SAVA RE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT 2017

SAVARe GROUP

Management Board of Sava Re, d.d.

Marko Jazbec,
Chairman of the Management Board

Srečko Čebron,
Member of the Management Board

Jošt Dolničar,
Member of the Management Board

Polona Pirš Zupančič,
Member of the Management Board

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General information

All figures included in this report are consistent with those reported as part of the quantitative reporting procedure for the Slovenian Insurance Supervision Agency. Figures in this report are stated in thousands of euro. The report has been reviewed and approved by the controlling company's management and supervisory boards.

The Group's Solvency and financial condition report has been reviewed by the auditing firm Ernst & Young, who have issued an independent auditor's assurance report.

The audited Sava Re Group annual report 2017 is available online, at https://www.sava-re.si/en/investors/financial-information/financial-reports/.

SUMMARY

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The purpose of this report is to provide information on the solvency position of the Sava Re Group as at 31 December 2017, as well as on its business and performance, system of governance, risk profile and valuation methods used for assets and liabilities. The report also includes key quantitative data, which is appended hereto. Such a report is prepared by the Sava Re Group on an annual basis. This document has been prepared in accordance with the Slovenian Insurance Act (ZZavar-1) and other legislative acts.

Profile of the Sava Re Group

The Sava Re Group (hereinafter: the 'Group' or the 'Sava Re Group') is one of the largest insurance groups in south-eastern Europe. As at 31 December 2017, it comprised seven insurance companies, one pension company and one reinsurance company, which functions as the Group's controlling company.

The Group employs over 2,600 people. We provide insurance and reinsurance coverage for all lines of business, offering:
- a respectful, honest and sincere partnership,
- proficiency,
- integrity and transparency,
- accessibility and responsiveness,
- accountability,
- creativity.

Sava Re has been operating in the international reinsurance markets for over 40 years, and on the Slovenian insurance market, via the former Zavarovalnica Tilia, since 1998. The Group expanded to some other markets of the former Yugoslavia through the acquisition of six insurance companies between 2006 and 2009, and through greenfield investments in two life insurance companies in 2008.

In 2017, the Group's consolidated gross premiums written totalled EUR 517.2 million.

The Group's core strengths lie in its regional knowledge, reliability, responsiveness, flexibility and financial strength. We exceed client expectations with an ongoing effort to improve relationships; we grow relationships with our colleagues in a responsible, frank and respectful manner, and play an active role in our environment.

Our guiding principle is to build long-term relationships with our clients and partners that will allow us to achieve our common goals throughout all economic cycles.

Business and performance[1]

The performance of the Group was marked by premium growth in all markets where it is present. Profits are within the planned range although impacted by some large claims. These impacts were offset by better cost efficiency and synergy gains following the merger of the Group's insurance companies based in Slovenia and Croatia.

In 2017, the Group wrote EUR 517.2 million in gross premiums, a 5.5% increase over 2016 and 4.7% more than planned. In Slovenia, gross non-life insurance premiums grew by 5.7%, while gross life insurance premiums rose by 3.7%. The Group achieved high, nearly 10% premium growth in international markets, both in non-life and life insurance business. Gross premiums written relating to the reinsurance segment grew by 3.8%.

The Group closed 2017 with a net profit of EUR 31.1 million and a 10.1% return on equity. Net profit for the year declined by 5.5% compared to the previous year, largely as a result of a number of weather-related claims that impacted both insurance and reinsurance operations, with gross claims paid increasing by 14.9% and net claims incurred by 10.3%. The profit of Zavarovalnica Sava was heavily impacted by storm losses (of about EUR 11.9 million), while the reinsurance portfolio performed somewhat poorer than in 2016 due to large international claims. Most notable were the claims relating to hurricane losses in the Caribbean and the USA of EUR 4 million, and a large loss event in Russia totalling EUR 3.8 million.

The Group succeeded in delivering a net profit within the set target range despite increased claims, mainly thanks to better cost control and by realising synergy gains following the successful merger of the Group's EU-based insurers in the first full post-merger year. The net expense ratio for the year declined by 1.3 percentage points from 34.0 to 32.7%. In 2017, the Group's combined ratio, excluding the effect of exchange differences, stood at 95.5%, up by 0.9 percentage points from 2016 as a result of higher claims.

The return on the investment portfolio was better than planned, despite the rather unfavourable conditions in financial markets. In asset management activities, the Group gives priority to security and liquidity to ensure that obligations arising out of insurance contracts can be met in an appropriate manner. Backed by the Group's financial stability, Sava Re repaid a significant part of its subordinated debt of EUR 24 million in 2017. The loan was taken out in 2006 and 2007 to finance the Group's expansion abroad.

Also last year, two rating agencies affirmed the financial strength and capital adequacy of the Sava Re Group. In July 2017, after its regular annual rating review, the rating agency Standard & Poor's affirmed Sava Re's existing 'A–' issuer credit and financial strength ratings but upgraded the outlook from 'stable' to 'positive'. Following its regular annual rating review, the rating agency A.M. Best affirmed the financial strength rating on Sava Re of 'A–' with a stable outlook.

In 2017, the Group members put greater emphasis on developing new products and new sales channels in line with the adopted medium-term strategy – Group members focused on digitising their operations and placing the client at the centre of services and ways of working. The Group's medium-term focus also includes the growth and development of health insurance products that Zavarovalnica Sava launched in December 2017. In line with its strategy, the Group entered the assistance market in 2017, which gives its members further room to unlock synergy benefits related to organising assistance in conjunction with its motor, health and home owners insurance business.

With a view to expanding its pension insurance activities, Sava Re signed a deal to acquire 100% of the Macedonia-based NLB Nov penziski fond in 2017, thus gaining a foothold in the Macedonian pension insurance market. Expansion and growth remain a key part of Sava Re's strategic focus.

System of governance

The Group companies have in place a system of governance that is well defined and includes:
- an adequate organisation, including management bodies, key functions and committees,
- an integrated risk management system,
- an internal control system.

The following four key functions operate on the Group level: the actuarial function, compliance function, risk management function, and internal audit function. Also, a risk committee and actuarial committee have been set up.

To ensure efficient risk management, the Group has in place a three-lines-of-defence model with a clearly defined division of responsibilities and tasks:

- The first line of defence constitutes all organisational units with operational responsibilities (e.g. (re)insurance underwriting, claims management, asset management, accounting, controlling).

- The second line of defence consists of the risk management function, actuarial function, compliance function and the risk management committee.

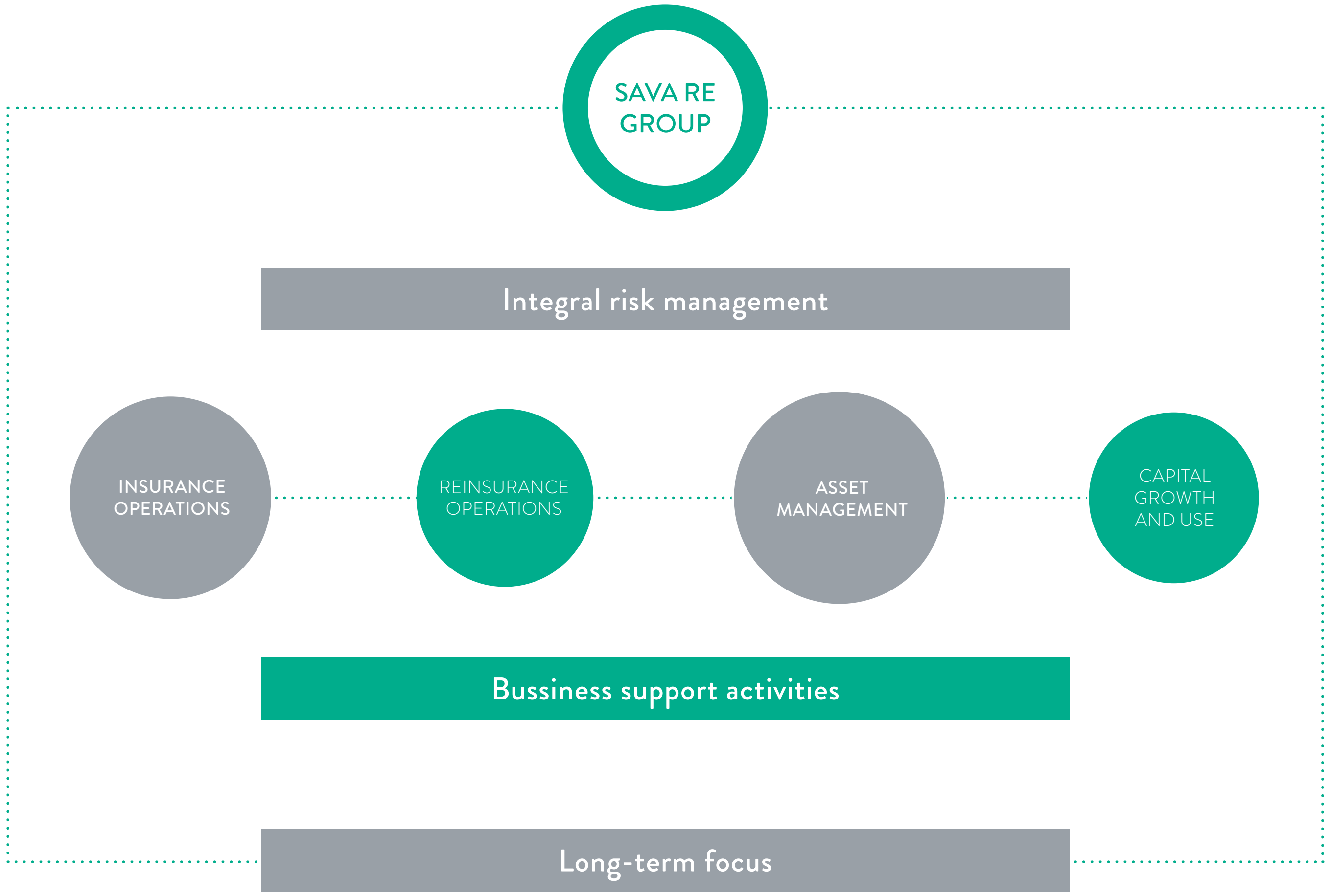
- The third line of defence is provided by the internal audit function.

In 2017, there were changes in the composition of the controlling company's management and supervisory boards. Details are provided in section B.1.1.

[1] This section provides information on the performance of the Sava Re Group based on IFRS accounts; therefore, figures do not equal Solvency II calculations, which do not include data of Sava pokojninska.

Sava Re Group strategy highlights

The Sava Re Group defines its strategy in terms of four pillars (see figure below): insurance operations, reinsurance operations, asset management, capital growth and use.



The key guidelines set out in the Group's strategy are:

- digitalisation and technological modernisation of operations to place the client at the centre,
- growth through acquisitions,
- seeking opportunities in environmentally/sustainability-oriented investment projects,
- closing the gap between intrinsic value and market price of shares.

Risk profile

The Group calculates its capital requirement in accordance with the Solvency II standard formula as defined in Delegated Regulation (EU) 2015/35 (hereinafter: 'Solvency II standard formula' or 'standard formula'). The Group's risk profile is dominated by non-life underwriting risk and is exposed to a significant level of market risk. The Group has a smaller exposure to other types of risk: life underwriting risk, health underwriting risk, counterparty default risk and operational risk. Apart from the above risks, which are captured by the standard formula, the Group is also exposed to liquidity risk, managed primarily by following a strategy for ensuring sufficient liquidity. Because of the complex internal and external environment in which it operates, the Group is exposed to various strategic risks.

The table below shows the Group's solvency capital requirement in accordance with the Solvency II standard formula (hereinafter: Group SCR) by risk module.

Solvency capital requirement by module

(EUR thousand)	31/12/2017	31/12/2016
Group SCR	**205,015**	**207,113**
Capital requirements of other financial sectors	5,300	4,943
Consolidated SCR at the Group level	**199,716**	**202,169**
Adjustments for TP and DT	-218	-292
Operational risk	15,407	14,827
Basic solvency capital requirement (BSCR)	184,526	187,634
Sum of risk components	272,615	272,604
Diversification effect	-88,089	-84,970
Market risk	51,671	63,861
Counterparty default risk	14,364	19,611
Life underwriting risk	40,210	26,098
Health underwriting risk	23,934	24,178
Non-life underwriting risk	142,437	138,857

Valuation for solvency purposes

In accordance with article 174 of the Slovenian Insurance Act, assets are valued at amounts for which they could be exchanged between knowledgeable and willing parties in arm's length transactions. Similarly, the Group values liabilities at amounts by which they could be transferred or settled, between knowledgeable and willing parties in arm's length transactions.

For the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter: IFRS), the full consolidation method is used for all Group companies. For the purposes of valuation of the Solvency II balance sheet, all Group (re)insurance undertakings and all ancillary services undertakings are consolidated in accordance with article 335 (a) of the Commission Delegated Regulation (EU) (2015/35), while the Sava pokojninska pension company is included in the consolidation in accordance with article 335 (e) of the above regulation by including 100% of the company's own funds calculated according to the relevant sectoral rules.

The following table shows adjustments to the IFRS balance sheet items that have been made for Solvency II purposes. The table below shows IFRS equity and Solvency II eligible own funds.

Adjustments to IFRS equity for the SII valuation of the balance sheet

(EUR thousand)	31/12/2017	31/12/2016
IFRS equity	315,020	296,318
Difference in the valuation of assets	-133,926	-120,592
Difference in the valuation of technical provisions	299,674	285,731
Difference in the valuation of other liabilities, not elsewhere shown	-16,766	-25,081
Foreseeable dividends, distributions and charges	-12,398	-12,398
Adjustment for minority interests	-206	-585
Deduction for participations in other financial undertakings	-8,353	-8,008
Basic own funds after deductions	443,045	415,385
Basic own funds in other financial sectors	8,353	8,008
Group's available own funds	451,398	423,393

Capital management

The Group manages its capital to ensure that it has available, on an ongoing basis, sufficient funds to meet its obligations and regulatory capital requirements. The composition of eligible own funds held to ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. The level of own funds must also be sufficient to achieve other goals of the Group.

When allocating own funds to business segments, the Group needs to ensure that an adequate return on equity is achieved.

The Group prepares its business and strategic plans based on its risk strategy, which determines its risk appetite. During its drafting , it makes sure that the plans are in line with the risk appetite, making adjustments if necessary. On the whole, it seeks to achieve an optimal allocation of capital.

Capital adequacy of the Group

(EUR thousand)	31/12/2017	31/12/2016
(1) Group SCR	205,015	207,113
Capital requirements for other financial sectors	5,300	4,943
(3) Consolidated SCR at the Group level	199,716	202,169
(4) Eligible own funds of the Group (excluding other financial sectors)	443,045	415,385
(5) Own funds in other financial sectors	8,353	8,008
(6) Eligible own funds to cover the Group SCR	451,398	423,393
Of which tier 1	451,398	423,393
Of which tier 2	0	0
Of which tier 3	0	0
(7) Group solvency ratio ((7)=(6)/(1))	220%	204%
Minimum capital requirement (MCR) of Group	106,009	103,337
Eligible own funds to meet the Group MCR	443,045	415,386
Of which tier 1	443,045	415,386
Of which tier 2	0	0
Of which tier 3	-	-
Group MCR	418%	402%

As at 31 December 2017, all eligible own funds to cover the Group SCR were tier one funds. As at 31 December 2017, the Group complied with the regulatory requirements on the level and quality of capital to cover the SCR and MCR, as its solvency ratio exceeded the regulatory requirement of 100% and stood at 220%, while the MCR ratio was 418%.

The Group also tested the adequacy of eligible own funds to cover the MCR several times during the year and established compliance throughout the year.

According to the Group's risk strategy, a solvency ratio of 140% is still considered adequate, albeit sub-optimal, while the optimal level of capitalisation starts at 170%. This demonstrates that the Group is well capitalised, also in terms of its own criteria.

