company acquires information that is material to further performance by such persons of their functions, relating in particular to:
    - potential activities contrary to generally applicable laws,
    - instances of inappropriate behaviour adversely affecting the Company's image,
    - facts questioning the possibility that the requirements relating to technical knowledge are complied with,
    - facts questioning the possibility of performing the duties entrusted by the Company with due caution and diligence,
  - changes are made to the key function supervised by the person:
    - functional – relating in particular to a material extension or a material change to the supervised area of the Company's business,
    - with respect to technical requirements – resulting in particular from general legal regulations applicable to the supervised function.

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

B.3.1 Risk management system

OBJECTIVES, TASKS AND FUNCTIONING OF THE RISK MANAGEMENT SYSTEM

The strategic objective in the area of risk management is to avoid situations that may pose a hazard to the accomplishment of the planned business objectives and to continued operations of the Company while seizing the occurring business objectives. In particular, this is aimed at reducing the probability of occurring unexpected losses by implementing an effective risk management process, adequate to the current risk profile.

The tasks of the system include:

- providing information on the identified individual risks and on the Company's risk profile,
- ensuring an adequate response thereto,
- monitoring of the risk level versus the defined internal limits / warning levels / risk budget,
- reporting of the results of capital adequacy.

The risk management system covers all principles in force with the Company. Within the system, the Company:

- applies a uniform risk classification and terminology related to risk management,
- has defined the roles and responsibilities in the process,
- has set the risk management function,
- applies formalised policies/procedures describing the process in order to identify, valuate or assess risks as well as to monitor and report the risks inherent in the Company's business.

In order to ensure effective management of the risk, the Company's Management Board determines and approves the following:

- the materiality level to be used in the analysis process of the risks related to product launch,
- risk severity level that is applied as a quantitative criterion for identification that may have a serious, permanent and adverse impact on the Company's financial condition, net assets or financial results,
- risk budget with sub-base allocation, separately for each of the main modules of the standard formula. The risk budget specifies the maximum acceptable level of the Solvency Capital Requirement and defines the Company's risk appetite.

RISK MANAGEMENT PROCESS

In the risk management process, the Company applies a uniform catalogue of risk types to ensure that all risks to which the Company may be exposed are identified and adequately controlled. The risk management process is a continuous process, covering the following stages:

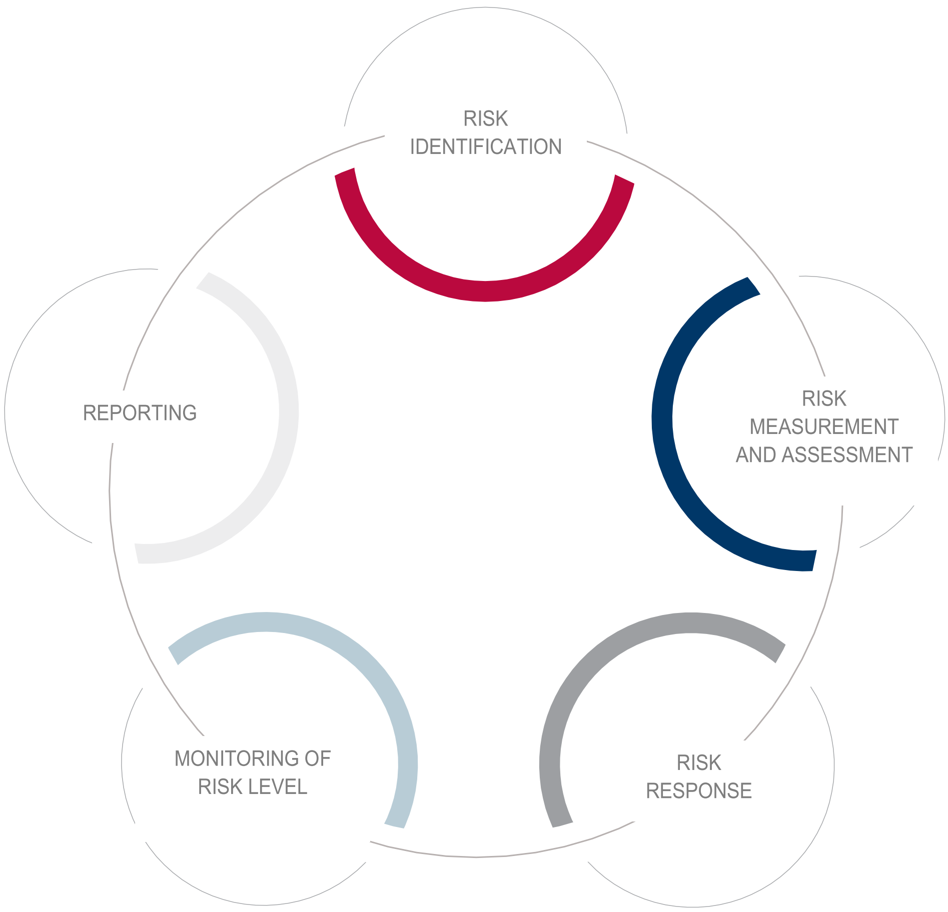


Figure 11.
Risk management process

Risk Identification

The risk identification process consists in detecting risks that may have a positive or negative impact on the accomplishment of the Company's goals, including identification of the causes and areas of occurrence thereof. Risk identification should apply to all types of activities, products, processes and systems in the Company.

Risk Measurement

Risk measurement is defined as a qualitative or quantitative estimate of the Company's exposure thereto – identification of the impact and materialisation probability of the identified risk. The valuation process includes selection of tools used for the purpose.
In justified instances the Company may apply simplified risk measurement methods (including expert judgement).

Risk Assessment

The goal of risk assessment is to determine if it is material for the Company subject to pre-defined criteria. This is performed on the basis of results of risk measurement .

Risk Response

The goal of efforts taken in response to risk is to limit threats and use of emerging opportunities. The actions are expected to maintain the overall risk exposure within the adopted risk budget.

The Company applies the following types of actions taken in response to risk:

- avoidance – not engaging in specific business activity,
- mitigation – actions aimed at reducing impact of the risk or the probability of its occurrence,
- transfer – conclusion of an additional contract, insurance contract, partnership agreement, etc. to transfer the risk to the other party of the contract,
- acceptance – acceptance of the possible consequences arising from risk materialisation,
- increase – decisions to increase the risk incurred to improve the performance.

Monitoring

Monitoring is a systematised method to prepare and analyse risk information. The process is continuous and covers:

- monitoring of risk level and profile,
- monitoring of the implementation status of the mitigating actions undertaken,
- assessment of the effectiveness thereof.

Reporting

Reporting means a regular presentation of quantitative and qualitative data in accordance with the requirements of the various risk management techniques and tools. Information concerning risk identification, valuation and assessment should be processed and presented to the relevant recipients in such a form and with such frequency to ensure correct performance of duties and incorporation of risk aspects in the decision making process.

Within the risk management process, the Company has established a risk management function and defined a clear split of roles and responsibilities for participants in the risk management process.

The process is subject to the proportionality principle which means that the processes, techniques and methodologies are proportional to the complexity of the Company and the materiality of each risk type.

Each stage of the risk management process for each specific area is described in the corresponding detailed policies (e.g. Actuarial, operational, ALM Risk Policies). Each description covers:

- definition of the stages and a detailed description of each stage,
- the principles pursued by the Company in designing, developing, implementing, execution, monitoring and reviewing each activity,
- identification of the techniques and tools applied at each stage of the process as well as references to the relevant internal regulations,
- a set of instruments required to develop and implement the risk management process in practice, e.g. templates, instructions.

Apart from the specific policies dedicated to each risk type, the Company has set up master principles of risk identification and reporting.

INDIVIDUAL RISK IDENTIFICATION AND ASSESSMENT AND MANAGEMENT REPORTING

The identification and assessment of individual risks is made as follows:

- on an ongoing basis – within the processes/actions carried out by the organisational unit.

Organisational units identify risks on an ongoing basis in their own processes/actions of operations and of other units. When any risk is identified in another unit, such unit is notified thereof. Material risks are reported on an ongoing basis and incorporated in proposals to the Management Board.

- in a systematic formalised manner in the Risk Scan process.

In order to identify the most significant risks types, a risk self-assessment process is performed semi-annually – a Risk Scan. The process consists in identification, valuation, monitoring and reporting of the risk types that may pose a hazard to accomplishing the approved financial plans of the Company. The self-assessment process applies to all types of risks, in compliance with catalogue definied in Company's Strategy of risk management, including e.g. actuarial, market, credit, operational risk.

The self-assessment in particular covers those risks that may materially affect the Company's results/capital over the next year.

- in a systematic and formalised manner in the identification and assessment process of newly emerging risks.

The Company also identifies and assesses emerging risks at least once a year. The process relies on expert judgement.

- when developing a Business Plan and apply to those risk that may materialise during the implementation of the Plan over a long-time perspective.

CATALOGUE OF RISK TYPES IDENTIFIED IN THE COMPANY AND THE RELATED RISK MANAGEMENT PROCESS

In compliance with the Risk management strategy, approved by the Company's Supervisory Board, risk is defined as a probability of events – both negative and positive – that may affect the accomplishment of the Company's intended business objectives.

In order to ensure complete identification thereof, the Company applies a uniform risk catalogue.

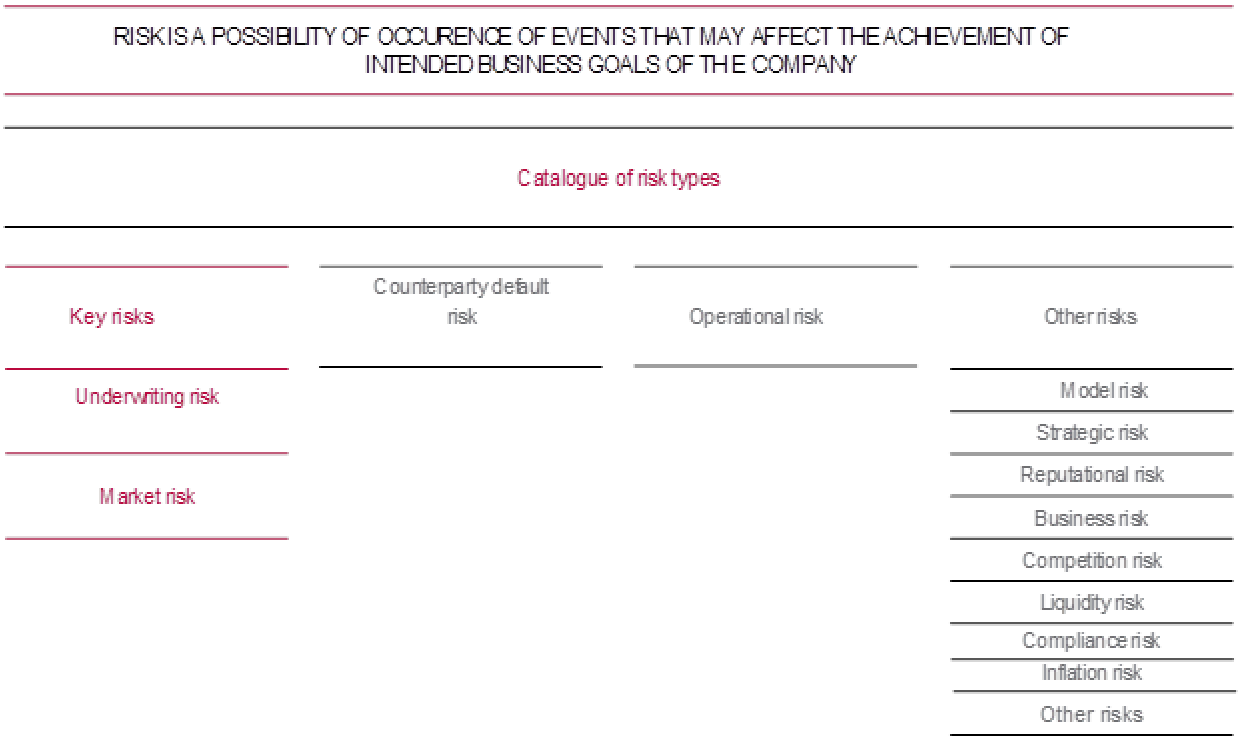


Figure 12.
Catalogue of risk types

The core types of risks to which the Company is exposed in its business operations and that materially affect the accomplishment of the Company's business strategy include underwriting risk and market risk. Considering the principle of proportionality and the scale and nature of operations, the risks are covered with a comprehensive risk management process and additionally are subject to the approved internal limits and warning levels.

Underwriting risk

The process of underwriting risk management covers the following stages:

- identification – review of impact on the risk and limits of non-life non-catastrophic risk (premium risk, provisions and costs), catastrophic and credit risk resulting from reinsurance and co-insurance contract with a solidarity clause,
- valuation and assessment – it relies on (internal and external) models with stress tests,
- response to risk – the decision on next steps (acceptance, mitigation, transfer or avoidance or increase) is taken by the unit where the risk was identified. Acceptance requires an assessment of the risk level vis-a-vis the limits in force in the Company and the relevant risk appetite defined in the Risk Budget. Recommendation of appropriate remedial actions in the process management area is also a task of the Risk Committee,
- monitoring and reporting are performed in the following areas:
  - reinsurance program,
  - insurance limits,
  - authority for risk acceptance,
  - principles of establishing provisions,
  - general insurance terms and conditions and tariffs,
  - portfolio profitability analisys,
  - level of technical provisions.

The above reports are submitted to the Risk Committee or within reviews of the insurance portfolio performed by product departments.

Market and credit risk resulting from investment activities

The Company's ALM and Credit Risk Management Policy, regulating the area, is focused on maximising portfolio profitability with limits set for each risk type resulting from the Company's sub-budget for market and credit risk. It provides for the specific nature of each provision and insurance product portfolio as well as liquidity requirements in each portfolio held by the Company.

The process of market and credit risk management covers the following stages:

- identification – review of impact on risks and limits of newly acquired instruments,
- valuation and assessment – calculation of VAR in various capital models, BPV, duration for the portfolio and a number of limits for the portfolio market and credit risk,

- response to risk – the decision on the actions to be taken (acceptance, mitigation, transfer or avoidance) is taken by the Investment Committee and ALCO,
- monitoring and reporting – submission of reports with risk metrics and limits to ALCO.

Operational risk

The process of operational risk management covers the following stages:

- identification – the Company applies various methods of operational risk identification:
  - data collection process on operational incidents,
  - Risk Scan – a structured process to identify material risks that may adversely affect the Company's financial result over the next year, preventing the accomplishment of its approved financial plans,
  - key risk indicators (KRIs) – an analysis of current values of the indicators for operational risks and their volatility in time,
  - analysis of audit recommendations – an analysis of weaknesses of the internal control system, identified by the Internal Audit Department,
  - scenario analysis – review of the impact of historic or hypothetical operational incidents on the Company's financial condition. The objective of such scenario analysis is to verify the control mechanisms applied in the Company – if they are adequate to prevent or minimize losses, if an event occurs,
  - business impact analysis (BIA) – analysis of business processes and effects that may result from disruptions to business operations.
- valuation and assessment – subject to the applied technique, the operational risk level is determined quantitatively (by identifying the volume and frequency of its occurrence) or qualitatively (expert judgement),
- response to risk – the decision with respect to response to risk is taken by the risk owner being the unit managing the risk. Recommendation of appropriate remedial actions in the risk management area is also a task of the Risk Committee.
- monitoring and reporting are performed in the following areas:
  - results of the Risk Scan process,
  - current KRI values, trends in relation to the previous reporting period,
  - number of operational incidents and amount of operational losses.

The above reports are submitted to the Risk Committee.

ORGANISATION STRUCTURE IN THE RISK MANAGEMENT PROCESS

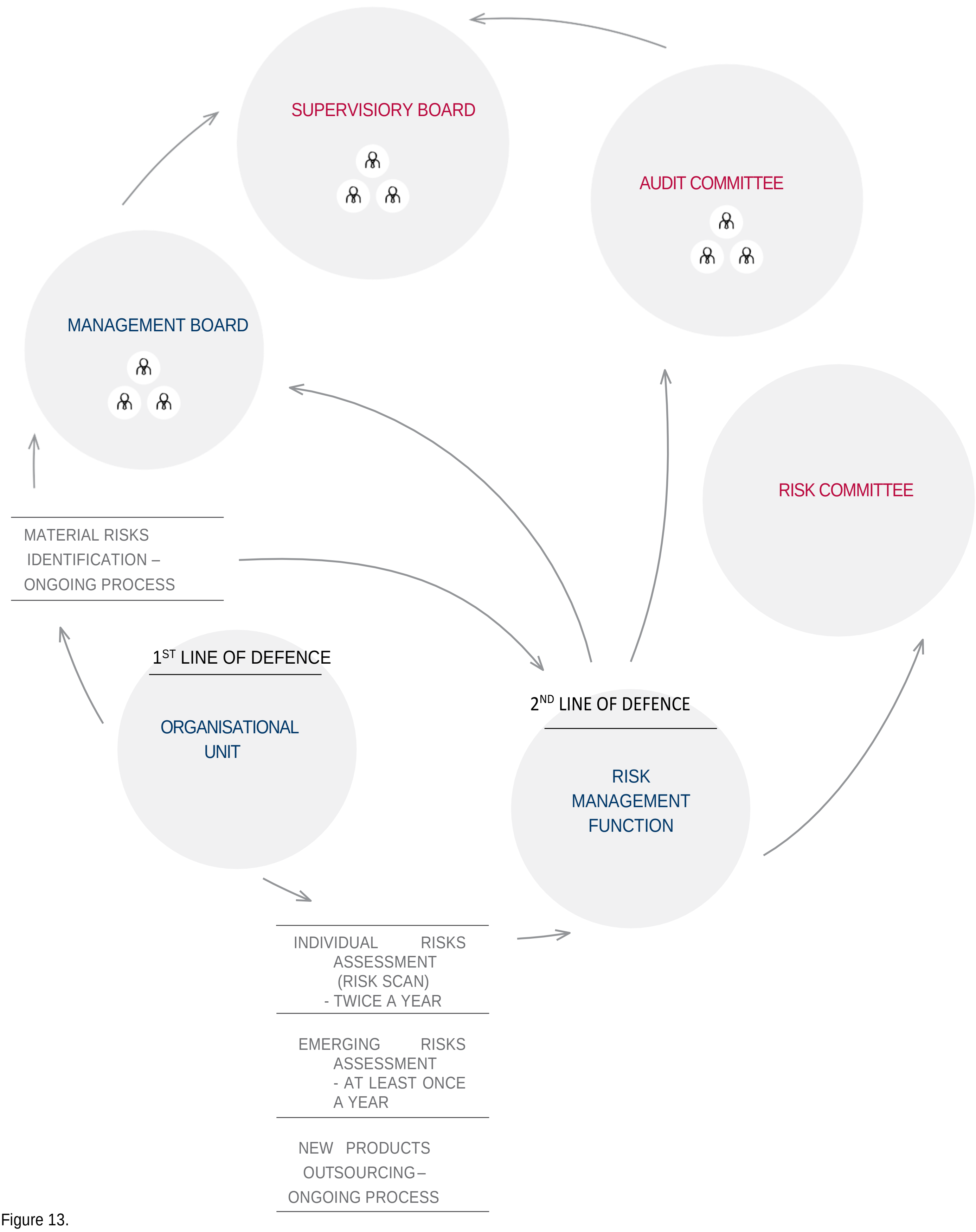


Figure 13.
Organisational structure in the risk management process

The main participants in the risk management process are as follows:

- the Supervisory Board that performs overall supervision over the business of the Company in all areas of its operation, also in this area. In its role, the Supervisory Board in particular:
  - receives information on risk exposure and the risk management system,
  - accepts business plans subject to risk aspects,
  - provides opinion on proposals on profit distribution subject to the Company's capital needs related to risk exposure,
- the Audit Committee which receives detailed information on risk exposure, capital adequacy level as well as the status and initiatives relating to development of the risk management system,
- the Company's Management Board as a body is responsible for comprehensive management of the Company's business, including risk management, in particular by:
  - setting the organisational structure of the risk management system with respect to the risk management function and other organisational units of the Company involved in the risk management process,
  - regular review of the Company's risk exposure and information on the functioning of the risk management system,
  - determination of directions, support and direct supervision of the development of the risk management system,
  - pursuing the Company's business and preparation of development plans subject to risk aspects,
  - defining of risk appetite by approving related budgets,
  - setting risk limits with reference to each risk type,
  - approval of materiality level and significance level of each risk,
- the risk management function with the tasks detailed in chapter B.3.2 hereof,
- the Risk Committee with the tasks detailed in chapter B.1.1 hereof,
- the Company's organisational units are responsible for direct management of the risks identified in the processes/areas managed by them. As risk owners, they are responsible for each stage of risk management processes, in particular:
  - they identify risks in their own business processes/area as well as in other areas on an ongoing basis – then they notify the organisational units responsible for those processes/areas,
  - assess and report the identified risks to their managers or to the Company's Management Board; in particular, material risks should be reported to the Management Board,
  - prepare proposals to respond to such risks and implement them if required subject to prior approval by their respective managers or the Company's Management Board,
  - report such identified material risks also to the organisational unit that acts as the risk management function,
  - report potential decisions that may materially affect the Company's capital condition or risk profile to the organisational unit that acts as the risk management function.

RELATIONSHIP OF THE RISK MANAGEMENT SYSTEM WITH OTHER ELEMENTS OF THE SYSTEM OF GOVERNANCE

The risk management system is related to other elements of the Company's system of governance, in particular to:

- the internal control system which is a set of actions performed by the Company's bodies, management and other employees of the Company in order to mitigate risks inherent in its business and thus to increase the likelihood that the Company's approved objectives are accomplished in all its areas of operation,
- the internal audit function which is responsible for the assessment of effectiveness, improvement and provision of information on the functioning of the internal control system, in particular with respect to risk management, application of controls and management processes,
- the compliance function ensuring compliance of the Company's operations with law,
- the actuarial function which coordinates in particular the process of setting the amounts of technical provisions for solvency purposes,
- the capital management process covering in particular assessment of the Company's capital needs related to the risk undertaken.

B.3.2 Risk management function

The risk management function was set up and implemented pursuant to the Risk Management Strategy, approved by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE RISK MANAGEMENT FUNCTION

The objective of the risk management function is to implement and maintain an effective risk management system.

The core tasks of the function include:

- coordination of tasks related to risk management in the Company,
- development of strategies, methods, processes and procedures of risk identification, assessment, monitoring and reporting,
- monitoring of the overall risk situation in the Company subject to relations between individual risk types:
  - developing and supervising the process of risk self-assessment by persons responsible for particular areas of the Company's operations,
  - coordination of the own risk solvency assessment,
  - development and supervision of the implementation of the process of identifying and assessing newly emerging risks (so-called emerging risks),
- reporting concerning risk management in the Company, including the aggregated risk profile,
- in cooperation with the Talanx Group, implementation of a risk measurement model alternative to the standard formula, based on a Group internal model,
- providing advice to the Management Board with respect to risk management and support in the use of the risk management system in the decision making process,
- monitoring of the risk management system,
- support to the managers of organisational units and other functions within the system of governance in the risk management process,
- promotion of risk management culture within the organisation.

The risk management function is performed in the Risk Management Department and supervised by the Director of the Department (Chief Risk Officer, person supervising the risk management function).

The Risk Management Department is responsible for designing a professional integrated risk management system. The Risk Management Department operates independently of business units – it means that business units take risks while the Risk Management Department acts as an advisor, controller and supports organisational units in applying risk management instruments and techniques. Additionally, the Department also monitors the system.

REPORTING OF THE RISK MANAGEMENT FUNCTION

Quarterly, synthetic reports on the status of risk management are prepared in the Company to be submitted to the Company's Management Board, Audit Committee and the Supervisory Board.

B.3.3 Own Risk and Solvency Assessment

Within the risk management system, the Company performs its Own Risk and Solvency Assessment which covers:

- an analysis of the risk profile and projections thereof on the basis of financial data and assumptions underlying the Business Plan and a number of "risk scenarios" (scenarios with assumptions that are alternative to the assumptions underlying the Business Plan),
- calculation of overall solvency needs and assessment of the extent of accomplishment of those needs over a medium-term perspective (both with the assumptions underlying the 3-years Business Plan and those underlying the "risk scenarios"),
- assessment of prospective continuous compliance with the Solvency Capital Requirement and the requirements concerning the calculation of technical provisions,
- analysis of deviations of the Company's risk profile from the assumptions underlying the standard formula,
- the other aspects of the Own Risk and Solvency Assessment covering: an analysis of relations between the risk profile, approved risk tolerance limits and overall solvency needs; incorporation of the results of the Own Risk and Solvency Assessment in the development of new product initiatives.

The objective of the Own Risk and Solvency Assessment is to improve the awareness of the relations between the current and future exposure of the Company to risks and improved awareness of internal capital needs related to such exposures.

A regular Own Risk and Solvency Assessment is carried out in the following manner:

- regularly – once a year in compliance with the development schedule of the Business Plan and
- extraordinary mode in the following situations:
  - merger with another entity,
  - acquisition of another entity,
  - modifications to the Business plan during the year.

OWN RISK AND SOLVENCY ASSESSMENT PROCESS

The process of Own Risk and Solvency Assessment is regulated in the Policy of Own Risk and Solvency Assessment, approved by the Company's Management Board.

The performance of the Assessment in the Company is coordinated by the Risk Management Department which is also responsible for the following elements:

- determination of the Company's risk profile and projections of the profile,
- calculation of overall solvency needs and assessment of the extent to which they are satisfied,
- assessment of prospective continuous compliance with the Solvency Capital Requirement and the requirements concerning the calculation of technical provisions with

respect to risk margins,
- analysis of deviations of the Company's risk profile from the assumptions underlying the standard formula.

The Management Board (who actively participates in the development of risk scenarios and accepts the final report on the Own Risk and Solvency Assessment) as well as other organisational units of the Company are involved in the process which is responsible for the following assessment elements, among others:

- the Controlling Department – development of the Business Plan to the extent required to prepare solvency projections and development of risk scenarios (in cooperation with the Risk Management Department),
- the Corporate Legal Bureau – coordination of the qualitative assessment of the system of governance with respect to the organisational structure and decision-making structure,
- the Actuarial Department – ensuring and assessing continuous compliance with the requirements related to the calculation of technical provisions (with the exception of risk margins for which the Risk Management Department is responsible).

ASSESSMENT OF OVERALL SOLVENCY NEEDS

COMPANY'S RISK PROFILE AND SOLVENCY CAPITAL REQUIREMENT

Within its Own Risk and Solvency Assessment, the Company's risk profile is determined.

The profile is described in a report prepared by the Risk Management Department within its periodic reporting. Risk quantification and calculation of the Solvency Capital Requirement, incorporated in the report, is developed in compliance with the Delegated Regulation.

The risk profile contains additional risks, not covered with the standard formula, identified in the Business Plan or in the Risk Scan process.

GENERAL NEEDS RELATED TO SOLVENCY AND OWN FUNDS

Calculation of general solvency needs is an analysis process as a result of which threshold values are determined for the levels of Solvency Ratio S2, determining the ranges referred to in the Capital Management Policy – minimum, warning, watch and target ranges.

The analysis covered all potential events that in view of the Company's risk profile could result in a decrease of own funds to the minimum level – 100% coverage of the Solvency Capital Requirement.