BUSINESS AND PERFORMANCE

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A.1 Business

Name and legal form of the controlling company

Sava Re, d.d.
Dunajska cesta 56
1000 Ljubljana
Slovenia

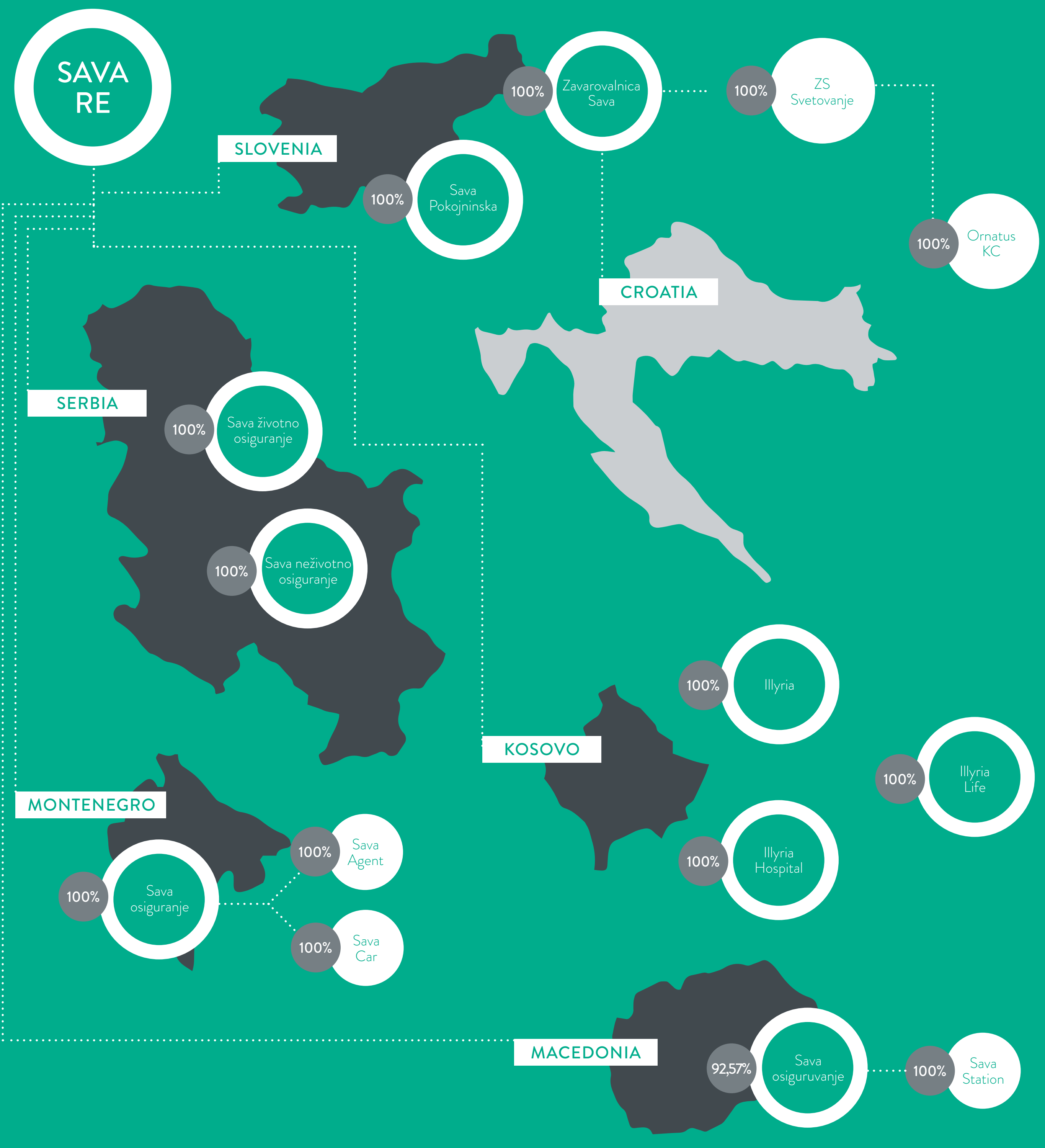
Sava Re, the controlling company of the Group, transacts reinsurance business. Slovenia-based Zavarovalnica Sava is the Group's only composite insurer. The insurers Sava neživotno osiguranje (SRB), Sava osiguruvanje (MKD), Illyria and Sava osiguranje (MNE) are non-life insurance companies, while Sava životno osiguranje (SRB) and Illyria Life are life insurance companies. In addition to the above (re)insurers, as at 31 December 2017, the Group consisted of:

- Illyria Hospital: a Kosovo-based company, which owns some property but currently does not transact any business. The company is wholly-owned by Sava Re.
- Sava Car: a vehicle inspection company. The company is wholly-owned by the insurer Sava osiguranje (MNE).
- Sava Agent: an insurance agency. The company is wholly-owned by the insurer Sava osiguranje (MNE).
- Sava Station: a vehicle inspection company. The company is wholly-owned by the insurer Sava osiguruvanje (MKD).
- ZM Svetovanje: agency specialised in marketing life products of Zavarovalnica Sava. The company is wholly-owned by the insurer Zavarovalnica Sava.
- Sava pokojninska: a Slovenian-based pension company. The company is wholly-owned by Sava Re.

The figure below shows the composition of the Save Re Group as at 31 December 2017.

Composition of the Sava Re Group

Composition of the Sava Re Group as at 31 December 2017



List of Group companies

The tables below provide details of all Group companies in which Sava Re holds direct equity participations.

Subsidiaries as at 31 December 2017

	Sava Re	Zavarovalnica Sava	Sava pokojninska	Sava neživotno osiguranje (SRB)	Sava životno osiguranje (SRB)
Registered office	Dunajska cesta 56, 1001 Ljubljana, Slovenia	Cankarjeva 3, 2507 Maribor, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11040 Beograd, Serbia	Bulevar vojvode Mišića 51, 11040 Beograd, Serbia
Business activity	reinsurer	composite insurer	pension company	non-life insurer	life insurer
Share capital	EUR 71,856,376	EUR 68,417,377	EUR 6,301,109	EUR 6,665,393	EUR 5,336,373
Book value of equity interest		EUR 68,417,377	EUR 6,301,109	EUR 6,665,393	EUR 5,336,373
% capital share (voting rights) held by Group members		Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2017	EUR 32,974,192	EUR 25,080,999	EUR 420,256	EUR 435,559	-EUR 818,333
Position in the Group	parent & reinsurer	subsidiary insurance company	subsidiary pension company	subsidiary insurance company	subsidiary insurance company

	Illyria	Illyria Life	Sava osiguruvanje (MKD)	Sava osiguranje (MNE)	Illyria Hospital
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Zagrebska br. 28 A, 1000 Skopje, Macedonia	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Business activity	non-life insurer	life insurer	non-life insurer	non-life insurer	does not currently perform any activities
Share capital	EUR 5,428,040	EUR 3,285,893	EUR 3,820,077	EUR 4,033,303	EUR 1,800,000
Book value of equity interest	EUR 5,428,040	EUR 3,285,893	EUR 3,536,245	EUR 4,033,303	EUR 1,800,000
% capital share (voting rights) held by Group members	Sava Re: 100.0%	Sava Re: 100.0%	Sava Re: 92.57%	Sava Re: 100.0%	Sava Re: 100.0%
Profit or loss for 2017	EUR 223,576	EUR 230,850	EUR 358,257	EUR 1,232,772	-EUR 114
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary

Following are details of the controlling company Sava Re, as its supervisory board also oversees the operations of the Sava Re Group.

Name and contact details of the supervisory authority responsible for the prudential control of the controlling company

Insurance Supervision Agency
Trg republike 3
1000 Ljubljana, Slovenia
E-mail: agencija@a-zn.si

Name and contact details of the controlling company's external auditor

ERNST & YOUNG Revizija,
poslovno svetovanje, d. o. o.
Dunajska cesta 111
1000 Ljubljana, Slovenia
Telephone: +386 1 583 17 00
Telefax: +386 1 583 17 10
E-mail: info@si.ey.com

The financial statements of the controlling company have been audited by Ernst & Young d.o.o., who were tasked with the auditing of the financial statements of the Sava Re Group and Sava Re in 2017 for the fifth year in a row. In 2017, most of the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm, while the Montenegrin subsidiary was audited by Deloitte Podgorica. In 2016, a contract for the auditing of the financial statements was signed with Ernst & Young for the 2016–2018 period.

Holders of qualifying shares in the controlling company as at 31 December 2017

Shareholder	No. of shares	Holding	% voting rights
SDH, d. d.	3,043,883	17.7%	19.6%
Zagrebačka banka d. d. – fiduciary account	2,439,852	14.2%	15.7%

- Source: Central securities register KDD, d.d. and own sources.
- Sava Re holds 1,721,966 own shares with no voting rights attached.
- On 2 June 2016, Sava Re received a notice from Adris groupa, d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia (hereinafter: Adris grupa), advising Sava Re of a change in major holdings in Sava Re. Adris grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04% of issued and 21.15% of outstanding shares.

Major lines of business transacted and the Group's main markets[2]

The Group operates in the market of the Republic of Slovenia and globally. Below we present the major lines of business transacted and major countries in which it operates.

In 2017, business was dominated by the following lines: motor vehicle liability insurance and proportional reinsurance, fire and other damage to property insurance and proportional reinsurance, and other motor insurance and proportional reinsurance. These lines of business accounted for 59.0% of the total gross premiums written.

Premiums by line of business

(EUR thousand)	Gross premiums written in 2017	Gross premiums written in 2016	Index
Motor vehicle liability insurance and proportional reinsurance	106,377	100,612	105.7
Fire and other damage to property insurance and proportional reinsurance	103,509	106,355	97.3
Other motor insurance and proportional reinsurance	94,151	84,820	111.0
Non-proportional property reinsurance	28,862	25,927	111.3
Income protection insurance and proportional reinsurance	45,189	44,298	102.0
Life insurance	70,100	69,503	100.9
Other lines of business	66,927	57,581	116.2
Total	515,115	489,095	105.3

The following table shows the most important markets of the Group in terms of premiums written in 2017. Listed are countries where it wrote over EUR 9.5 million in gross premiums. The Sava Re Group wrote most of its business in Slovenia, other countries of the Adria region and South Korea.

Major countries in which the Group operates

(EUR thousand)	Gross premiums written in 2017[3]	Gross premiums written in 2016	Index
Slovenia	366,500	347,977	105.3
Serbia	19,602	17,450	112.3
South Korea	15,569	18,767	83.0
Macedonia	12,753	12,299	103.7
Montenegro	12,459	11,761	105.9
Kosovo	10,018	8,861	113.1

2 This subsection presents consolidated data based on SII calculations that do not include Sava pokojninska; therefore, figures do not equal IFRS calculations.
3 Premiums include premium estimates.

Significant events in 2017

- On 7 March 2017, the 32nd general meeting of shareholders took place. The general meeting elected new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (beginning on 07/03/2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (beginning on 16/07/2017). Since 7 March 2017, the supervisory board of Sava Re has operated with all of its six members.

- In 2006 and 2007, Sava Re raised subordinated debt in the nominal amount of EUR 32 million maturing in 2027. These funds were raised to expand the Sava Re Group to the markets of the former Yugoslavia and to improve its capital adequacy position in accordance with the then applicable insurance law and the Standard & Poor's model. In January 2014, Sava Re prepaid EUR 8 million of the nominal amount of its subordinated debt. After receiving approval from the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of EUR 12 million on 15 March 2017. The remaining part of the subordinated debt in the nominal amount of EUR 12 million was repaid in June 2017. Following the repayment of the subordinated debt, Sava Re and the Sava Re Group continue to maintain a high solvency ratio under the applicable law.

- On 19 April 2017, Sava Re jointly with other expropriated shareholders presented its comments and proposals relating to the draft Law on Judicial Protection of Holders of Qualifying Liabilities of Banks in connection with the cancellation of subordinated financial instruments. They emphasised that the draft law did not eliminate the unconstitutionality of such, nor did it fully comply with the requirements of the Constitutional Court. It was reiterated that the cancellation of subordinated bonds was unjustified, wrong, and the most draconian of measures taken in Europe, as demonstrated by new facts and figures. At the time this report was finalised, the law had not been passed.

- On 12 May 2017, Marko Jazbec took up the role of chairman of the management board of Sava Re, after obtaining the ISA licence for performing the function.

- On 19 May 2017, the 33rd general meeting was held to consider regular topics. The general meeting approved the proposed dividend of EUR 0.80 gross per share, in total EUR 12,398,156.8 (taking into account the number of own shares), or 37.7% of the net profit of the Sava Re Group. The ordinary dividend increased by 23% and was on the same level as the sum of last year's ordinary and special dividends.

- In June 2017, a court settlement was concluded in the labour dispute between Sava Re and Zvonko Ivanušič (plaintiff), finally resolving all disputed relations between the parties concerning the termination of the plaintiff's employment contract with the defendant. Following this, a court settlement was concluded in the commercial dispute between Sava Re and Zvonko Ivanušič, finally resolving all disputed relations between the parties relating to the recall of the plaintiff from the position of chairman of the management board of Sava Re.

- In the first half of 2017, the document Solvency and financial condition report of Sava Re, d.d. 2016 was published, followed by the release of the Sava Re Group solvency and financial condition report 2016 in July 2017. The documents demonstrated the level of the solvency ratio of the Group and Sava Re to be 264% and 204%, respectively.

- On 16 July 2017, the following members of the supervisory board began their four-year terms of office based on a general meeting resolution: Andrej Kren, Keith William Morris and Mateja Lovšin Herič. The members of the supervisory board serving new terms of office are Andrej Kren, Davor Ivan Gjivoje, Keith William Morris, Mateja Lovšin Herič, Mateja Živec and Gorazd Kunstek. In its constitutive meeting, on 16 August 2017, the supervisory board members elected from among the members Mateja Lovšin Herič as chair of the supervisory board and Keith William Morris as deputy chair.

- On 26 July 2017, after its regular annual rating review, the rating agency Standard & Poor's affirmed Sava Re's existing 'A–' issuer credit and financial strength ratings and upgraded the outlook from 'stable' to 'positive'.

- On 8 August 2017, the general meeting of shareholders of Zavarovalnica Sava, d.d. was held, in which the shareholders adopted the resolution to transfer all of the shares of minority shareholders to the majority shareholder Sava Re (main shareholder). On the publication day of the Zavarovalnica Sava general meeting notice, Sava Re held 15,332,411 ordinary, registered no-par-value shares of Zavarovalnica Sava, accounting for 99.74% of the company's share capital. After the resolution on the share transfer was entered into the register of companies on 10 October 2017, Sava Re became the sole owner of Zavarovalnica Sava.

- In October 2017, following its regular annual rating review, the rating agency A.M. Best affirmed the financial strength rating on Sava Re of 'A–' with a stable outlook.

- On 2 November 2017, Sava Re signed a contract for the acquisition of 75% of the company TBS Team 24. TBS Team 24 provides assistance services relating to motor, health and homeowners insurance.

- In its session of 9 November 2017, the supervisory board voted unanimously in support of the proposal of Marko Jazbec, chairman of the management board, and appointed a new Sava Re management board team. Srečko Čebron and Jošt Dolničar were re-elected to serve on the management board for a third consecutive term of office. Polona Pirš Zupančič was appointed as the fourth member of the management board.

- On 8 November 2017, Standard & Poor's assigned Zavarovalnica Sava, d.d. 'A–' issuer credit and financial strength ratings with a positive outlook.

- In December 2017, NLB d.d. Ljubljana and NLB banka AD Skopje, as the seller, and Sava Re, as the purchaser, signed a purchase contract for all the shares of NLB Nov penziski fond AD Skopje.

- In December Zavarovalnica Sava started marketing health insurance products, expanding into the health insurance market. This is a significant step towards broadening its product range and is consistent with its strategy of placing the client at the centre of its services and ways of working.

- The reduction in the stake of Slovenian Sovereign Holding from 25% (plus one share) to 17.7% was the result of a government decision to transfer, for no consideration, part of its holding to the Republic of Slovenia. After the transaction, SSH held 3,043,883 shares, representing 17.7% and 19.6% of Sava Re's issued and outstanding shares, respectively. After the transaction, the Republic of Slovenia held 1,737,436 shares, representing 10.1% and 11.2% of Sava Re's issued and outstanding shares, respectively.

- In 2017, the subsidiary Zavarovalnica Sava suffered a number of weather-related loss events (larger frequency of on average small losses). At the time this report was written, the aggregate loss of these events amounted to EUR 11.9 million. One catastrophic event of EUR 5 million had been included in the 2017 Group plan.

Significant events after the reporting date

- In January 2018, Polona Pirš Zupančič began her five-year term of office as a member of the management board. After this change, the Sava Re management board continued to operate as a four-member body. This is because in its session on 20 December 2017, the supervisory board of Sava Re took note of the notice of Mateja Treven on her early termination of her term as Sava Re management board member and accepted Mateja Treven's proposal for a consensual termination of her employment contract as management board member. Mateja Treven concluded her role as management board member on 13 January 2018 and will continue her career within the Sava Re Group. The two management board members Srečko Čebron and Jošt Dolničar started their new terms of office on 1 June 2018.

- On 31 January 2018, Sava Re satisfied all suspensive conditions, thus becoming the owner of 75% of TBS Team 24.

- In accordance with article 171(7) of the Insurance Act (ZZavar-1; Uradni list RS/Official Gazette of the Republic of Slovenia, No. 93/15) Sava Re entered into outsourcing agreements with Zavarovalnica Sava and Sava pokojninska, based on which the key function of internal audit of the companies Zavarovalnica Sava and Sava pokojninska was transferred to Sava Re for an indefinite duration, starting as at 1 February 2018.