The table 5 presents values of the solvency S2 ratio for each range:

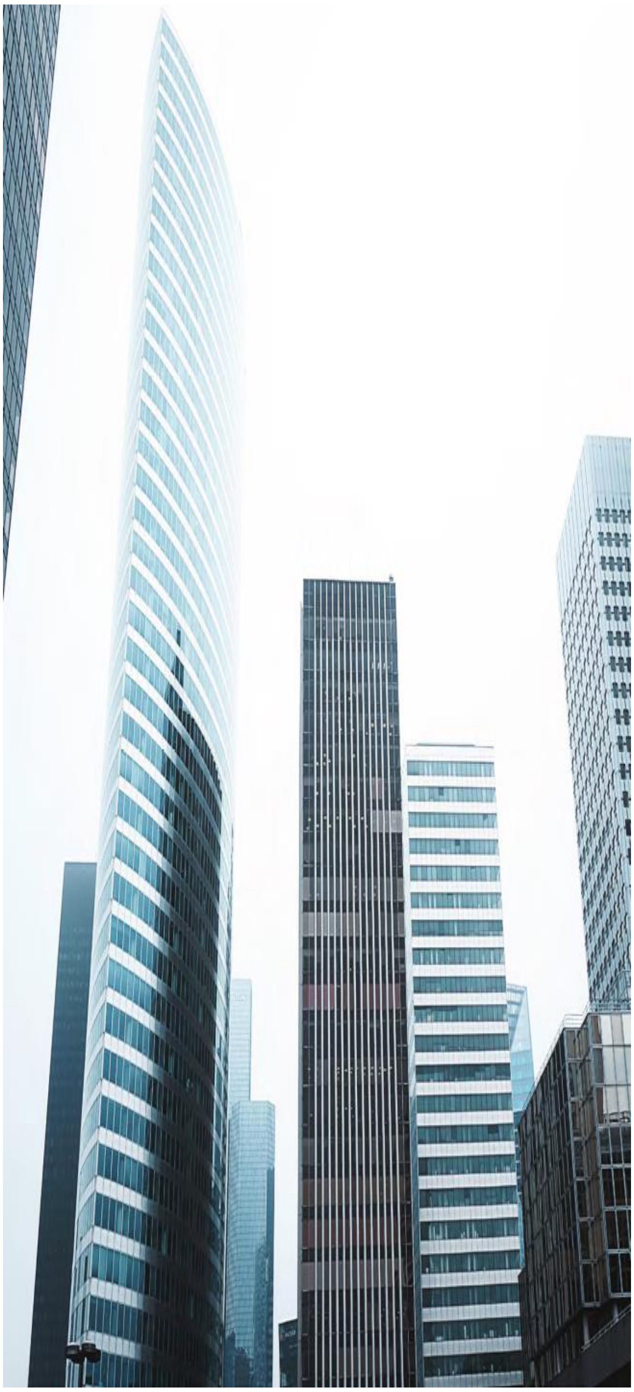


TABLE 5. THE LEVELS OF S2 RATIO

Solvency ratio	Minimum level	Warning level	Watch level	Target level
S2	100%	100%-115%	115%-130%	>130%

The process of determining the levels of the solvency S2 ratio as specified above, provides for the results of stress tests, reverse stress tests and sensitivity analysis.

The results of the analyses covering stress tests and reverse stress tests for market risks (interest rate risk, equity risk, property risk, currency risk, credit risk and credit spread risk), non life underwriting risk (premium and reserve risk, catastrophic risk) conducted by the Company, indicate that a 30% surplus buffer for the S2 ratio is adequate.

When the S2 ratio drops under the target level, the Company's operations in the risk management area and capital management are being extended and intensified in order to ensure continuous compliance with the Solvency Capital Requirement. The scope and intensity of the actions taken are proportional to the difference between S2 ratio and the target level.

Own funds are determined by the Risk Management Department in compliance with the Delegated Regulations and the Capital Management Policy and Procedure, in force in the Company.

PROJECTION OF RISK PROFILE, OWN FUNDS AND SOLVENCY LEVEL

The projections of the risk profile, own funds and solvency level in the future are based on results of analyses covering the risks affecting the functioning of the Company. The projections are calculated on the basis of financial data and assumptions underlying the Business Plan. Projections are also calculated for risk scenarios.

Projections of own funds are made by the Risk Management Department on the basis of assumptions detailed in the Protocol from Own Risk and Solvency Assessment and the Company's Capital Management Policy, and internal regulation – Capital Management Policy, containing inter alia a split of own funds into various categories.

REPORTING OF RESULTS

Details of performing the Own Risk and Solvency Assessment, including qualitative and quantitative results, are specified in the Protocol from Own Risk and Solvency Assessment.

On the basis of the information in the Protocol, a Report from Own Risk and Solvency Assessment is prepared.
The Report contains a summary of qualitative and quantitative results of the assessment, conclusions and details of the applied methods and main assumptions.

It is prepared by the Risk Management Department and approved by the Company's Management Board.
The Report from Own Risk and Solvency Assessment is annually submitted to OPFSA within two weeks of approval by the Company's Management Board.

CONCLUSIONS FROM OWN RISK AND SOLVENCY ASSESSMENT

The conclusions drawn from the Own Risk and Solvency Assessment are taken into account in the following:

- the capital management process, in line with the provisions of the Capital Management Policy, inter alia, by monitoring the level of the S2 solvency ratio and taking (as need arises) of appropriate actions as provided in the Capital Management Policy,
- planning of the Company's business during the development of the Business Plan, by implementing solutions ensuring the maintenance of the S2 solvency ratio above the warning level,
- product development and planning.

SIGNIFICANT CHANGES IN THE REPORTING PERIOD

Due to the changes to the Delegated Regulation, which entered into force in 2020, the regulation on integrating the risk management system with regards to the loss-absorbing capacity of deferred taxes was implemented.

B.4 Internal control system

B.4.1 Description of the internal control system

The task of the internal control system in the Company is to ensure good organisation of the business operations subject to prudent requirements and clearly identified targets, economical and effective use of resources, identification and adequate control of risks, safeguard of assets, integrity and reliability of financial information, management information and compliance with laws and internal regulations.

The internal control system in the Company is adequate to the nature, scale and complexity of its business. It covers:

- administrative and accounting regulations,
- organisation of internal control in the Company,
- appropriate arrangements related to reporting at all levels of the Company's organisational structure,
- compliance with laws, internal regulations and standards of conduct pursued by the Company.

In particular, the internal control system is composed of the following inter-related elements:

- control environment – actions taken by the Company's Management Board and managers of organisational units aimed at developing the awareness of the importance of the internal control system and risk management in the Company,
- goals setting – actions at the strategic level and underlying the setting of the Company's operational goals and monitoring of accomplishment thereof,
- identification, valuation, assessment and response to risk understood as a possibility of occurrence of events that may positively or negatively affect the accomplishment of the Company's planned business goals,
- control mechanisms – processes, procedures/rules and actions verifying the correct performance of business processes in order to prevent errors in the Company's functioning (prevention), detection of irregularities (detection) and adequate response to risk (in particular operational risk) that may have the following forms:
  - functional control – performed by each employee in terms of quality and correctness of their activities, and additionally, performed by their direct supervisors and co-workers. This control aims to ensure compliance of the performed activities with procedures, limits and laws, as well as to guarantee ongoing influence and response to shortcomings and violations, and to monitor the effectiveness of the implemented control mechanisms,
  - institutional control – in the form of audit tasks (performed by the internal audit unit) and control proceedings held by authorised organisational units (e.g. compliance unit). The objective of control is to review, detect gaps, assess and improve the control mechanisms in the company and their operational application,
- information and communication (reporting) – definition, obtaining and communication in an appropriate form and time of information supporting the addressees in correct decision making and carrying out of their duties,
- monitoring – an ongoing review of correct and effective functioning of the internal control system.

The internal control system in the Company is a set of tasks pursued by bodies, the management and employees of the Company in order to mitigate risks inherent in its business and thus to increase the likelihood of accomplishing the set goals in all areas of the Company's business:

- the Supervisory Board exercises regular supervision over the Company's business in all areas of its operations as well as over the internal control system,
- the Company's Management Board is responsible, inter alia, for implementing the rules and decisions of the Company's Supervisory Board concerning the functioning of the internal control system and for appropriate organisation and ongoing supervision over the system. The Company's Management Board takes decisions ensuring the performance, inter alia, of the following tasks:
  - establishment of an adequate and effective internal control system and periodic reviews thereof,
  - pursuing actions to develop awareness among employees as to the importance of the internal control system and risk management and promotion of ethical standards among the Company's staff,
  - development and maintenance of an organisational structure that is compliant with the Company's approved operational strategy and that will precisely and clearly specify the competences and responsibilities and reporting lines of the Company's organisational units,
- the first line of defence – each organisational unit in the Company responsible, inter alia, for risk management (in particular operational and compliance risk) that is for risk identification, valuation and assessment, response to risk and monitoring and reporting thereof in each business area, processes, products and IT systems owned by each unit. Thus, it is responsible for the development, implementation, operation and monitoring of an effective and efficient internal control system within their respective areas of responsibilities. Within the first line of defence, all employees of the Company are responsible for the functioning of an effective internal control system within their respective duties/tasks,
- the second line of defence – it directly supports and coordinates the operations of the first line. It monitors,

advices and facilitates the implementation of effective risk management and supports the first line in identification, assessment and reporting appropriate information related to the internal control system (including risks) within the Company. In order to support the monitoring process of the internal control system in the Company, apart from the operations of the internal audit function, the second line of defence provides specified information to the Company's Management Board and/or Supervisory Board. Within the second line of defence of the Company's internal control system one can distinguish three key functions: risk management, actuarial and compliance functions,

- the third line of defence – it support the Company's management in accomplishing the set targets by performing independent audits. As a result, the Company's management receives an objective and independent assessment (reasonable assurance) of the adequacy and effectiveness of the internal control system and other elements of the management system, in particular with respect to risk management and implementation and application of control mechanisms. The third line of defence in the Company contains the internal audit function.

B.4.2 Compliance function

The compliance function was set up and implemented pursuant to the Compliance Charter, approved by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE COMPLIANCE FUNCTION

The core objective of the compliance function is to implement and maintain an effective compliance risk management system –- ensuring continuous compliance of the Company's business with the applicable internal and external regulations.

The compliance function is an independent function operating within internal control system with the operating conditions set forth in the Company's internal regulation, including the Compliance Charter with details set out in the Compliance Function Policy.

The tasks of the compliance function include in particular:

- identification, assessment, monitoring, testing and consulting in the sphere of compliance risk,
- ensuring compliance with laws, recommendations/guidelines of the supervisory authority and PUODO, internal regulations and standards of conduct approved by the Company.

The compliance function is coordinated by the corresponding organisational unit of the Company (Compliance Department) in which all staff members report to the Director of the Compliance (Compliance Officer, person supervising the compliance function, reporting directly to the President of the Company's Management Board). The organisational independence of the Department guarantees the independence of the compliance function and ensures it is correctly pursued.

Due to the fact that the compliance function is an element of the internal control system, it is necessary that the function performs no tasks – with the exception of its operations within the compliance area – that are performed by units that the function is to monitor and/or control.

The compliance function covers:

- advice to the Management Board and Supervisory Board in the area of compliance,
- assessment of potential impact on all changes to the legal environment on the Company's business,
- identification and assessment of the risk related to non-compliance with laws, internal regulations and the standards of conduct approved by the Company,
- coordination of the overall compliance process and compliance risk management,
- monitoring and reporting compliance risk.

The compliance function is subject to a periodic review by internal audit

COMPLIANCE FUNCTION IN THE COMPANY'S ORGANISATIONAL STRUCTURE

The chart below presents the location of the compliance function in the Company.

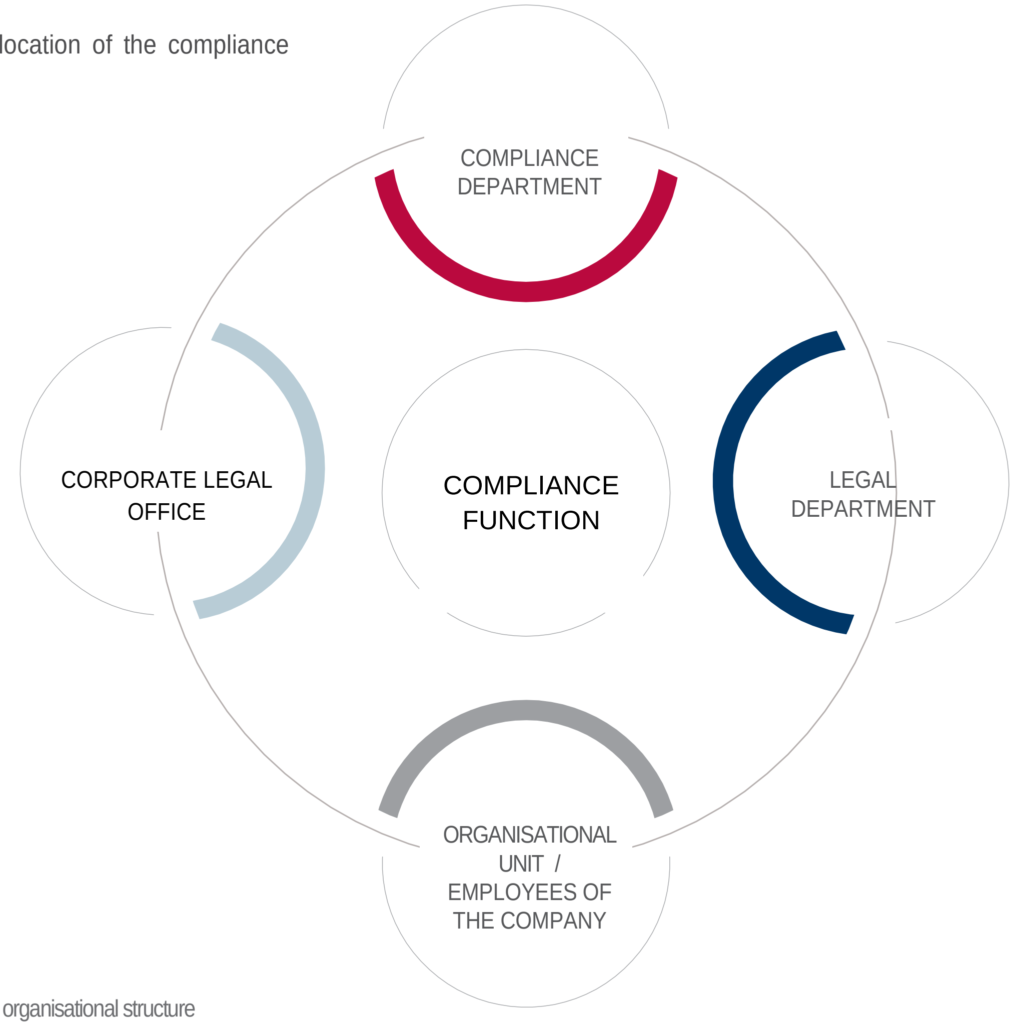


Figure 14.
Compliance function in the Company's organisational structure

COMPLIANCE DEPARTMENT

- supports the Management Board in ensuring compliance with laws and implementation and maintenance of an effective compliance management system,
- performs tasks within compliance areas (prevention of financial fraud, protection of investors in the area of reliable information for customers and no discrimination, adherence to and development of financial ethic rules, including insurance secrets, personal data and confidential information, cooperation with a supervisory authority and PUODO),
- coordinates the compliance process / management of compliance risk.

LEGAL DEPARTMENT

- advises to the Management Board and Supervisory Board in the area of compliance,
- supports the Company's organisational units in the area of compliance of the Company's operations with applicable laws by providing final and binding interpretation thereof.

ORGANISATIONAL UNITS /EMPLOYEES OF THE COMPANY

- organisational units are obliged to manage compliance risk by: identification, valuation and assessment, reporting, response to and/or adjustment of operations of the section/unit to the applicable laws in cooperation with the Legal Department,
- the employees are obliged to operate in accordance with laws and internal regulations and are involved in the compliance risk management process,
- business process owners manage compliance risk in terms of compliance of the processes they manage and the supporting applications with the applicable laws.

CORPORATE LEGAL OFFICE

- organises the internal legislation process and supervises the maintenance of corporate standards in the area of legislation,
- supports organisational units in the development of internal regulations.

COMPLIANCE PROGRAM

The compliance function is pursued with the Compliance program, aimed at:

- preventing breach of Compliance rules (prevention),
- detection of potential breaches that may arise despite the preventive actions (detection),
- immediate remedy of the detected breaches (response).

Preventive actions

The Compliance Department – in order to prevent breaches of Compliance rules – takes various measures and actions, including:

- development of a Code of Conduct, Compliance Function Policy and Anti-corruption Policy, aimed at a formal presentation of the ethical aspect of the performance of employee duties and providing the employees with guidelines, principles and rules of conduct resulting from general moral and ethical standards that are of special importance for the Company's business,
- development of appropriate standards, resulting in uniform and binding principles in the entire Company for all the staff, including in particular:
    - the principles concerning the mitigation of corruption risk (Anti-corruption Policy),
    - the principles concerning gifts, entertainment, donations and sponsoring ("Gifts Instruction"),
    - the principles concerning protection of people reporting any noticed abuse, irregularities and negligence ("Whistleblowers Instruction"),
    - the principles concerning the management of conflicts of interest in the Company's investment activities,
    - the principles concerning personal data protection (developed by the Data Protection Officer),
    - providing the employees with all assistance in access to and understanding the guidelines, principles and rules of ethical conduct. To this end, the Compliance Department operates a "competence centre" – Compliance Helpdesk to which employees may send e-mails with inquiries concerning ethical aspects of Compliance,
- development of other preventive measures to mitigate compliance risk on the basis of an analysis of reported problems and queries,
- dissemination and propagation among employees of the guidelines, principles and rules of ethical conduct by arranging training on issues relating to Compliance and dispatch e-mail messages related to ethics.

Detecting activities

All kinds of breaches of Compliance rules may pose a material risk to the Company and its employees. In view of the above, compliance with the standards/rules and guidelines related to ethics and law is a priority to the Company's business operations. In order to ensure compliance with the above standards/rules, processes have been developed to ensure effective identification, clarification and immediate remedy of all breaches of compliance rules in the Company.

In accordance with the applicable internal regulations (Code of Conduct, "Whistleblowers Instruction"), employees are required to notify the Compliance Department of any irregularities, instances of abuse and negligence that may occur in the Company. The reported information is analysed by the Department which also verifies and clarifies all reported irregularities, instances of abuse and negligence.

When the Compliance Department has reasons to believe that employees of the Company may have breached Compliance rules, the employees of the Department open an investigation to identify the reasons and scale of such breaches and the persons responsible therefor.

In order to that the risk of Compliance breach is detected at a possibly early stage, the Compliance Department does the following in the Company:

- performs monitoring of certain mechanisms in business processes,
- performs control actions including a check and verification of the internal regulations in force in the Company,
- operates a Compliance Monitoring Plan (CMP) which covers periodic compliance tests and assesses the adequacy and effectiveness of the compliance control measures and procedures in the Company; additionally, actions are taken to remedy the gaps in that respect.

Response

When any clarification, control, monitoring activities or compliance tests indicate a breach of Compliance rules, the Compliance Department prepares appropriate recommendations and submits them to competent persons in order to prevent recurrence. The Compliance Department carries our regular monitoring of the recommendations it has issued.

It further analyses the root reasons of the breach of standards/rules in force in the Company in order to apply the conclusions to detect and effectively eliminate the detected weaknesses in the Compliance Program. Such approach to the detected breaches supports ongoing enhancement and development of the Program and ensures system effectiveness.
Breaches of Compliance rules that generate recommendations issued by the Compliance Department may generate certain sanctions that are proposed by the Compliance Department and submitted to the Company's competent organisational units for decision.

PERIODIC REVIEW

The Compliance program is subject to periodic reviews and assessment of implementation. On that basis and also on the basis of the performed tasks and collected know-how and experience, the Compliance Department develops an action plan for the next period.

REPORTING OF THE COMPLIANCE FUNCTION

The Compliance Department submits periodic reports from the operation of the compliance function to the Company's Management Board / Audit Committee / Supervisory Board.

The reports also contain details of any detected breaches of Compliance principles and remedial actions taken by the Company's management, adequately to the needs.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The internal audit function (hereinafter internal audit) established and implemented in the Company carries out its tasks on the basis of the Internal Audit Charter, approved by Management Board and adopted for application by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE INTERNAL AUDIT FUNCTION

The main objective of internal audit in the Company is a comprehensive view of the Company's operations and its organization, independent evaluation of activities undertaken by the first and second line of defence in the internal control system, identification of opportunities and threats to ensure synergy, add value and improve the operations of the Company as well as improving the adequacy and effectiveness of the internal control system and other elements of the management system.

The execution of internal audit function at the Company has been entrusted to the Chief Audit Executive and subordinate internal auditors employed in the internal audit unit.

Internal audit performs the following tasks in the Company:

- the assurance services, consisting in the performance of internal audit tasks of key areas of the Company's operations, through identification and assessment of significant risks and assessment of the internal control system occurring in the areas of operations, products, processes and IT systems in the Company,
- advisory and supporting services, consisting in particular in providing opinion on draft internal regulations, assessment, advisory support and educational activities within the Company with respect to risk control mechanisms; monitoring of recommendations issued, inter alia, by internal audit, external auditors, audit firm auditing the financial statements of the Company and competent supervisory authorities; other tasks imposed by the Audit Committee / Supervisory Board or the President of the Management Board.

In order to perform its duties, internal audit systematically, in an ordered manner, professionally, objectively and independently analyses the functioning of the Company in all areas of its business. Within the performance of audit tasks in organisational units, internal audit verifies the audited processes, paying special attention to compliance of the data input to the IT systems with the data in source documents, correct functioning of significant control mechanisms and compliance of operations with the applicable internal regulations and laws.

The basic audit method at the Company is the risk analysis-oriented approach. Internal audit performs its tasks by making periodical reviews and assessment of the areas that are the most exposed to risk in compliance with the annual and long-term internal audit plan. Apart from the tasks stipulated by the annual audit plan, the Audit Committee / Supervisory Board or the President of the Management Board may commission ad hoc (unscheduled) tasks. Additional tasks may be also carried out at the own initiative of Chief Audit Executive, having obtained consent of the President of the Management Board.

B.5.2 Independence and impartiality of the internal audit function

To ensure appropriate authority and independence of the internal audit unit (Internal Audit Department), the function reports directly to the Company's President of the Management Board. Chief Audit Executive:

- at least once a year confirms the organisational independence of internal audit to the Supervisory Board,
- is authorised to direct contact with the Chairman of the Company's Supervisory Board and the Chairman and each Member of the Company's Audit Committee,
- is authorised to attend Meeting of the Company's Management Board and Audit Committee if the meeting covers issues related to the internal control system or the internal audit function.

Internal audit performs the tasks assigned to it in an independent and objective manner:

- internal auditors are independent from the activity they examine and, consequently, must not accept responsibility for non-audit functions and tasks in the Company that are subject to periodic internal audit assessment including: development of internal regulations and design, implementation or operation of products, processes and IT systems,

- recommending the internal control standards for products, processes and IT systems by internal auditors as well as the internal regulations review in specific areas of the Company's operations prior to their implementation, do not negatively affect the auditors' objectivity,
- it is prohibited to exert any pressure on internal auditors which could distort the objectivity of their work,
- internal auditors are obliged to immediately inform the Chief Audit Executive of any situations that can be reasonably assessed as being or potentially threatening their independence or objectivity. Internal auditors are also obliged to inform of situations which raise their doubts in this respect,
- internal auditors who used to work in other organisational units, must refrain from the assessment of the operating activity they were previously responsible for minimum 12 months,
- internal auditors may provide advisory services also with respect to operations they were responsible for earlier. If in connection with such services, the independence or objectivity of internal auditor may be impaired, such information shall be disclosed to the commissioning party before the task is commenced,
- the method of determining the remuneration of internal auditors does not influence their objectivity and independence.

The Company's Audit Committee monitors the internal audit activities, with particular emphasis on the issues of independence, professionalism and the level of skills and substantive knowledge of internal auditors, in particular through:

- ensuring compliance with the principles of the Internal Audit Charter, adopted for application by the Supervisory Board of the Company,
- analysis of periodic reports regarding the implementation of the internal audit function in the Company,
- review of the activities undertaken and structure of the internal audit in order to ensure the proper functioning of the internal audit in the Company,
- giving consent to the annual audit plan approved by the Management Board of the Company and significant adjustments to the plan, monitoring the execution of the plan and the possibility of initiating additional audit tasks in the Company,
- analysis of the implementation status of recommendations issued as a result of audit tasks and recommendations / post-control recommendations issued by authorized external entities,
- issuing opinions on the candidates for the Chief Audit Executive position and approval on appointment or dismissal of the Chief Audit Executive,
- periodic assessment of adequacy and effectiveness of the internal audit function.

In order to properly carry out the internal audit activities, the Management Board of the Company is responsible in particular for:

- establishing, ensuring independence and proper operation of internal audit,
- exercising by the President of the Management Board direct, organizational supervision over the internal audit,
- approval of the Internal Audit Charter,
- approving an annual audit plan based on risk analysis and plan adjustments,
- making decisions regarding the appointment and dismissal of the Chief Audit Executive,
- making decisions on the actions to be taken in relation to the internal audit results and recommendations and for ensuring the execution of these actions,
- submitting, at least yearly, information to the Supervisory Board on the implementation of the internal audit activities, including execution of the internal audit plan and the results of monitoring the implementation of the recommendations formulated by internal audit or external institutions.

REPORTING OF THE AUDIT FUNCTION

The internal audit unit reports quarterly on, among others, execution of the internal audit plan, performed audit tasks, results of work, other tasks performed and available resources to the Management Board and the Company's Audit Committee. The President of the Management Board of the Company receives information on the status of the implementation of audit recommendations and other tasks performed by the internal audit unit on a monthly basis. Other Members of the Management Board receive detailed information on the status of recommendations in the areas they supervise. Reports of the completed audit tasks are presented on a current basis to the Management Board of the Company.

The internal audit unit prepares an annual report on its operations, which is presented to the Audit Committee and the Management Board of the Company.

B.6 Actuarial function

The actuarial function was established and implemented on the basis of Guidelines relating on actuarial function at TUiR “WARTA” S.A., approved by the Company's Management Board.

OBJECTIVE AND TASKS OF THE ACTUARIAL FUNCTION

The main goal of the actuarial function is to coordinate the calculation of technical provisions. The coordination is pursued inter alia by ensuring appropriate methodologies and applied models as well as assumptions made in the calculation of the technical provisions along with an assessment of the data used to calculate the provisions is adequate and of an appropriate quality.

The works of the actuarial function are supervised and coordinated by the Director of the Actuarial Department (Person Supervising the Actuarial Function). Specific tasks of the actuarial function are performed by the Actuarial Department and the other involved organisational units in compliance with their respective delegation of duties within the activities for the needs of the actuarial function.

The tasks of the actuarial function include in particular:

- with respect to the calculation of technical provisions for solvency purposes:
  - coordination of the calculation of technical provisions for solvency purposes,
  - ensuring an appropriate methodology of the applied model and the assumptions made in the calculation of technical provisions for solvency purposes,
  - comparison of the best estimates against the data resulting from accumulated experience,
  - submitting information to the Management Board and Supervisory Board on the reliability and adequacy of the calculations of technical provisions for solvency purposes,
- with respect to ensuring quality of the date used for the calculation of technical provisions for solvency purposes:
  - assessment if the data used to calculate technical provisions for solvency purposes is sufficient and of appropriate quality,
  - supervision of the calculation of technical provisions for solvency purposes when appropriate approximations are used, including an individual approach – in specific circumstances when the Company does not have sufficient data of appropriate quality,
- expressing an opinion on the overall policy of risk underwriting,
- expressing an opinion on the adequacy of reinsurance arrangements,
- calculation of technical provisions for accounting purposes,
- cooperation with the Risk Management Department in the effective implementation of the risk management systems, in particular with respect to:
  - risk modelling underlying the calculations of the Solvency Capital Requirement and Minimum Capital Requirements,
  - Own Risk and Solvency Assessment of the Company.

Within the actuarial function tasks, the coordination of the calculation of technical provisions for solvency purposes is performed by the Actuarial Department. It also performs the calculation of the best estimates as a component of the technical provisions for solvency purposes.