- On 13 March 2018, Sava Re satisfied all suspensive conditions, thus becoming the owner of 100% of NLB Nov penziski fond AD Skopje.

- In March 2018, Sava Re obtained approval from Serbia's central bank and other regulators to purchase a 92.94% stake in the Serbian-based company Energoprojekt Garant. Following the acquisition of this majority stake and subsequent steps towards attaining sole ownership, Sava Re intends to merge the target with its existing subsidiary, the Serbian non-life insurer Sava neživotno osiguranje (SRB), and then optimise the subsidiary's capital structure.

- In April 2018, the notice for the 34th general meeting of shareholders scheduled for Tuesday, 29 May was published.

- In April 2018, Zavarovalnica Sava as the buyer signed a contract with the sellers Ergo Austria International AG and Ergo Versicherung Aktiengesellschaft for 100% of the Croatian-based companies ERGO osiguranje d.d. and ERGO životno osiguranje d.d.

- In May 2018, Sava Re published the Solvency and financial condition report of Sava Re, d.d. 2017. The Company's solvency ratio was 283% as at 31 December 2017. Zavarovalnica Sava published its solvency and financial condition report in April 2018.

The Group uses the full consolidation method for all of its companies in the preparation of the IFRS consolidated financial statements. For the purposes of valuation of the Solvency II balance sheet, all Group (re)insurance undertakings and all ancillary services undertakings are consolidated in accordance with article 335 (a) of the Commission Delegated Regulation (EU) (2015/35), while the Sava pokojninska pension company is included in the consolidation in accordance with article 335 (e) of the above regulation by including 100% of the company's own funds calculated according to the relevant sectoral rules.

A.2 Underwriting performance[4]

The Group classifies supplementary accident insurance as part of the life insurance operating segment; in Solvency II reporting, this business is shown under *income protection insurance and proportional reinsurance.*

Premiums

Consolidated gross premiums written and net premiums earned

(EUR thousand)	2017	2016	Index
Gross premiums written	515,115	489,095	105.3
Net premiums earned	468,747	456,991	102.6

Consolidated gross premiums written by region

(EUR thousand)	2017	2016	Index
Slovenia	366,500	347,977	105.3
International	148,615	141,118	105.3
Total	515,115	489,095	105.3

Consolidated gross premiums written by material line of business

(EUR thousand)	2017	2016	Index
Motor vehicle liability insurance and proportional reinsurance	106,377	100,612	105.7
Fire and other damage to property insurance and proportional reinsurance	103,509	106,355	97.3
Other motor insurance and proportional reinsurance	94,151	84,820	111.0
Life insurance	70,100	69,503	100.9
Income protection insurance and proportional reinsurance	45,189	44,298	102.0
Non-proportional property reinsurance	28,862	25,927	111.3
Other lines of business	66,927	57,581	116.2
Total	515,115	489,095	105.3

Gross premiums written grew by 5.3% in 2017, with a largely unchanged breakdown by line of business compared to 2016. Non-life premiums accounted for 86.4% of total premiums, life premiums for 13.6%. Gross premiums written are dominated by the lines of business: motor vehicle liability insurance and proportional reinsurance, and fire and other damage to property insurance and proportional reinsurance. These two lines of business represent 41% of gross premiums written.

Below we set out the movements in gross premiums written by operating segment as analysed by the Group. Commercial life insurance business includes the company Sava pokojninska, which, however, is not included in the above table.

Gross premiums written in the **reinsurance** segment in 2017 were up 3.8%. Premium growth is driven by the growth in XL business of Sava Re, with the highest absolute growth achieved in marine reinsurance business.

Gross **non-life** premiums grew by 6.4% in 2017 as companies across the Group achieved growth in this segment. In Slovenia they rose by 5.7%, mainly due to higher premium volumes in motor, assistance and property business. Motor premium growth achieved with private customers was driven both by a higher number of policies written and the growth in average premiums, as well as by a larger number of policies sold with broader coverages. Motor premium growth in the commercial sector, on the other hand, was the result of higher premiums for certain policyholders and higher volumes in business with leasing providers. Growth in property insurance was the result of the acquisition of certain new policyholders and higher premiums for existing policyholders on account of a larger number of insured items. Gross non-life premiums written outside Slovenia increased by 9.9% in all non-Slovenian non-life insurance companies, with the Croatian branch of Zavarovalnica Sava recording the highest growth. This branch exceeded its 2016 gross premiums in most classes of business, which was due to good positioning in Internet sales and the resulting enhanced brand recognition, improved premium collection, and the increased efficiency of the own sales network and growth in external sales channels. The highest increase was recorded in motor liability insurance. The branch saw total non-life premium growth of 20.8%, whereas the Croatian non-life insurance market grew by 6.0%. In terms of gross non-life premium growth, the Croatian non-life insurer is followed by the Kosovan and Serbian non-life insurers. The Kosovan non-life insurer achieved the highest absolute growth in gross premiums in health insurance owing to increased sales activity, and in assistance business due to price increases and the launch of a new product. The Serbian non-life insurer achieved the highest absolute premium growth in motor liability insurance and medical assistance abroad owing to intensified sales of these products, a loyal and stable sales network and increased demand among policyholders. The Montenegrin non-life insurer achieved the highest premium growth in other damage to property business through a major new client. Premiums at the Macedonian insurer increased through the acquisition of large new clients in motor vehicle liability insurance, higher production in individual and commercial motor casco business, and the acquisition of major new clients in accident insurance business with natural persons.

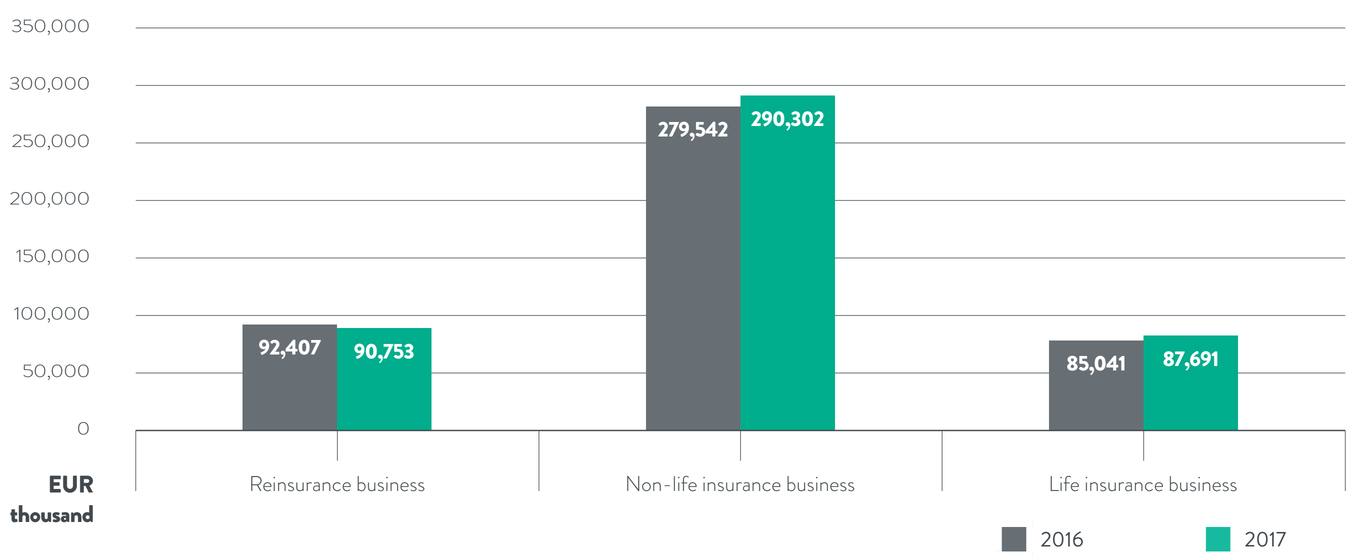
Gross premiums written by the Group's life insurers grew both in Slovenia and abroad year on year. Following the liquidation of its DWS FlexPension funds by the DWS fund administrator, Zavarovalnica Sava made a special offer to policyholders who held savings relating to these funds to take out similar policies, for which a new internal fund was established. This pushed gross premiums written up by EUR 2.2 million. A large number of unit-linked insurance policies that matured in January 2017, on the other hand, had a negative effect on the growth in gross premiums in Slovenia, but were largely replaced as many policyholders took out a new policy. Gross premiums written increased in other countries as well, especially in Serbia, where Sava životno osiguranje (SRB) secured a 26% increase in premiums through its efforts to expand the sales network and boost productivity. High growth was generated also by the Croatian branch of Zavarovalnica Sava, which grew premiums by 6.2% in 2017, while the Croatian life insurance market recorded growth of 1.5%. This was largely due to more term life insurance policies sold. All Sava Re Group companies have been implementing measures to improve their own sales networks through regular education and training events for sales personnel, while also seeking growth opportunities through other sales channels.

[4] This section presents consolidated data based on SII calculations that do not include Sava pokojninska; therefore, figures do not equal IFRS calculations.

Consolidated net earned premiums by material line of business

(EUR thousand)	2017	2016	Index
Motor vehicle liability insurance and proportional reinsurance	101,539	98,686	102.9
Fire and other damage to property insurance and proportional reinsurance	91,329	95,133	96.0
Other motor insurance and proportional reinsurance	86,672	82,568	105.0
Life insurance	68,976	69,521	99.2
Income protection insurance and proportional reinsurance	45,607	45,209	100.9
Other lines of business	74,624	65,874	113.3
Total	468,747	456,991	102.6

Consolidated net earned premiums by operating segment



In the above graph, the life insurance segment includes supplementary accident business.

Claims

Consolidated gross claims paid and net claims incurred

(EUR thousand)	2017	2016	Index
Gross claims paid	314,432	275,480	114.1
Net claims incurred	290,344	271,855	106.8

Consolidated gross claims paid by region

(EUR thousand)	2017	2016	Index
Slovenia	232,248	192,864	120.4
International	82,184	82,616	99.5
Total	314,432	275,480	114.1

Consolidated gross claims paid and net claims incurred rose in 2017 compared to 2016. Below we set out the movements in gross claims paid by operating segment as analysed by the Sava Re Group. The life insurance operating segment includes the company Sava pokojninska, which, however, is not included in the above table.

Gross claims paid relating to the **reinsurance** segment decreased by 6.6% compared to 2016, because large claims were paid in 2016 for previous underwriting years. Net claims incurred fell by 7.5% compared to 2016. The change in the net provision for outstanding claims (increase) was lower than in 2016, mainly due to the effect of exchange differences that drove claims provisions down by EUR 6.2 million in 2017 and up by EUR 1.4 million in 2016. Excluding exchange differences, the change (increase) in 2017 was higher than in 2016 on account of additional provisions set aside for new reported claims (mine loss in Russia, collision of two ships near Shanghai, fire loss in Russia).

Gross **non-life** claims paid for Slovenian business in 2017 were higher due to a larger volume of gross claims paid for private sector motor business and partly for assistance business. The main reason for the excess in claims relative to the previous year was the settlement of claims in 2017 relating to hail events in 2016 (three large loss events). Large claims in 2017 were the result of several weather-related loss events (in June, July, August and December) and an increase in the number of motor and assistance insurance policies sold to individuals. In terms of commercial sector motor insurance, the excess of claims for 2016 was mainly due to one large and several minor motor vehicle liability insurance claims and more insurance policies sold, which given the same loss frequency resulted in more reported claims. Higher payments for property business were also the result of weather-related loss events in 2016 and 2017. Claims provisions for a part of these claims were made in 2016 and their settlement therefore had no significant impact on profit or loss. Gross claims paid relating to non-Slovenian business rose by 25.9%. Growth was primarily driven by the settlement of large liability claims of the Macedonian non-life insurer, which did not affect profit or loss as provisions for these claims had been set aside in previous years. Furthermore, the Macedonian insurer incurred some large motor casco and other damage to property claims as the result of a storm event in the Skopje region in June 2017. A large claim relating to other damage to property was settled in the last quarter of 2017. An increase in gross claims of the Kosovan non-life insurer was the result of a large claim in fire and natural forces insurance and an increased volume of health insurance written compared to 2016. An increase in gross claims paid by Zavarovalnica Sava in Croatia was due to the increased frequency of small claims and one large motor liability claim from 2013. The Montenegrin insurer recorded a slight growth in claims due to several large losses in fire and other property insurance, motor liability and accident insurance.

Gross **life** insurance claims paid relating to Slovenia grew by 62.7% as the result of a large number of unit-linked policies maturing in January 2017. The movement in claims needs to be considered in conjunction with the change in technical provisions. Gross claims also increased in international business as a result of the increase in claims at Illyria Life, with more claims recorded due to maturities and accidental deaths, coupled with a significant number of surrenders, as a large number of policies became eligible for this option.

Consolidated net claims incurred by material line of business

(EUR thousand)	2017	2016	Index
Other motor insurance and proportional reinsurance	66,047	62,687	105.4
Fire and other damage to property insurance and proportional reinsurance	55,518	44,609	124.5
Motor vehicle liability insurance and proportional reinsurance	50,000	61,684	81.1
Life insurance	66,694	38,890	171.5
Income protection insurance and proportional reinsurance	17,809	22,136	80.5
Other lines of business	34,277	41,849	81.9
Total	290,344	271,855	106.8

Expences

Net operating expenses by material line of business

(EUR thousand)	2017	2016	Index
Fire and other damage to property insurance and proportional reinsurance	36,373	40,479	89.9
Motor vehicle liability insurance and proportional reinsurance	31,401	31,146	100.8
Other motor insurance and proportional reinsurance	23,071	24,371	94.7
Life insurance	16,329	21,645	75.4
Other lines of business	45,844	38,190	120.0
Total	153,018	155,831	98.2

Net operating expenses dropped by 1.8% in 2017. In absolute terms, the largest drop was in expenses relating to life insurance, fire and other damage to property insurance, and proportional reinsurance (gross premiums also declined). The largest increase was in expenses relating to proportional general liability reinsurance. The gross premiums written relating to this line of business grew by 10.2%. The 2017 split of net operating expenses by line of business did not change significantly compared to 2016. In the following, we set out the movements in operating expenses by operating segment as analysed by the Group. Commentaries include all elements used in the calculation of net operating expenses (acquisition costs, change in deferred acquisition costs, other operating expenses). Commercial life insurance business includes the company Sava pokojninska, which, however, is not included in the above table.

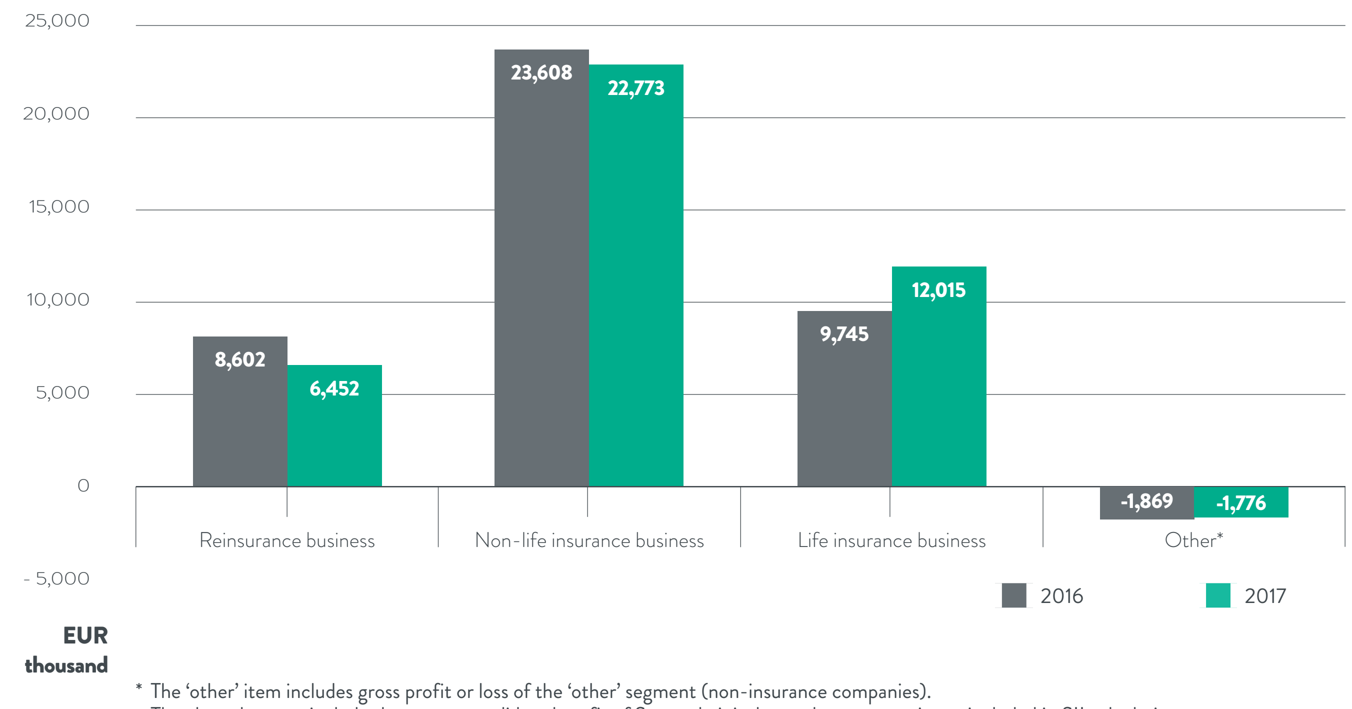
The acquisition costs relating to the **reinsurance segment** dropped, despite a growth in gross premiums written. Acquisition costs accounted for 22.0% of gross premiums written in 2017, an improvement of 1.6 percentage points over 2016. Deferred acquisition costs increased in 2017 in line with the growth in gross premiums written and unearned premiums, which is why their change results in lower operating expenses. In 2016, deferred acquisition costs declined in line with the decline in gross premiums written and unearned premiums. The growth in other operating expenses was driven by higher personnel costs and by amortisation due to higher software costs.