Due to the fact that the scope of statutory tasks attributable to the actuarial function, in the case of TUiR “WARTA” S.A., is extended by the calculation of technical provisions for solvency purposes, a Validation Policy at TUiR “WARTA” S.A. was implemented, in order to ensure independence and validation of actuarial calculations, and thereby to avoid any potential conflicts of interest.

With respect to the calculation of technical provisions for solvency purposes, the Actuarial Department is responsible for the calculation of the best estimate and development of the underlying documentation.

Additional information is prepared containing, inter alia, a reference to the applied methodology with a specification of the applied approximations and facilities, identification of updates to the frame parameters, the accepted portfolio granularity, changes to estimations of the final amount of losses versus the previous calculation, assessment of the calculation process, including any detected weaknesses, implemented and planned process improvements, arrangements made with external units. Separate additional information for the premium reserve for solvency purposes also refers to changes in the portfolio volume, structure and nature.

After completion of the provision calculation process, the documentation covers a register of parameters with information on the selected algorithm of provision calculation, applied parameters and coefficients used for the calculations for each reporting period with the justification.

The Actuarial Department also performs additional analyses validating the results (such as a comparison of the loss estimates determined on the basis of paid triangles and incurred triangles) and supporting a preliminary validation opinion. The scope of the analyses is pre-determined with the Risk Management Department which is responsible for the development of a preliminary and final validation opinion of the best provision estimates.

The opinion contains recommendations submitted to the Person Supervising the Actuarial Function and to the Risk Committee. On the basis of the analyses and initial validation opinion, the Risk Committee recommends future actions and/or additional analyses.

ACTUARIAL FUNCTION IN THE COMPANY'S ORGANISATIONAL STRUCTURE

The chart below presents the location of the actuarial function in the Company.

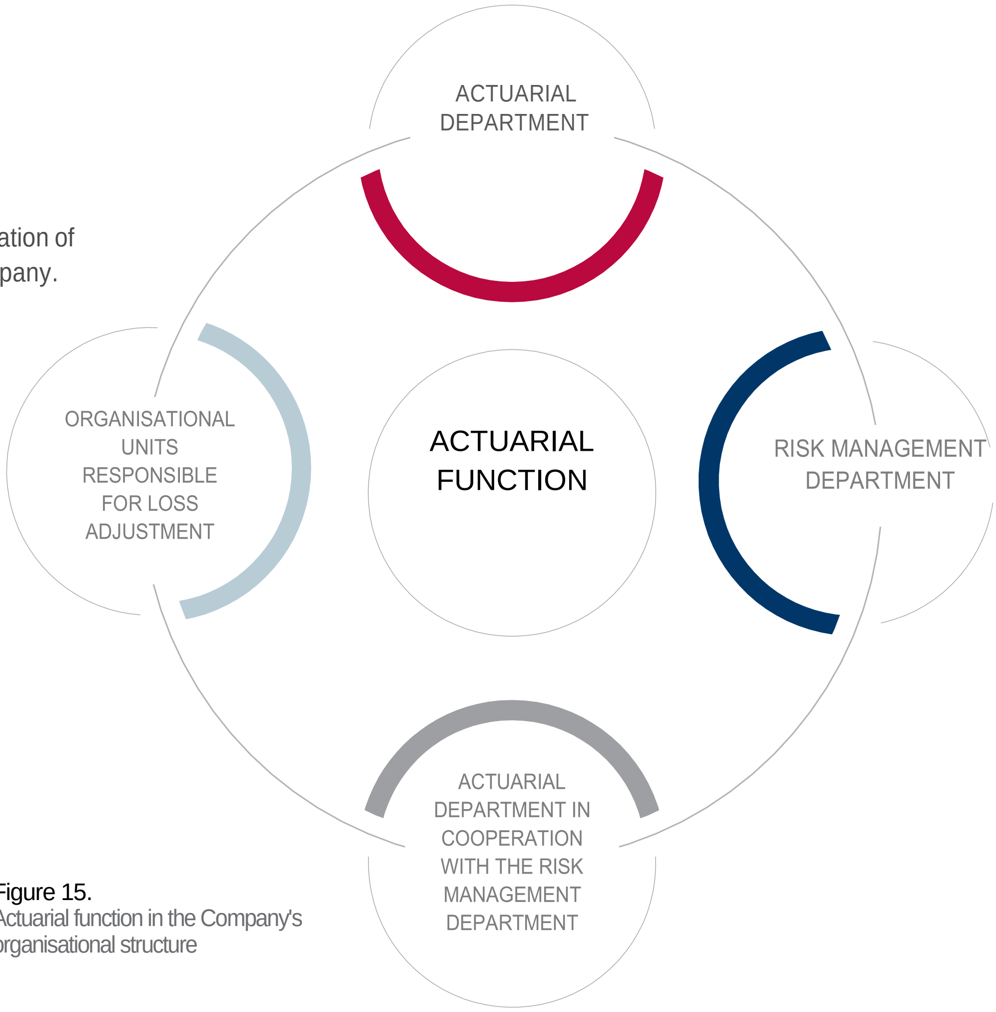


Figure 15.
Actuarial function in the Company's organisational structure

ACTUARIAL DEPARTMENT

With respect to the calculation of technical provisions for solvency purposes:

- verification of compliance of the applied methods and assumptions in the calculation of the best estimates with Solvency 2 requirements
- assessment of the appropriatness of the applied methods and models, principles and assumptions in caalculation of the best estimates
- calculation of best estimates and verification if they are correct
- review of the adequacy of best estimates by a comparison with historic experience
- managing the risk covering the process of provision establishment

Assessment of the quality of data used to calculate the provisions, development of Guidelines related to data quality

Expressing an opinion on the overall underwriting policy
Expressing an opinion on the adequacy of reinsurance arrangements

Calculation of technical provisions for accounting purposes with actuarial methods

Analysis of impact of changes to best estimates on economic capital and analysis of changes to the provisions for accounting purposes

Development of Regulations for creating of technical provisions

Maintenance and updates to the documentation concerning provision calculations

RISK MANAGEMENT DEPARTMENT

- Determination of the risk margin as a component of technical provisions for solvency purposes
- Estimation of the expected loss as a result of a default by re-insurers
- Cooperation in assessing the creditworthiness of reinsurance partners
- Assessment of compliance with risk appetite of the overall underwriting policy and reinsurance arrangements
- Assessment of the adequacy of reinsurance coverage in stress scenarios
- Assessment of the adequacy of reinsurance coverage with reference to limiting variable demand for capital
- Determination of the variability degree of the anticipated net profitability in the context of the overall underwriting policy

ACTUARIAL DEPARTMENT IN COOPERATION WITH THE RISK MANAGEMENT DEPARTMENT

- Validation of best estimates in line with the Validation Policy in force with the Company
- Development of risk management principles in the calculation process of technical provisions
- Cooperation in effective implementation of the risk management system
- Identification of segmentation applied for best estimates
- Preparation of data for best estimates calculation

ORGANISATIONAL UNITS RESPONSIBLE FOR LOSS ADJUSTMENT

- Calculation of technical provisions for reported claims for accounting purposes other than calculated with actuarial methods,
- Individual review of loss for best estimate purposes.

The other involved organisational units and responsible for the activities for the needs of the actuarial function are as follows:

- units responsible for reinsurance – jointly with the Actuarial Department they determine the share of re-insurers in technical provisions,
- units responsible for products management with respect to:
    - statements on the overall policy of risk underwriting,
    - cooperation in determining the parameters for best estimates of premium provision,
- the Controlling Department within cooperation in setting parameters for best estimates premium provision,
- the Asset Management Department, within determining the value of the investment activity costs ratio related to the handling of insurance and reinsurance liabilities,
- the Financial Accounting Department and Operations Department, according to Solvency 2 valuation requirements, with respect to the reclassification of the not-due receivables and payables to the technical provision in the economic balance.

The Person Supervising the Actuarial Function is authorised to determine the detailed method of performing tasks by organisational units in order to ensure effective supervision of tasks performance by the actuarial function.

Data quality in the calculation process of technical provisions:

The Actuarial Department, in cooperation with the Company's other organisational units, develops and updates the procedure Guidelines relating to control of the quality of data used in the calculation of technical provisions for solvency purposes which specifies:

- a list of data subject to control,
- organisational units holding information and responsible for quality of the data and the way the duty related to control of data quality is carried out,
- the way to document the control and report errors.

Quality control of accounting data, covering the information required to calculate the provisions, subject to the existing control process of accounting data.

REPORTING OF THE ACTUARIAL FUNCTION

Within the actuarial function, the Person Supervising the Actuarial Function – at least once a year, after the end of each reporting year – prepares a report for the Management Board on the calculation process of technical provisions.

The opinions on the overall underwriting policy take into account relations between the policy of underwriting and the level of technical provisions.

However, when formulating assessments of the adequacy of reinsurance arrangements, relations are taken into account between reinsurance arrangements and the level of technical provisions.

Reporting contains information on the completed tasks by the actuarial function and the results thereof with recommendations on elimination of all detected irregularities.

Within their supervision over the management of risk related to the calculation process of technical provisions, the Supervisory Board and/or the Audit Committee is provided with information on the calculation process of technical provisions.

B.7 Outsourcing

The Principles of concluding outsourcing contracts, approved by the Company's Management Board, define the processes and activities that are outsourced and set forth the rules of approval and performance of outsourcing processes.

B.7.1 Outsourcing policy

The outsourcing policy followed in the Company ensures compliance with the guidelines set forth in the Act on Insurance and Reinsurance Activity and the standards of the Talanx Group.

Outsourcing requires approval of the Management Board, two members of the Management Board or the Director of the relevant organisational unit. The final formula is subject to the outsourced services and the effects that may be generated by outsourcing.

PARTICIPANTS IN THE OUTSOURCING PROCESS

The following are involved in the outsourcing process in the Company:

- the organisational unit – apply for approval of outsourcing and if granted – supervise the process on an ongoing basis,
- the Management Board / members of the Management Board – approve / disapprove outsourcing,
- the Risk Management Department – coordinates the definition of outsourcing, evaluates the risk assessment of significant contracts, verifies and collects outsourcing cards and prepares annual reports for the Risk Committee regarding the outsourcing risk,
- the Administration Department – supervises the register of outsourcing contracts; upon proposal of other units and as a result of year review it updates the Principles of concluding outsourcing contracts,
- the Legal Department – provides opinions on contracts, annexes, termination of outsourcing contracts,
- The System Maintenance and Development Department- in the area of IT contracts usig cloud computing,
- Outsourcing Definition Team comprising of the representatives of Administration Department, Legal Department, Security and Support Bureau, Risk Management Department and System Maintenance and Development Department– in the scope of defining and qualifying aoutsourcing.

ELECTION AND ASSESSMENT OF THE EXTERNAL SERVICE PROVIDER

The external entity providing outsourced services and processes is selected in line with the Non-IT Procurement Procedure or the IT Procurement Procedure, respectively.

The entities identified after a preliminary market appraisal are invited to proceedings the provider choice carried out by the Administration Department or the Security and Support Bureau during which they are expected to:

- confirm the required financial condition,
- submit the required documents and references,
- file appropriate representations, e.g. that no bankruptcy proceedings are pending against them.

Additionally, the units responsible for the procedure verify the candidates' propriety.

The provider is selected on the basis of selection criteria determined each time, adequately to the business needs and specificity of a given outsourcing, with reference to the subject matter and the assessment of the provider's credibility.

IDENTIFICATION, ASSESSMENT AND MEASURES MITIGATING OUTSOURCING RISK

The Principles of concluding outsourcing contracts set forth the conditions of verifying contracts in terms of their validity.

Outsourcing contracts include so-called material contracts and others. The material contract are that meet at least one of the following criteria:

- failure by the provider, including discontinuation of the performance of the contract or incorrect performance of the contract, would generate major hazards of:
  - failure to accomplish financial or business targets by the Company, in particular adverse impact on the financial profit in excess of PLN 5 M,
  - breach of law that may result in penalties imposed on the Company,
- the outsourced activity is a part of a Critical Process within the meaning of the Crisis Management Policy,
- the anticipated annual gross contractual remuneration exceeds PLN 1 M,
- the contract covers the submission of declarations of intent related to claims for damages or other benefits due under insurance contracts, insurance guarantee agreements or inward reinsurance and retrocession,
- the contracts covers the entrusting management system activities,
- the contract covers the outsourcing of the Company's processes commissioned to companies in the Talanx Group.

Each material outsourcing contract requires approval by the Management Board. The other outsourcing contracts concerning services carried out on a continuous basis require approval of two members of the Management Board.

Each outsourced process is subject to initial, ongoing and final risk assessment; assessment of processes classified as material is additionally formalised in the form of Risk Assessment Cards and requires prior to concluding and once a year an assessment of the economic and financial situation of the Supplier. The organisational unit supervising the process completes the documents on the basis of its best knowledge and information received from the Provider. To assess the economic and financial situation, qualitative and quantitative assessment forms, called the Supplier's economic and financial situation assessment model, are used.

The following cards are used in the Company:

- Outsourcing Card – Preliminary Risk Assessment – completed before the contract is signed,
- Outsourcing Card – Periodic Risk Assessment – completed every year,
- Outsourcing Card – Risk Assessment after Contract Expiry – completed when the contract is ended.

The initial, ongoing and final risk assessment is performed by the organizational unit supervising the contract. On the basis of cards' information, completed and submitted by the organisational units, the Risk Management Department gives opinion on the correctness of risk assessment, monitors the level of contract risk and drafts a annual aggregated report of outsourcing agreements for the Risk Committee.

Notwithstanding the above, the organisational units that are contract owners are responsible for ongoing monitoring of correct contract performance. When major risks are identified that are related to contract performance or the provider, the unit is obliged to:

- immediately inform the supervising member of the Management Board of such risks,
- initiate actions aimed at activating the existing remedial action plan or urgently develop such plan as the case may be, and obtain approval thereof by the supervising member of the Management Board or by the Management Board – in line with the nature of the activities.

IMPACT OF OUTSOURCING ON CAPITAL ADEQUACY

Outsourcing contracts do not materially affect the Company's capital adequacy and risk profile and they do not generate an excessive increase of operational risk. Appropriate provisions of outsourcing contracts, diversification of service providers and control of the entities providing outsourced services safeguard the Company against material risks.

When outsourced services constitute a part of a Critical Process within the meaning of the Crisis Management Policy, the contract is classified as material and the providers must have Business Continuity Plans and Emergency Restoration Plans. The performance of material contracts is monitored and should any material risk arise, immediate action is taken.

REPORTING TO THE SUPERVISORY AUTHORITY

The unit which is the contract owner is obliged to complete the PFSA survey consisting information about the contract and notify the Corporate Legal Bureau immediately of intent to conclude or change significantly of any contract that needs to be notified to the supervisory authority 30 days before implementation or significant change of outsourcing agreement. The Corporate Legal Bureau, in line with the existing Rules of information disclosure and providing responses to letters of the Office of the Polish Financial Supervision Authority and other institutions and public administration bodies and compliance with reporting duties at TUiR "WARTA" S.A., notifies the supervisory authority together with the PFSA survey.

B.7.2 Key outsourcing agreements

In compliance with the existing Principles of concluding outsourcing contracts, outsourcing contracts may not cover the day to day management of the Company, in particular:

- development of the Company's business strategy and supervision of the implementation thereof,
- supervision of the processes performed in the Company,
- decisions on outsourcing of processes and responsibility for outsourcing contracts,
- supervision over and performance of key functions in the Company.

The Company does not outsource any key functions. Any commissioning of decision authority (supervision) with respect key functions is prohibited. However, subject to approval by the Company's Management Board, it is possible to outsource certain activities performed within key functions subject to the service provider complying with the requirements of competence and propriety as set forth in Solvency 2.

In 20120 the Company outsourced activities regarding the key functions regarding flood disaster modeling. The service provider is under the jurisdiction of the Czech law, but the contract is a tripartite agreement and the law in force in the contract is German law.

In addition, the Company submits to PFSA contracts classified as basic and valid, i.e. defined by the Company as relating to:

- making declarations of will on claims for damages or other benefits due under insurance contracts and insurance guarantee contracts,
- making declarations of will on claims for damages or other benefits due under active reinsurance contracts and retrocession.

In 2020, valid outsoucing contracts, in the field of basic outsourcing in the Company, were the following agreements:

- assistance: transport, motor liability, , housing insurance, car fleet insurance, bancassurance and travel insurance,
- liquidation of damages in the scope of legal protection,
- liquidation of damage due to bancassurance insurance,
- liquidation of damages due to insurance of household appliances / audio / video devices.

Service providers providing services in the above area are subject to the jurisdiction of Polish law.

Apart from the above, the Company does not outsource processes relating to:

- ensuring IT Security,
- administration of information security,
- counteraction fraud, crisis management, including business continuity management.

In view of the above, in the Company's opinion the performance of outsourcing contracts does not materially affect the adequacy of the system of governance.

B.8 Any other information

All material information was presented above.

C Risk Profile

Risk profile describes the scale and the structure of risk exposure, taking into account the specificity of the business. In particular, it contains the following information:

- assessment and quantification of core risk modules of the standard formula,
- material risks to which the Company is exposed over a short-term horizon, identified in the periodic assessment process,
- material risks to which the Company is exposed over a long-term horizon, identified in the Business Plan,
- information on other risks that are not covered with the core risk modules of the standard formula,
- other material information that affect the assessment of risks inherent to the Company.

The risk profile, Solvency Capital Requirement and S2 solvency ratio are determined in accordance with the standard formula on the basis of the requirements specified in the Delegated Regulation and the Act on Insurance and Reinsurance Activity. This means that the Company does not apply its own parameters, specific for insurance undertakings.

OWN RISK AND SOLVENCY ASSESSMENT

The risk profile was determined as a result of the Own Risk and Solvency Assessment process.

Own Risk and Solvency Assessment is carried out in line with the existing Own Risk and Solvency Assessment Policy. The detailed description of Own Risk and Solvency Assessment is provided in chapter B.3.3 hereof.

DESCRIPTION OF MATERIAL RISKS

Significant risks to which the Company is exposed include:

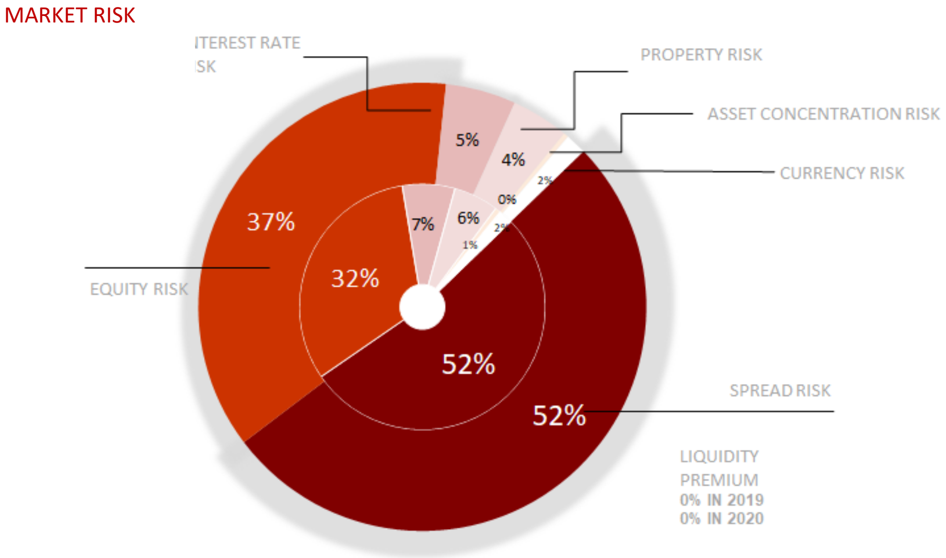
- the risks covered by the Solvency Capital Requirement calculated based on the standard formula,
- individual risks identified by the Company,
- other risk areas identified during the Business Plan preparation process.

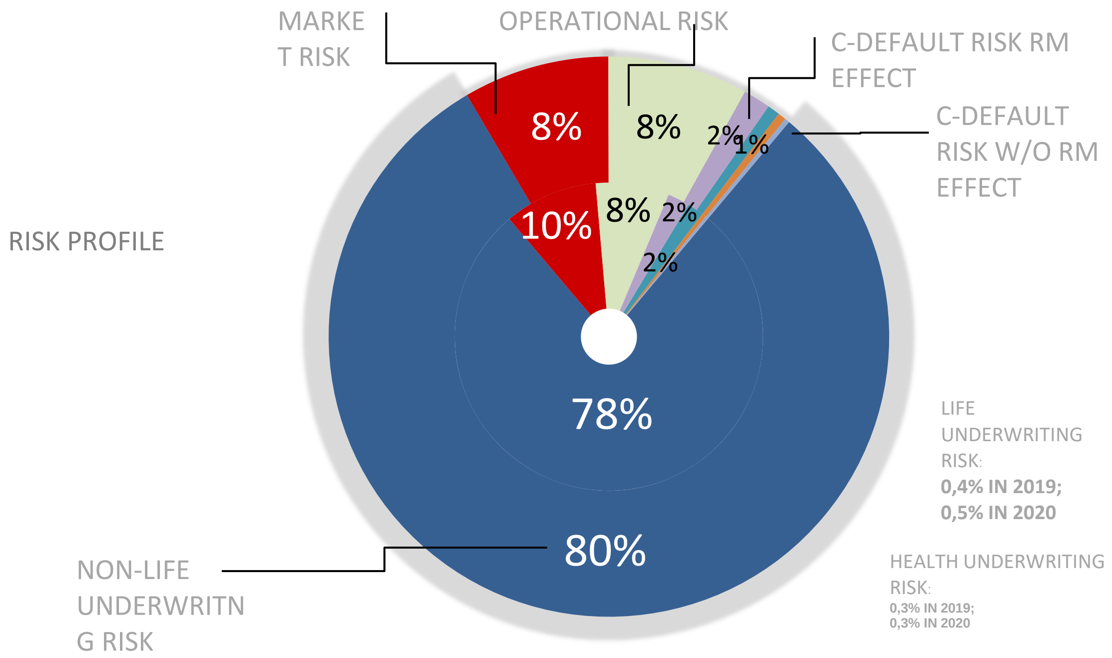
RISKS COVERED BY THE SOLVENCY CAPITAL REQUIREMENT

The Solvency Capital Requirement is allocated to individual risk modules and sub-modules subject to the diversification effect.

The figure 16 presents the split of the Company's risks as at 31 December 2020 and as at 31 December 2019.

Risk Profile as at 31 December 2020 (external circle) and as at 31 December 2019 (internal circle)





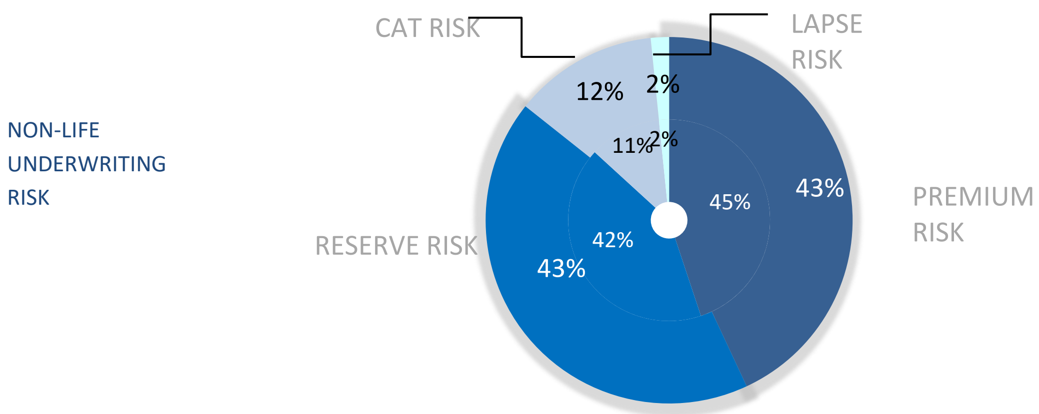


Figure 16.
The Company's risk profile in accordance with the standard formula

Underwriting risk in non-life insurance is the Company's most important risk – as at 31 December 2020 , the risk accounted for 80% of the total Solvency Capital Requirement. The following risks are identified within underwriting risk: premium risk (accounting for 43% of the overall non-life underwriting risks), reserve risk (43%) and catastrophic risk (13%).

Market risk is the second largest risk, accounting for 8% of the total Solvency Capital Requirement. The largest risks classified within market risk are as follows: spread risk (accounting for 52% of the overall market risks), equity risk (37%), interest rate risk (5%) and property risk (4%).

The other significant risk modules include: operational risk (accounting for 8% of the Solvency Capital Requirement) and the counterparty default risk module (3%).

The changes in the above mentioned risks in relation to 2019 are presented in the figure 16. There were no significant changes of risk structure in analysed period. Small changes in the risk structure are the result of the increase in the premium and reserve risk as a result of an increase in exposure and a decrease in most market risks (except for the equity risk, which increased as a result of a higher valuation of the subsidiary TUnŻ "WARTA" SA and an increase in fixed assets). That factors translated into the increase of the underwriting risk share in property insurance (by 2 pp.) and a decrease in the share of market risk (by 2 pp.).
In the period considered there were no off-balance sheet items that had an impact on the risk level.

INDIVIDUAL RISKS IDENTIFIED BY THE COMPANY

The material individual risks identified by the Company within the ORSA process conducted in 2020 include:

- counterparty default risk in investment activity,
- interest rate risk,
- risk of lowering the repayment of receivables,
- deterioration of the loss ratio in motor insurance,
- risk of lower sale of new policies,
- catastrophic risk (risk of fluctuations in the value of natural claims).

OTHER RISK AREAS IDENTIFIED DURING THE BUSINESS PLAN PREPARATION PROCESS

The other risk areas that are additional to the risk profile are as follows:

- the impact of the COVID-19 pandemic, which had a negative impact on the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. The length of the crisis will be decisive for the severity of its consequences, including the decline in sales of new policies,
- a large decline in GDP (8.4% y / y) in the second quarter of 2020 due to the crisis caused by the pandemic COVID-19. Forecasts for further GDP growth vary widely, ranging from -5.2% to -0.5% for 2020 and from 2% to 5.8% for 2021. The macroeconomic shock related to COVID-19 is expected to be limited in 2020-2021, and it may take many years to return to the previous growth path,
- an unprecedented reduction in interest rates that remains accommodative in 2021, slight increases in interest rates are possible in the coming years,
- price increases assumed for 2021 in the motor insurance market, in which the Company has a high market share, may appear later than expected,
- limiting the reinsurance markets for carbon risks, which results from the general trend of environmental protection and regulatory changes in the field of reducing environmental pollution,
- the COVID-19 pandemic may have a further negative impact on business and economy in the form of returning lock-downs, deteriorating financial condition of both the country and the private sector, which may result in recommendations to further strengthen the Company's capital position,
- increasing the social security burden on employers and employees.

RISK CONCENTRATION

Risk concentration in the Company occurs in the following areas:

- underwriting risk – the corporate insurance portfolio contains risks with single large sums insured (catastrophic risk); additionally, the Company is also exposed to loss cumulation under small risks, e.g. in case of exposure to the risk of natural calamities (flood),
- reserve risk – a large part of the Company's liabilities is made up of reserves under business lines characterised with a long loss development period (motor vehicle liability insurance, general liability insurance),
- credit risk resulting from investment activity (concentration by issuer, sector, geography of investments),
- credit risk resulting from reinsurance activity (concentration of individual re-insurers in technical provisions).

The risks are appropriately managed by the Company by diversification, a limit system, reinsurance programs; they are also included in the calculation of capital requirement.

Moreover, the concentration of operational risk (outsourcing risk) arise when more than one service is outsourced to one service provider, with whom the Company has signed significant outsourcing agreement. The above mentioned risk is mitigated by additional mechanisms described in the rules for the outsourcing agreements' acceptance, that are defined in the Company's internal regulation.