Consolidated acquisition costs relating to the **non-life segment** rose by 1.6% due to the growth in consolidated non-life premiums and the related increase in commissions for agents and agencies. The overall growth in these costs would have been even higher given the growth in these costs in Slovenia, but the costs of the Zavarovalnica Sava branch were reallocated in order to adjust them to the Slovenian part. Prior to the merger, the branch reported agents' salaries as a whole under acquisition costs, whereas after the merger they are disclosed under other operating expenses (personnel costs). Hence there was a negative change in deferred acquisition costs in 2017. Consolidated other operating expenses remained at last year's level due to rationalisation measures. These costs were down by 4.7% in the Slovenian part of non-life insurers as the result of the merger and its synergistic effects, and up by 13.7% in non-Slovenian insurers. The rise in other operating expenses in non-Slovenian insurers was driven mainly by the increase in the level of expenses of the Serbian non-life insurer, namely personnel costs and one-off costs incurred as the result of the change of its corporate identity. Expenses of the Croatian branch of Zavarovalnica Sava increased mainly on account of higher personnel costs in the above-mentioned adjustment and reallocation of costs for agents' salaries. Increased expenses of the Macedonian insurer are associated with the renovation of business premises and costs incurred due to the change in its corporate identity. The consolidated gross operating expenses (net of changes in deferred acquisition costs) of non-life business increased by 0.4% and gross consolidated premiums written by 6.4%, as a result of which the gross expense ratio decreased by 2 p.p.

The increase in acquisition costs relating to the **life segment** is primarily due to increased acquisition costs of the Slovenian part of Zavarovalnica Sava due to its expanded operations and altered dynamics of expenses included in products. This is also the reason for the negative change in deferred acquisition costs in 2017. Higher other operating expenses were driven by higher costs in all companies, especially the Croatian part of Zavarovalnica Sava and Sava životno osiguranje (SRB). In the former, this increase is due to reclassification of costs of adjusting to the Slovenian part – prior to the merger, the branch reported agents' salaries under acquisition costs, whereas after the merger on 2 November 2016 they are disclosed under other operating expenses. In total, these costs remained at the same level as in the previous year. In 2017, Sava životno osiguranje (SRB) saw higher personnel costs related to sales, which was driven by intensified sales efforts resulting in greater sales of new insurance policies; at the same time, the costs of services incurred due to investments in IT support upgrades and costs associated with the corporate identity redesign also increased.

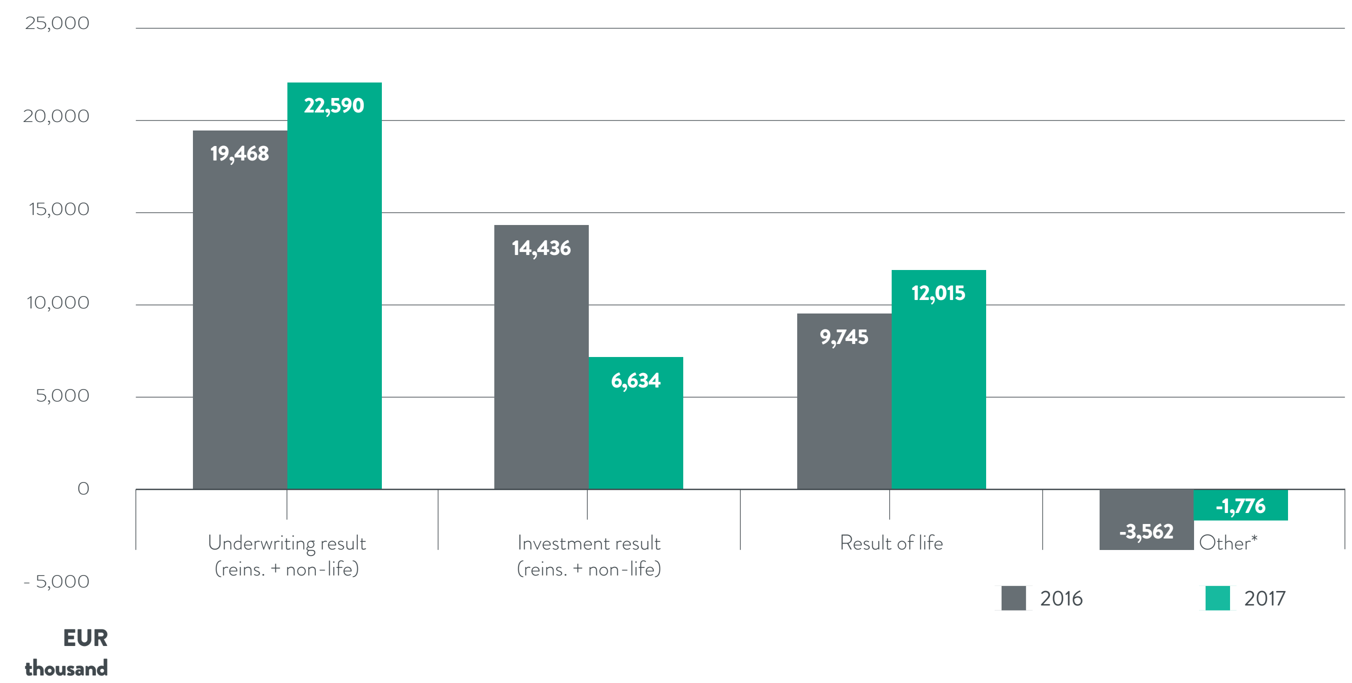
Consolidated gross profit or loss

Composition of the consolidated gross income statement by operating segment



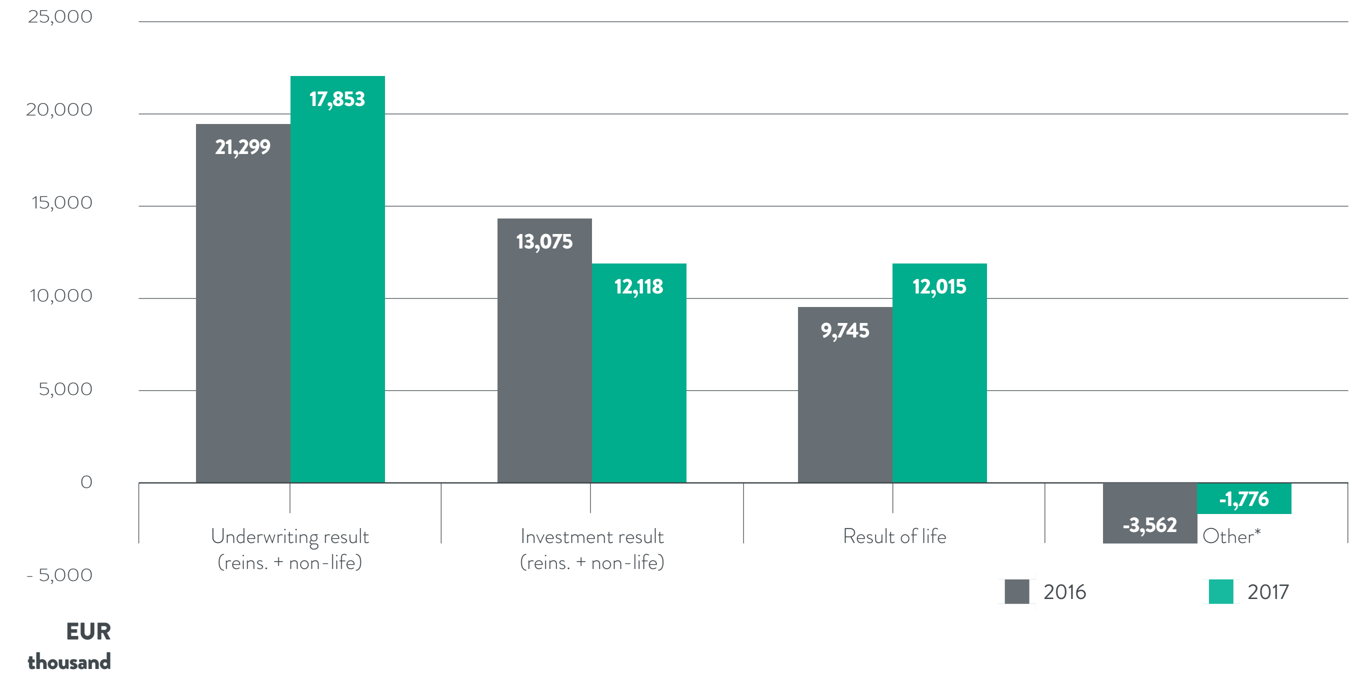
* The 'other' item includes gross profit or loss of the 'other' segment (non-insurance companies).
The chart does not include the gross consolidated profit of Sava pokojninska, as the company is not included in SII calculations.

Composition of the consolidated gross income statement



* The 'other' item includes the gross profit or loss of the 'other' segment (non-insurance companies) and impairment losses on goodwill, which were not reported in 2017 (2016: EUR 1.7 million).
The chart does not include the gross consolidated profit of Sava pokojninska, as the company is not included in SII calculations.

Composition of the consolidated gross result, excluding exchange differences



* The 'other' item includes the gross profit or loss of the 'other' segment (non-insurance companies) and impairment losses on goodwill, which were not reported in 2017 (2016: EUR 1.7 million).
The chart does not include the gross consolidated profit of Sava pokojninska, as the company is not included in SII calculations.

The Group's gross profit for 2017 (excluding Sava pokojninska) dropped by 1.6% year on year. The **reinsurance** segment generated a lower profit than in 2016. The result of reinsurance operations was also impacted by exchange differences: underwriting categories were impacted by exchange gains of EUR 4.7 million (2016: EUR 1.8 million losses) and investment activities by losses of EUR 5.5 million (2016: EUR 1.4 million gains). The underwriting result, excluding exchange differences, was weaker due to large international claims (hurricane losses in the Caribbean and the USA, and a large loss event in Russia), while the investment result, excluding exchange differences, improved, especially thanks to capital gains. The non-life insurance segment produced a poorer result compared to 2016, largely because of the result of Zavarovalnica Sava, which was strongly affected by weather-related losses (EUR 11.9 million), and because of the large loss events reported by the Kosovan and Macedonian non-life insurers. The investment result of **non-life** insurers deteriorated as a result of lower interest income (low interest rates in capital markets) and other investment income (lower gains on the disposal of investments). A positive development for the 2017 result was the absence of goodwill impairment losses, compared to 2016 when goodwill of the Kosovan insurer was impaired after the company failed to meet its performance targets. The **life** insurance segment performed better in 2017 than in 2016 as all the Group companies succeeded in writing more premiums. The Group companies have been implementing measures to improve their own sales networks through regular education and training events for sales personnel, while also seeking growth opportunities through other sales channels. Net investment income relating to the investment portfolio of life insurance business declined by EUR 1.1 million year on year due to lower interest income.

A.3 Investment performance

The Group monitors its investment performance by operating segment. Net investment income and investment return are monitored by class of investment as well as by type of income and expense. The following tables show income, expenses and net investment income by class of investment and type of income and expense.

Consolidated net inv. income of the investment portfolio

(EUR thousand)	2017	2016	Absolute change
Net investment income relating to financial investments	15,555	24,580	-9,025
Net investment income relating to the investment property	176	32	144
Net inv. income of the investment portfolio	15,732	24,613	-8,881
Net inv. income of the investment portfolio, excluding exchange differences	21,663	23,122	-1,459

Net investment income of the Group portfolio amounted to EUR 15.7 million in 2017 and EUR 21.7 million, excluding exchange differences.

Investment income and expenses by type

Type of income (EUR thousand)	1/1–31/12	
	2017	2016
Interest income	18,607	21,234
Change in fair value and gains on disposal of FVPL assets	229	738
Gains on disposal of other IFRS asset categories	3,122	2,315
Income from dividends and shares from other investments	1,141	1,284
Exchange gains	4,203	7,325
Other income	658	622
Income relating to the investment portfolio	27,961	33,518
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	16,849	17,959
Type of expense (EUR thousand)	**1/1–31/12**	
	2017	**2016**
Interest expenses	719	842
Change in fair value and losses on disposal of FVPL assets	80	632
Losses on disposal of other IFRS asset categories	585	499
Impairment losses on investments	320	595
Exchange losses	10,134	5,835
Other	392	504
Expenses relating to the investment portfolio	12,229	8,906
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	8,256	11,256

In 2017, investment income totalled EUR 28.0 million, down EUR 5.6 million year on year; excluding exchange differences, investment income declined by EUR 2.4 million. The largest part of income is interest income of EUR 18.6 million in the period 1–12/2017 (accounting for 66.5% of total financial income), down EUR 2.6 million year on year.

In 2017, expenses relating to the investment portfolio increased by EUR 3.3 million, but were down EUR 1.0 million, when exchange differences are excluded. Apart from exchange losses, expenses consisted largely of interest on loans and losses on disposal of investments.

However, the effect of exchange differences does not fully impact profit or loss since liabilities denominated in a foreign currency move in line with investments in that currency. Exchange differences mainly relate to the assets and liabilities of Sava Re.

Net investment income by class of asset

(EUR thousand)	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains or losses on disposal of other IFRS asset categories	Income from dividends and shares of other investments	Impairment losses on investments	Foreign exchange gains/ losses	Other income or expenses	Total	Net unrealised gains/ losses on investments of life policyholders
Held to maturity	**5,146**	**0**	**0**	**0**	**0**	**-60**	**0**	**5,087**	**348**
Debt instruments	5,146	0	0	0	0	-60	0	5,087	348
At fair value through P/L	**120**	**150**	**0**	**26**	**0**	**-103**	**68**	**261**	**7,768**
Debt instruments	120	113	0	0	0	-99	-7	127	589
Equity instruments	0	37	0	26	0	-4	0	59	7,180
Other investments	0	0	0	0	0	0	75	75	0
Available for sale	**12,673**	**0**	**2,537**	**1,115**	**-320**	**-5,635**	**12**	**10,382**	**450**
Debt instruments	12,673	0	2,065	0	0	-5,635	9	9,113	434
Equity instruments	0	0	424	1,115	-320	0	3	1,222	16
Other investments	0	0	47	0	0	0	0	47	0
Loans and receivables	**623**	**0**	**1**	**0**	**0**	**-134**	**10**	**499**	**26**
Debt instruments	593	0	1	0	0	37	10	640	26
Other investments	30	0	0	0	0	-171	0	-141	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	44	0	0	0	0	0	0	44	0
Subordinated liabilities	-718	0	0	0	0	0	0	-718	0
Total	**17,888**	**150**	**2,537**	**1,141**	**-320**	**-5,931**	**90**	**15,555**	**8,593**

Group net investment income totalled EUR 15.6 million in 2017. The most important elements of Group net investment income are interest income of EUR 17.9 million and exchange losses of EUR 5.9 million, which account for a 27.6% lower net investment income figure, excluding exchange differences. The large share of interest income is consistent with the Group's investment portfolio composition, which is dominated by debt instruments.

The Group discloses unrealised gains and losses on investments designated as available for sale in the fair value reserve line of the balance sheet. The following table shows the movement in the fair value reserve in 2017.

Fair value reserve – movement

(EUR)	2017	2016
As at 1 January	17,459	12,722
Change in fair value	2,804	5,246
Transfer of the negative fair value reserve to the IS due to impairment	-320	-594
Transfer from fair value reserve to the IS due to disposal	-1,633	1,564
Net gains or losses attributable to the Group recognised in the fair value reserve and retained profit or loss relating to investments in equity-accounted associate companies	0	0
Other net profits/losses	0	0
Deferred tax	22	-1,479
Total fair value reserve	18,332	17,459

The Group held no securitised assets.

A.4 Performance of other activities

Lease contracts

The Group produces a small part of its income from lease contracts. It has an operating lease arrangement for its real estate, which is classified as investment property in the Group's balance sheet, while rental income is recognised evenly over the lease term.

In 2017, the Group generated income of EUR 514,115 by leasing out its investment property (2016: EUR 315,320). Maintenance costs associated with investment property are either included in the rent or charged to the lessee, in 2017 a total of EUR 166,161 (2016: EUR 145,877).

Material intra-group business

The tables below show material intra-group transactions; these include reinsurance business between the controlling company and its subsidiaries and dividend payments to the controlling company. Payables to group companies are mainly short-term and not overdue at the balance sheet date.

Income and expenses relating to Group companies

(EUR thousand)	2017	2016
Gross premiums written	56,999	54,743
Gross claims payments	-30,532	-28,364
Dividend income	26,137	26,309
Acquisition costs	-12,010	-11,142
Total	40,594	41,546

Investments in and amounts due from Group companies

(EUR thousand)	31/12/2017	31/12/2016
Debt securities and loans granted to Group companies	4,610	2,835
Receivables for premiums arising from accepted reinsurance	13,394	12,892
Total	18,004	15,727

Payables to Group companies

(EUR thousand)	31/12/2017	31/12/2016
Payables for shares in reinsurance claims due to Group companies	8,249	7,434
Other payables from co-insurance and reinsurance	3,040	2,648
Total (excl. provisions)	11,289	10,083

A.5 Any other information

The Group has no other material information relating to its operations.

SYSTEM OF GOVERNANCE

B
SYSTEM OF GOVERNANCE

B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

B.1.1 Governance of the Sava Re Group

The management and supervisory bodies of the controlling company are the Group bodies responsible for the proper management and supervision of the entire Group and for setting up a governance framework appropriate to the structure, business and risks of the Sava Re Group as a whole and of its companies.

The controlling company fully exercises its governance function by setting business strategy from the top down, taking into account both the Group as a whole as well as its individual members. For optimal capital allocation and resilience of the Group against unforeseen events, capital allocation and capital adequacy are managed on the Group level following the top down principle. The risk strategy sets the risk appetite both at the Group level as well as at the level of its members.

The Group has set up systematic risk management, including risk management at the level of individual companies, appropriate monitoring of the risks of individual companies by the controlling company as well as risk management at the Group level. The latter takes into account any interaction between the risks of individual companies, in particular risk concentration and other material risks associated with the operation of the Group.

Management and supervisory bodies of Sava Re Group subsidiaries individually pursue the same values and corporate governance policies as the controlling company, unless otherwise required by law, the local regulator or based on the proportionality principle. Therefore, the management or supervisory bodies of each Sava Re Group company, as part of their responsibility for the governance of their company with regard to the implementation of Group policies, ensure that all required adjustments to local legislation are made as well as any other necessary adjustments. The companies determine which adjustments need to be made to Group policies in accordance with the procedures set out therein, ensuring compliance with applicable laws and regulations as well as with rules of sound and prudent operation.

Supervision of individual Sava Re Group members

In order to ensure transparent and effective governance of Sava Re Group subsidiaries, the controlling company's subsidiary supervision is divided into the following three parts:
- governance supervision (through company bodies: general meeting, supervisory board),
- business function supervision (through heads of business functions),
- additional supervision (through key function holders).

Communication between Sava Re Group members

Twice yearly, Sava Re organises a Sava Re Group strategic conference to discuss the strategic directions to be applied in the planning of operations of Group companies, enhancements of individual business functions, and the current performance of each company. Thus strategic conferences are aimed at improving communication on strategies and policies of the Sava Re Group at the top management level.

The Sava Re Group organises professional training relating to various business areas several times a year to unify business processes, transfer knowledge, and promote corporate culture and best practices.

Planning and reporting of Sava Re Group subsidiaries

The planning process and content of the annual and five-year strategic planning documents of the controlling and subsidiary companies are described in detail in the Sava Re Group financial control rules.

The process and content of reporting by Sava Re Group subsidiaries is set out in detail in the Sava Re Group financial control rules and the Sava Re Group governance rules.

The Sava Re Group companies have also adopted a unified system of accounting, financial and risk-management policies and are gradually assuming the guiding principles set out in the risk management policy.

B.1.2 Selection of management system and the proportionality principle

The management system selected by any Group member is proportionate to the nature, scale and complexity of its business operations.

Each Sava Re Group company selects for itself a management system that is optimal both for the company and the Sava Re Group. As a rule, Group members adopt a one-tier management system, provided this complies with local legislation and is appropriate to the nature, scale and complexity of each company's operations.

The controlling company of the Sava Re Group and Zavarovalnica Sava operate on a two-tier management system.

B.1.3 Governing bodies

Apart from the general meeting, the governance bodies of individual Sava Re Group members include a management body (management board, managing director or CEO) and a supervisory body (supervisory board, supervisory committee or board of directors) – depending on the legislation and the selection of a one- or two-tier management system.

The governance bodies carry out their duties in accordance with the legislation of each country, company internal rules and in accordance with the general guidelines established by the governance policy, other framework policies of the Sava Re Group, the Sava Re Group governance rules and the Sava Re Group financial control rules.

General meeting of shareholders

The general meeting of shareholders is the supreme body of a company through which its shareholders exercise their rights in company matters.

The terms of reference of the general meeting of each company are determined in line with the legislation of each country and the company's articles of association. The terms of reference of the general meeting relate to three areas:

- personnel decisions (appointment and removal of members of the supervisory board, board of directors, supervisory board, granting of discharge to members of the management and supervisory bodies, vote of no confidence, appointment of the external auditor);

- business decisions (adoption of the annual report unless approved by the management or supervisory bodies, appropriation of the distributable profit, consenting business decisions if specifically required by the management);

- fundamental decisions concerning the company (adoption and amendment of the articles of association, increase and reduction of share capital, winding up, and transformation in terms of status).

The most important responsibilities of the general meeting of Sava Re include:

- adoption of the annual report, unless approved by the supervisory board, or if the management and supervisory boards leave the decision on its adoption to the general meeting of shareholders;
- appropriation of distributable profit, at the proposal of the management board and based on a report by the supervisory board;
- appointment and removal of supervisory board members;
- granting of discharge to the management and supervisory board members;
- adoption of amendments to the articles of association;
- measures for the increase and reduction of capital;
- dissolution of the company and its transformation in terms of status;
- appointment of the auditor, at the proposal of the supervisory board;
- other matters in accordance with the law and articles of association.

General meetings of shareholders of Sava Re Group members are generally convened at least once a year, at the latest within the time limit provided by local law. The general meeting may also be convened in other cases, as provided by local law, the Group member's articles of association and whenever this is in the Group member's interest. As a rule, the general meeting is convened by the company's chief executive body. Local law stipulates the circumstances in which the general meeting may also be convened by other bodies of the company or the shareholders themselves.

Details on the convening of the general meeting of Group members, shareholder rights regarding the general meeting, conditions for participation in the general meeting and the exercise of voting rights are set out in each country's local law and the Group member's articles of association and rules of procedure of the general meeting. Guidelines for preparing the general meeting of a Group subsidiary are provided in the Sava Re Group control and supervision rules.

Supervisory body (e.g. supervisory board, board of directors, supervisory committee).

In this section, the term supervisory board is used as a generic term for any supervisory body.

The rules applicable to a supervisory board in a two-tier system also apply to a board of directors or supervisory committee in a one-tier system, unless otherwise specified.

The supervisory board oversees the company's conduct of business during the financial year, in line with the company's business strategy and financial plan. In addition, it must comply with local law and the company's articles of association and other acts.

It meets at least five times a year, generally after the end of each quarter to review the annual and interim financial reports, while one session is devoted to the approval of planning documents. The board of directors and supervisory committee in companies with a one-tier system generally meet more frequently.

The number of supervisory board members must meet the minimum requirements stipulated by local law. This number must be proportionate to the nature, scale and complexity of the business of each company. The supervisory board is composed so as to ensure responsible oversight and decision-making in the best interest of the company.

When designing the supervisory board, each Group company seeks to take account of diversity in terms of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent oversight of the company's affairs.

The rules of procedure of the supervisory board are set out in internal acts of individual companies.

The chief tasks of the Sava Re supervisory board are:

- to monitor and oversee the business conduct and operations of the Company, and, in the case of weaknesses or irregularities, propose remedial action to the management board;
- to give consent to the business policy and financial plan of the Sava Re Group and Sava Re as prepared by the management board;
- to give consent to the development strategy of the Sava Re Group and Sava Re as prepared by the management board;
- to give consent to the written rules of the system of governance, risk management, compliance, internal audit, actuarial function, internal controls and outsourced business as prepared by the management board;
- to give consent to the management board's granting and withdrawing of authority relating to key function holders;
- to give consent to the solvency and financial condition report of Sava Re and the Group as prepared by the management board;
- to give consent to the risk strategy of Sava Re and the Group as prepared by the management board;
- to consider the own risk and solvency report and quarterly risk reports of Sava Re and the Group;
- to consider compliance function reports;
- to consider actuarial function reports;
- to give consent to the framework annual and the long-term work plan of the internal audit plan as prepared by the management board;
- to oversee the adequacy of the procedures used by and the effectiveness of the internal audit function and to consider internal audit function reports;
- to issue an opinion for the general meeting to be attached to the annual report on internal auditing;
- to give consent to the appointment, removal and remuneration of the head of internal audit;
- to review the annual and interim financial reports of the Sava Re Group and Sava Re;
- to review the annual report submitted by the management board, adopt an opinion on the auditor's report, and prepare either a qualified or confirmatory report for the general meeting;
- to review the proposal regarding the appropriation of the distributable profit submitted by the management board, and prepare a written report for the general meeting;
- to appoint and remove the chair and the members of the management board,
- to decide on the criteria for determining the remuneration and reward system of the chair and the members of the management board;
- to adopt the rules of procedure of its operation;
- to draft general meeting resolutions within the supervisory board's terms of reference, and to perform tasks directed by the general meeting;
- to consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory function over the Company.

The supervisory board prepares, annually, a meeting schedule for its own use and for its committees, including those meetings in particular that are obligatory due to the required publication of business results or are standard procedure with regard to past practices.

The following table shows the composition of the Sava Re supervisory board in 2017.

Supervisory board committees

In accordance with the law, the supervisory board of any Group company may appoint one or more committees or commissions, and task them with specific areas, the analysis of specific questions, with the preparation of draft resolutions of the supervisory board, and the implementation of resolutions of the supervisory board, whereby such committees provide professional support. Notwithstanding the appointment of any committee, decision-making remains the responsibility of the supervisory board.

Sava Re has established the following supervisory board committees:
- the audit committee,
- the risk committee,
- the nominations and remuneration committee,
- the fit and proper committee.

The areas of responsibility and the composition of the supervisory board committees are determined by a special resolution in compliance with applicable regulations, the recommendations of the Corporate Governance Code for Listed Companies and the Company's internal acts.

Each committee may adopt its own rules of procedure. Unless it has adopted its own rules of procedure, the rules of procedure of the supervisory board apply together with any necessary conforming changes, for any questions regarding the quorum, decision-making and other points of procedure.

Composition of the supervisory board in 2017 (until 15/07/2017)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	15/07/2013	15/07/2017
Slaven Mićković	deputy chair	15/07/2013	15/07/2017
Keith William Morris	member	15/07/2013	15/07/2017
Davor Ivan Gjivoje	member	07/03/2017	07/03/2021
Andrej Gorazd Kunstek	member (employee representative)	11/06/2015	11/06/2019
Mateja Živec	member (employee representative)	01/04/2016	11/06/2019

Composition of the supervisory board in 2017 (since 16/07/2017)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	16/07/2017	16/07/2021
Keith William Morris	deputy chair	16/07/2017	16/07/2021
Davor Ivan Gjivoje	member	07/03/2017	07/03/2021
Andrej Kren	member	16/07/2017	16/07/2021
Andrej Gorazd Kunstek	member (employee representative)	11/06/2015	11/06/2019
Mateja Živec	member (employee representative)	01/04/2016	11/06/2019

Management body (management board, managing director, executive director)

In this section, the term management board is used as a generic term for any management body.

The rules established for the management board in a two-tier system also apply to the managing directors and executive director in a one-tier system, unless otherwise specified.

The management board runs the business and represents the company in its legal transactions.

Through its efforts and using its knowledge and experience, the management board pursues the long-term success of the company, ensuring optimal guidance and risk management. The management board defines the company's goals, values, mission, vision, and business strategy. Business operations are optimised through an adequate composition of human resources and prudent use of financial resources. This is done in compliance with local law and the company's articles of association and other acts.

As a rule, the management boards of individual Sava Re Group companies consist of several members in order to ensure that decisions taken are for the benefit of the company and that board members work towards the company's goals in a prudent and responsible manner. The number of members is proportionate to the nature, scale and complexity of each company's business , while there must be clearly determined terms of reference of board members as well as an adequate delimitation of responsibilities. Where local legislation permits a single-member management board, the company must observe the four-eye principle in decision-making.

When designing the management board, each company seeks to take account of diversity in terms of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent conduct of the company's business.

The management board is committed to high ethical standards and considers the interests of all stakeholder groups.

The terms of reference of individual management board members and the operation of multi-member bodies are governed by internal acts of individual companies (act on the management board / rules of procedure of the management board).

The management board of each Group company reports periodically (at least quarterly) to the company's supervisory board in a comprehensive and accurate manner on:
- the implementation of business policies and other principles relating to business,
- the profitability of the company, particularly return on equity,
- business performance, especially on business volumes, the financial situation and solvency,
- transactions that may have a significant impact on the profitability and solvency of the company, and
- all material risks that have, or could have, a significant impact on the company's capital adequacy.

The main duties of the controlling company's (Sava Re's) management board are:

- to provide leadership and conduct the business of the Company;
- to represent the Company;
- to be responsible for the legality of the Company's operations;
- to adopt the development strategy of the Company and the Group, which is to be presented to the supervisory board for consent;
- to adopt the business policy and financial plan of Sava Re and the Group, which is presented to the supervisory board for consent;
- to adopt internal acts of the Company and the Group;
- to approve and periodically review strategies and written rules on risk management, the internal control system, internal audit, the actuarial function, compliance function, and regarding outsourcing, and to ensure their implementation;

- to adopt the report on the solvency and financial condition of Sava Re and the Group and submit it to the supervisory board for consent;
- to grant authorisation to key function holders of the Company subject to the consent of the supervisory board;
- to report to the supervisory board on operations of the Company and the Group;
- to prepare a draft annual report, including a business report, and to submit it to the supervisory board together with the auditor's report and a proposal regarding appropriation of distributable profit for approval;
- to convene the general meeting of shareholders;
- to implement the resolutions adopted by the supervisory board.

Composition of the Sava Re management board in 2017

Member	Title	Beginning of term of office	Duration of term of office
Marko Jazbec	chair (since 12/05/2017)	12/05/2017	12/05/2022
Jošt Dolničar	member (since 12/05/2017)	01/06/2013	01/06/2018
	chair (until 11/05/2017)		
Srečko Čebron	member	01/06/2013	01/06/2018
Mateja Treven	member	01/06/2013	13/01/2018

Areas of responsibility of the management board members in much of 2017:

- Marko Jazbec, chairman of the management board: coordinating the activities of the management board, controlling, general affairs, human resource and organisation, legal affairs, public relations, compliance and integration processes.
- Jošt Dolničar, member of the management board: management of strategic investments in direct insurance subsidiaries, modelling, IT, technology and innovation.
- Srečko Čebron, member of the management board: reinsurance operations and actuarial affairs.
- Mateja Treven, member of the management board: finance, corporate finance, investor relations, accounting, internal audit, risk management and pension insurance.

Events after the reporting date

On 9 November 2017, the supervisory board voted unanimously in support of the proposal of Marko Jazbec, chairman of the management board, and appointed a new Sava Re management board team. Srečko Čebron and Jošt Dolničar were re-elected to serve on the management board for a third consecutive term of office. Polona Pirš Zupančič was appointed as the fourth member of the management board. Two board members who were re-elected are to start their new terms of office on 1 June 2018; the new management board member was to take up her office on the day after the licence to perform the function of management board member is issued by the Insurance Supervision Agency. Polona Pirš Zupančič started her term of office on 14 January 2018, after Mateja Treven concluded her term of office on 13 January 2018.

Marko Jazbec as chairman of the management board is, following the mentioned changes, responsible for the coordination of the work of the management board, finance, general affairs, human resources, organisation and legal affairs, public relations, compliance, and internal audit. Srečko Čebron is – also in the new term of office – responsible for reinsurance operations, facultative reinsurance underwriting and actuarial affairs. Jošt Dolničar is – in the new term of office – responsible for the management of strategic investments in primary insurance subsidiaries, modelling, IT, technologies and innovation, and pension insurance. Polona Pirš Zupančič is responsible for corporate finance and controlling, accounting, shareholder relations and risk management.