RISK SENSITIVITY ANALYSIS

The Company performs stress tests and reverse stress tests. The analysis covers all potential events that in view of the Company's risk profile could result in a decrease of its own funds to the minimum level – 100% coverage of the Solvency Capital Requirement.

Stress tests rely on the following assumptions:

- the events are realistic and based on historic observations (they are based on events that occurred over the previous 10 years (in one-year horizon) for market and credit risk, and on potential fluctuations of the insurance portfolio observed in the past and on potential of disadvantageous events in the portfolio), so the probability that these events occur, is not higher than 10%,
- the events are selected with a view to the Company's risk profile – the existing structure of the insurance portfolio and investment portfolio,
- the review covers solely events that are material for S2 capital position, that is such that may result in a change of own funds calculated in compliance with the valuation methodology of the S2 solvency ratio,
- the analysis takes into account loss absoribing capacity of deferred taxes,
- the analysis applies a loss aggregation mechanism (due to the possible divergence and convergence of the analysed events in time), compliant with the mechanism applied in the standard formula.

As a result of the performed sensitivity analyses, the Company classified the following events/risks as material for which the following assumptions were made:

➢ Market risk

- Interest rate risk
  A parallel increase by 150 b.p. in the yield curve was assumed. The event took place at the end of 2008 (the outbreak of the crisis) and in 2013, where yields on long term rates rose by such an amount in seven months, the fell again to the same level in 2014 and 2015.

- Equity risk
  Share prices plunged by 20% was assumed. In addition, TUIR "WARTA" S.A. assumed that TUNŻ "WARTA" S.A. could lose 30% of its Solvency Capital Requirement.

- Property risk
  Property prices decrease by 20% was assumed.

- Spread risk
  The risk has been estimated based on the fluctuation of the credit spread for a given rating over the past nine years. It was assumed that the real annual loss due to widening spreads was equal to half of the capital requirement from this title. The extreme events of 2008/2009 have not been taken into account, because the policy of central banks implemented since then should not allow such extreme events.

- Currency risk
  The increase of foreign currency exchange rates by 12% was assumed (depreciation of PLN in relation to foreign currency given) for the currencies, for which the Company's currency position is short (excess of liabilities over assets) and the decrease of foreign currency exchange rates by 12% was assumed (appreciaton of PLN in relation to foreign currency given) for the currencies, for which the Company's currency position is long (excess of assets over liabilities).

- Concentration risk
  The risk of the issuer's bankruptcy estimated at Risk Scan process was assumed.

➢ Non-life underwriting risk

- Premium and reserve risk
  The fluctuations in the claims ratio have been analyzed, which have a large impact on the amount of the best estimate of the premium reserve as well as the fluctuations of the best estimates of claims that may occur throughout the year.

- Catastrophic risk
  The risk was estimated assumming flood event in the which the whole amount of the retention from catastrophic reinsurance agreement is used.

The table 6 presents the results of the tests held in 2020 (based on the Company's solvency status at the end of 2019):

TABLE 6. RESULTS OF THE STRESS TESTS

STRESS TESTS	VALUE OF THE SHOCK EFFECT	SHOCK TO OWN FUNDS RATIO
Market risk	250 205	8.6%
Life underwriting risk	0	0.0%
Non-Life underwriting risk	456 482	15.7%
Total loss	572 788	19.7%
Solvency Capital Requirement	2 003 407	
Total loss as a % of Solvency Capital Requirement.	28.6%	

Reverse stress tests consists in testing the volume of an event/risk required so that the solvency ratio at the end of 2019 falls by 30%, i.e. to consume all the capital surplus required by the Company.

The table 7 presents the results of the reverse stress tests for the risks, for which the scenarios described in the stress tests are probable:

TABLE 7. RESULTS OF THE REVERSE STRESS TESTS

REVERSE STRESS TESTS (RESULTING IN A REDUCTION OF CAPITAL OF 30% OF THE SCR) POSSIBLE OCCURRENCE TAKING INTO ACCOUNT THE RISK PROFILE OF THE COMPANY	CONDITIONS OF OCCURRENCE OF THE GIVEN REVERSE STRESS TEST
Premium and provision risk	Increase in claims provisions by PLN 256 million combined with an increase in the loss ratio by 10 pp
Interest rate risk	Increase of interest rates by 530 b.p.
Credit spread risk	Increase in credit spreads by 2.6 times higher than in the standard formula.

Due to the fact that the above tests were parameterised on the basis of observations of historic evolutions of capital markets and business environment of the Company over the previous 10 years, it was ascertained that the total loss (not higher than 30% of the Solvency Capital Requirement) corresponds to the value at risk with the probability not higher than 10% over one-year horizon.

C.1 Underwriting risk

Underwriting risk is a potential adverse deviation the value of liabilities in the insurance contract portfolio from the anticipated value of this liabilities.

The Company's underwriting risk includes:

- underwriting risk related to non-life insurance understood as non-life insurance with the exception of health insurance and reported annuities,
- underwriting risk related to health that are recognised mainly in accident and sickness insurance groups,
- underwriting risk related to life insurance understood as losses in general liability insurance, mainly motor vehicle liability insurance, resulting in annuity liability to the harmed persons from the moment the event is reported.

Underwriting risk can be split into the following types:

UNDERWRITING RISK

Non-life underwriting risk	Health underwriting risk	Life underwriting risk
Premium and reserve risk	Premium and reserve risk	Revision risk
Lapse risk	Lapse risk	Longevity risk
Catastrophic risk	Catastrophic risk	Expenses risk

Figure 17.
Types of underwriting risk

In 2020 the risk related to non-life insurance had the largest impact on the Company's risk profile – it accounted for 80% of the Solvency Capital Requirement.

In the period considered there were no off-balance sheet items that had an impact on the actuarial risk level.

PROPERTY AND HEALTH INSURANCE RISK

Premium and reserve risk

To measure the premium risk, the Company applies the following tools:

- calculation of capital requirements based on a risk volume metric and standard deviation parameters as set forth in the Technical Specification,
- additionally, the results obtained by the alternative to standard formula model to measure the risk, which is based on a Group internal model,
- stress tests performed in compliance with the Own Risk and Solvency Assessment Policy.

To measure the reserve risk, the Company applies the following tools:

- calculation of a best estimate of claims reserves (non-annuity and annuity),
- calculation of risk margin,
- calculation of capital requirements based on best estimates of claims reserves and standard deviation parameters as set forth in the Technical Specification,
- additionally, the results obtained by the alternative to standard formula model to measure the risk, which is based on a Group internal model,
- reserves adequacy tests,
- stress tests in compliance with the methodology set forth in the Own Risk and Solvency Assessment Policy.

Lapse risk

In order to measure the lapse risk, the Company applies the following tools:

- calculations of capital requirements based on a shock scenario, descibed in the Technical Specification
- additionally, the results obtained by the alternative to standard formula model to measure the risk, which is based on a Group internal model ,
- stress tests performed in compliance with the Own Risk and Solvency Assessment Policy.

Catastrophic risk

To measure the catastrophic risk, the Company applies the following tools:

- calculation of capital requirements based on shock scenarios set forth in the Technical Specification,
- supplementary, the results obtained by the alternative to standard formula model to measure the risk, which is based on a Group internal model,
- a model of natural catastrophic relying of external models to develop solutions to obtain an alternative valuation that better reflects the risk inherent in the Company,
- insurance thresholds and the utilisation thereof.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 8 presents the risk mitigation techniques applied by the Company:

TABLE 8. UNDERWRITING RISK MITIGATION TECHNIQUE

RISK	RISK MITIGATION TECHNIQUES APPLIED
Premium risk	Mandatory and optional reinsurance programs, co-reinsurance contracts, introduction of own share in claims, appropriate tariff and underwriting procedures
Reserve risk	Re-insurance programs, co-reinsurance contracts, change in liquidation process, establishment of extraordinary/additional technical provisions
Lapse risk	Modifications to coverage and tarification conditions or establishment of extraordinary/additional technical provisions, loyalty programs, restricted sales in instalments
Catastrophe risk	Re-insurance programs, co-reinsurance contracts, use of franchises, appropriate underwriting procedures (e.g. ban on underwriting certain risks or risks in certain geographical areas), limits for sums insured

The risk mitigation techniques are monitored quarterly with the following:

- control of limits for maximum net sums insured and reporting thereof to the Risk Committee,
- calculation of the Solvency Capital Requirement to verify if the requirement amount is not in excess of the approved risk sub-budget to be controlled by the approved limits,
- validation process of technical provisions,
- providing opinion on selection of reinsurance programs.

LIFE INSURANCE RISK

Life insurance risk for the reported annuity portfolio includes: revision risk and longevity risk and expenses risk.

To measure the risks, the Company applies the calculation of capital requirements based on shock scenarios set forth in the Technical Specification.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

In order to mitigate life insurance risk, the Company applies reinsurance programs and may establish extraordinary technical provisions.

The effectiveness of the risk mitigation techniques are monitored with the following:

- control of limits for maximum sums insured and reporting thereof to the Risk Committee,
- calculation of the Solvency Capital Requirement to verify if the requirement amount is not in excess of the approved risk sub-budget to be controlled by the approved limits,
- validation process of technical provisions,
- providing opinion on selection of reinsurance programs.

During 2020, the underwriting risk measurement methods and mitigating techniques has not changed.

C.2 Market risk

Market risk is defined as a risk of potential adverse deviation from the anticipated economic value of assets and liabilities resulting from fluctuations of market prices and an imperfect match of assets and liabilities.

Market risk encompasses the following risks:

MARKET RISK

- Interest rate risk
- Equity risk
- Spread risk
- Currency risk
- Property risk
- Asset concentration risk

Figure 18.
Types of market risk

In 2020, market risk was second in terms of its share of the overall risk profile and accounted for 8% of the Solvency Capital Requirement.

In the period considered there were no off-balance sheet items, other than those resulting from derivatives (included as standard in the calculation of the market risk) that had an impact on the market risk level.

Interest rate risk

Interest rate risk in the Company is generated by:

- mismatch of investments used to cover technical provisions to the profile thereof,
- investments the Company's own funds to cover capital requirements.

In the case of investments to cover technical provisions other than for the capitalised value of annuities, the Company's investment policy within its internal limits allows for deviation of the cash flow profile for assets from the profile for liabilities.

In the case of investments covering provisions for the capitalised annuity value, the important aspect is indexation of payments of annuity obligations (growing prices, wages, medical costs) and therefore the investment policy in that part of the portfolio assumes investments in instruments with similar risk (inflation indexed bonds and floating-rate bonds). Taking into account the fact that expected indexation is partially independent on the interest rate levels or current inflation, part of asset portfolio is also invested in fixed-rate bonds. However, limited availability of instruments used to secure inflation risk and differences in maturities vis-a-vis annuity obligations are one of the sources of mismatch of assets and liabilities.
Investments of the Company's own funds to cover capital requirements when such investments are made in debt instruments also generate interest rate risk and thus increase the related capital requirement.

Equity risk

The largest risk of stock prices is generated by shares in the subsidiary company TUnŻ "WARTA" S.A. whose shares are not listed and are in 100% held by the Company.

Apart from the above strategic exposure, the Company may invest a part of its own funds to cover capital requirements directly or indirectly in regulated stock markets in order to generate an increased rate of return on that part of the portfolio. The Company's investment policy provides for a diversified stock portfolio, in particular there are concentration limits within the equity portfolio. Depending on the assessment of stock market prospects, the exposure changes from zero to a few percent of the assets.

Spread risk

The Company's investment strategy provides for investments in corporate bonds and other instruments exposed to credit spread risk, both domestically and in foreign markets. Investment limits depend on type of instruments, issuers and their creditworthiness defined by external ratings or own assessment of their financial situation.

In the domestic market those are safe instruments like covered bonds or bonds of large companies and financial institutions with investment grade ratings as well as high-yield bonds without external ratings. In those instances, the Company applies its own assessment procedure of issuers' creditworthiness.

In foreign markets, investments are made in securities of large corporate entities and in sovereign securities, largely in emerging markets. That part of the portfolio is composed solely of debt instruments with liquid markets and whose issuers have rating on appropriate level. This part is subject to stricter diversification than the domestic market. Additionally, the Company monitors the economic condition of countries and the situation in their markets.

Currency risk

A passive approach to currency risk results in a low capital requirement which is due to the low value of FX position. In compliance with the investment policy, investments in foreign markets are not limited to the amounts of foreign currency denominated liabilities but may substantially exceed the value. The resultant FX position is hedged with derivative instruments.

Property risk

The Company substantially holds properties for its own use or intended of sale and it does not invest in investment properties. Therefore, the value of properties and thus the property risk is relatively low (a passive approach to investments in properties). The property risk is impacted in large extent by real estate lease agreements, recognized in line with IFRS16.

PRUDENT PERSON PRINCIPLE POLICY

Market risk in the Company is managed subject to the Prudent Person Principle Policy.

Within the overall investment portfolio held by the undertaking there are shares in its subsidiary company TUnŻ “WARTA” S.A. and purely financial investments to cover capital requirements and technical provisions.

Own funds to cover Solvency Capital Requirement are invested largely in debt instruments and partly in stocks and other instruments related to equity risk.

Assets covering technical provisions include a portfolio of debt securities and instruments, as well as units of debt investment funds. The structure of this part of the portfolio is defined with an appropriate structure of insurance liabilities, subject to the acceptable deviation in terms of interest rate risk. Instruments exposed to credit risk are subject to assessment of this risk and appropriate system of limits.

The Company's investment portfolio provides for a passive approach to investments in properties and to currency risk exposure. In the first case, the Company provides for holding the existing portfolio with a possible reduction by disposal of buildings or premises. In the second case, a closed FX position is assumed being a complete match of the currency structure of assets to the currency structure of liabilities within the permitted limit of currency mismatch.

Within its investment policy, the Company may use derivative instruments to hedge market risk resulting from the asset and liability portfolios, including the risk generated by insurance contracts as well as to effectively manage the portfolio.

MARKET-RISK CONCETRATION

Asset concentration and diversification are maintained at safe levels which is achieved inter alia with concentration limits that are subject to the type of instrument, issuer and the issuer group's rating. The Company does not hold any positions generating excessive market-risk concentration in the investment portfolio. Small concentration resulting in non-zero capital requirement for concentration risk is the result of credit exposures, mainly on PKO BP, PKN ORLEN, Santander and Commerzbank groups. The total value of the exposures on these groups in relation to total investments taken into account in concentration risk module as of the end of 2020 was 2.3% on PKO BP, 1.9% on PKN ORLEN, 1.8% on Santander and 3% on Commerzbank (a year before it was 2.1% on PKO BP, 2.0% on PKN ORLEN, 2.8% on Santander and 2.8% on Commerzbank).

Investment limits concerning concentration levels are verified for each transaction and are aimed at mitigating such risk and the resultant capital requirement.

In case of investments in foreign markets the concentration limits are more restrictive than for the Polish market with respect to individual issuers/capital groups and there are also limits for total exposure in each country. As a result, the portfolio of foreign investments is also diversified geographically.

METHODS OF THE MARKET RISK MEASUREMENT

In order to measure the market risk, the Company uses the following tools:

- value at risk calculation for monitoring market risk,
- BPV calculation and duration for monitoring interest rate risk,
- Scenario and stress tests analyse.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 9 presents the market risk mitigation techniques applied by the Company:

TABLE 9. MARKET RISK MITIGATION TECHNIQUES

RISK	RISK MITIGATION TECHNIQUES APPLIED
Interest rate risk:	BPV limits restricting the duration level of the asset portfolio and this the capital requirement for the risk, conclusion of forward rate transactions
Equity risk	An absolute limit for stocks, concentration limits for the stock portfolio, sale of equity futures contracts
Property risk	An absolute limit, low exposure, mainly properties for internal use
Spread risk	A limit for the overall rating structure of the portfolio, a limit for the value of spread risk, a limit for corporate bonds
Currency risk	Closed FX position policy Hedging of open positions with FX forward transactions on an ongoing basis
Asset concentration risk	Limits for concentration in credit groups subject to rating

The effectiveness of the risk mitigation techniques is monitored with an ongoing limit control in the investment transaction system and in internal tools and with monthly reporting to ALCO.

Additionally, calculations of capital requirement on a quarterly basis verify if the capital requirement for market risk does not exceed the pre-determined risk sub-budget that is controlled with the approved limits.

During 2020 there were no significant change in the market risk measurement methods and risk mitigation techniques.

C.3 Credit risk

Credit risk means risk of losses or of adverse change in the financial situation due to fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company is exposed.

Credit risk encompasses the following risks:

- spread risk,
- asset concentration risk,
- counterparty default risk,

and it may be identified in various areas of the Company's activity (investment activities, reinsurance activities).

Spread risk and asset concentration risk were described in item C.2.

The counterparty default risk is defined as possible losses due to an unexpected default by counterparties and debtors or deterioration of their creditworthiness. This applies to risks resulting from:

- reinsurance contracts and co-reinsurance contracts with a solidarity clause,
- agency contracts and insurance contracts – thus it relates to premiums payable as at the balance sheet date,
- receivables from other insurance debtors,
- transactions regarding derivatives and holding cash in credit institutions.

The Company's counterparty default risk encompasses therefore the following risks:

COUNTERPARTY DEFAULT RISK

Investment risk

Reinsurance activity risk

Other insurance activity risk

Figure 19.
Counterparty default risk

As at 31 December 2020 the counterparty default risk accounted for 3% of the Solvency Capital Requirement.

In the period considered there were no off-balance sheet items that had an impact on the credit risk level.

Investment risk

The counterparty default risk related to investments is mitigated jointly with spread and concentration risk. It is subject to the same limits as follows:

- restricting the rating structure of exposures,
- restricting of exposure concentration to a single issuer/counterparty,
- restricting the value of spread risk.

in compliance with the economic content of the financial instruments held.

PRUDENT PERSON PRINCIPLE POLICY

Regarding credit risk related to investments, prudent person principle policy recognizes it together with market risk. Exposures are adequately assessed and controlled, are subject to the limits dependent on credit risk assessment, which aimed at ensuring adequate safety level. Moreover, these exposures are subject to all other limits and regulations connected with the requirements of the prudent person principle policy, together with market risk such as taking into account the maturity and currency structure (resulting from the structure of the insurance liabilities), level of liquidity, availability or diversification, including geographical one. The Company does not use derivatives based on credit risk.

The concentration of credit risk in the Company is small, the most important element is the exposure on PKO BP, PKN ORLEN, Santander and Commerzbank groups, described in Part C.2 of this Report.

Reinsurance activity risk

In order to measure the counterparty default risk related to reinsurance, the Company uses the following tools:

- an analysis of ratings of re-insurers and co-reinsurers,
- selection criteria of re-insurers and a list of acceptable re-insurers,
- cooperation with Talanx Group with regard to credit risk analysis of reinsurers, their selection criteria and limitation of exposure to bad debts (group guidelines),
- calculation of capital requirements based on shock scenario described in the Technical Specification,
- additionally, the results obtained by the alternative to standard formula model to measure the risk, which is based on a Group internal model,
- stress tests in compliance with the methodology specified in the Own Risk and Solvency Assessment Policy.

Other insurance activity risk

In order to measure the risk of default in relation to premiums payable as at the balance sheet date and other insurance receivables, the Company calculates capital requirements as set forth in the Technical Specification.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 10 presents the counterparty default risk mitigation techniques applied by the Company:

TABLE 10. COUNTERPARTY DEFAULT RISK TECHNIQUES

RISK	RISK MITIGATION TECHNIQUES APPLIED
Investment risk	Limits for the rating structure of investments and concentration for a single issuer
Reinsurance activity risk	Defined criteria of re-insurer selection, the list of approved reinsurers
Other insurance activity risk	List of acceptable re-insurers and optional co-reinsurers

The effectiveness of the risk mitigation techniques related to investments is monitored with an ongoing limit control in the investment transaction system and in internal tools and with monthly reporting to ALCO.

The risk relating to reinsurance is monitored with a quarterly control of selection criteria and compliance with the list of approved re-insurers.

Additionally, calculations of capital requirement on a quarterly basis verify if the capital requirement for counterparty default risk does not exceed the pre-determined risk sub-budget that is controlled with the approved limits.

During 2020 the credit risk measurement methods and risk mitigation techniques has not changed. However, for investments in debt securities issued by foreign entities, additional geographic concentration limits were introduced.

C.4 Liquidity risk

The Company holds an appropriate pool of liquid assets to cover daily liquidity needs. Thereby liquidity risk is not identified as material and there is no concentration of this risk. In this regard there were no changes during reporting period.

PRUDENT PERSON PRINCIPLE POLICY

Regarding the fact, that adequate liquidity level is in itself the element of the prudent person rule, in relation to liquidity risk this rule means defining liquidity of individual instruments and monitoring the level of instruments that are deemed to be liquid.

Liquidity is regularly monitored in two ways as follows:

- monthly monitoring of the limit for liquid securities in the portfolio,
- quarterly monitoring of the current liquidity ratio.

Managing its liquidity levels, the Company does not follow a split into instruments listed and not listed in regulated or non-regulated markets and not listed; the Company assesses the liquidity of each instruments irrespectively – on the basis of availability of potential counterparties and potential trading volumes. In particular, instruments listed in regulated markets may be characterised with low liquidity while not listed instrument may be easy to sell in the interbank market.

Additionally, the Company performs periodically a liquidity analysis of its cash flows. The results for the reporting period, like in the previous year, show that the volumes of securities with lower liquidity resulting from the existing limits are at a safe level, without posing any hazards to the Company's liquidity.

A large portfolio of Treasury bonds and access to the interbank market ensures fast access to liquidity should a need arise by a possibility of immediate sale of bonds or with repo transactions.

Monitoring the effectiveness of risk mitigation techniques involves performing the analysis of the adequate reports presented on ALCO meetings.

During the reporting period there was a change in the approach to the methods of measurement or mitigation of liquidity risk. The list of highly liquid instruments was updated and the investment limit limiting the share of illiquid instruments was replaced with a limit for the minimum share of liquid instruments (the so-called Company's liquidity buffer).

In the period considered there were no off-balance sheet items that had an impact on the liquidity risk level.

The expected profit included in future premiums

The expected profit included in future premiums understood as a difference between the best estimates calculated in accordance with the Solvency 2 Directive and best estimates calculated under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

Total value of the expected profit included in future premiums as at 31 December 2020 amounted to PLN 301 562 thousand.

Based on the analyses described in chapter C.4 the Company in 2020 did not identify liquidity risk as material risk.

C.5 Operational risk

Operational risk is understood as potential losses resulting from inadequate or failed internal processes, human actions and due to external events.

OPERATIONAL RISK

Information technology environment security risk	Process risk	Human resource risk	External events risk

Figure 20.
Types of operational risk

As at 31 December 2020 the operational risk accounted for 8% of the Solvency Capital Requirement.

Information technology environment security risk

Information technology environment security risk is identified by detecting hazards that may adversely affect the Company's business goals as a result of breach thereof.

Process risk

Process risk is identified by detecting hazards that may adversely affect the Company's business goals as a result of:

- inadequate process organisation,
- improper division of tasks and competences or no such division,
- failure to ensure adequate resources to perform the defined processes.

Human resource risk

Human resource risk that may adversely affect the Company's business goals as a result of:

- inadequate qualifications of employees,
- unintented or deliberate actions by employees to the detriment of the Company (e.g. inappropriate/ineffective organisation of working time and division of tasks, no ethical standards, etc.),
- errors in HR policies (e.g. high staff turnover, inadequate remuneration and incentive systems, no clearly identified duties and responsibilities, etc.),

External events risk

External events risk is identified by detecting external hazards that may have a negative impact on the effective, safe and proper activity of the Company and on the level of its assets as a result of:

- no possibility to pursue operations or disturbances to operations by the Company as a result of extraordinary events (e.g. earthquakes, fires, floods, acts of terrorism), no access to the premises or utilities,
- incorrect performance of outsourced activities and functions by the external entity,
- changes to laws and other external regulations, court verdicts and the risk of incorrect formation of legal relations or disadvantageous rulings by courts or public administration bodies,
- deliberate actions to the detriment of the Company by third parties (e.g. external fraud, theft).

OPERATIONAL RISK MANAGEMENT

The quantitative and qualitative expert methods are used to measure/assess all types of operational risk:

- quantitative method based on the data / numeric value of the probability and the impact of risk on the results and capital of the Company; impact assessment takes into account existing control mechanisms,
- qualitative method is the expert method of the assessment of the probability and impact of risk on the Company according to the fixed rating scale.

When performing qualitative assessment of the impact of risk the following criteria are taken into account:

- reputation,
- legal and regulatory aspects,
- confidentiality,
- competitive advantage.

The results of operational risk identification and measurement/assessment are monitored and followed and are subject to periodic reporting to the Risk Committee, the Company's Management Board and the Audit Committee.

The supreme objective of operational risk management is to limit the probability of losses by:

- embedding appropriate control mechanisms and measures in business processes to mitigate the risk (internal control system),
- ensuring appropriate organisational solutions (e.g.

development and improvement of the risk management systems, appropriate selection of staff, optimisation of internal processes),

- implementation of the Talanx Group solutions/standards and best market practices,
- application of technical solutions to mitigate the risk (e.g. systemic access and rights controls, process automation, implementation of new and better electronic transaction processing methods, protection of the company against cyber-hazards, protection of data against loss, theft, destruction, unlawful modification or falsification),
- collection and analysis of information on operational risk on the basis of:
  - database of operational events,
  - identification of key risk indicators (KRIs) and monitoring thereof,
  - Risk Scan – a structured process to identify in particular material risks that may adversely affect the Company's financial result over the next year, preventing the accomplishment of its approved financial plans,
  - scenario analysis – the Company prepares and analyses scenarios associated with a specific external events; the Company does not perform stress tests with regard to operational risk,
  - analysis of post-audit recommendations,
  - assessment of risk related to the outsourcing of processes and activities,
  - expert know-how,
  - analysis of the Company's environment,
- development of business continuity plans to ensure correct functioning of the Company's key processes in crisis situations.

In 2020, the Company implemented internal regulations regarding the management of the risk of information processing in a public or hybrid computing cloud in accordance with the requirements of the OPFSA announcement.

CONCENTRATION OF OPERATIONAL RISK

The Company analyses concentration risk stemming from outsourcing. According to the Rules for concluding outsourcing agreements, when with the given service provider there is at least one significant agreement signed, for each subsequent outsourcing agreement with this service provider there is a Management Board approval needed.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 11 presents the operational risk mitigation techniques applied by the Company:

TABLE 11. OPERATIONAL RISK MITIGATION TECHNIQUE

RISK	RISK MITIGATION TECHNIQUES APPLIED
Embedding risk mitigation and control mechanisms in daily operations, e.g.:.	
Information technology environment security risk	• management of rights to systems in line with the existing internal regulations, • use of security measures for technological infrastructure, • management of IT security incidents, • implementation of a comprehensive awareness program in the sphere of information technology security – e-learning courses and periodic information campaigns, • reinforcement of information technology security mechanisms
Process risk	• internal rules and regulations and instructions and procedures, • division of authority and responsibilities defined in organisational regulations, • functional controls with respect to process quality and correctness, • adequate HR policies, • process automation.
Human resource risk	• adequate recruitment policy, • clear allocation of determined tasks and objectives to employees, • employee assessment process, • training system, • functional controls with respect to quality and correctness of performed activities,
External events risk	• management of security incidents, • development and testing of business continuity plans and emergency restoration plans, • critical systems security, • determination of provider selection criteria and risk assessment of outsourced activities, • use of anti-insurance fraud mechanisms, • monitoring of legal changed sand court verdicts.

For operational risk, the effectiveness of its mitigation techniques is monitored as follows:

- monitoring of key risk indicators,
- monitoring of the level of identified operational incidents and analysis thereof,
- monitoring of the scope and scale of security incidents,
- tests of the business continuity management system,
- monitoring of the risk related to outsourcing during the term of contracts,

and reporting of the conclusions from using the above mentioned techniques to the Risk Committee.