B.1.4 Risk management

The risk management system is one of the key building blocks of the system of governance.

The management of the Group's controlling company as well as those of each Group member must ensure that both the Group as a whole and each individual company have in place an effective risk management system. This takes into account the scope, nature and complexity of the risks to which the Group or individual companies are exposed.

The basis for an effective risk management system is an appropriate organisational structure, both at Group level as well as at the level of individual Group companies.

More about these risks is contained in section B.3.

B.1.5 Key functions of the risk management system

At the Group level, the controlling company has established four functions defined by applicable law as key functions of the risk management system (hereinafter: key functions): the actuarial function, risk management function, compliance function, and internal audit function. Key functions are integrated in the Group's system of governance and generally also perform the role of the controlling company's key function, in addition to their role on the Group level.

The controlling company has organised these key functions as services of the risk management system, which report directly to the management board and are involved in decision-making processes.

The chief tasks of a key function holder at the Sava Re Group level are:

- coordinating the development of a uniform methodology for all key functions in all the Group's insurers;
- seeking to develop appropriate framework policies for the key function, and professional guidelines for the adoption of area-specific operational rules for the controlling company and its subsidiaries;
- striving for strict application of uniform standards by all key functions in the Group;
- coordinating and implementing joint tasks;
- providing guidance and overseeing the operations of key functions in all Group companies (coordinating planning activities and reviewing reports of Group companies);
- professional development and exchange of good practices relating to the key functions of the Group.

With due regard for the proportionality principle, the risk management system of each Group insurer has key functions integrated into the organisational structure and decision-making processes. The key functions perform their tasks independently from each other and from other organisational units of the company. The key functions directly report to the management board. Where any key function is carried out by an independent organisational unit, it must be ensured that the key function holder has direct access to the management board.

The key functions are integrated into the organisational structure and decision-making processes to strengthen the three-lines-of-defence framework in the Sava Re Group's risk management system. All four key functions cooperate closely with each other, regularly exchanging information they need for their functioning.

As a rule, key function holders must not both perform and oversee the same tasks. Processes must be organised so as to allow separate operation of the lines of defence. Key function holders must not be members of the supervisory board or of any of its committees of any Sava Re Group company in order to minimise potential conflicts of interest. Key function holders must immediately report any potential conflict of interest to the management board.

If, in accordance with the proportionality principle, key functions are assigned additional activities and tasks, there must be in place appropriate internal measures and mechanisms for managing any potential conflicts of interest arising from such activities of a key function. Measures and mechanisms for avoiding situations potentially leading to conflicts of interest are detailed in the internal regulations governing the operation of individual key functions.

Notwithstanding the organisational position of any key function within a company, these must be directly integrated in the Group's framework of key functions. This establishes a direct link between the key function of a subsidiary and the Group, providing for direct information flow between the second and third lines of defence, ensuring comprehensive and consistent compliance risk management across the Sava Re Group.

Role of individual key functions

The key functions perform duties as stipulated by insurance law, including regulations based thereon.

The **risk management function** is primarily responsible for:

- operating the risk management system,
- identifying and assessing assumed risks,
- organising risks in a joint risk profile, indicating interdependencies,
- periodic monitoring of the risk profile,
- reporting on potential hazards.

Details on duties, terms of reference, responsibilities and powers of the risk management function holder, procedures, obligations, time limits and reporting distribution lists are set out in the risk management policy of the Group and Sava Re.

The **actuarial function** is primarily responsible for:

- coordinating and overseeing the establishment of technical provisions, ensuring the appropriateness and quality of methodologies, assumptions and underlying data,
- issuing an opinion on the underwriting risk policy,
- issuing an opinion on the adequacy of reinsurance arrangements,
- contributing to an effective risk management system, especially in risk modelling.

Details on duties, terms of reference, responsibilities and powers of the actuarial function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Group's actuarial function policy.

The **compliance function** is primarily responsible for:

- ensuring the compliance of the company's operations with regulations and other commitments,
- advising the management board on compliance with the laws, implementing regulations, and internal regulations,
- assessing the impact of potential changes in the legal environment on the company's operations,
- identifying and assessing compliance risks, and assisting in their management.

Details on duties, terms of reference, responsibilities and powers of the compliance function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Group's compliance policy.

The **internal audit function** is primarily responsible for:

- providing objective and relevant assurance and advice to the management board in order to add value and improve the efficiency and effectiveness of operations,
- assisting the company in achieving its goals based on systematic, methodical assessment and improvement of the effectiveness and efficiency of governance, risk management and control procedures,
- reporting to the management and the supervisory boards on the purpose, terms of reference and duties of internal audit and the implementation of its plan, the conclusions of the audit reviews carried out, and proposing recommendations for their improvement.

Details on duties, terms of reference, responsibilities and powers of the internal audit function holder, procedures, obligations, time limits and reporting distribution lists are set out in the Group's internal audit policy.

Reporting by key function holders

Key function holders of each Group subsidiary report in two directions, namely:

- to management or supervisory bodies of the company and also, if so provided, to the audit committee or supervisory board and, in some cases, taking into account country-specific regulatory arrangements and internal regulations of individual companies, to certain sectoral committees;
- to the holder of the relevant key function at the Sava Re Group level.

Detailed provisions on the scope, manner, and reporting period of any key function are set out in internal regulations governing a relevant key function.

B.1.6 Committees of the governance system

The management board of the controlling company may, by its decision, set up committees that cover the Group level and the controlling company. In addition, the management board of any Group subsidiary may, if necessary, establish a committee by passing a resolution. Committees have an advisory role. They consider issues from specific areas, draft management board resolutions and oversee their implementation, and perform other tasks requiring specific expertise, thus providing professional support to the management board.

Committees are an integral part of the system of governance of the Group and individual companies, dealing with issues from various areas, such as risk management, asset and liability management, actuarial affairs, internal audit, remuneration.

The terms of reference, powers and composition of committees are set out in internal regulations adopted by the management board of the company that established the committee.

Sava Re has set up the following committees at the Group level:
- risk management committee and
- actuarial committee.

B.1.7 Information about the remuneration policy

The Sava Re Group remuneration policy lays down the framework for the planning, implementation and monitoring of remuneration systems and schemes that support the Group's long-term strategy and risk management policy.

This remuneration policy is applied by Sava Re and – as guidance – in other companies of the Group. It applies to all organisational levels and all employees. It includes:
- the management body,
- senior and lower management,
- key function holders, and
- other employees.

The remuneration policy aims at building a remuneration system that is competitive and efficient as well as transparent and internally fair. The key principles of the policy incorporate the main principles of ethical and sustainable practices and operations.

The chief principles of the remuneration policy are:
- clear and transparent management,
- reliable and efficient risk management,
- compliance with regulatory requirements and principles of sound management,
- monitoring of and adapting to market trends and practices,
- sustainable pay for sustainable performance,
- employee motivation and retention.

Sava Re Group companies follow the following guidelines in the designing of remuneration systems and schemes:

- designing of a balanced remuneration structure,
- establishing a direct link between pay and performance,
- adopting a multi-annual approach to performance evaluation and establishing a link between the variable part of remuneration and sustainable business performance,
- ensuring that the incentive system remains compliant with its mechanisms, organisational processes and with the rewarded activities and behaviour.

It is recommended that Sava Re Group companies design a remuneration structure encompassing:
- a basic salary,
- a variable part of the salary,
- other benefits and incentives,
- remuneration upon termination of the employment contract.

The basic salary is laid down based on the employee's role and position, taking into account professional experience, responsibilities, complexity of the job and the situation on the local labour market. The range of the basic salaries for individual positions is laid down in the internal regulations of individual companies.

The variable part of the salary depends on the company's business performance and the employee's individual performance or, in the case of managers, also the performance of the unit they head. The aim of this variable part of the salary is to motivate and reward the most successful employees who significantly contribute to the achievement of sustainable performance, meet or exceed the agreed objectives, strengthen long-term relationships with clients and generate income. The variable part of the salary relating to an employee's individual performance depends on the attainment of predefined individual goals and other tasks in a manner consistent with expected behaviours and competencies. The variable part of the salary relating to business performance depends on a performance indicator, or a combination of performance indicators of the company and/or the Group. The total variable part of the salary generally may range from 0% to 30% of the total annual remuneration.

The system and scheme for the variable part of the remuneration for the management board is considered and approved by the supervisory board. Variable remuneration for the management board is based on the achievement of the goals and performance of the company as a whole or the group of which it is a part.

The composition and level of the variable part of salary for all position levels is laid down in each Group company's internal regulations.

The types and level of potential additional benefits and incentives are laid down in the company's internal regulations. Employees may join collective supplementary pension saving schemes.

Additional remuneration upon termination of an employment contract (other than prescribed by law and the employment contract – termination benefits) is based on the achievement of long-term goals. Provision has been made that no additional remuneration is paid out if goals have not been achieved.

As a rule, Group companies grant loans neither to their employees nor members of the management or supervisory boards; accordingly, there were no such transactions in 2017.

The Group companies run no share option schemes.

The Group companies run no additional pension schemes.

B.1.8 Related-party transactions

All transactions among Sava Re Group companies are carried out at arm's length, to a limited extent by reimbursing expenses incurred in rendering services. Sava Re Group companies take turns in taking the role of service provider and service user within the Sava Re Group in order to enhance the effectiveness of the Group as a whole.

As part of the annual functional analysis, risks identified and resources expended are used to determine risks assumed by individual functions implemented for the sake of subsidiary governance. Functions implemented by the controlling company mainly include strategy setting, coordination, monitoring or controlling, and analysis.

Governance and business functions relating to the governance and supervision of the Group and its related companies are not invoiced.

Operational transactions that are considered in terms of related-party transactions are charged using the comparable uncontrolled price method based on internal or external comparisons, however, to a very small extent by reimbursing expenses incurred in rendering services.

The system of related party transactions is set out in detail in the transfer pricing report (general documentation) and the transfer pricing report (special documentation) prepared annually.

Material related-party transactions

Below are set out material transactions with related-parties, consisting of:

- owners and related enterprises;
- the management board, the supervisory board, including its committees, and employees not subject to the tariff section of the collective bargaining agreement;
- subsidiary companies.

In 2017, large transactions included:
- total remuneration of the members of the management board and the supervisory board, including its committees, and employees not subject to the tariff part of the collective agreement of EUR 3.3 million (2016: EUR 3.4 million),
- loans granted to subsidiaries of EUR 4.6 million as at 31 December 2017, and
- dividend payouts of EUR 12.4 million.

All third-party transactions are set out in detail in the Group's annual report in section 17.12 'Related party disclosures'.

B.2 Fit and proper requirements

In accordance with the law, the Sava Re Group companies ensure that persons who effectively run and oversee operations are properly qualified (fit) and suitable (proper) for running and overseeing operations in a professional manner.

To this end, the companies conduct fit and proper assessments of their personnel: management board members, supervisory board members, members of the supervisory board committees, key managers, key function holders of the risk management system and personnel overseeing individual outsourced activities prior to their appointment and after their appointment whenever circumstances arise that require a reassessment of whether such persons are still fit and proper.

In addition to the appropriate qualifications, experience and expertise (fitness) they must have, relevant personnel is required to demonstrate they enjoy good repute and demonstrate high standards of integrity (propriety) as exemplified by their actions.

The assessment of a person's suitability (propriety) comprises an assessment of their integrity and financial soundness on the basis of relevant evidence about their character, personal behaviour and business conduct, including any criminal, financial and supervision aspects, irrespective of the jurisdiction.

Relevant personnel is subject to the reporting duty regarding any new facts or circumstances, or changes to information submitted in the initial suitability assessment. The body responsible for fit and proper assessment (fit and proper committee of relevant composition) assesses whether the new facts and changed circumstances or information are of such a nature as to require a fit and proper reassessment.

The HR function requires relevant personnel to sign personal statements at least once a year. Such statements confirm compliance with current fit and proper standards of relevant personnel and their commitment to notify the human resources function immediately of any circumstances that may affect their fit and proper assessment.

In 2017, the EU-based Group companies carried out full fit and proper assessment procedures for their new relevant personnel as well as an annual review based on annual statements for persons already assessed.

B.2.1 Fitness requirements for relevant personnel

Supervisory body and its committees

The knowledge acquired through education and experience is to be considered in assessing the fitness of members of a company's supervisory body and its committees. These three requirements are considered in fitness assessments:
- qualifications,
- sufficient professional experience,
- general knowledge and experience.

The supervisory body is composed so as to ensure responsible oversight and decision-making in the best interest of the company or the Group. Members are selected so that their professional expertise, experience and skills are complementary to other members of the supervisory body. The supervisory body, viewed as a whole, must have sufficient expertise. Individual members of the supervisory body with distinct special expertise may, in particular based on the assignment of responsibilities for a certain area, compensate for any less profound expertise of other members of the supervisory body in those areas.

The management body

In assessing the fitness of the members of a company's management body, it is necessary to consider the knowledge acquired through education and work experience. Based on this, the fitness assessment is made with consideration of the member's assigned responsibilities, taking into account the following requirements:

- qualifications,
- sufficient professional experience,
- expertise and experience in the following areas: market knowledge, knowledge of the business strategy and business model, knowledge of the governance system for insurance companies, understanding financial and actuarial analysis, understanding regulatory frameworks and requirements.

The management body, viewed as a whole, must have sufficient expertise. Its members must have relevant experience and knowledge of the above-mentioned areas, depending on their specific area of responsibility. Individual members of the management body with distinct special expertise may, in particular based on the assignment of responsibilities for a certain area, compensate for any less profound expertise of other members in those areas.

Key function holders of the risk management system

In assessing the fitness of the key function holders of the risk management system, it is necessary to consider the knowledge acquired through education and work experience. The assessment is then made based on assigned responsibilities for each key function. These three requirements are considered in fitness assessments:

- qualifications, including additional training, obtained required licenses or specialist examinations,
- sufficient professional experience relevant to a particular key function,
- general knowledge and experience.

B.2.2 Suitability requirements for relevant personnel

Personal reliability and reputation

To ensure the sound and prudent management of a company, relevant personnel must have the appropriate qualifications (fit), be of good repute and demonstrate through their actions high standards of integrity (proper). A relevant person is deemed to be proper, as long as there are no reasons to think otherwise. Circumstances which give rise to reasonable doubt as to suitability are harmful to the reputation of both the relevant person and consequently the company and the Group.

Personal reliability and good repute is assessed based on information compiled by collecting documents for carrying out the fit and proper assessment procedure.

Independence of relevant personnel

Relevant persons may experience conflicts of interest due to the nature of the business relations. Any relevant person who experiences a conflict of interest in their work must disclose such conflict of interest and continue acting in the interests of the company. Unless possible, such person must inform the company's management or the supervisory body, if a conflict of interest is experienced by a member of either the management or supervisory body.

Time input

The members of the supervisory body and its committees must – in addition to business knowledge, relevant personal integrity, business ethics and independence – confirm that they have available time resources in the period when performing the function.

B.2.3 Procedure for fit and proper assessment

The fit & proper assessment procedure is conducted by a special committee set up according to an internal framework document. During the assessment of relevant personnel, the company's human resources function assists with the performance of operational tasks, such as the obtaining, sending, processing and storing of documents, and issuing of the assessment results.

The committees conduct fit and proper assessments and issue relevant results based on compiled documents and statements. Based on assessments so obtained, they may take the necessary actions to ensure adequate qualifications of relevant personnel. The committees also conduct overall fit and proper assessments of the management and supervisory bodies as collective bodies.

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

The Sava Re Group management is aware that risk management is key to achieving operational and strategic objectives and to ensuring the long-term solvency of the Group. Therefore, the Sava Re Group is continuously upgrading the risk management system both in all Group companies and at the Group level.

The Group companies' strong risk culture and awareness of the risks to which they are exposed is essential to the security and financial soundness of the companies and the Group as a whole. In order to establish good risk management practices, the Group promotes a risk management culture with appropriately defined remuneration for employees, employee training, and relevant internal information flow, both at the individual company and Group level.

The Sava Re Group has implemented a risk strategy that defines the Group's risk appetite and policies that cover the entire framework of risk management, own risk and solvency assessments, and risk management for each risk category. Based on the Group's risk strategy and policies, individual Group companies set up their own risk strategies and policies, taking into account their specificities and the local legislation. The adequacy of the risk strategy and the policy is regularly reviewed.

The risk management system both in individual Group companies and at the Group level is subject to continuous improvements. Particular attention is paid to:

- clearly-expressed risk appetite in the framework of the risk strategy and on this basis also operational limits,
- development of own risk assessment models and upgrading of the own risk and solvency assessment (hereinafter: ORSA),
- integration of the ORSA and risk strategy in the framework of business planning and shaping of the business strategy,
- integration of risk management processes into business processes,
- setting up appropriate risk management standards in all Group companies, taking into consideration the scale, nature and complexity of operations and related risks.

B.3.1 Risk management organisation

An appropriate organisational structure and a clear segregation of responsibilities are key to systematic risk management.

The efficient functioning of the risk management system is primarily the responsibility of the Sava Re management board and the management board of the individual subsidiary. To ensure efficient risk management, the Group uses a three-lines-of-defence model, which clearly segregates responsibilities and tasks among the following lines:

- The first line of defence consists of all organisational units with operational responsibilities (e.g. product development; policy sales, marketing and claims handling; financial operations, accounting, controlling; human resources and such like).
- The second line of defence consists of three key functions (the risk management function, actuarial function, compliance function) and the risk management committee, if set up in the company.
- The third line of defence is provided by the internal audit function.

The Group's risk management system has been set up based on the top down principle, taking into account the specificities of each individual company.

The management board of each company plays a key role and bears ultimate responsibility for the effectiveness of established risk management processes and their alignment with the Group's standards and the applicable legislation. In this regard, the management board is primarily responsible for:

- the establishment of the risk strategy and approval of risk tolerance limits and operational limits,
- the adoption of policies relating to the risk management system,
- risk management processes,
- monitoring of operations in terms of risk and ensuring that risks are considered in decision-making.

The supervisory board of each individual company approves the risk strategy, risk management policies and the appointment of key function holders of the risk management system. In addition, the supervisory board reviews periodic risk management reports. A risk committee has been set up within the controlling company's supervisory board to provide expertise in particular with regard to risk management in the company and the Sava Re Group.

The first line of defence of each individual Group company involves all company employees responsible for ensuring that operational tasks are performed in such a way as to reduce or eliminate risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line and service directors are tasked with ensuring that the operational performance of the processes for which they are responsible is conducted in such a way as to reduce or eliminate risks, while taking into account the frameworks laid down in the risk strategy. The first line of defence is also responsible for monitoring and measuring risks, the preparation of data for periodic risk reports for individual areas of risk and the identification of new risks.

The Group's and each individual company's second line of defence comprises three key functions: the actuarial function, risk management function, and compliance function. In addition, the Group's large members have in place a risk management committee. The members of the risk management committee and key function holders are appointed by the management board; key function holder appointments also require the consent of the supervisory board. Each individual company ensures the independence of the key functions, which are organised as management support services and report directly to the management board. Their roles and responsibilities are defined in the policy of each key function or in the risk management policy that defines the risk management function. The responsibilities of the risk management function are summarised below; those of the other key functions constituting the risk management system are set out in sections B.4.2, B.5 and B.6 of this report.

The risk management function of each individual company is mainly responsible for setting up effective risk management processes and for the coordination of risk management processes already in place. It is involved in all stages of identification, assessment, monitoring, management, and reporting of risks. It is also involved in the preparation of the risk strategy and the setting of risk tolerance limits. The risk management function of each company periodically reports to the risk management committee (if set up in the company), the management and supervisory boards, the risk committee (at Sava Re) and to the Group's risk management key function holder. It works in cooperation with the latter on an ongoing basis. Furthermore, it offers support to the management board in decision-making (including in relation to strategic decisions, such as corporate strategy, mergers and acquisitions, and major projects and investments).

Apart from the key functions, the second line of defence at Sava Re and Zavarovalnica Sava also consists of a risk management committee. The Sava Re risk management committee is also responsible for the Group level. The committee includes the key representatives of the first line of defence with regard to the company's risk profile. The holders of other key functions of the risk management system are also invited to attend meetings of the committee. The committee is primarily responsible for monitoring the risk profiles of the Group and individual companies, analysing risk reports and issuing recommendations to the management board.

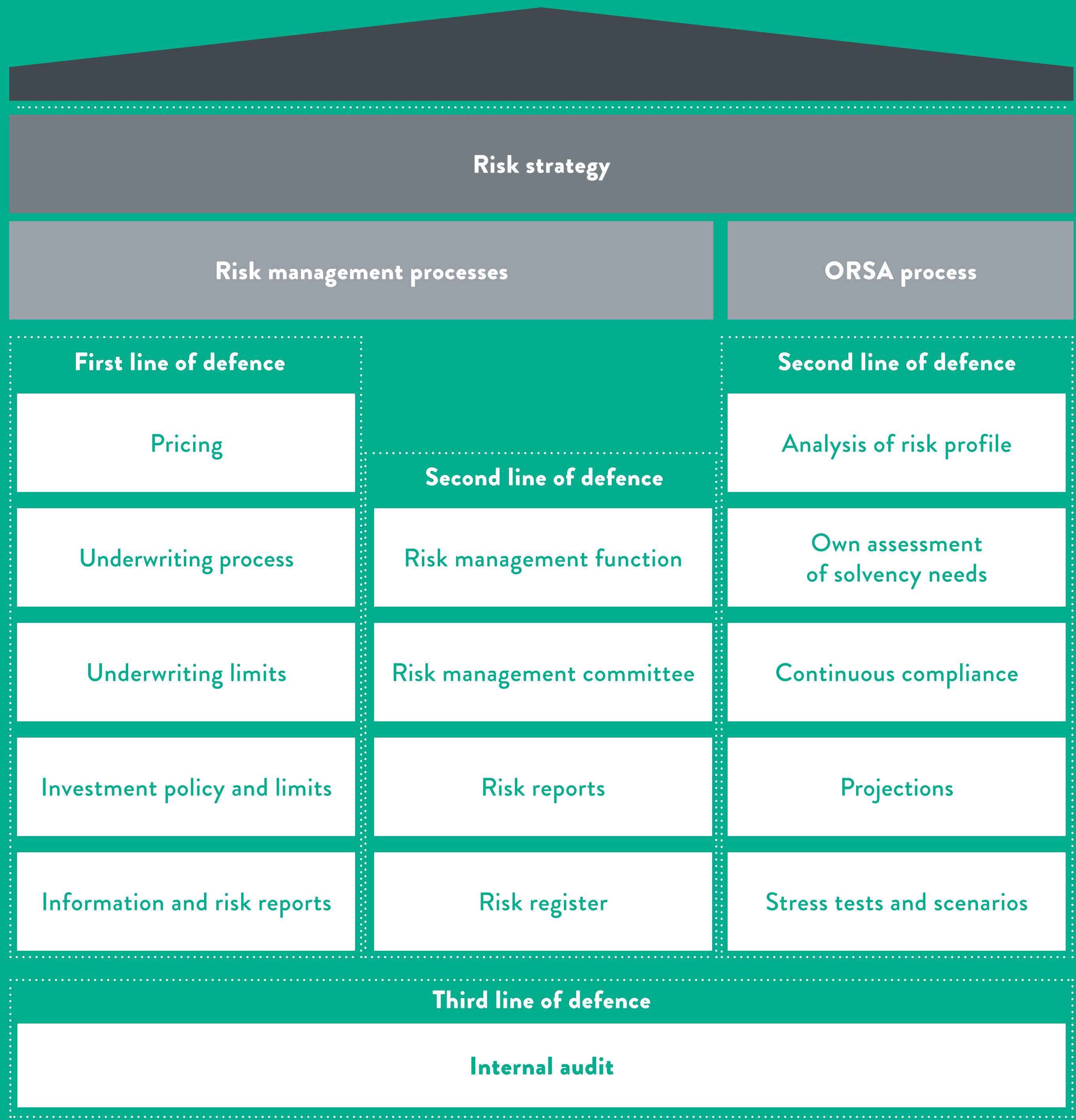
The third line of defence consists of the internal audit function. The function operates at the individual company and Group levels, and is completely independent from the business operations and other functions. In the risk management system, the internal audit function is responsible for the independent analysis and verification of the effectiveness of risk management processes and internal controls in place.

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

B.3.2 Components of the risk management system

Risk management is integrated into all stages of business management and is composed of the following key elements:
- risk strategy,
- risk management processes within the first and second lines of defence, and
- the ORSA process.

The components of the Sava Re Group risk management system are shown in the figure below.



Risk strategy

In order to establish a solid risk management framework, in 2017 the management board – with the consent of the Sava Re supervisory board – approved the Sava Re Group risk strategy for 2017–2019, which, based on its risk bearing capacity, defines the Group's strategy of assuming risk. The individual Group companies draft their own risk strategy by taking into account the framework of the Group's risk strategy. The Group document sets:
- the risk appetite,
- permissible levels of certain performance indicators and risks,
- risk tolerance limits.

The basic principle of the Group is to pursue its business strategy and meet its key strategic objectives while maintaining an adequate capital level.

The key areas that risk appetite is based on are:
- capital,
- liquidity,
- product profitability, and
- reputation of each Group company and the Group.

Each individual Group company sets its own risk strategy, risk tolerance limits and operational limits based on the Group's risk appetite. Risk tolerance limits are limits set for individual risk categories included in individual companies' risk profiles, determining approved deviations from planned values. These limits are set based on the results of sensitivity analyses, stress tests and scenarios, and professional judgment.

Based on the risk appetite and risk tolerance limits, individual Group companies set operational limits, such as (re)insurance underwriting limits and investment limits in order to ensure that the activities of the first line of defence are carried out taking into account the set risk appetite. In addition, each Group company ensures that it has in place well-defined and established escalation paths and management actions in the case of any breach of operational limits.

For periodic monitoring of compliance with the risk strategy, individual Group companies defined a minimum set of risk measure for each risk category to allow a simplified monitoring of the Group's and each Group company's current risk profile and capital position without having to carry out a complete calculation of the solvency capital requirement. These risk measures are regularly monitored on the Group and individual company levels.

Risk management processes

Risk management processes are inherently connected with and incorporated into the basic processes conducted at the individual company and Group level. All organisational units are involved in risk management processes.

The main risk management processes are:
- risk identification,
- risk assessment (measuring),
- risk monitoring,
- determining appropriate risk control measures (risk management), and
- risk reporting.

Risk management processes are incorporated into all three lines of defence. The roles of individual lines of defence are defined in the risk management policy. Risk management processes are also integrated into the decision-making system; all important and strategic business decisions are also evaluated in terms of risk.

Risk identification

In the process of risk identification, each individual Group company identifies the risks to which it is exposed. The key risks compiled in each company's risk register, constituting the company's risk profile, are reviewed on a quarterly basis and amended with consideration of new risks as required. Risk identification at the Group level is conducted in the same way.

Risk identification in individual companies is both a top-down and a bottom-up process. The top-down risk identification process is conducted by the risk management function, the risk management committee and the management board of each Group company. Such identification of new and emerging risks is based on monitoring of the legal and business environment, market developments and trends, and expert knowledge; this process is mainly used with strategic risks, such as reputational risk and legal risk.

Bottom-up risk identification takes place in individual organisational units and with risk owners (first line of defence). A Group company's risk thus identified is categorised and incorporated into the relevant monitoring, measuring and reporting processes.

Risk identification is performed on an ongoing basis, especially as part of the business planning process and any major projects and business initiatives, such as the launch of a new product, investment in a new class of assets or an acquisition.

Risk assessment

The Group has in place regular risk assessment (measurement) processes for all the risks to which individual companies or the Group are exposed. Both qualitative and quantitative methods are used to measure risk. A modelling department has been set up on the Group level for the development of quantitative models for Group-wide risk assessment.

Hence the Group measures risks:

- using the Solvency II standard formula,
- by calculating the overall solvency needs within the Own Risk and Solvency Assessment (ORSA),
- by carrying out stress tests and scenario analyses,
- through qualitative risk assessment in the risk register,
- using various risk measures that enable simplified measuring and monitoring of the indicative current risk profile.

Risk management

The management board of each Group company is responsible for risk management and the use of various risk management techniques and actions. In its decisions, the management board takes into account the cost benefit aspect of actions as well as recommendations, if any, issued by the risk management committee or key functions.

Whenever the need arises to adopt a new risk control measure, the relevant company conducts an analysis of the measure in terms of economic and financial viability. Elimination or mitigation of individual risks must be more cost effective than mitigation of the potential impact should the risk materialise, taking into full account the probability of such an event and all of its implications.

In practice, it is already in the business planning process that a Group company examines the impact of the business strategy on its capital position, both with regard to the regulator as well as with regard to the ORSA. If, during a financial year, decisions are taken that have a significant impact on the risk profile but have not been assessed in terms of risk during the business planning process, the company assesses the impact of such decisions on its risk profile and capital adequacy, and verifies compliance with the risk appetite. If a business decision could have a significant impact also on the Group's risk profile, such impact on the Group's risk profile and capital adequacy is also assessed. If any business decision fails to comply with the risk appetite or any risk tolerance limit is exceeded, the company is required to document such deviation and take relevant action to resolve the situation.

Risk monitoring

Risk monitoring is conducted at several levels: at the level of individual organisational units and risk owners, at the risk management service level, at the level of the risk management committee, and at the management and supervisory board levels. In addition, each Group company's risk profile is monitored at the Group level in terms of impact on the Group's risk profile. A standard set of risk measures is defined for risk monitoring, and Group companies follow it on a regular basis. Both risks and risk management measures are subject to monitoring and control.

Risk reporting

A risk reporting scheme has been set up in the large Group companies and on the Group level. Risk owners report on each category of risk to the risk management function, including a predetermined set of significant risk measures and qualitative information. Based on this, the risk management function in cooperation with risk managers prepares a risk report covering each individual company's entire risk profile. The report is first considered by the risk management committee (if set up in the company), and then by the company's management and supervisory boards. The company's risk management function also sends the report to the Group's risk management function.

Own Risk and Solvency Assessment (ORSA)

In addition to the mentioned risk management processes, the company also conducts ORSA as defined in its own risk and solvency assessment policy. ORSA is a process which includes the identification of the differences between the Group's risk profile and the assumptions of the standard formula, the own assessment of solvency needs, capital adequacy projections, stress tests and scenarios, and the link between the risk profile and capital management. In ORSA, all material risks are assessed, whether quantifiable or not, that may have an impact on the operations of the Group from either an economic or a regulatory perspective.

The ORSA process is conducted on the individual Group company and the Group levels, and both are strongly interconnected. The EU-based Group companies and the Group are required to report to the regulator on their ORSA. Following is a presentation of the Group ORSA.

The ORSA is conducted primarily in order to understand the own risk profile, the standard formula and to analyse the impact of the changes in the risk profile in the business planning period on capital adequacy. ORSA is an integral part of the decision-making process and contributes to the Group's key decisions and business strategy being adopted with consideration of risks and associated capital requirements. Based on the Group ORSA results, we also check the compliance of the business strategy with the risk strategy. This establishes the links between the business strategy, the risks taken in the short, medium and longer term, the capital requirements arising from those risks, and capital management.

The Group generally conducts the full ORSA on an annual basis. However, in case of a major change in the risk profile or eligible own funds that has not been anticipated in the business plan, an ad hoc ORSA is conducted. The management and supervisory boards review and confirm the ORSA report (at least) on an annual basis. The Group reports (at least) annually to the regulator on the ORSA.

In 2017, we made improvements to the Group ORSA:

- We strengthened the link between the ORSA and other processes, primarily planning, and risk and capital management.
- The risk management committee and the management board were actively involved in individual phases of the ORSA process.
- We involved employees from various departments in the ORSA process to provide a broad and up-to-date picture of the risk profile.
- Employees took part in the selection of stress tests and scenarios.
- We improved our own models for ORSA calculations and projections.
- We included more qualitative risk analyses that are unquantifiable.

The ORSA process is extensive and spans a large part of the year. Based on input from the business and strategic plans and the risk strategy, the Group calculates the SCR and makes Solvency II valuations for items of the balance sheet and eligible own funds for the entire term of the business and strategic plans. This is how it ensures that the business and strategic plans comply with the legislation and are aligned with the risk strategy. Based on projections, it reviews continuous compliance with the regulatory requirements regarding capital and technical provisions.

Based on the results of the suitability analysis of the standard formula for the Group's risk profile, the Group then uses its own solvency model to conduct an own risk and solvency assessment for a further three-year period, and makes a qualitative or quantitative assessment of the risks that are not captures by the standard formula. In the ORSA process, the Group also carries out (reverse) stress tests and scenario analyses as relevant with regard to its current and planned risk profile.

Throughout the ORSA, the management board is actively involved in the process: it confirms the set of stress tests and scenarios, reviews the ORSA, and challenges it before giving its formal approval.

Based on the conducted ORSA, the Group prepares a report that is considered on several levels: it is first discussed by the risk management committee, followed by the management board, risk committee and supervisory board. After the results are approved on all levels, they are distributed to all the heads of business units. The report is also submitted to the ISA.

The ORSA process is embedded in the decision-making process, which allows for key decisions to be adopted with consideration of the risks involved and for the business strategy to be determined with awareness of the risks and associated capital requirements. The ORSA results are taken into account by the management in its decision-making, capital management and insurance product development.