SUMMARY

In conclusion, in the reporting period the Company did not make any relevant changes in the operational risk management mentioned in this sub-chapter.

C.6 Other material risks

The other risk categories are characterised below:

Strategic risk

Strategic risk is related to taking unfavourable or failed strategic decisions, missing or incorrect implementation of strategy and changes to the external environment and incorrect response to the changes.
Considering the system of governance and risk mitigation by monitoring process of the approved strategy, the Company does not classify the risk as material.

Moreover, in order to mitigate strategic Risk, the Company is using, among others, the following methods:

- effective management information system,
- periodic control of the strategic projects by the Management Board,
- documenting decisions,
- periodic control of the implementation of the strategy by the Supervisory Board.

During 2020 the strategic risk mitigation techniques did not change.

In the period considered there were no off-balance sheet items that had an impact on the strategic risk level.

The Company did not identify significant concentration with regard to strategic risk. The above mentioned risk is not subject to stress tests or sensitivity analysis.

Business risk

Business risk is defined by the company as failure to accomplish the approved economic targets due to failure in market competition. Business risk covers competition risk.

The objective of business risk management is to maintain at an acceptable level the adverse financial consequences that may result from disadvantageous changes to the business environment.

Business risk management consists in identification, analysis and monitoring of factors that may materially affect the Company's financial condition by changing the Company's revenues or expenses.

Business risk is monitored by an analysis of reasons of deviations from the planned assumptions of selected profit and loss account items.

The Company mitigates business risk by performing analysis of the business environment, including activities of the competition.

During 2020 the business risk mitigation techniques did not change.

In the period considered there were no off-balance sheet items that had an impact on the business risk level.
The Company did not identify significant concentration with regard to business risk. The above mentioned risk is not subject to stress tests or sensitivity analysis.

Reputational risk

Reputational risk is related to a negative perception of the Company's image by customers, counterparties, investors, shareholders, supervisors, regulators and the public at large. The objective of reputational risk management is to protect the Company's limit and mitigate the probability of occurrence and potential reputational losses.

The Company mitigates reputational risk by the protection of the Company's brand and reputation, which covers in particular the following actions:

- prevention – to restrict the occurrence of events causing loss of reputation by systemic embedding of appropriate mechanisms and procedures in the Company's processes. The rules are set forth in appropriate internal regulations,
- mitigating or minimising adverse impact of negative effects of reputational incidents by:
- performance of communication protection measures,
- monitoring of the media: TV, radio, press, Internet to identify the effects of any image-related incidents and distribution of the related information,
- analysis and assessment of effects of image-related incidents,
- taking actions to minimise adverse effects of image-related incidents in cooperation with an external PR agency.

During 2020 the reputational risk mitigation techniques did not change.

Additionally, within business continuity management critical processes have been identified that – when interrupted – may generate material financial and image-related consequences. In order to mitigate the risk of reputation loss, for those purposes, a Business Continuity Plan has been developed to continue critical processes in the operating crisis. In 2020, due to the pandemic situation, stationary processes were additionally identified, which, despite the possibility of remote work, must be carried out at the Company's headquarters in order to control the continuity of their operation.

Reputational risk is difficult to measure and it is subject to qualitative assessment. The Company does not identify an increased exposure to the risk.

In the period considered there were no off-balance sheet items that had an impact on the reputational risk level.

The Company did not identify significant concentration with regard to reputational risk. The above mentioned risk is not subject to stress tests or sensitivity analysis.

The Company further identifies model risk, competition risk, compliance risk (described in point B.4.2)

Material risks not included in the standard formula

The major risks not included in the standard formula are as follows:

- inflation risk – risk resulting from sensitivity of the value of liabilities (annuity provisions) and financial instruments (inflation-indexed bonds) to changes in the term structure of inflation or fluctuation of inflation volatility. The risk is material for the Company due to the fact that inflation-indexed bonds constitute a significant proportion in the Company's assets – the bonds are used to secure the risk of liabilities resulting from annuity payments that are also exposed to inflation risk.

Inflation risk is mitigated by the purchase of the inflation-indexed bonds and floating rate bonds. Due to the fact that there is only one series of wholesale trading Treasury bonds indexed to inflation available on the market, this exposure constitutes some risk concentration.
The Company monitors also the relation of indexation level

and returns from the investment portfolio to cover them.

During the reporting period there was no change in methods of mitigation of inflation risk.

- credit risk of Treasury bonds – a risk resulting from sensitivity of Treasury bonds to changes in credit spreads with reference to the structure of term interest rates of risk-free securities or changes to their volatility increased by a potential loss resulting from default by the State Treasury. The risk is material for the Company due to the fact that Treasury bonds constitute the largest proportion in the Company's assets.

In that regard, exposure to Treasury bonds constitutes credit risk concentration.

The Company accepts the current level of credit risk of Treasury bonds.

The above mentioned risks are assessed using he model to measure the risk alternative to standard formula within the scope of the adequacy assessment of the standard formula in the ORSA process. Moreover, during the reporting period the Company did not make any changes with regard to risk assessment methods.

In the period considered there were no off-balance sheet items that had an impact on the inflation risk or credit risk of Treasury bonds levels.

The Company did not identify significant concentration with regard to inflation risk or credit risk of Treasury bonds, excepting the fact that there is only one series of wholesale trading Treasury bonds indexed to inflation available on the market.

Material emerging risks

The Company analyses material emerging risks. The most important are:

- risk of changes in financial markets, including global financial crisis systemic risk,
- risk of changes to political and legal conditions.

SUMMARY

In conclusion, in the reporting period the Company did not make any relevant changes in the management of the risk categories mentioned in this sub-chapter. With regard to other material risks related to investment activity, the Company does not identify significant concentration other than described in the part C.2 and C.3 of this Report.

C.7 Any other information

The SARS-CoV-2 pandemic has significantly changed the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. In order to reduce the negative economic effects of the pandemic, the Monetary Policy Council cut interest rates three times in the first half of 2020 - as a result of which the reference rate is now in the unprecedented 0.1% level.

The impact of the situation related to COVID-19 on the Company should be analyzed in terms of two perspectives: short-term and middle- and long-term.

- Short-term impact

The company observes the following main sources of influence on the financial result and solvency in the short term (both positive and negative):

- positive:
  - decrease in the frequency of claims in the motor vehicle segment,
  - reduction in interest rates, positively affecting the valuation of debt instruments,
  - suspended payment of dividends from the profit for 2019, as a consequence of the letter of the Chairman of the PFSA of 26 March 2020.
- negative:
  - lower level of written premium from insurance,
  - risk of increased loss ratio in corporate insurance (guarantees),
  - significant, sudden increase and subsequent decrease in credit spreads,
  - potentially the risk of moral hazard in corporate and medium and small enterprise (SME) insurance,
  - potential insolvencies / downgrades of the issuers of corporate securities in the portfolio,
  - risk of deterioration in debt collection at the end of 2020 and at the beginning of 2021,
  - the need to lower the technical interest rate as a result of the expected decline in the profitability of instruments covering the capitalised annuities.

The Company assumes that the direct impact of the COVID-19 pandemic will significantly decrease by the third quarter of 2021. The timing of the crisis will be decisive in determining the severity of its consequences. Information on the results of work on the vaccine against COVID-19 and plans to carry out mass vaccinations in the first half of 2021 can be a sign of improvement.

- Middle- and Long-term impact

In the medium and long term, the Company's standing will be affected by the following risk factors resulting from the COVID-19 pandemic:

- increased credit risk – resulting from the slow U-

shaped recovery that will begin in 2021, however the impact of COVID-19 on business and the economy in 2021 and later may be more significant than expected; increase in unemployment and bankruptcy of companies, translating into worse debt collection, as well as lower demand for non-compulsory insurance (moreover, as in 2020, there may be further pressure on the prices in motor third party liability insurance),
- low interest rate environment - slow economic recovery and debt increase on a global scale, it will have an effect on the extension of the period of the low interest rates, which in turn will result in lower investment profitability, and may also put pressure on the valuation of provisions for capitalised annuities,
- further development of digital service and contact channels with the client.

Moreover, the Company estimates that the process changes introduced as a result of the pandemic did not increase the operational risk.

D Valuation for Solvency Purposes

This chapter covers the valuation of the Company's assets and liabilities. The parts that follow describe the valuation methods of assets and liabilities in compliance with the requirements of Solvency 2 with a comparison to the principles applied for the statutory report. In case of differences, explanation is provided what elements result in different valuation and recognition of items for Solvency 2 purposes and the statutory report.

The information on the valuation methods of assets and liabilities was split into the following categories: assets, technical provisions, other liabilities. Unless specified otherwise, the data disclosed in this Report is valued in compliance with Art. 223 and Art. 225 of the Act on Insurance and Reinsurance Activity:

- Assets are valued with an economic market approach relying on risk assessment. This means that assets are valued at fair value which is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction,
- Technical provisions are valued in amounts being the sum of best estimates and risk margin,
- Liabilities other than technical provisions are valued at fair value being the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction. After initial recognition there are no subsequent adjustments to the value of liabilities resulting from changes in the Company's credit standing.

These valuation principles for Solvency 2 have been approved according to the requirements, which are described by:

- Act on Insurance and Reinsurance Activity,
- Delegated Regulation,
- Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council (as amended),
- Guidelines on the valuation of technical provisions (EIOPA-BoS-14/166 PL), published on 2 February 2015 and PFSA's guidelines concerning the establishment of technical provisions,
- Guidelines on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113 PL), published on 14 September 2015.

The valuation principles of assets and liabilities for the statutory report are compliant with the provisions set forth in the Accounting Act and the secondary legislation issued on its basis, e.g.:

- Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings,
- Regulation of the Minister of Finance laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments.

HIERARCHY VALUATION METHODS

Assets are valued in a hierarchical manner as follows:

- at quoted market prices in active markets for the same assets/liabilities,
- where the use of quoted market prices in active markets for the same assets is not possible, quoted market prices in active markets for similar assets/liabilities are used with adjustments reflecting the differences,
- if the same or similar assets/liabilities are not listed in active markets, alternative valuation methods are used (unless specific provisions provide otherwise); maximum use is made of market information required for the valuation, thus minimising the use of inputs specific for the Company.

The Company reviews the valuation methods that may be applied to specific assets while allowing for the specific market and nature of the valued assets/liabilities.

CRITERIA FOR THE EVALUATION OF THE ACTIVE MARKET

An active market is a market where transactions concerning financial asset or financial liability are carried out with sufficient frequency and have sufficient volume to provide up-to-date information on prices (e.g. Bondspot, WSE, foreign markets), whereby:

- instruments traded on the market are homogeneous,
- interested buyers and sellers are usually present at any time,
- prices are made public.

In the event that a given investment component is traded on more than one active market, the Company selects the main market based on the type of asset being analyzed, frequency and trading volume on a given investment component and minimum quota criteria.

CHANGES OF VALUATION METHODS DURING THE YEAR

As regards the valuation of technical provisions in 2020, the largest changes took place in the case of annuity provisions. They relied on changing the used annuity indexation model and establishing a new provision component concerning a expected increase in annuity benefits for the care of injured person by their family members.

D.1 Assets

Assets are valued with an economic market approach relying on risk assessment, in compliance with Art. 223 of the Act on Insurance and Reinsurance Activity that is at fair value which is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

TABLE 12. ASSETS STRUCTURE AS OF 31 DECEMBER 2020

ASSETS	Statutory value*	VALUES CORRECTION TO S2 DUE:		Solvency 2 value
		Reclassification**	Valuation	
Goodwill	0	0	0	
Deferred acquisition costs	837 704	0	-837 704	
Intangible assets	111 744	0	-111 744	0
Deferred tax assets	0	0	0	0
Pension benefit surplus	0	0	0	0
Property, plant & equipment held for own use	151 276	0	101 748	253 024
Investments (other than assets held for index-linked and unit-linked contracts)	12 530 509	0	252 722	12 783 231
Property (other than for own use)	3 053	0	2 226	5 279
Holdings in related undertakings, including participations	431 461	0	170 926	602 387
Equities	38 833	0	0	38 833
Bonds	10 860 255	0	79 570	10 939 825
Collective Investments Undertakings	1 122 516	0	0	1 122 516
Derivatives	8 596	0	0	8 596
Deposits other than cash equivalents	65 795	0	0	65 795
Other investments	0	0	0	0
Assets held for index-linked and unit-linked contracts	0	0	0	0
Loans and mortgages	136 571	0	2 328	138 899
Reinsurance recoverables	1 096 087	-113 062	-201 852	781 173
Deposits to cedants	602	0	0	602
Insurance and intermediaries receivables	1 028 528	-890 780	0	137 748
Reinsurance receivables	79 319	-66 870	0	12 449
Receivables (trade, not insurance)	121 868	0	-1 882	119 986
Cash and cash equivalents	60 909	0	-5 242	55 667
Any other assets, not elsewhere shown	18 019	75 101	-18 019	75 101
Total assets	16 173 136	-995 611	-819 645	14 357 880

*
* Statutory value are presented in compliance with the presentation rules in force in the economic balance sheet.
** The "Reclassifications" column presents adjustments of insurance and reinsurance receivables recognized as undue and recognized in the balance sheet in the calculation of technical provisions and in other assets (not shown in other items).
*** Full template form S.02.01 in accordance with the EC Regulation 2015/2452 (as amended) constitutes Appendix 1 to this Report.

Further below this chapter contains descriptions of valuation methods of material assets in the economic balance sheet. Items considered by the Company as immaterial were not described, however its omission does not influence the decision-making or the judgement of the users of this Report. The subsection D.1.1 also identifies differences in assets valuation and recognition methods for the purposes of the statutory report and Solvency 2.

D.1.1 Valuation of assets

DEFERRED ACQUISITION COSTS

In the statutory balance sheet, the deferred acquisition costs include direct acquisition costs incurred in the reporting period and certain indirect acquisition costs allocated to future reporting periods.

The deferred acquisition costs are not recognised in the economic balance sheet for Solvency 2 which results in a difference between the statutory balance sheet and the economic balance sheet.

INTANGIBLE ASSETS

Intangible assets include (with the exception of intangible assets classified as investments and goodwill) economically useful property rights acquired by the Company, with an expected useful life longer than one year, classified as fixed assets and intended for use by the Company, in particular as follows: copyrights, related rights, licences, concessions, rights to inventions, patents, trademarks, utility models and decorative designs, know-how. Intangible assets also include the costs of completed R&D works.

For statutory purposes, intangible assets are valued according to the purchase price or manufacturing costs less depreciation.

Intangible assets for Solvency 2 are recognised and valued at the amount other than zero only when they can be sold separately and if an active market exists for the same or similar intangible assets. The Company has not identified intangible assets meeting the above criteria so in the economic balance sheet for Solvency 2 purposes such intangible assets are measured at zero.

PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE

Property, plant & equipment (tangible assets) held for own use include assets with the expected economic useful life longer than one year, complete, fit for use and intended for the Company's needs. Tangible assets are recognised as assets only when it is probable that future economic benefits related to the asset will be received by the company and the purchase price or manufacturing cost of the asset can be reliably estimated.
For the Solvency 2 purposes in this category the Company recognizes also right-of-use assets from property lease contracts defined in accordance with IFRS 16.

With regard to the classification of leasing contracts as operating leases for statutory purposes, this type of assets are not included in the balance sheet under Accounting Act, what results in differences to the economic balance sheet.

For statutory purposes tangible assets are valued at purchase price or manufacturing costs or revaluated price, less depreciation and impairment allowances. Properties are valued at purchase price or manufacturing costs less depreciation and impairment allowances. Land owned, perpetual usufruct right to land, construction works and advances for such works are not subject to depreciation. Perpetual usufruct right to land is valued at the purchase price less impairment allowances.

The Company has not identified properties that could be classified simultaneously as properties for own use and for other purposes. Both, for statutory reporting and for the economic balance sheet, the properties for own use include the properties in which the Company or its subordinated entity pursues or ultimately will conduct its business.

The balance sheet for Solvency 2 the value of the properties for own use (other than right-of-use assets from property lease contracts) is disclosed at fair value determined on the basis of an independent appraisal which is made every year for properties with value over 1 MPLN and at least every three years for other properties. The description of the valuation method is presented in chapter D.4.1 hereof.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, right-of-use assets from property lease contracts and tangible fixed assets other than properties are classified to asset category using alternative valuation methods. The description of the valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

PROPERTY (OTHER THAN FOR OWN USE)

The Company classifies to the category other than for own use properties which are used to a small degree for Company's purposes and in which the Company or its subordinated entity has stopped conducting its business.

For statutory purposes, properties are valued at the purchase price or manufacturing costs less depreciation and impairment allowances.

Investments in properties are subject to the independent appraisal valuation made every year for properties with value over 1 MPLN and at least every 3 years for other properties. Land owned, perpetual usufruct right to land and construction works and advances for such investments are not subject to depreciation. Perpetual usufruct right to land is valued at the purchase price less impairment charges.

In the economic balance sheet, prepared for the purposes of Solvency 2, investment properties are valued at fair value which is determined on the basis of an independent appraisal, made every year for properties with value over 1 MPLN and at least every 3 years for other properties.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, properties are classified to asset category using alternative valuation methods.

The description of the property valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

Interests mean holding – directly or by way of control – minimum 20% of voting rights or equity of an enterprise.

As of 31 December 2020 the Company held 100% shares of TUnŻ "WARTA" S.A.

For the purposes of the statutory report, shares in the subsidiary are valued using the equity method.

Due to the fact that TUnŻ "WARTA" S.A. is an insurance entity not listed in an active market, valuation of the holdings in this entity for Solvency 2 purposes is made using the adjusted equity method, based on the share of the excess of assets over liabilities of the related undertaking held by the Company. The excess is determined subject to prior valuation of assets and liabilities of the subsidiary in accordance with Solvency 2 valuation methods.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

EQUITIES

The equities item of the economic balance sheet includes:

- equities listed (item C0010 / R0110 in Appendix 1 of this Report),
- equities unlisted (item C0010 / R0120 in Appendix 1 of this Report).

Equities listed include shares listed on a regulated or alternative market.

For the purposes of the statutory report, equities – listed are always valued at fair value. In this connection, it is not necessary to make any additional adjustments for Solvency 2.

As a result of the review referred to in the introduction to the chapter D as at 31 December 2020, for the purposes of Solvency 2 equities - listed were classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such equities were traded or if the trading volume was not extremely low.

The fair value of equities - listed was determined on the basis of the closing prices in active markets (e.g. WSE, NewConnect) from the last working day of the reporting period or the last day such equities - listed were traded on such market.

As a result of the review referred to in the introduction to the chapter D., for the purposes of Solvency 2 equities –listed are classified as assets valued with alternative valuation methods using relevant market input, if before the balance sheet date, such equities were not traded or if the trading volume was extremely low.

The description of the value methods of equities – listed is presented in chapter D.4 hereof.

BONDS

The item of bonds of the economic balance sheet includes:

- government bonds (item C0010 / R0140 in Appendix 1 of this Report),
- corporate bonds (item C0010 / R0150 in Appendix 1 of this Report).

The item of government bonds of the economic balance sheet includes government, municipal bonds, supra-national bonds and bonds that are fully, unconditionally and irrevocably guaranteed by central government denominated and funded in the domestic currency of that central government not listed and listed on regulated or alternative markets and the item of corporate bonds includes listed and unlisted corporate debt securities.

For the purposes of the statutory report, government and corporate bonds are valued at fair value or at amortized cost determined with the effective interest rate and including impairment losses. For Solvency 2, adjustments are made to government bonds and corporate bonds in the economic balance sheet to value them at fair value.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2, listed government and corporate bonds are classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such bonds were traded or if the trading volume was not extremely low.

In this situation, the fair value of listed government bonds is valued at the closing prices of the active market (e.g. WSE, BondSpot) or best bid from Treasury BondSpot of the last working day of the reporting period or of the last day they were traded on the relevant market while the fair value of listed corporate bonds is valued at the closing prices of the active market (e.g. WSE, BondSpot) of the last working day of the reporting period or of the last day they were traded on the relevant market.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 listed government bonds (if before the balance sheet date, such listed government bonds were not traded or if the trading volume was extremely low), listed corporate bonds (if before of the balance sheet date such listed corporate bonds were not traded or if the trading volume was extremely low) and unlisted municipal bonds and unlisted corporate bonds are classified as assets valued with alternative valuation methods using relevant market input.

The description of the bonds valuation method is presented in chapter D.4 hereof.

COLLECTIVE INVESTMENTS UNDERTAKINGS

The item of collective investments undertakings includes unlisted investment units in investment funds and participation titles in listed investment funds.

For the purposes of statutory reporting, collective investments undertakings are valued at fair value. In this connection, it is not necessary to make any additional adjustments for Solvency 2.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 participation titles in listed investment funds were classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such participation titles were traded or if the trading volume was not extremely low.

The fair value of participation titles in listed investment funds is valued at the closing prices of the active market of the last working day of the reporting period or of the last day they were traded on the relevant market.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 participation titles in listed funds are classified as assets valued with alternative valuation methods using relevant market input, if before the balance sheet date, such participation titles were not traded or if the trading volume was extremely low.

For the purposes of Solvency 2 unlisted investment units in investment funds are classified as valued with alternative valuation methods using relevant market input.

The description of the valuation method of participation titles in listed investment funds and unlisted investment units in investment funds is presented in chapter D.4 hereof.

DERIVATIVES

The item of derivatives in the economic balance sheet includes derivative instruments: FX swap, FX forward, IRS and CIRS contracts.

For the purposes of the statutory report, derivative instruments are valued at fair value. In this connection, it is not necessary to make any additional adjustments for Solvency 2.

Derivatives are stated as assets if their valuation is positive and as liabilities if their valuation is negative.

As a result of the review referred to in the introduction to the chapter D.1, for the purposes of Solvency 2 derivatives are classified as assets (liabilities) valued with alternative valuation methods using relevant market input.

The description of the derivative valuation method is presented in chapter D.4 hereof.

DEPOSITS OTHER THAN CASH EQUIVALENTS

The item deposits other than cash equivalents of the economic balance sheet includes deposits other than cash equivalents that cannot be used to make payments until before a specific maturity date and that are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty.

For the purposes of statutory reporting, deposits other than cash equivalents (ON deposits) are valued at nominal value or amount payable, understood as the nominal value increased by interest accruing on a straight line basis.

Due to short maturities of such deposits, for Solvency 2 a simplification is applied by making no adjustments adapting the valuation of deposits other than cash equivalents in the economic balance sheet to fair value.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 deposits other than cash equivalents are classified as assets valued with alternative valuation methods using relevant market input.

The description of the deposit valuation method is presented in chapter D.4 hereof.

LOANS AND MORTGAGES

The item of loans and mortgages of the economic balance sheet includes other loans and mortgages (item C0010/R0260 in Appendix 1 to this Report) granted to debtors other than natural persons.

For the purposes of statutory reporting, loans and mortgages are valued at amortized cost determined with the effective interest rate and including impairment losses.

For Solvency 2, additional adjustments are made to loans and mortgages in the economic balance sheet to value them at fair value.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 loans and mortgages are classified as assets valuated with alternative valuation methods using relevant market input.

The description of the loans and mortgages valuation method is presented in chapter D.4 hereof.

REINSURANCE RECOVERABLES

The reinsurance recoverables include reinsurers' share in technical provisions for outward reinsurance and retrocession.

The description of how the reinsurers' share in the provisions is determined, was presented in the chapter devoted to the technical provisions (point D.2.3).

The difference in the reinsurance recoverables in the economic balance sheet versus the statutory balance sheet is due to the fact that the reinsurance recoverables are calculated on the basis of gross technical provisions which value determined in compliance with Solvency 2 is lower than the value determined for accounting purposes.

The reinsurance recoverables in line with Solvency 2, for the purposes of discounting, take into account the timing difference between receipt of the amount receivable from the reinsurer and the direct disbursement. The reinsurance recoverables are reduced by expected losses resulting from reinsurer's default.

INSURANCE AND INTERMEDIARIES RECEIVABLES

Insurance and intermediaries receivables include past-due receivables from policyholders, other insurers and insurance intermediaries as well as other receivables related to insurance activity that are not included in cash inflows under technical provisions. The item covers also receivables from cedants and retrocedants under inward reinsurance. The due date used as a basis to the classification of receivables to settlements in the balance sheet or to cash flows used for calculation of technical provisions, is the payment date specified in the contract with the entity from which the Company has receivables.

For statutory purposes, insurance, intermediaries and reinsurance receivables include undue and overdue receivables valued at the amount of due payment adjusted with revaluation write-offs.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 insurance and intermediaries receivables are classified as assets valuated with alternative valuation methods.

The description of the receivables valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

Due to the immaterial impact of the time value of money on the valuation of the above receivables to fair value, the discount effect was not included in the valuation to the economic balance sheet.

OUTWARD REINSURANCE RECEIVABLES

Reinsurance receivables include past due receivables from reinsurers and retrocessionaires under outward reinsurance and retrocession that are not included in reinsurance recoverables. The receivables includes in particular:

- settlements under shares of reinsurers/retrocessionaires in claims paid by the insurer,
- reinsurance commissions under outward reinsurance and retrocession,
- shares in the profit of reinsurers/retrocessionaires.

Current receivables from outward reinsurance and retrocession are classified as the following:

- receivables relating to the settled insurance claims (gross payments) – in any other assets, not elsewhere shown,
- other receivables – are included in cash flows used for calculation of reinsurance recoverables.

The due date used as a basis to relevant classification of receivables is the payment date specified in the contract with the entity from which the Company has receivables.

For the purposes of statutory reporting, the reinsurance receivables include undue and overdue receivables that are valued at the amount due adjusted by impairment allowances.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 reinsurance receivables are classified as assets valuated with alternative valuation methods.

The description of the receivables valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

Due to the immaterial impact of the time value of money on the valuation of the above receivables to fair value, the discount effect was not included in the valuation to the economic balance sheet.

OTHER RECEIVABLES (TRADE, NON INSURANCE)

Other receivables (trade, non insurance) include receivables from employees or other counterparties not related to insurance, including public entities.

For statutory purposes, the receivables are valued at the amount due adjusted by impairment allowances.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 above receivables are classified as assets valuated with alternative valuation methods.

The description of the receivables valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

Due to the immaterial impact of the time value of money on the valuation of the above receivables to fair value, the discount effect was not included in the valuation to the economic balance sheet.

CASH AND CASH EQUIVALENTS

The item of cash and cash equivalents in the economic balance sheet includes notes and coins in circulation that are commonly used to make payments, and deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction.

For the purposes of statutory reporting and for Solvency 2, cash and cash equivalents are each time valued at nominal value which is the best reflection of fair value.

As of 31 December 2020 the difference to the statutory report in valuation of the described item presented in table 12 results from exclusion, for the Solvency 2 purposes, the funds related to the Company social benefits fund from the economic balance sheet.

As a result of the review referred to in the introduction to chapter D, for the purposes of Solvency 2 cash and cash equivalents are classified as assets valued with alternative valuation methods using relevant market input.

The description of the cash and cash equivalents valuation method is presented in chapter D.4.1 hereof.

D.1.2 Leasing

Leasing is described in chapter A.4.2 hereof.

ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

Other assets include all assets not shown in other balance sheet items. The item in particular contains current receivables from outward reinsurance and retrocession relating to the settled insurance claims (settled gross). The item includes also virtually certain recources and recoveries that are qualified as separate assets in accordance to International Accounting Standards and are not included in best estimate calculation.

The Company does not identify accruals which could be disposed or transferred to the third party, therefore in the economic balance, for Solvency 2 purposes, accruals assumed zero.

As a result of the review referred to in the introduction to chapter D, for the purposes of Solvency 2 any other assets are classified as assets valued with alternative valuation methods. The description of the cash and cash equivalents valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 12.

Due to the immaterial impact of change in time value of money on fair value of receivables disclosed in that item, discount effect was not included in valuation to the economic balance sheet.

D.2 Technical provisions

The amount of technical provisions for solvency purposes is equal to the sum of best estimate and risk margin. Best estimate correspond to the expected present value of future cash flows while risk margin is equivalent to an amount ensuring that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.

In table 13 there are presented the values of provision for solvency purposes and the values of technical provisions calculated according to statutory report rules.

Reinsurance recoverables are presented in chapter D.1.1 of this Report.

TABLE 13. TECHNICAL PROVISIONS AS AT 31 DECEMBER 2020

TECHNICAL PROVISION (TP)	Statutory value*	VALUES CORRECTION TO S2 DUE:		Solvency 2 value
		Reclassification**	Valuation	
Non-annuity provisions	9 517 359	-577 535	-2 020 308	6 919 516
Annuity provisions *	1 433 876	0	36 927	1 470 803
Risk margin		0	701 473	701 473
Other TP	189 990	0	-189 990	0
Total technical provisions	11 141 225	-577 535	-1 471 898	9 091 792

* In the row “Annuity provisions” the Solvency 2 value includes total annuity provisions, which in the economic balance sheet are presented divided into insurance similar to life insurance and insurance other than life .
** The “Reclassifications” column presents adjustment of insurance and reinsurance receivables and payables recognized as undue and recognized in the economic balance sheet in the calculation of technical provisions and in other assets (not shown in other items).

The best estimate, being the component of the provision for solvency purposes, cover jointly best estimate of gross claim provisions and gross premium provisions, and moreover it takes into account the not past due insurance receivables and payables. However, they do not include current receivables from virtually certain recourse that qualify as separate assets in accordance with International Accounting Standards.

Additionally, contradictory to technical provisions presented in statutory report, the technical provisions calculated in compliance with Solvency 2 do not cover the following items:

- equalisation provision,
- equalisation of the estimates of the expected recourse to statutory limits in compliance with the Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings.

MATERIAL DIFFERENCES IN THE VALUATION OF TECHNICAL PROVISIONS BETWEEN THE APPLIED METHODS FOR SOLVENCY 2 AND IN STATUTORY REPORTING

Technical provisions for solvency purposes cover the best estimate equals to the expected present value of gross future cash flows (that is subject to discounting using the relevant term structure of risk free interest rate, published by EIOPA) and risk margin.

For the purposes of statutory reporting, the claim provision is determined as the sum of nominal future payments estimated subject to prudent valuation. The discount applies solely to provisions for the capitalised annuities at fixed technical rates.

In the case of provisions for solvency purposes, there is calculated a provision for investment activity costs related to the servicing of the portfolio of insurance and reinsurance obligations.

Material differences in the valuation methods are related to the premium provision. The provision according to Solvency 2 rules is established as the balance of the expected value of claims with the adjustment costs thereof (for claims that will occur after the balance sheet date), future instalment premium and commissions receivable, expected bonuses and rebates and the policy maintenance costs, costs of investment activity and other cash flows that are related to the portfolio of active policies as at the balance sheet date. Moreover the premium provision for solvency purposes is subject to discounting. The valuation of the premium provision reflects the expected value of insurance liabilities under assumed claims ratios relating to risks not earned yet, reduced by future inflows. This approach does not disclose separately the deferred acquisition costs. Such premium provision in compliance with Solvency 2 is lower than the sum of unearned premium provisions and provisions for unexpired risks determined for the purposes of statutory reporting. The premium provision for the purposes of statutory reporting is established individual for each insurance contract as a written premium for subsequent reporting periods, in proportion to the period for which the premium was assigned, whereas in the case of insurance contracts, the risk of which is not evenly distributed over the period of insurance, the provision is created proportionally to the expected risk in the next reporting periods.

Risk margin as a component of technical provisions calculated in compliance with Solvency 2 does not exist in statutory reporting.

The table below includes the gross values of technical provisions with separate material lines of business.

TABLE 14. TECHNICAL PROVISIONS AS AT 31 DECEMBER 2020 SPLIT INTO LINES OF BUSINESS

Lines of business	Solvency 2 value			Statutory value
	TP FOR SOLVENCY 2 PURPOSES	THEREIN: BEST ESTIMATE	THEREIN: RISK MARGIN	
Motor vehicle liability insurance	4 933 687	4 517 173	416 514	5 391 494
Other motor vehicle insurance	596 639	544 229	52 410	974 761
Fire and other damage to property insurance	822 902	692 496	130 406	1 447 107
Other Lines	2 738 564	2 636 421	102 143	3 327 863
Total	9 091 792	8 390 319	701 473	11 141 225

The division into business lines is consistent with the one applied in the appendixes to the Report with quantitative information – e.g. it contains values for inward reinsurance from proportional reinsurance contracts.

D.2.1 Valuation principles of best estimates

The principles cover both non-life property and personal insurance with the exception of health insurance as well as health insurance equivalent to non-life and personal insurance, consistent with S2 balance sheet.

The technical provisions for non-life property and personal insurance cover:

- provision for not paid claims and benefits (claims provisions) for non-annuity claims,
- capitalised value of annuity benefits (annuity provisions),
- premium reserve.

METHODS APPLIED TO CALCULATE TECHNICAL PROVISIONS FOR BENEFITS OTHER THAN ANNUITY

Technical provisions are calculated with the following methods:

- actuarial – consisting in the calculation of the provisions applying the principles of insurance and, financial mathematics and statistics, separately for each insurance contract or each claim or claim case or collectively for the entire insurance portfolio or a part thereof,
- other than actuarial:
  - individual – consisting in determining a precise provision amount for each insurance contract or each claim case; when such provision cannot be calculated precisely – a reliable estimate thereof,
  - lump-sum – consisting in calculating the provision collectively for the entire insurance portfolio or a part thereof as a set percentage (lump-sum ratio) of premium, amount of paid claims and benefits or the amount of technical provisions.

Technical provisions are calculated according to insurance law in a prudent, reliable and objective manner; the applied valuation methods are suitable to the nature, scale and complexity of risks underlying the insurance and reinsurance liabilities.

The calculations are based upon up-to-date and credible information and realistic assumptions.

Provisions for not paid claims and benefits (claims provisions)

To calculate the value of best estimates the following actuarial methods are applied:

- Chain–Ladder,
- Expected Loss Ratio,
- Bornhuetter–Ferguson,
- the ratio method of proportional transfer of provisions between similar portfolios,
- the method of the number of claims and average loss,
- the method of the expected losses assessment based on proportion of claims incurred to working exposure.

Additionally, in non-typical situations preventing the application of the above methods, the Person Supervising the Actuarial Function may propose a different specific method that may be applied subject to approval of the Member of the Management Board supervising the Finance Division.

The above methods are applied to estimate provisions resulting from:

- the triangle of cumulated payments or the ultimate value of payments,
- liability (incurred) triangle (sum of cumulated payments and provisions established for reported claims) or the ultimate value of liabilities,
- the triangle of the number of reported claims or the ultimate number of claims (the value of expected average loss is determined separately),
- exposure of portfolio of unexpired financial guarantees.

Subject to the available data and nature of insurance, a year, quarter or month is used as the time frequency for the calculations.

The calculations are made on the basis of data relating to claims costs; additionally, analyses are made of loss adjustment costs and recourse collection costs as well as recourses and recoveries, and investment management expenses for servicing insurance and reinsurance obligations, that are incorporated with a system of loadings in order to obtain a complete estimate of the liabilities. Therefore, other types of cash flows, that are related to the portfolio of active policies, are taken into account in calculation of best estimate.

In case of insurance with low quantity of statistical data or incomplete data, it is possible to apply appropriate approximations for the above.

When calculating the best estimate as at 31 December 2020, essential important approximations (simplifications) were not applicable.

Technical provisions are calculated on the basis of data from the Company's accounting systems and technical systems, data provided directly by organisational units and external data (e.g. GUS, NBP). This data is subject to control and comparison to eliminate potential errors. Organisational units that are owners of the provided data are responsible for periodic data control and data quality. The accounting data is subject to an accounting data control process.

When the amount of technical provisions is calculated, insurance and reinsurance liabilities are segmented into homogeneous risk groups. Within each business line, there is a further split into regular and large losses and very large losses are separated. Additionally, the organisational structure is taken into account in terms of the management of the insurance portfolio.

For optimisation purposes, certain minor risks were classified within the existing segmentation to the most similar dominating risk types.

Additionally, in case of individual motor insurances, another criterion applied in the segmentation is the split of the WARTA and HDI brands in order to account for the specific nature of these customer portfolios, and in case of motor hull insurance due to diversity of insurance coverage (the HDI brand is used to offer less complex motor insurance).

Moreover, annuities are treated separately, and in case of motor insurances a distinguishing of the claim country (domestic, foreign) and the claim type (personal, property) is applied.

The analysis of each risk segment applies standard methods to follow the development of loss triangles recommended in actuarial sciences. In case of financial guarantees portfolio the specific method was developed due to the risk specification of these insurance. The final method is selected by verifying the results of back-tests and a comparison analysis of the results obtained with each method. The analysis of back-tests is used to verify the adequacy of the model applied to each segment and as a result an appropriate method is selected to estimate the parameters subject to the trends prevailing in the verified period.

As a result, the selected method, on the basis of the available data, in the best possible way reflects the nature of the risk of the analysed segments and supports calculation with the appropriate actuarial methods.

Provisions for reported claims are equivalent to the value of losses determined by loss adjusters for statutory reporting. In case of losses with very high provisions, the best estimates include an individual judgement made by the loss adjustment unit.

Catastrophic losses are subject to dedicated modelling. In certain segments, large losses may be separated for a dedicated analysis.

Foreign currency denominated data is used for marine claims and foreign motor vehicle liability losses. Best estimates in foreign currencies are translated at NBP's mean exchange rates.

Future cash flows reflect the flows and trends in historic data on claims payments in each loss year.

The cash flows are discounted with the relevant term structure of the risk-free interest rate published by EIOPA in order to determine the final amount of the provisions – their present value as at the date the provisions are established.

Premium provision

The premium provision in nominal term is established as the balance of the expected values of losses along with the adjustment costs thereof (resulted from the claims that will occur after the balance sheet date), future instalment premium and commissions receivable, expected bonuses and rebates and the policy maintenance costs, costs of investment activity and other cash flows that are related to the portfolio of active policies as at the balance sheet

The value of best estimate of the premium provision for Solvency 2 covers the following aspects:

- the parameter of expected loss ratio,
- cost ratios of policy handling and acquisition costs,
- the amounts of not-past due premium instalments and commissions,
- impact of contract lapses,
- expected payments due to bonuses and rebates,
- investment management expenses for servicing insurance and reinsurance obligations.

The assumed loss ratio is agreed with the organisational units responsible for products in order to provide for the implemented tarification assumptions.

In view of the above, the value of premium provision best estimate reflects the expected value of discounted insurance liabilities for expected claims rates relating to risks not earned yet, decreased by future inflows.

With respect to non-life property and personal insurance, the prospective policyholder behaviour in terms of insurance contract cancellation is of limited impact on the amount of the best estimate due to the short horizon of such insurance. An assumption may be applied that the course of these processes – on the basis of historic data and predicted changes due to the pandemic, – is sufficiently reflected in the planned amounts of premium revenues. In the calculations of best estimate parameters relating to policy lapses are applied.

The acquisition cost ratios rely on the values from the relevant accounts and are compliant with contractual provisions.

The expected flows of the premium provision are discounted with the relevant term structure of the risk-free interest rate published by EIOPA in order to determine the final amount of the provisions, i.e. their present values as at the date the provisions are established.

In comparison to the previous period, there were no material changes in the used methods and applied assumptions regarding the best estimate of non-annuity benefits.

METHODS APPLIED TO CALCULATE TECHNICAL PROVISIONS FOR ANNUITY BENEFITS

The provision for the capitalised value of annuity benefits (annuity provisions) is established in the amount corresponding to the determined or expected final present value of future payments of benefits and costs incurred in those losses.

Due to the specific nature of the provision, the discounting process is embedded in the calculation itself. For this purpose assumptions are made concerning indexation parameters for annuity benefits and a discount is applied to determine the present value of future cash flows of annuity benefits.

Annuity provisions for reported losses are calculated with actuarial methods in line with the assumed life expectancy by age and gender of annuity beneficiaries for period and amount of annuity benefits. The frequency, annuity period and amount are determined within the claim adjustment process.

By establishing annuity provisions there is considered a possibility of annuity settlements in the form of one-off capitalisation as an element providing for the prospective insured persons behaviour.

When an annuity is adjusted by a foreign correspondent, the value of discounted provision is equivalent to the amount specified by the correspondent.

Annuity provisions for not reported losses (due to IBNR claims) are calculated with actuarial methods. On the basis of an analysis of the development of the number of annuities and assuming the expected average amounts of capitalised annuity provisions, the total ultimate value thereof is determined for non-life property and personal insurance. The expected average IBNR claims value are calculated on the basis of annuity parameters grouped by the period of delay in loss reporting in order to take into account changes in each period of reporting. Considering the observation for the annuity portfolio, that the individually determined capitalised value of annuities diverges in the initial period of loss adjustment from the expected average value of the annuity, a provision for the risk of a possible increase in the value of these provisions is created.

For the total annuity provisions the provision for the claims handling costs as well as the investment activity costs for servicing insurance and reinsurance liabilities is determined by the system of loadings in order to obtain a complete estimation of the loss ratio and liabilities.

In connection with the recorded cases of changes by the court at the injured request the guarantee sums in Motor TPL insurance to a higher one in order to ensure the continuity of annuities payments, the annuity provision for reported claims takes into account the risk of potential increase in provisions due to this reason.

In 2020, there were two material changes in the adopted assumptions regarding the best estimate of annuity benefits.

Due to the observed rapid changes in the economic environment (wages increase, high inflation level, substantial decreases in the level of risk free curve and the rate of return on assets, the results of the crises caused by the pandemic) the Company has verified the indexation levels for the initial years used in the calculation of the best estimate based on historical experience in the development of the indexation index.

Moreover, there was introduced a new provision component concerning the expected increase of annuity benefits by virtue of care for the injured person provided by their family members. This change is related to the adoption by the Supreme Court on 22 July 2020 the Resolution on the costs of voluntary care provided by the relatives.

D.2.2 Reinsurance recoverables in the best estimate

The value of best estimate of reinsurance recoverables is calculated on the basis of the reinsurers' share in line with the regulations of individual reinsurance contracts. The parameters are applied for each type of insurance split into statutory insurance groups with their further internal disaggregation into risk symbols used in the records in IT and accounting systems. According to this split and broken into types of reinsurance contracts (and in case of claim provisions in an additional split into the year of the loss), the ratios of reinsurer's shares in the provisions are determined.

For losses with very high provisions or catastrophic events, the reinsurers' share in the provisions is calculated with an individual method by the reinsurance section in line with the regulations of individual reinsurance contracts.

The calculation of best estimates of reinsurance recoverables in technical provisions is determined on the basis of gross best estimates; additionally, for discounting purposes the timing difference is taken into account between receipt of the amount due from the reinsurer and the time of direct gross payment.

The value of best estimate of reinsurance recoverables is reduced by the expected losses due to reinsurer default.

Expected Loss As A Result Of Default By Reinsurers

The expected loss as a result of default by a re-insurer is determined on the basis of likelihood of default by the reinsurer and the average loss resulting from such default. The loss is taken into account in determining the reinsurers' shares in the best estimation for Solvency 2, in line with the Act on Insurance and Reinsurance Activity and in compliance with Article 42 of the Delegated Regulation.

D.2.3 Uncertainties related to the value of technical provisions

Uncertainties related to the value of best estimate is due to uncertainties relating to the timing, frequency and amount of claims and costs, changes to the economic environment and subject to the behaviour by customers and injured persons.

An analysis of the adequacy of the amount of best estimates established in the previous reporting periods is performed on the basis of an analysis of run-off results of further development of losses in subsequent reporting periods.
Analyses of back-tests are used to determine the adequacy of each model to specific insurance. As a result of the analysis, an appropriate method to estimate the provisions is selected subject to the trends prevailing in the analysed periods.

The applied processes result in an assumption of a moderate level of uncertainty related to the value of the established technical provisions.

D.2.4 Simplifications applied to TP calculation

SIMPLIFICATIONS APPLIED TO BEST ESTIMATE CALCULATION

As described above, as at 31 December 2020, the Company did not apply any material simplifications in the calculation of the best estimate.

SIMPLIFICATIONS APPLIED TO RISK MARGIN CALCULATION

Risk margin is a component of technical provisions used to ensure that the value of technical provisions corresponds to the amount that insurance undertakings and reinsurance undertakings would be expected to require for taking over insurance and reinsurance obligations and meet therewith subject to capital costs.

The risk margin amount is calculated with an assumption that the solvency requirements after X years for each risk (e.g. premium and reserve risk, counterparty default risks) are proportional to the best estimate of technical provisions for these risks discounted at the time of X – where the proportionality ratio is the quotient of the current Solvency Capital Requirement and the current discounted best estimates of technical provisions (calculated for a reference insurance undertaking) taking into account the natural transition of part of the premium and reserve risk to actuarial life risk. The solvency requirement for catastrophic risks and the lapse risk is proportional to the value of premium earned in subsequent years. This is a simplification compliant with Art. 58a of the Delegated Regulation.

The capital cost rate used in calculating the risk margin is 6%, in accordance with Art. 39 of the Delegated Regulation.

The Company allocates the risk margin to business lines in proportion to the share of these lines in the Solvency Capital Requirement.

D.2.5 Description of the applied interest rate curve

For the purposes related to Solvency 2 the Company applies a risk-free term interest rate published by EIOPA.

D.2.6 Matching adjustments and transitional valuates

The matching adjustments and those related to volatility to the appropriate term structure of risk-free interest rates as well as transitional valuates concerning risk-free interest rates and technical provisions do not apply to the determination of technical provisions at TUiR "WARTA" S.A.

D.2.7 Material lines of business

The general valuation principles of best estimate are presented in chapter D.2.1 hereof. Hereunder, there are comments to the basis, methods and assumptions underlying valuation of best estimate for loss provisions, specific for each business line.

The valuation principles of best estimate for premium provisions presented in point D.2.1 are uniformly applied to each business line.

MOTOR VEHICLE LIABILITY INSURANCE

The analysis of best estimate for motor vehicle liability insurance splits the losses by country (domestic, foreign) and type of loss (personal, material), with an identification of a specific category of domestic death claims. Due to changes in judicial decisions on compensation, the latter category is subject to detailed analysis principles, i.e. in the loss triangle there are treated differently the diagonals corresponding to the periods before legal changes.

The principles concerning annuity provisions for incurred but not reported claims are presented in chapter D.2.1.

OTHER MOTOR VEHICLE INSURANCE

With respect to other vehicle insurance, standard valuation methods are used.

FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE

Direct insurance activity in fire and other damage to property insurance

Property and technical insurance covers insurance of property against random risks and theft, technical insurance and construction and erection insurance.

Individual property insurance cover insurance of SMEs, housing insurance, personal tourist insurance and agricultural insurance.

In case of large losses, an individual update of provisions is made by loss adjusters.

In case of catastrophic events, an individual model of development of catastrophic losses is used on the basis of historic experience for comparable events.

Inward reinsurance in fire and other damage to property

Provisions established for inward insurance are established with the same methods like for direct insurance activity, wherein calculations up to incurred claim 2014 are carried out on the basis of the year when the insurance cover was started and from 2015 according to the accident quarter.

For APH risks (Asbestos Pollution Health) – contracts with losses due to use of asbestos, environmental pollution and medical losses, they are identified in a separate triangle due to the specific development of such losses.

D.3 Other liabilities

Liabilities other than technical provisions are valued at fair value being the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction. After initial recognition there are no subsequent adjustments to the value of liabilities resulting from changes in the Company's credit standing.

TABLE 15. OTHER LIABILITIES STRUCTURE AS OF 31 DECEMBER 2020

OTHER LIABILITIES	Statutory value*	VALUES CORRECTION TO S2 DUE:		Solvency 2 value
		Reclassification**	Valuation	
Contingent liabilities	0	0	0	0
Provisions other than technical provisions	66 906	0	0	66 906
Pension benefit obligations	3 843	0	0	3 843
Deposits from reinsurers	0	0	0	0
Deferred tax liabilities	262 010	0	79 557	341 567
Derivatives	90 467	0	0	90 467
Debts owed to credit institutions	481 144	0	0	481 144
Financial liabilities other than debts owed to credit institutions	0	0	91 805	91805
Insurance & intermediaries payables	464 738	-297 697	0	167 041
Reinsurance payables	124 403	-121 852	0	2 551
Payables (trade, not insurance)	84 793	0	-7004	77 789
Any other liabilities, not elsewhere shown	22 195	1 473	-22 195	1 473
Total other liabilities	1 600 499	-418 076	142 163	1 324 586

* Statutory value are presented in compliance with the presentation rules in force in the economic balance sheet.
** The "Reclassifications" column presents adjustments of insurance and reinsurance liaibilities recognized as undue and recognized in the balance sheet in the calculation of technical provisions and in other assets (not shown in other items).
*** Full template form S.02.01 in accordance with the EC Regulation 2015/2452 (as amended) constitutes Appendix 1 to this Report.

Further below this chapter contains descriptions of valuation methods of material liabilities in the economic balance sheet. Items considered by the Company as immaterial were not described, however its omission does not influence the decision-making or the judgement of the users of this Report. The subsection D.3.1 also identifies differences in liabilities valuation and recognition methods for the purposes of the statutory report and Solvency 2.

D.3.1 Valuation of other liabilities

PROVISIONS OTHER THAN TECHNICAL PROVISIONS

Provisions other than technical provisions, includes liabilities of uncertain amount or timing and are recognized when the Company has a present obligation (legal or constructive) a result of past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In particular, other provisions include provisions for unused holidays, provisions for salaries and provisions for losses under pending litigation and third party claims.

The Company does not identify differences in the valuation of other provisions between the statutory balance sheet and the economic balance sheet.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, provisions other than technical provisions are classified to liabilities category using alternative valuation methods.

The description of other provisions and valuation thereof is provided in chapter D.4 hereof.

The value and decomposition of other provisions as at 31 December 2020 is presented in table 16.

TABLE 16. PROVISIONS OTHER THAN TECHNICAL PROVISIONS STRUCTURE AS AT 31 DECEMBER 2020

PROVISION OTHER THAN TECHNICAL PROVISION	31 Dec 2020
Provision for unused holidays	13 531
Provisions for salaries	51 766
Provisions for non-insurance litigations	514
Other	1 095
Provisions other than technical provisions, total	66 906

DTL/DTA

For Solvency 2 purposes, DTL/DTA are determined based on temporary differences between the value of assets and liabilities determined for the needs of the economic balance and their tax value. Amount of DTA/DTL is determined taking into account income tax rates applicable in the year when the tax obligation arose.

The Company creates liabilities and establishes deferred tax assets in connection with temporary differences between the value of assets and liabilities shown in the accounting books and their tax value as well as the tax loss possible to be deducted in the future. According to the adopted financial plan, the Company assumes making a profit in the next years, which will allow for the utilisation of the entire tax asset.

The Company does not recognize deferred tax in relation to temporary differences arising as a result of the valuation of subordinated entities.

Deferred tax liabilities and assets, both in the statutory balance sheet and the economic balance sheet, are compensated and presented depending on the result in assets or liabilities (as net value). DTA/DTL are not a subject to discounting.

The values and sources of the deferred tax liability are presented in table 17.

TABLE 17. COMPENSATED VALUE OF DTA/DTL

DTA/DTL – COMPENSATED VALUE	31 DECEMBER 2020	Age structure of Deferred tax			
		UP TO 1 YEAR	FROM 1 TO 5 YEAR	OVER 5 YEARS	UNDEFINED
Statutory financial statement	262 010	147 068	101 510	20 529	-7 097
Financial instruments	157 690	28 139	109 269	22 522	-2 240
Receivables write-downs	-30 384	-21 380	-7 301	-1 703	0
Provisions and prepayments	-16 817	-16 817	0	0	0
Properties	-4 857	0	0	0	-4 857
Deferred aquisition costs	159 164	159 164	0	0	0
Receivables from direct claims handling on behalf of other insurance undertakings	5 386	5 386	0	0	0
Other	-8 172	-7 424	-458	-290	0
Impact of Solvency 2 valuation	79 557	-171 147	44 747	168 612	37 345
Deferred aquisition costs	-159 164	-159 164	0	0	0
Tangible assets	-21 232	-8 999	-8 584	-3 649	0
Instrumenty finansowe	14 565	5 144	7 658	1 763	0
Prepayments	-1 815	-1 815	0	0	0
Intangible assets	2 989	1 203	540	0	1 246
Technical provisions	241 310	-11 053	45 766	170 498	36 099
Other	2 904	3 537	-633	0	0
DTL Solvency 2	341 567	-24 079	146 257	189 141	30 248
Amount of unused tax credits and losses from previous years for which no assets were recognized	0				

The differences regarding the compensated value of DTL between the statutory balance sheet and the economic balance sheet arise from using different asset and liabilities valuation methodologies and obligations for statutory and Solvency 2 purposes (as described in particular items of assets and liabilities).

The Company assumes the utilisation of the entire DTA recognized as of 31 December 2020. DTA results mainly from financial instruments, receivables and provisions other than technical provisions.

When analysing predictable utilisation of DTA and DTL, an excess of DTL over DTA is observed in all periods over one year. Only in the first year there is an excess of DTA over DTL resulting from the maturity of assets and liabilities that are temporary differences between the statutory and economic balance sheet. However, according to the adopted financial plan, the Company assumes making a profit in the next years, which will allow for the utilisation of the entire DTA.

DERIVATIVES

The description of derivatives is presented in chapters D.1 and D.4. hereof.

DEBTS OWED TO CREDIT INSTITUTIONS

The item debts owed to credit institutions of the economic balance sheet, includes Sell-Buy-Back instruments and overdraft on bank account.

For the purposes of statutory reporting, Sell-Buy-Back instruments are valued at amortized cost determined with the effective interest rate including impairment losses. Bank overdraft is valued at nominal value which is the best reflection of fair value.

For Solvency 2, additional adjustments are made to Sell-Buy-Back instruments in the economic balance sheet to value them at fair value, but in accordance with specific transaction parameters, fair value as of 31 December 2020 is equal statutory value.

As a result of the review referred to in the introduction to the chapter D., for the purposes of Solvency 2 debts owed to credit institutions are classified as liabilities valued with alternative valuation methods using relevant market input.

The description of the value methods of debts owed to credit institutions is presented in chapter D.4 hereof.

FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

Financial liabilities other than debts owed to credit institutions include payables arising from leasing contracts under definition of IFRS 16 *Leasing*. The item includes expected future payments from leasing agreements to lessors other than credit institutions.

For the statutory purposes the Company classifies leasing contracts as operating leasing agreements. According to the Accounting Act, the Company does not recognize liabilities from leasing contracts (described in IFRS 16) in the statutory balance sheet resulting in a difference to the economic balance sheet presented in table 15.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes financial liabilities other than debts owed to credit institutions are classified to liabilities category using alternative valuation methods. The description of liabilities valuation method is presented in chapter D.4 in section “IFRS 16 *LEASING*”.

INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables include amounts due to policyholders, insurance undertakings and other entities relating to insurance activity (e.g. brokers) that are not included in technical provisions. The item also contains liabilities from inward reinsurance, in particular resulting from:

- settlements with cedants due to their share in claims paid under inward reinsurance,
- reinsurance commissions relating to inward reinsurance premiums,
- cedant’s shares in profit from inward reinsurance contracts.

The due date used as a basis to the classification of liabilities to settlements in the balance sheet or to cash flows included in calculation of technical provisions, is the payment date specified in the contract with the entity to which the Company has an obligation.

For statutory purposes, insurance and intermediaries payables include current and overdue payables that are valued at amounts payable.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, insurance and intermediaries payables are classified to liabilities category using alternative valuation methods.

The description of liabilities valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 16.

Due to the immaterial impact of change in time value of money on fair value of those liabilities, the value of liabilities for Solvency 2 purposes is equal to the amount disclosed in the statutory balance sheet.

REINSURANCE PAYABLES

Reinsurance payables include amounts due to reinsurers and related to reinsurance activity other than deposits linked to reinsurance business, that are not included in reinsurance recoverables. Those liabilities relate in particular due

premiums from outward reinsurance and retrocession.
Current reinsurance payables from outward reinsurance and retrocession are classified as the following:

- payables relating to the settled insurance claims (gross payments) – in any other liabilities, not elsewhere shown,
- other payables – are included in cash flows used for calculation of reinsurance recoverables.

The due date used as a basis to relevant classification of liabilities is the payment date specified in the contract with the entity to which the Company has an obligation.

For statutory purposes, reinsurance payables include current and overdue payables that are valued at amounts payable.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, reinsurance payables are classified to liabilities category using alternative valuation methods. The description of the liabilities valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 15. Due to the immaterial impact of change in time value of money on fair value of those liabilities, the value of liabilities for Solvency 2 purposes is equal to the amount disclosed in the statutory balance sheet.

OTHER PAYABLES (TRADE, NON INSURANCE)

Other payables (trade, non insurance) include in particular current liabilities to tax authorities, liabilities under advances received to be settled with deliveries of goods, services or fixed assets, as well as the amounts due to employees and other counterparties.

Trade liabilities are valued at amounts payable. Current tax liabilities are valued at amounts payable to tax authorities using tax rates (and tax laws) prevailing as at the balance sheet date.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, trade payables are classified to liabilities category using alternative valuation methods. The description of liabilities valuation method is presented in chapter D.4 hereof.

Due to the immaterial impact of change in time value of money on fair value of those liabilities, the value of liabilities for Solvency 2 purposes is equal to the amount presented in the statutory balance sheet.

ANY OTHER LIABILITIES, NOT ELSEWHERE SHOWN

The amount includes all liabilities not shown in the other items of the economic balance sheet. As of 31 December 2020 in this item there were presented current reinsurance payables from outward reinsurance and retrocession relating to the settled insurance claims (gross payments) and current payables from outward reinsurance and retrocession relating to recourses which are qualified as separate liabilities in accordance with International Accounting Standards (and are not included in the reinsurance recoverables calculation). Additionally, in the statutory balance sheet, the item consisted of deferred income relating to reinsurance, co-insurance and retrocession commissions, company social benefit fund and preventing fund which are not recognized under Solvency 2.

For statutory purposes, current payables from outward reinsurance and retrocession relating to the settled insurance claims are valued at amounts payable.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, other liabilities are classified to liabilities category using alternative valuation methods. The description of other liabilities valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 16. Due to the immaterial impact of change in time value of money on fair value of other liabilities, discount effect was not included in valuation to the economic balance sheet.

D.3.2 Leasing

Leasing is described in chapter A.4.2 hereof.

D.4 Alternative methods for valuation

For the purposes of Solvency 2, all assets and liabilities are presented at fair value. In compliance with the Delegated Regulation, the Company follows a valuation hierarchy in measuring its assets and liabilities. If market prices of the same or similar assets or liabilities, listed in active markets, cannot be applied, then alternative valuation methods are used.

This chapter is devoted to alternative valuation methods of assets and other liabilities of the company that were defined as valuation methods in compliance with Art. 223 of the Act on Insurance and Reinsurance Activity, other than those that provide solely for the application of market prices of the same or similar listed assets or liabilities.

The determination of fair value of assets and other liabilities which have to be valued with alternative methods, requires the Company to make estimates and certain assumptions.

Such estimates and assumptions used for the valuation are based on experience resulting from an analysis of historic data, observable market data and a number of other factors that seem reasonable under the circumstances to the best of the knowledge of the Company's management. Such estimates and assumptions are subject to periodic verification and may be modified as a result of future events resulting from changes to the environment.

Estimates and assumptions made as at the balance sheet date provide for risk parameters and levels as at that date. However, changes to the economic environment create uncertainties as to the valuations which means that the actual values of assets and other liabilities may differ from the values determined as at the balance sheet date.

PROPERTIES

There is no active market for properties (other than right-of-use assets from property leasing contracts) and therefore – in order to determine their fair value – the Company applies alternative valuation methods. The fair value of the properties for Solvency 2 is determined on the basis of an independent appraisal, made every year for properties with value over 1 MPLN and at least every 3 years for other properties.

The properties are appraised with one of the following methods selected by the independent appraiser, subject to the availability of data:

- The comparative approach

This is applied when the prices and features are known of properties that are similar to the appraised property. The comparative approach consists in appraising the property value assuming that it corresponds to the prices paid for similar properties in market transactions. The prices are adjusted for features differing such similar properties from the appraised property and price changes over time are taken into account.

- Income approach

This is applied to appraise properties that generate or may generate income and for which no sufficient number of transactions have been identified for properties that are similar to the appraised property.

Both approaches were applied to appraise the properties owned by the Company.

The appraised value of the property reflects market conditions as at the appraisal date and corresponds to the price that could be received in a sales contract. Such property appraisal reports rely on transaction data in the analysed market and data obtained from the legal owner of the property. Such appraisal is made on the basis of the appraiser's best knowledge, in compliance with law and approved professional standards. Uncertainties underlying such appraisals may be due to an insufficient number of transactions in the market, non-existence of properties similar to the appraised one, assumption of indicators that due to the changing environment may be different in the future than assumed for the appraisal.

As at 31 December 2020 all properties held by the Company were appraised with the alternative appraisal methods.

Valuation methods of right-of-use assets from property leasing contracts have been presented in section "IFRS 16 *LEASING*".

IFRS 16 *LEASING*

In accordance with the IFRS 16, the Company as a lessee recognizes right-of-use assets and financial liabilities arising from leasing contracts.

Due to no active market for right-of-use assets and liabilities arising from leasing contracts which fulfil criteria of IFRS 16 in place, the valuation at fair value is made with alternative valuation methods.

Valuation at fair value of right-of-use assets and lease liabilities is determined on the basis of discounted future cash flows arising from the leasing agreements. For determination the fair value of the right-of-use assets the Company uses a risk free rate increased by a factor reflecting risk of properties' price changes. Fair value of lease liabilities is determined using risk free rate. For the calculation the Company uses interest rates published by EIOPA.

The uncertainties of the valuation of right-of-use assets and lease liabilities are related to the assumptions made by the Company as at the balance sheet date relating to the expected cash flows as well as properties' price changes risk, currency risk and interest rate risk.

As at 31 December 2020 all the Company right-of-use assets and lease liabilities were valued with the alternative valuation methods.

PLANT & EQUIPMENT (FIXED ASSETS) HELD FOR OWN USE

Due to no active market for this type of assets, the valuation thereof at fair value is made with alternative valuation methods.

Vehicles and IT hardware are valued at fair value as at the end of the financial year. The Company applies a cost approach as valuation at fair value which reflects the amount that would be required to recreate the assets. This requires relying on the costs incurred to purchase or construct replacement assets with similar performance, adjusted for loss of usability (that is physical ageing as well as functional and economic obsolescence). The other fixed assets are subject to an analysis to verify if indications exist that may indicate material deviations between the anticipated fair value and the net book value of the assets as disclosed in the statutory balance sheet. When such indications are identified, the Company establishes the fair value of the other fixed assets. This simplification is used for fixed assets other than vehicles and IT hardware. Due to the low value of these groups of assets the simplification has a negligible impact on the Company’s own funds.

When the fair value of such fixed assets determined as specified above is not materially different from the fair value disclosed in the statutory balance sheet, the Company may apply a simplification of lack of revaluation of such assets for the economic balance sheet purposes. This simplification may apply only to fixed assets different than vehicles and different than IT hardware. Due to low value of this group of assets, impact for the Company’s own funds is immaterial.

Due to changes in the environment that require the Company to adapt to new conditions, an uncertainty exists as to the valuation of assets with respect to price variability and assessment of the wear and tear and impairment.

As at 31 December 2020 all items disclosed as plant & equipment held for own use were valued with alternative valuation methods.

EQUITIES

Equities - listed are valued at fair value with alternative valuation methods, if before the balance sheet date, such equities were not traded or if the trading volume was extremely low.

The fair value of equities - listed is determined on the basis of the models relying on the change of stock exchange indices or historic prices from the active market or is determined at historic closing price from the active market, including impairment losses or is determined at historic closing price from the market with the most current trading.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of equities - listed with respect to the variability of FX exchange rates, stock exchange indices and counterparty credit risk.

As at 31 December 2020, equities - listed that meet the above criteria and are held by the Company, were valued with alternative valuation methods.

BONDS

Listed government bonds and listed corporate bonds are valued at fair value with alternative valuation methods if until the balance sheets date no transactions have been concluded in such listed government and listed corporate bonds on an active market or if the trading volume was very low. Unlisted municipal bonds and unlisted corporate bonds are valued at fair value with alternative valuation methods as there is no active market for such instruments.

In case of listed central government bond, local authorities bonds and supra-national bonds, the fair value is determined at bid prices from Bloomberg (BGN) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market or further – on the basis of historic transactional prices, best bid prices from BondSpot or bid prices from Bloomberg.

In case of listed central government bonds and local authorities bonds, if no fair value can be determined in that way, the value is determined on the basis of last bid price from the market with the most current trading, and in case of trading on more than one market, the market with the highest volume trading is applicable. In case of lack of trading mentioned above, the fair value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

In case of supra-national bonds, if no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of bonds that are fully, unconditionally and irrevocably guaranteed by central government denominated and funded in the domestic currency of that central government is determined at historic transactional prices. If no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of listed corporate bonds is determined at bid prices from Bloomberg (BGN) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market (in case of securities denominated in foreign currencies) or further – on the basis of historic transactional prices or bid prices from Bloomberg. If no fair value of corporate bonds denominated in foreign currencies can be determined in that way, the value is determined on the basis of at bid prices from Bloomberg Valuation Service (BVAL) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market or further – on the basis of analogical historic prices.

If no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of unlisted corporate bonds and unlisted municipal bonds is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of government bonds adjusted by the credit spread, relying on data from information agency

In view of the variability of the economic environment, an uncertainty exists as to the valuation of government bonds and corporate bonds with respect to the variability of interest rates, ratings and FX exchange rates.

As at 31 December 2020, the government bonds and corporate bonds that meet the above criteria, held by the Company were valued with alternative valuation methods.

COLLECTIVE INVESTMENTS UNDERTAKINGS

Participation titles in listed investment funds are valued at fair value with alternative valuation methods if before the balance sheet date, such participation titles were not traded or if the trading volume was extremely low. Unlisted investment units in investment funds are valued at fair value with alternative valuation methods as there is no active market for such instruments..

The fair value of participation titles in listed investment funds is determined on the basis historic closing prices from the active market or is determined at the net asset value per investment unit published by the fund.

The fair value of unlisted investment units in the investment funds in which the Company is the sole investor, is determined on the basis of the price of investment units as at the balance sheet date, provided to the Company by the issuer of the instrument.

The fair value of other unlisted investment units in investment funds is determined on the basis of the last net asset value per investment unit/ provided to the Company by the portfolio manager.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of collective investments undertakings with respect to the variability of FX exchange rates.

As at 31 December 2020, collective investment undertakings that meet above criteria, held by the Company were valued with alternative valuation methods.

DERIVATIVES

Derivatives are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The fair value of derivatives is valued in accordance with the discounted cash flow model. The discount curves applied to valuate derivative instruments are determined on the basis of quoted deposits and IRS contracts, published by Bloomberg.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of derivative instruments with respect to the variability of interest rates, ratings and FX exchange rates.

As at 31 December 2020, the derivative instruments held by the Company were valued with alternative valuation methods.

DEPOSITS OTHER THAN CASH EQUIVALENTS

Deposits other than cash equivalents are valued at fair value with alternative valuation methods as there is no active market for such instruments.

Due to the short maturity of ON deposits, a simplification is applied consisting in determining the fair value of such assets at nominal value or amount payable, understood as the nominal value increased by interest accruing with a straight line method.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of deposits other than cash equivalents with respect to the variability of FX exchange rates.

As at 31 December 2020, the deposits other than cash equivalents, held by the Company were valued with alternative valuation methods.

LOANS AND MORTGAGES

Loans and mortgages (loans granted to debtors other than natural persons) are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The value of loans granted to debtors other than natural persons is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of government bonds adjusted by the credit spread, relying on data from information agency.

In view of the variability of the economic environment, an uncertainty exists as to the valuation loans and mortgages with respect to the variability of interest rates, ratings and FX exchange rates.

As at 31 December 2020, the loans and mortgages held by the Company were valuated with alternative valuation methods.

INSURANCE AND INTERMEDIARIES RECEIVABLES, REINSURANCE RECEIVABLES, RECEIVABLES (TRADE, NON INSURANCE)

As there is no active market for receivables, in order to value them at fair value the Company uses alternative valuation methods. The receivables are valued in fair value determined on due amount adjusted by value resulting from the probability of payment and the counterparty's credit condition.

The value of the adjustment to the amount of due payment is determined by the following methods:

- general / portfolio - updating the value of receivables in the case of which the write-down rate depends on the degree of their delinquency. The level of this adjustment is calculated on the basis of information on the age structure of current receivables that is available in domain and / or accounting systems,
- individual - updating the value of receivables deemed doubtful and contentious, for which the rate of correction depends on the type of receivables and the legal status of the case,
- in the case of receivables due to inward and outward reinsurance, the revaluation to fair value is based on the analysis of repayment reports and age structure of receivables and liabilities for individual reinsurers / cedants.

Additionally, during valuation of insurance and intermediaries receivables, reinsurance receivables and other receivables (trade, non insurance) with the expected payment date over 12 months, change in time value of money is taken into account if the discount effect is material. Risk-free rates are used for discounting. The discounting of receivables is made using interest rates published by EIOPA.

Moreover, during valuation of insurance and intermediaries receivables at fair value, an analysis of expected collection costs and revenues related to recovery of receivables is performed. When the estimated net impact of such costs and revenues is material, the Company recognises it in determining the fair value of receivables. However, measuring its reinsurance receivables, the Company performs an analysis if the expected collection costs of overdue receivables materially affect their fair value. When the estimated impact of such costs is material, the Company recognises them in determining the fair value of receivables.

The uncertainties of the valuation of each type of receivables is related to the assumptions made by the Company as at the balance sheet date relating to the assessment of payment probability as well as counterparty credit risk, currency risk and interest rate risk. Additionally, the uncertainties relate to the expected collection costs and revenues related to recovery of receivables. Such uncertainties mean that in case of a change in the market environment and credit position of counterparties, the values of receivables determined as at the balance sheet date may be different than the actual amount for which such receivables could be exchanged between knowledgeable willing parties in an arm's length transaction.

As at 31 December 2020 all receivables listed above were valued at fair value with alternative valuation methods.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The fair value of cash and cash equivalents is determined at nominal value.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of cash and cash equivalents with respect to the variability of FX exchange rates.
As at 31 December 2020, cash and cash equivalents, held by the Company were valued with alternative valuation methods.

ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

Current receivables from ceded and retroceded reinsurance relating to the settled insurance claims

Due to no active market for receivables disclosed in that item, the Company uses alternative valuation methods for the purpose of fair value measurement. Receivables are valued at the amount due adjusted by value that takes into account the probability of payment and the counterparty's credit condition. Additionally, receivables with an expected payment date over 12 months are discounted with a risk-free rate, if the impact of the discount is material. The Company uses interest rates published by EIOPA for discounting of receivables. The detailed principles of receivable’s valuation are provided in point describing Insurance and intermediaries’ receivables, reinsurance receivables, receivables (trade, non insurance):

The uncertainties of the valuation of described receivables is related to the assumptions made by the Company as at the balance sheet date relating to the assessment of payment probability as well as counterparty credit risk, currency risk and interest rate risk. Such uncertainties means that in case of a change in the market environment and credit position of counterparties, the values of receivables determined as at the balance sheet date may be different than the actual amount for which such receivables could be exchanged between knowledgeable willing parties in an arm's length transaction.

Current receivables due to recourses

Due to no active market for receivables due to recourses in place, the Company uses alternative valuation methods.

Current receivables due to recourses are determined based on a review of recourse claims that qualify as separate assets in accordance with International Accounting Standards and are not included in the calculation of the best estimate. These receivables are measured at fair value in the amount due. Additionally, receivables with an expected payment date over 12 months are discounted with a risk-free rate, if the impact of the discount is material. The Company uses interest rates published by EIOPA for the discounting of receivables.

As at 31 December 2020 the Company did not identify uncertainties to the valuation of such assets.

As at 31 December 2020 all other assets were valued with alternative valuation methods.

OTHER PROVISIONS (OTHER THAN TECHNICAL PROVISIONS)

As there is no active market for other provisions, in order to value them at fair value alternative valuation methods are used.

The provisions are established applying the most reliable estimation necessary to fulfil the obligations at the end of the reporting period subject to the risks and uncertainties accompanying the events and circumstances required to comply with the obligation.

In particular, other provisions include provisions for unused holidays, provisions for salaries and provisions for losses under pending litigation and third party claims.

Provision for unused holidays

Provision for unused holidays is aimed at covering existing and unfulfilled obligations of the Company to employees as a result of their right to annual holidays. The provision for each employee is set as the multiplication of the equivalent for 1 day off (understood as monthly average salary divided by the average number of working days in a month for the relevant calendar year) and the number of unused annual holidays acquired on the basis of data recorded in the HR system.

The uncertainty of the valuation of the provision for unused holidays is related to the assumption, made by the Company as at the balance sheet date, the salary level of each employee which may be changed in the future.

Provisions for salaries

The Company recognises provisions for salaries including in particular the following: provision for discretionary bonuses for employees who are subject to annual periodic assessment, provision for bonuses (in this for annual bonus for Members of the Management Board). The detailed principles of defining specific provisions are based on the bonus rules existing in the Company.

In accordance with the best knowledge of the Company's management, the provisions for salaries set as at 31 December 2020 are close to their fair value. Since there is no information on the materialisation of specific parameters providing for the basis of the bonuses, an uncertainty exists as to the valuation of the provisions for salaries.

Provisions for non-insurance litigations

The Company performs an analysis of potential risks related to non-insurance litigations and on that basis of that takes decisions on the need to recognise the effects of such litigation in its accounting books. The Company bases its estimates of the provisions on legal opinions concerning particular non-insurance litigations.

The detailed principles of setting such provisions largely set-off the uncertainties relating to the valuation of provisions for non-insurance litigations.

As at 31 December 2020 all other provisions were valued with alternative valuation methods.

DEBTS OWED TO CREDIT INSTITUTIONS

Debts owed to credit institutions are valued at fair value with alternative valuation methods as there is no active market for such instruments.

Due to the short maturity of Sell-Buy-Back instruments, the fair value of such assets is determined at amount payable, understood as the nominal value increased by interest accruing with a straight line method.

Bank overdraft is valued at nominal value which is the best reflection of fair value.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of debts owed to credit institutions with respect to the variability of interest rates and counterparty credit risk.

As at 31 December 2020 all debts owed to credit institutions were valued with alternative valuation methods.

INSURANCE AND INTERMEDIARIES PAYABLES, REINSURANCE PAYABLES, PAYABLES (TRADE, NON-INSURANCE), ANY OTHER LIABILITIES, NOT ELSEWHERE SHOWN

As there is no active market for such liabilities, alternative valuation methods are used to value them at fair value.

The payables are valued to fair value in amount of due payment. In case of liabilities with the expected payment date within 12 months, the fair value is equivalent to the amounts payable, while in the case of liabilities with the expected payment date over 12 months – the present value of the amounts payable if the discount is material. Adjustments to provide for change in time value of money are applied by using risk-free interest rates. The Company uses interest rates published by EIOPA for discounting of liabilities.

Uncertainties as to the valuation of individual types of liabilities are related to currency risk and interest rate risk. Changes to the economic environment result in a situation whereby the value of liabilities determined as at the balance sheet date – subject to possible change of such factors – may be different than the actual value at which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

As at 31 December 2020 all the above liabilities were valued at fair value with alternative valuation methods.

D.5 Any other information

All material information was presented above.

E Capital Management

The Capital Management Policy of TUiR “WARTA” S.A., approved by the Company's Supervisory Board and the Capital Management Procedure of TUiR “WARTA” S.A., approved by the Company's Management Board are two main documents regulating the management of the Company’s capital.

The main objective of capital management is to ensure the Company’s solvency subject to capital requirements resulting from the applicable laws while ensuring the accomplishment of the dividend ratio anticipated by the Shareholders.

In compliance with the Capital Management Policy, capital management shall be understood as a variety of activities undertaken at operational, tactical and strategic levels.

Activities at the strategic level are executed by the management and supervising bodies of the Company while actions at the tactical and operational levels are exercised by the organisational units and committees respectively authorized by the Company’s Management Board.
The capital position, capital requirements and solvency constitute an integral part of the Business Plan approved by the Company’s Supervisory Board upon a proposal of the Company’s Management Board.

Assessing its capital adequacy ratio, the Company uses the Solvency 2 ratio which is monitored quarterly by the Company’s Management Board and the organisational units and committees respectively authorised by the Company’s Management Board. The prospective level (in the Plan) of the ratio is submitted on a regular basis to the Supervisory Board by the Company’s Management Board.

The level of the Solvency 2 ratio approved by the Company were presented in chapter B.3.2 hereof.

In compliance with its Capital Management Policy, the Company takes additional actions if the ratio level falls below the “watch” level and when such drop to the “watch” level is permanent/material.

When the financial condition is suddenly deteriorated or when such deterioration is imminent next year, the Company may suspend dividend payment.

E.1 Own funds

MEDIUM-TERM CAPITAL MANAGEMENT PLAN

In compliance with the Capital Management Procedure, the Company develops a medium-term capital management plan covering 3 years, covering:

- capital projection, including planned share issues,
- a projection of own funds subject to changes of individual items under each category that may result from maturity, redemption or repayment dates of those elements of capital,
- information on the results of projections made under its Own Risk and Solvency Assessment,
- information on the impact of issues, redemption or repayment of items of own funds on issues related to the application of limits to the categories listed below,
- information on the impact of the rules of profit distribution on own funds.

CLASSIFICATION OF OWN FUNDS

The Company classifies its own funds, including to specific categories, in compliance with the Act on Insurance and Reinsurance Activity.

SIGNIFICANT CHANGES IN THE REPORTING PERIOD

The rules of classification as well as management of the Company's own funds have not changed during the reporting year.

OWN FUNDS AT THE END OF THE REPORTING AND COMPARATIVE PERIOD

The table 18 presents the change in the Company's own funds during the reporting period.

TABLE 18. CHANGE IN THE COMPANY'S OWN FUNDS DURING REPORTING PERIOD

Lp.	Basic own funds	31 Dec 2019	Changes	31 Dec 2020
1.	Ordinary share capital (gross of own shares)	187 939	0	187 939
2.	Share premium account related to ordinary share capital	983 008	0	983 008
3.	Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	0	0	0
4.	Subordinated mutual member accounts	0	0	0
5.	Surplus funds	0	0	0
6.	Preference shares	0	0	0
7.	Share premium account related to preference shares	0	0	0
8.	Reconciliation reserve	1 743 612	603 516	2 347 128
9.	Subordinated liabilities	0	0	0
10.	An amount equal to the value of net deferred tax assets	0	0	0
11.	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0
12.	Total	2 914 559	603 516	3 518 075
	therein: Tier 1: unrestricted	2 914 559	603 516	3 518 075

Own funds increased due to cumulation of following positive effects:

- most of the profit accumulation from 2019--2020,
- interest rates fall resulting in langer increase of assets than liabilities value,
- increase in excess reserves, mainly in claims reserves,
- increase of subsidiary TUnŻ "WARTA" S.A. economic value ,

which were partially mitigated by negative effects like:

- increase of ris margin mainly due to increase of the annuity provisions,
- increase in the intangable assets recognised in the statutory balance sheet and written-off in the economic balance sheet..

ASSESSMENT OF THE QUALITY OF THE COMPANY'S OWN FUNDS

Whole the Company's own funds constitute the basic own funds and are classified into Tier 1, i.e. the highest quality measures for accessibility in case of covering potential losses. The duration of all Company's own funds is unlimited. An important component of the Company's own funds is the reconciliation reserve consisting of:

- differences in valuation between the statutory balance sheet and the economic balance, sheet as described in more detail in part D of this Report,
- other than the share and spare capital components of equity (e.g. revaluation reserve, current year result),
- and elements reducing the value of economic capitals:
- expected dividend for 2020,
- value of tax on assets to be paid in the next 12 mon.

MATERIAL CHANGES OF THE COMPANY' OWN FUNDS IN 2020

In 2020, significant factors influencing the amount of own funds were: an increase in annuity provisions as a result of a reduction in the effective technical rate and the creation of a new component of provisions. Information in this regard is presented in part D.2. of this Report.

In 2020, according to PFSA guidelines, the Company did not pay out the dividend from the net financial result of 2019.

The Company did not issue or redeem own funds in 2020.

The average amount of own funds in 2020 was PLN 3 216 317 thousand.

The Company has no own funds subject to transitionary regulations.

The Company has no supplementary own funds.

OWN FUNDS APPLICABLE TO COVER CAPITAL REQUIREMENTS

The table 19 presents amounts applicable to cover capital requirements.

TABLE 19. ELIGIBLE OWN FUNDS AS OF 31 DECEMBER 2020

MEET THE CAPITAL REQUIREMENTS	TOTAL	INCL.: TIER 1 - UNRESTRICTED
Own funds	3 518 075	3 518 075
Total eligible own funds to meet the SCR	3 518 075	3 518 075
Total eligible own funds to meet the MCR	3 518 075	3 518 075

RECONCILIATION THE EQUITY (STATUTORY) AND THE COMPANY'S OWN FUNDS

The figure 21 presents material differences between the equity compliant with the statutory report and the Company's own funds compliant with Solvency 2 as of 31 December 2020.

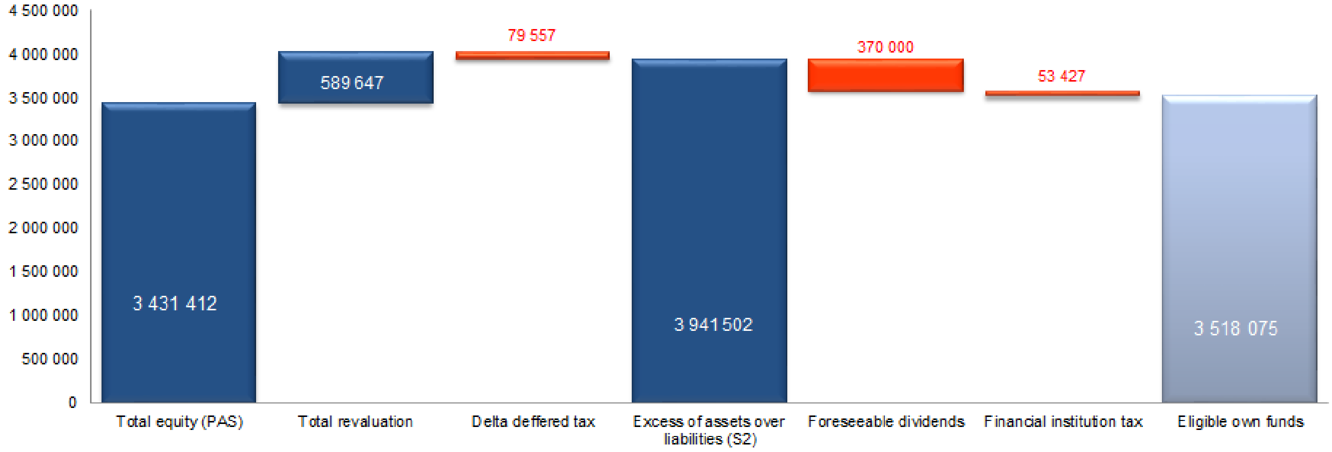


Figure 21.
The equity (statutory) and the Company's own funds

The total difference between equity (statutory) and Company's own funds as at 31 December 2020 results from:

- differences in the valuation methodology between the statutory report and the economic balance sheet (details described in chapter D.1, D.2 and D.3 of this Report), including elimination of items unrecognized in Solvency 2 balance sheet amounting in total to PLN 589 649 thousand,
- deferred tax impact due to differences mentioned above PLN (-79 557) thousand,
- planned dividend payable to the Company's Shareholder in the amount of PLN (-370 000) thousand, i.e. 56.0% of financial result of the Company for 2019; the deduction was made in accordance with Guideline No. 2 of the Guidelines on Classification of Own Funds (EIOPA-BoS-14/168),
- tax on the Company's assets to be paid within the next 12 months, counting from the balance sheet date, in the amount of PLN (-53 427) thousand; the deduction was made in accordance with the Supervision Authority's status of 7 April 2016 (DNU/606/259/1/2016/AM).

RESTRICTIONS APPLICABLE TO OWN FUNDS

The Company's own funds in 2020 were not subject to any restrictions on their availability. As at 31 December 2020 no deductions were made from the Company's own funds.

DEFERRED TAX INFORMATION

All required information on deferred income taxes is presented in chapter D.3 of this Report.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

The figure 22 presents information on the Company's Solvency Capital Requirement at the end of the reporting and comparative period (in MPLN):

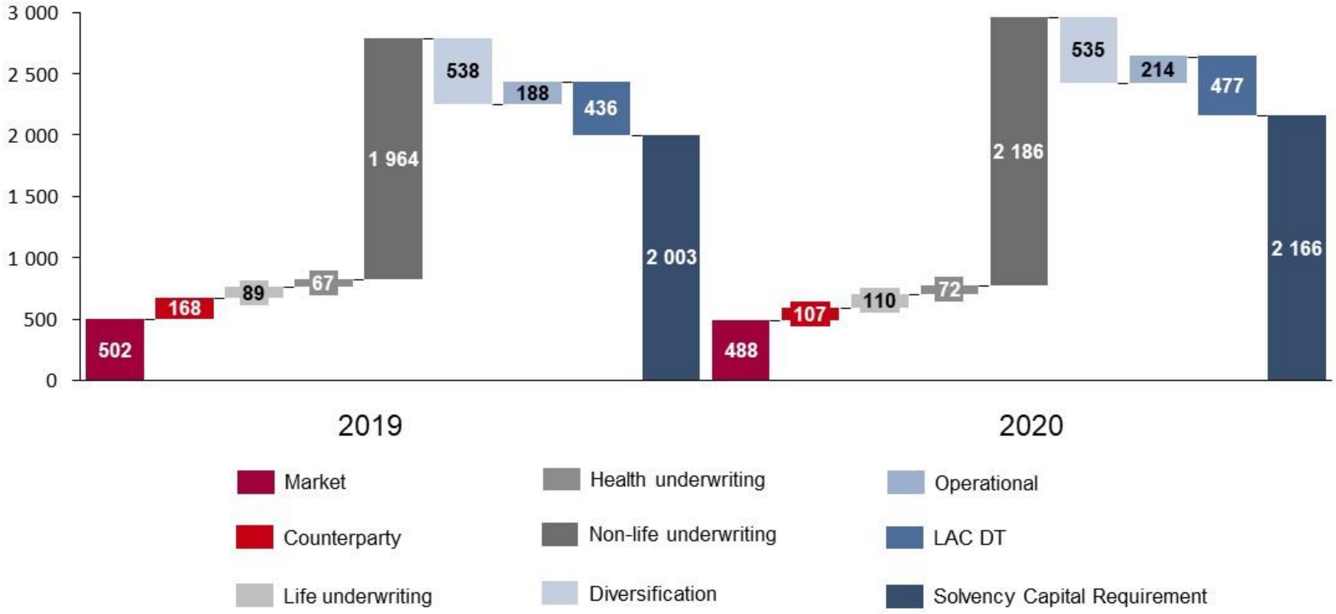


Figure 22.
The Company's Solvency Capital Requirement

The assumptions underlying the calculation of Solvency Capital Requirement are compliant with the Delegated Regulation. In the calculation of the Solvency Capital Requirement at the end of the year the Company used simplifications, according to the Article 88 of the Delegated Regulation, particularly in the following areas:

- risk mitigation effect,
- lapse risk.

The structure of the Solvency Capital Requirement is described in part C of this Report.

The Company does not apply any specific parameters to calculate Solvency Capital Requirement. The calculation of the Solvency Capital Requirement does not include so-called transitionary valuates. i.e. replacement of fundamental own funds in a transitory period.

MATERIAL CHANGES TO THE SOLVENCY CAPITAL REQUIREMENT AND REASONS OF THE CHANGES

The most significant changes in the Solvency Capital Requirement were as follows:

- increase of the charge for premium and reserve risk resulting from dynamic growth of the Company portfolio in 2020 as well as increase annuity provisions,
- increase of catastrophe risk due to dynamic increase of property portfolio (increase of CAT risk),
- a decrease in the counterparty risk due to the lack of renewal of the insurance contract.

THE LOSS ABSORBING CAPACITY OF DEFFERED TAXES

The adjustment for deferred taxes in the Solvency Capital Requirement (hereinafter SCR) amounted to PLN 477 028 thousand and constituted 19% of the amount of the gross part of the SCR (before the adjustment) identified as constituting a tax loss. The tax loss in the SCR requirement was divided into the current year's tax loss and the tax loss that occurs in the following years as shown in Table 20.

TABLE 20. TAX ALLOCATION OF THE GROSS SCR LOSS

TAX LOSS		NON-TAX LOSS
2 531 541		94 057
CURRENT YEAR LOSS	NEXT YEARS LOSS	
2 367 615	163 926	

The loss of the current year is settled together with the sum of tax profits in the next five years resulting from:

- tax profits of the financial plan modified after the so-called a critical scenario,
- tax profits / losses from the implementation of DTA / DTL from the statutory scenario not included in the plan,
- tax profits / losses from the implementation of DTA / DTL resulting from the Solvency 2 valuation not included in the plan,
- tax profits / losses resulting from the loss of SCR occurring in future years,

the sum of which constitutes the taxable settlement of the Company's loss.

The Company recognizes in the settlement capacity only those DTA and DTL elements that are no longer included in the projected tax result of the financial plan, in order to avoid double recognition.

The final amount of the adjustment of the requirement for the deferred tax capacity to settle the loss is the lower of:

- part of the gross SCR identified as tax loss,
- tax settlement capacity of the Company's loss.

TABLE 21. TAX CAPACITY TO SET OFF THE COMPANY'S LOSS

SOURCES OF TAX PROFIT	REALIZATION OF TAX PROFIT OVER TIME				
	UP TO 1 YEAR	FROM 1 TO 5 YEAR	OVER 5 YEARS	UNDEFINED	TOTAL UP TO 5 YEARS
Business Plan after realisation of critical scenario	295 611	2 539 397	0	0	2 835 008
Statutory DTA/DTL not included in Plan	0	787 644	-241 819	0	787 644
DTA / DTL resulting from differences from the Solvency 2 valuation not included in Plan	6 332	84 529	-5 030	0	90 861
Tax profit/loss resulting from the future years SCR loss	0	24 916	-188 842	0	24 916
TOTAL	301 942	3 436 486	-435 691	0	3 738 428

The basis for determining the future tax result is the tax income from the Company's Business Plan adjusted for the critical scenario occurence.

The modifications to the Business Plan consist of:
- checking the Company's ability to continue as a going concern after the occurrence of a critical scenario,
- adjustment of the result in the period exceeding the Company's planning horizon, consisting in not taking into account new business in this period,
- taking into account the effects in the insurance portfolio and investment projects resulting from the critical scenario,
- changing the profile of the paid dividend,
- deepening reinsurance protection,
- adjustment of the investment income resulting from a different level of interest rates and credit spreads,
- other effects, in particular possible actions related to increasing own funds provided for in the Capital Management Policy and the Capital Management Procedure.

E.2.2 Minimum Capital Requirement

The tables below present information on the Company's Minimum Capital Requirement at the end of the reporting and comparative period.

TABLE 22. LINEAR FORMULA FOR NON-LIFE INSURANCE

NON-LIFE INSURANCE	31 Dec 2019	31 Dec 2020
Medical expense insurance and proportional reinsurance	4 721	2 390
Income protection insurance and proportional reinsurance	17 093	16 531
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	610 543	642 344
Other motor insurance and proportional reinsurance	126 983	143 446
Marine, aviation and transport insurance and proportional reinsurance	19 369	17 828
Fire and other damage to property insurance and proportional reinsurance	90 232	108 165
General liability insurance and proportional reinsurance	90 780	102 039
Credit and suretyship insurance and proportional reinsurance	10 043	14 684
Legal expenses insurance and proportional reinsurance	13	9
Assistance and proportional reinsurance	24 892	30 236
Miscellaneous financial loss insurance and proportional reinsurance	15 580	10 059
Non-proportional health reinsurance	0	0
Non-proportional marine, aviation and transport reinsurance	25	155
Non-proportional property reinsurance	2 395	3 334
Non-proportional casualty reinsurance	251	733
Linear formula component for non-life insurance and reinsurance obligations	1 012 918	1 091 953

TABLE 23. LINEAR FORMULA FOR LIFE INSURANCE

LIFE INSURANCE	31 Dec 2019	31 Dec 2020
Obligations with profit participation- guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations	21 645	26 729
Capital at risk for all life (re)insurance obligations		
Linear formula component for life insurance and reinsurance obligations	21 645	26 729

TABLE 24. CALCULATION OF MINIMUM CAPITAL REQUIREMENT WITH THE STANDARD FORMULA

	31 Dec 2019	31 Dec 2020
Linear MCR	1 034 563	1 118 683
SCR	2 003 407	2 165 787
MCR cap	901 533	974 604
MCR floor	500 852	541 447
Combined MCR	901 533	974 604
Absolute floor of the MCR	15 768	17 090
Minimum Capital Requirement	901 533	974 604

The largest part of the Minimum Capital Requirement account for: Motor vehicle liability insurance (PLN 642 344 thousand), other motor insurance (PLN 143 446 thousand), Fire and other damage to property insurance (PLN 108 165 thousand) and general liability insurance (PLN 102 039 thousand). Such a calculated the Minimum Capital Requirement amounting to PLN 1 118 683 thousand is then reduced to PLN 974 604 thousand due to upper limit (i.e. MCR ≤45% SCR).

SIGNIFICANT CHANGES OF MINIMUM CAPITAL REQUIREMENT AND REASONS FOR THESE CHANGES

The most important change in the Minimum Capital Requirement was the increase of the upper SCR limit, which was a result of the dynamic growth of motor and property insurance portfolio what resulted in increase of SCR through premium and reserve risk. The increase of linear MCR resulting from the dynamic growth of motor and property insurance was also observed. However, its value was, as in last year, higher than upper SCR limit.

E.3 Use of duration-based equityrisk sub-module in the calculation of the Solvency Capital Requirement

The Company does not apply the calculation method of capital requirement for stocks relying on the duration of technical provisions.

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

The Company does not apply any internal model to calculate Solvency Capital Requirement.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

E.5.1 Non-compliance with the Minimum Solvency Requirement

The Company covers the Minimum Solvency Requirement as at 31 December 2020 and foresees no problems with coverage over the planned period.

E.5.2 Non-compliance with the Solvency Capital Requirement

The Company covers the Solvency Capital Requirement as at 31 December 2020 and foresees no problems with coverage over the planned period.

E.6 Any other information

The Company estimates that the changes entered into force in 2020 are not significant from the point of view of the Capital Solvency Requirement and therefore do not require disclosure in this Report.

APPENDICES

APPENDIX 1. BALANCE SHEET ITEMS (S.02.01.02)

		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	253 024
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	12 783 231
Property (other than for own use)	R0080	5 279
Holdings in related undertakings, including participations	R0090	602 387
Equities	R0100	38 833
Equities – listed	R0110	38 633
Equities – unlisted	R0120	200
Bonds	R0130	10 939 825
Government Bonds	R0140	7 414 476
Corporate Bonds	R0150	3 525 349
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	1 122 516
Derivatives	R0190	8 596
Deposits other than cash equivalents	R0200	65 795
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	138 899
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	138 899
Reinsurance recoverables from:	R0270	781 173
Non-life and health similar to non-life	R0280	583 189
Non-life excluding health	R0290	582 953
Health similar to non-life	R0300	236
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	197 984
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	197 984
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	602
Insurance and intermediaries receivables	R0360	137 748
Reinsurance receivables	R0370	12 449
Receivables (trade, not insurance)	R0380	119 986
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	55 667
Any other assets, not elsewhere shown	R0420	75 101
Total assets	R0500	14 357 880

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	7 613 650
Technical provisions – non-life (excluding health)	R0520	7 572 915
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	6 881 778
Risk margin	R0550	691 137
Technical provisions – health (similar to non-life)	R0560	40 735
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	37 738
Risk margin	R0590	2 997
Technical provisions – life (excluding index-linked and unit-linked)	R0600	1 478 142
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	1 478 142
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	1 470 803
Risk margin	R0680	7 339
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0

Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	66 906
Pension benefit obligations	R0760	3 843
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	341 567
Derivatives	R0790	90 467
Debts owed to credit institutions	R0800	481 144
Financial liabilities other than debts owed to credit institutions	R0810	91 805
Insurance & intermediaries payables	R0820	167 041
Reinsurance payables	R0830	2 551
Payables (trade, not insurance)	R0840	77 789
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	1 473
Total liabilities	R0900	10 416 378
Excess of assets over liabilities	R1000	3 941 502

APPENDIX 2. PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS (S.05.01.02)

		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	25 239	162 571	0	2 851 966	1 384 109	96 771	852 545	330 076	18 697
Gross – Proportional reinsurance accepted	R0120	2 474	163	0	104	6 848	10 861	202 210	17 224	0
Gross – Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	0	880	0	14 796	5 502	25 693	165 169	38 176	663
Net	R0200	27 713	161 854	0	2 837 274	1 385 455	81 939	889 586	309 124	18 034
Premiums earned										
Gross – Direct Business	R0210	25 783	158 310	0	2 877 855	1 282 732	122 008	799 939	309 009	-7 351
Gross – Proportional reinsurance accepted	R0220	22 770	4 451	0	54	6 075	8 264	167 879	19 480	0
Gross – Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	0	915	0	14 689	5 664	49 693	166 694	36 076	-503
Net	R0300	48 553	161 846	0	2 863 220	1 283 143	80 579	801 124	292 413	-6 848

		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
Claims incurred										
Gross – Direct Business	R0310	7 965	17 089	0	1 660 122	727 482	33 629	429 548	123 377	21 153
Gross – Proportional reinsurance accepted	R0320	701	136	0	1 805	2 550	1 728	65 945	8 288	0
Gross – Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	0	2 330	0	27 002	3 394	13 160	109 325	-3 217	11 964
Net	R0400	8 666	14 895	0	1 634 925	726 638	22 197	386 168	134 882	9 189
Changes in other technical provisions										
Gross – Direct Business	R0410	0	0	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0	0
Expenses incurred	R0550	**34 135**	**53 380**	**0**	**910 465**	**365 309**	**30 343**	**391 252**	**128 514**	**13 905**
Other expenses	R1200									
Total expenses	R1300									

		Line of Business for: non-life			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	125	207 594	36 033					5 965 726
Gross – Proportional reinsurance accepted	R0120	0	0	35 125					275 009
Gross – Non-proportional reinsurance accepted	R0130				0	1 144	1 378	3 036	5 558
Reinsurers' share	R0140	5	44	25 423	0	0	366	253	276 970
Net	R0200	120	207 550	45 735	0	1 144	1 012	2 783	5 969 323
Premiums earned									
Gross – Direct Business	R0210	125	181 372	37 609					5 787 391
Gross – Proportional reinsurance accepted	R0220	0	0	40 302					269 275
Gross – Non-proportional reinsurance accepted	R0230				0	1 337	524	9 597	11 458
Reinsurers' share	R0240	5	51	22 739	0	0	140	1 574	297 737
Net	R0300	120	181 321	55 172	0	1 337	384	8 023	5 770 387

		Line of Business for: non-life			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
Claims incurred									
Gross – Direct Business	R0310	-36	74 603	37 833					3 132 765
Gross – Proportional reinsurance accepted	R0320	0	0	-2 061					79 092
Gross – Non-proportional reinsurance accepted	R0330				0	757	149	1 645	2 551
Reinsurers' share	R0340	-1	103	33 231	0	0	0	1 446	198 737
Net	R0400	-35	74 500	2 541	0	757	149	199	3 015 671
Changes in other technical provisions									
Gross – Direct Business	R0410	0	0	0					0
Gross – Proportional reinsurance accepted	R0420	0	0	0					0
Gross – Non-proportional reinsurance accepted	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
Expenses incurred	R0550	30	50 709	29 263	0	221	116	1 004	2 008 646
Other expenses	R1200								**217 226**
Total expenses	R1300								2 225 872

		Line of Business for: life insurance obligations						Life reinsurance		
		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	0	0	0	0	0	0	0	0
Reinsurers' share	R1420	0	0	0	0	0	0	0	0	0
Net	R1500	0	0	0	0	0	0	0	0	0
Premiums earned										
Gross	R1510	0	0	0	0	0	0	0	0	0
Reinsurers' share	R1520	0	0	0	0	0	0	0	0	0
Net	R1600	0	0	0	0	0	0	0	0	0
Claims incurred										
Gross	R1610	0	0	0	0	0	284 283	0	0	284 283
Reinsurers' share	R1620	0	0	0	0	0	56 517	0	0	56 517
Net	R1700	0	0	0	0	0	227 766	0	0	227 766
Changes in other technical provisions										
Gross	R1710	0	0	0	0	0	0	0	0	0
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	0	0	0	0	0	0	0	0	0
Expenses incurred	R1900	0	0	0	0	0	**21 320**	0	0	21 320
Other expenses	R2500									0
Total expenses	R2600									21 320

APPENDIX 3. PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY (S.05.02.01)

Gross written premiums for the country of residence represent more than 90% of the total gross premiums written, therefore, the form S.05.02.01 is not required.

APPENDIX 4. LIFE AND HEALTH SLT TECHNICAL PROVISIONS (S.12.01.02)

		Insurance with profit participation	Index-linked and unit-linked insurance	Contracts without options and guarantees	Contracts with options or guarantees	Other life insurance	Contracts without options and guarantees	Contracts with options or guarantees	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)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010	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	R0020	0	0			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	1 470 803	0	1 470 803
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	0		0	0		0	0	197 984	0	197 984
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	0		0	0		0	0	1 272 819	0	1 272 819
Risk Margin	R0100	0	0			0			7 339	0	7 339
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110	0	0			0			0	0	0
Best estimate	R0120	0		0	0		0		0	0	0
Risk margin	R0130	0	0			0			0	0	0
Technical provisions – total	R0200	0	0			0			1 478 142	0	1 478 142

		Health insurance (direct business)	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	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	R0020	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	0
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110	0	0	0	0	0	0
Best estimate	R0120		0	0	0	0	0
Risk margin	R0130	0			0	0	0
Technical provisions – total	R0200	0			0	0	0

APPENDIX 5. NON-LIFE TECHNICAL PROVISIONS (S.17.01.02)

		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	7 200	2 733	0	872 666	421 746	1 364	132 506	54 404	77 811
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	180	0	-1 041	-2 594	-282	-68 100	-5 071	23 283
Net Best Estimate of Premium Provisions	R0150	7 200	2 553	0	873 707	424 340	1 646	200 606	59 475	54 528
Claims provisions										
Gross	R0160	8 449	19 356	0	3 644 506	122 481	108 699	559 991	659 337	35 809
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	56	0	96 640	-3 007	42 464	283 091	119 407	16 537
Net Best Estimate of Claims Provisions	R0250	8 449	19 300	0	3 547 866	125 488	66 235	276 900	539 930	19 272
Total Best estimate – gross	R0260	15 649	22 089	0	4 517 172	544 227	110 063	692 497	713 741	113 620
Total Best estimate – net	R0270	15 649	21 853	0	4 421 573	549 828	67 881	477 506	599 405	73 800

		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
Risk margin	R0280	669	2 328	0	419 451	57 268	7 161	135 276	52 265	4 364
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0	0
Technical provisions – total										
Technical provisions – total	R0320	16 318	24 417	0	4 936 623	601 495	117 224	827 773	766 006	117 984
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	0	236	0	95 599	-5 601	42 182	214 991	114 336	39 820
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	16 318	24 181	0	4 841 024	607 096	75 042	612 782	651 670	78 164

		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 obligation
		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	7	52 875	3 266	0	136	-81	-867	1 625 766
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-1	35	-6 192	0	-19	-56	-40	-59 898
Net Best Estimate of Premium Provisions	R0150	8	52 840	9 458	0	155	-25	-827	1 685 664
Claims provisions									
Gross	R0160	0	16 761	64 359	0	2 329	308	51 365	5 293 750
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	48 902	0	0	0	38 997	643 087
Net Best Estimate of Claims Provisions	R0250	0	16 761	15 457	0	2 329	308	12 368	4 650 663
Total Best estimate – gross	R0260	7	69 636	67 625	0	2 465	227	50 498	6 919 516
Total Best estimate – net	R0270	8	69 601	24 915	0	2 484	283	11 541	6 336 327

		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 obligation
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Risk margin	R0280	1	6 165	6 881	0	878	188	1 239	694 134
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0
Technical provisions – total									
Technical provisions – total	R0320	8	75 801	74 506	0	3 343	415	51 737	7 613 650
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	-1	35	42 710	0	-19	-56	38 957	583 189
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	9	75 766	31 796	0	3 362	471	12 780	7 030 461

APPENDIX 6. NON-LIFE INSURANCE CLAIMS (S.19.01.21)

Total Non-Life Business

Accident year / Underwriting year

Z0020 1 - Accident year

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

		Development year														
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		In Current year		Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											34 259	R0100		34 259	34 259
N-9	R0160	915 962	443 285	86 228	66 694	52 521	23 135	23 903	10 076	8 841	4 932		R0160		4 932	1 635 577
N-8	R0170	1 005 992	370 985	103 411	87 908	74 859	46 339	20 003	17 334	5 319			R0170		5 319	1 732 150
N-7	R0180	970 803	330 245	107 176	54 698	32 853	19 705	8 550	14 341				R0180		14 341	1 538 371
N-6	R0190	878 037	480 331	73 425	120 672	34 450	21 350	9 656					R0190		9 656	1 617 921
N-5	R0200	1 133 472	646 374	266 106	80 661	24 885	34 340						R0200		34 340	2 185 838
N-4	R0210	1 173 614	388 495	88 074	49 280	35 660							R0210		35 660	1 735 123
N-3	R0220	1 398 953	498 978	132 429	58 560								R0220		58 560	2 088 920
N-2	R0230	1 513 393	507 075	92 308									R0230		92 308	2 112 776
N-1	R0240	1 838 272	554 518										R0240		554 518	2 392 790
N	R0250	1 833 836											R0250		1 833 836	1 833 836
													R0260		2 677 729	18 907 561

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year												Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +		
	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											707 421	R0100	563 579
N-9	R0160	0	0	0	522 933	469 308	447 480	359 484	205 834	179 854	152 798		R0160	106 925
N-8	R0170	0	0	500 371	408 867	339 116	327 577	265 696	225 371	163 619			R0170	105 430
N-7	R0180	0	674 240	503 318	410 965	339 822	236 875	223 813	208 218				R0180	149 015
N-6	R0190	1 250 200	699 337	693 595	381 303	283 617	232 481	228 611					R0190	154 921
N-5	R0200	1 684 888	737 576	590 082	444 080	373 948	353 914						R0200	241 953
N-4	R0210	1 288 740	789 667	616 963	390 329	421 305							R0210	288 454
N-3	R0220	1 723 899	1 051 979	746 438	676 234								R0220	443 541
N-2	R0230	1 910 131	1 078 486	817 664									R0230	565 286
N-1	R0240	2 060 983	1 295 697										R0240	918 289
N	R0250	2 252 702											R0250	1 756 357
													R0260	5 293 750

APPENDIX 7. IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES (S.22.01.21)

The Company does not use long term guarantees or transitional measures, therefore, the form S.22.01.21 is not required.

APPENDIX 8. OWN FUNDS (S.23.01.01)

		Total	Tier 1 – unrstricted	Tier 1 – unrestricted	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 (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	187 939	187 939		0	
Share premium account related to ordinary share capital	R0030	983 008	983 008		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	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	2 347 128	2 347 128			
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	0
Total basic own funds after deductions	R0290	3 518 075	3 518 075	0	0	0

		Total	Tier 1 – unrstricted	Tier 1 – unrestricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
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	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
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	3 518 075	3 518 075	0	0	0
Total available own funds to meet the MCR	R0510	3 518 075	3 518 075	0	0	
Total eligible own funds to meet the SCR	R0540	3 518 075	3 518 075	0	0	0
Total eligible own funds to meet the MCR	R0550	3 518 075	3 518 075	0	0	
SCR	R0580	2 165 787				
MCR	R0600	974 604				
Ratio of Eligible own funds to SCR	R0620	162,44%				
Ratio of Eligible own funds to MCR	R0640	360,97%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	3 941 502	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720	423 427	
Other basic own fund items	R0730	1 170 947	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	2 347 128	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770	0	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	301 562	
Total Expected profits included in future premiums (EPIFP)	R0790	301 562	

APPENDIX 9. SOLVENCY CAPITAL REQUIREMENT – FOR ENTITIES USING THE STANDARD FORMULA (S.25.01.21)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	488 156		none
Counterparty default risk	R0020	107 185		
Life underwriting risk	R0030	109 831	none	none
Health underwriting risk	R0040	72 383	none	NSLT health lapse risk
Non-life underwriting risk	R0050	2 186 049	none	Non-life lapse risk, Fire risk
Diversification	R0060	-534 993		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	2 428 611		

Calculation of Solvency Capital Requirement		C0120
Operational risk	R0130	214 204
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-477 028
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	2 165 787
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	2 165 787
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Approach to tax rate		Yes/No
		C0109
Approach based on average tax rate	R0590	1 – Yes

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
LAC DT	R0640	-477 028
LAC DT justified by reversion of deferred tax liabilities	R0650	-341 567
LAC DT justified by reference to probable future taxable economic profit	R0660	-135 461
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	-502 135

APPENDIX 10. MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY (S.28.01.01)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	1 091 953

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	15 649	35 201
Income protection insurance and proportional reinsurance	R0030	21 853	160 799
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	4 421 573	2 835 215
Other motor insurance and proportional reinsurance	R0060	549 828	1 362 779
Marine, aviation and transport insurance and proportional reinsurance	R0070	67 881	77 403
Fire and other damage to property insurance and proportional reinsurance	R0080	477 506	843 731
General liability insurance and proportional reinsurance	R0090	599 405	307 639
Credit and suretyship insurance and proportional reinsurance	R0100	73 800	14 349
Legal expenses insurance and proportional reinsurance	R0110	8	121
Assistance and proportional reinsurance	R0120	69 601	203 415
Miscellaneous financial loss insurance and proportional reinsurance	R0130	24 915	44 463
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	2 484	1 708
Non-proportional marine, aviation and transport reinsurance	R0160	283	643
Non-proportional property reinsurance	R0170	11 541	7 469

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	26 729

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	0	
Obligations with profit participation – future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	1 272 819	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	1 118 682
SCR	R0310	2 165 787
MCR cap	R0320	974 604
MCR floor	R0330	541 447
Combined MCR	R0340	974 604
Absolute floor of the MCR	R0350	17 090
		C0070
Minimum Capital Requirement	R0400	974 604