B.4 Internal control system

B.4.1 Internal control system

The purpose of the Group's internal control system is to identify, measure, monitor and manage risks at all levels of operations and includes reporting on risks that the Group or any individual Group company is or may be exposed to in its operations. In addition, the system ensures compliance with the internal rules and meets the requirements of other risk management laws and regulations.

It is vital that employees understand the importance of internal controls and are actively involved in the implementation of internal control procedures. Procedures for reporting to the appropriate level of management with regard to potential problems, deviations, non-compliance with the code of conduct or other policy violations or illegal actions are presented to all employees in plain language and are clearly stated in documents available to all employees.

The Group's internal control system is defined in the internal control policy aimed at setting up an effective and reliable system of internal controls. The policy sets out the basic principles, framework of and roles for the Group's system of internal controls as part of the Group's system of corporate governance.

B.4.2 Compliance function

The compliance function at the Group and individual company level is one of the four key functions constituting the risk management system. As a rule, it is an independent organisational unit, functionally and organisationally separate from other business functions of the company and reports directly to the management board. The compliance function of the controlling company and at the Group level operates as a risk management system service. A key function holder is authorised by the management board subject to consent by the individual company's supervisory board.

The compliance function, being an internal control function, is part of the second line of defence in the risk management system consisting of three lines of defence. Its main duty is to manage the risks arising from non-compliance with the law.

The chief duties of the compliance function are:

- to monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in compliance with regulations and other commitments;
- to advise and assist in the coordination of the company's operations with the obligations imposed by regulations and other commitments;
- to assess potential impacts of changes in the legal environment on the operations of the company in terms of compliance with its regulations and other commitments;
- to identify risks to the company's compliance with regulations and other commitments;
- to inform the management and supervisory boards of the company's compliance status regarding regulations and other commitments and risk assessment relating to compliance with regulations and other commitments;
- to coordinate with top management regarding compliance matters and offer consulting services to them;
- to prepare an annual compliance plan to identify and assess the main compliance risks to which the company is exposed;
- to cooperate in exchanging compliance-related questions, best practices and experiences at the controlling company level with other control functions;
- to coordinate the preparation and adoption of policies and rules on the controlling company level and between the controlling company and Group subsidiaries;
- to coordinate the preparation of comments on draft insurance-related legislation;
- to participate in setting up and updating compliance programmes for certain autonomous areas, including internal controls for compliance of operations, taking into account the requirements and capacities of processes and resources available, according to the requirements of specific legislation or regulations, and factors of the broader business and professional environment (e.g. commitments assumed through contracts, declarations and other collective activities aimed at raising the standards of fair business in the broader environment).

B.5 Internal audit function

Internal auditing in the Group companies is carried out by independent organisational units, which report to the management board and are functionally and organisationally separate from other organisational units. Their organisational position ensures autonomy and independence of operation. The internal audit is part of the internal control system of the company that ensures independent, regular and comprehensive review and assessment of the adequacy of the company's governance, risk management, and control procedures.

The internal audit function, being an internal control function, is part of the third line of defence of the risk management system.

Internal audit conducts internal audit reviews in accordance with the hierarchy of rules of internal auditing adopted by the Slovenian Institute of Auditors on the basis of the law governing auditing, and written rules of the internal audit function. The internal audit function operates in accordance with the adopted internal audit policy, which defines the purpose, powers, responsibilities, and tasks of the internal audit function.

The internal audit function holder of the company Sava Re and the Sava Re Group is appointed by the Sava Re management board with the consent of the supervisory board upon the prior opinion of the audit committee, and also serves as the director of the internal audit department.

The director of the internal audit service must hold the title of Certified Internal Auditor. More detailed conditions for the performance of the function are set out in each individual company's fit and proper policy.

Internal audit performs control activities. This, however, does not relieve supervisory and management bodies of their responsibility for establishing and observing efficient and effective corporate governance, risk management and control procedures (optimum management of business risk and compliance of business operations with laws, regulatory provisions and internal rules).

The internal audit function reports to the level of management that allows internal audit to discharge its role. Internal audit reports directly (verbally and in writing) to the management board, the audit committee and supervisory board on all matters associated with the content of internal auditing.

The internal audit function annually submits – to the management and supervisory boards, including its audit committee – its annual work plan and annual report on its activities. The annual report includes a note on the compliance with the code of ethics and a declaration on the disclosure and avoidance of conflicts of interest for the reporting year. The internal audit function must confirm to the supervisory body, at least annually, the organisational independence of the internal audit as part of its annual reporting on the activities of the internal audit.

The chief tasks of the internal audit of individual Group companies are:

- to set up a risk-based, permanent and comprehensive supervision of the company's operations aimed at verifying and assessing of whether the processes of risk management, control procedures and corporate governance are appropriate and function in such a way as to ensure the achievement of the major goals of the company:
  - effective and efficient operation of the company;
  - business and financial efficiency, including the safeguarding of assets against loss;
  - reliable, timely and transparent internal and external accounting and non-financial reporting;
  - compliance with laws, other regulations, and internal rules;
- to assess whether the company's information technology supports and furthers the company's strategies and goals;
- to assess fraud risk and the procedures for their management in the company (while the expertise of a person whose primary task is to identify and investigate cases of fraud is not expected nor required of the internal auditor);

- to provide consulting services;
- to carry out other tasks subject to the law.

The internal audit of the controlling company defines a common methodology for internal audit services in Group companies, and ensures the coordinated operation and development of a common methodology in the Group. Internal auditing is carried out according to a uniform procedure as laid down by the standards and specified in the internal audit manual.

In accordance with the Group's corporate governance policy, the internal audit of the controlling company also ensures the inclusion of subsidiary companies in the scope of operations in order to ensure the coverage of key risks at the Group level (also if internal auditing is set up in the subsidiary).

Internal auditors of the controlling company may perform independent audits in Group subsidiaries or extraordinary audits on the basis of risks as assessed by the controlling company at the Group level, or participate in certain more complex audit engagements in subsidiaries. The annual plan of the controlling company includes proposals of audit engagements based on key risks on the Group level to be performed by the internal audit in any subsidiary.

Group companies may cooperate in the following way:

- performance of internal audits in subsidiary companies on the basis of an assessment of key risks of the Group;
- cooperation in complex audits in subsidiary companies;
- joint training events;
- implementation of quality assessments of internal audit of a subsidiary.

The internal audit annual report of the controlling company provides an overview of the findings of the internal audit functions of each individual company.

B.6 Actuarial function

The actuarial function is an administrative concept comprising all the persons performing actuarial tasks of the second line of defence as detailed below. Actuarial function performers are employed in the areas of the actuarial function in actuarial departments of Group companies. They also perform first-line-of-defence actuarial tasks. As the actuarial function is part of the second line of defence of the risk management system, it is organised in a way that prevents any one person from both performing (first line) and controlling (second line) the same tasks.

The company's actuarial function holder is responsible for carrying out the actuarial function. Composite insurers and the Group may appoint separate actuarial function holders for non-life, life and health insurance business. The Group's actuarial function coordinates the activities of the Sava Re Group's actuarial function and is responsible for the development of a uniform methodology. The controlling company's actuarial function holder also performs the role of the Groups' actuarial function holder for non-life business.

The actuarial function holders of Sava Re Group companies serve on the Group's actuarial committee. Among other things, this committee adopts decisions in the form of proposals and recommendations for the management board of Sava Re, other key functions of the Group and the Group's risk management committee, which are implemented in line with the rules of procedures appended to the Group's actuarial function policy. The members of the actuarial committee are tasked with communicating information about relevant arrangements to relevant parts of the company.

The chief tasks of the actuarial function of individual Group companies are:

- to coordinate the calculation of technical provisions and ensure their consistency with applicable regulations;
- to ensure the appropriateness of the methodologies, underlying models and assumptions made in the calculation of technical provisions so that they reflect key risks and are sufficiently stable;
- to assess the sufficiency and quality of the data used in the calculation of technical provisions and to provide recommendations on how to adapt processes in order to improve data quality;
- to compare best estimates of SII provisions against experience and in the event of any deviation, suggest changes to the assumptions and valuation models used;
- to oversee the use of approximations in the calculation of best estimates of SII provisions;
- to examine the appropriateness of the underwriting policy and express an opinion on the adequacy of insurance premiums, taking into account all underlying risks and effects of changes in the portfolio, options and guarantees, anti-selection, inflation and legal risks;
- to verify the adequacy of reinsurance arrangements;
- to participate in the introduction and implementation of the risk-management system, in particular with respect to the development, use and monitoring of adequacy of the models underlying the calculation of capital requirements and the performance of own risk and solvency assessment;
- to prepare, at least annually, a written report to be submitted to the management and supervisory bodies, and the local supervisory authority; the report documents the implementation of the above tasks and their results, clearly identifying any weaknesses along with recommendations as to how to eliminate these weaknesses.

The chief tasks of the Group's actuarial function are:

- to carry out the above tasks as appropriate at the Group level, summarising and coordinating the findings of individual companies' actuarial functions;
- to express an opinion on the adequacy of the reinsurance arrangements of the Group as a whole;
- to prepare and submit, at least annually, a written report for the management and supervisory boards of the controlling company; the report documents the implementation of the above tasks and their results, clearly identifying any weaknesses and providing recommendations for their elimination;
- to coordinate the activities of individual companies' actuarial functions in order to enable the overall functioning of the Group's actuarial function;
- to provide support to individual Group companies' actuarial functions;
- to harmonise the underwriting and reserving risk guidelines laid down in the Group's underwriting and reserving risk policy;
- to organise meetings of the Group's actuarial committee;
- to serve on the Group's risk management committee.

In accordance with the risk management policy, the actuarial function actively cooperates in setting up and implementing the risk management system as part of the second line of defence.

B.7 Outsourcing

The outsourcing of business or functions is a contracting out of work related to the business of insurance or to an important or key business function or activity of any Sava Re Group company otherwise carried out by the company as part of its licensed activities.

In accordance with the provisions of the applicable Insurance Act, the controlling company adopted an outsourcing policy that governs the outsourcing of the Group's critical or important operational functions or activities. The policy defines the framework for the outsourcing of critical or important operational functions – contracts on outsourcing in general, when they might be entered into, how they should be maintained and documented, and how to ensure compliance with the applicable outsourcing guidelines. The policy outlines the steps and responsibilities in the process of outsourcing of functions or activities, defining the standards of management and control of such a process. The policy further defines the registering of outsourced operations comprising all contracts considered as outsourced and defines how to document the whole decision-making process, collect the necessary documents, and the signing of such contracts. The policy states that each outsourced operation must have an administrator, whose main responsibility is to oversee the outsourced function or activity. By signing the contract, all providers of outsourced services undertake to act in accordance with the applicable law and cooperate with the local supervisor. The company must notify the local regulator of its intention to outsource an operation before entering into the relevant contract.

Each individual Group company is fully responsible for its outsourced functions or activities since its liability to third parties is not transferable to service providers or other contractors. Before deciding on the assignment or outsourcing of any task or function, each Group company must assess and document the impact that such outsourcing of tasks or functions will have, ensuring regular conduct of this process in the future. Each Group company may make contracts for the outsourcing of business or functions in accordance with statutory regulations.

There were no outsourcing arrangements at the Group level in 2017; nor did any of its members outsource any operations to contractors outside the Group.

B.8 Any other information

The Sava Re Group has in place a transparent and appropriate risk-based governance system.

The Sava Re Group governance policy sets out the main guidelines for the governance of individual Group companies as well as the control and supervision of Sava Re Group companies, taking into account the Group's goals, mission, vision and values. The purpose of the policy is to define the foundation of the Group's system of governance, the basic management rules, rules of corporate governance and a transparent organisational structure with transparent and clear allocation and segregation of roles and responsibilities. Corporate governance is a combination of processes and frameworks used by the management and supervisory boards, and supervisory board committees for communicating, directing, controlling and monitoring a company's operations in order to achieve the company's goals. The policy was last reviewed and amended in December 2017.

The rules of the Group governance system are subject to regular annual review. This review is the responsibility of the Group's compliance function, which – in cooperation with the Group's internal audit function – verifies the consistency of the governance policy with other policies within the governance system and with other internal acts, legislation and regulations. When verifying and assessing the effectiveness of the corporate governance framework, the reviewer focuses on the changes in internal and external factors affecting the Group.

The report of the internal audit department on the audit review of corporate governance carried out in December 2017 and January 2018 also supports the position that the Group has in place an adequate system of governance. Based on its review of implemented recommendations issued following the auditing of corporate governance in 2016, the internal audit department assessed the adjustment of the corporate governance system as good as in its follow-up audit, it found that the corporate governance system, to the extent carried out, was largely compliant with the Companies Act ZGD-1, the Insurance Act ZZavar-1, including implementing acts, and other Solvency II requirements. The system clearly provides for segregation of duties in all areas of governance of the Group and its individual companies.

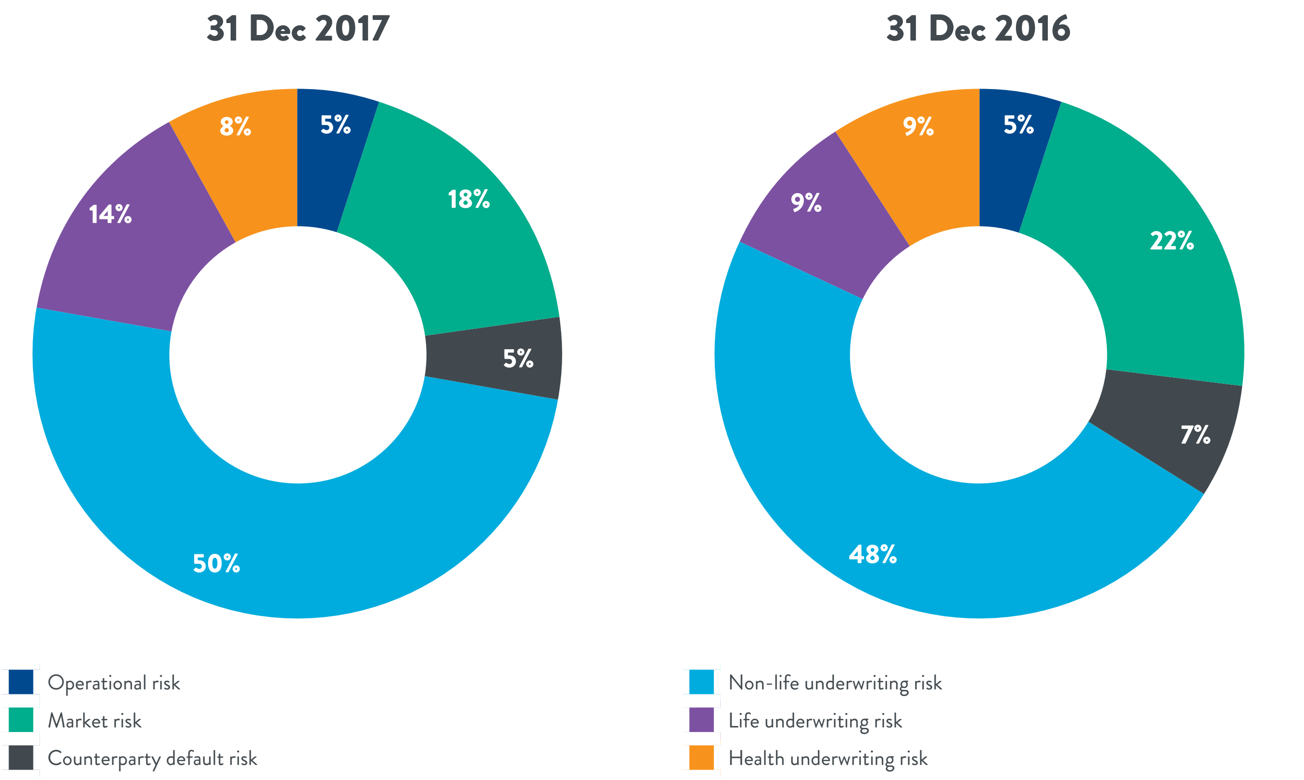
C GROUP RISK PROFILE

GROUP RISK PROFILE

C. GROUP RISK PROFILE

During its operations, the Group is exposed to various types of risks, especially to non-life underwriting risk and market risk. The chart below shows the Group's risk profile in accordance with the standard formula.

Undiversified SCR by risk module[5]



The Group risk profile did not change significantly in 2017. The risk structure pursuant to the standard formula slightly changed in 2017, i.e. the solvency capital requirement for market risk decreased due to the application of the look-through approach, while the solvency capital requirement for life underwriting risk increased as a result of a more detailed calculation of lapse risk.

[5] Percentages in the chart relate to the sum total of all risks (including operational risk), while percentages in the text below relate to the sum total of all risks, excluding operational risk (i.e. the sum total of the undiversified basic solvency capital requirement).

C.1 Underwriting risk

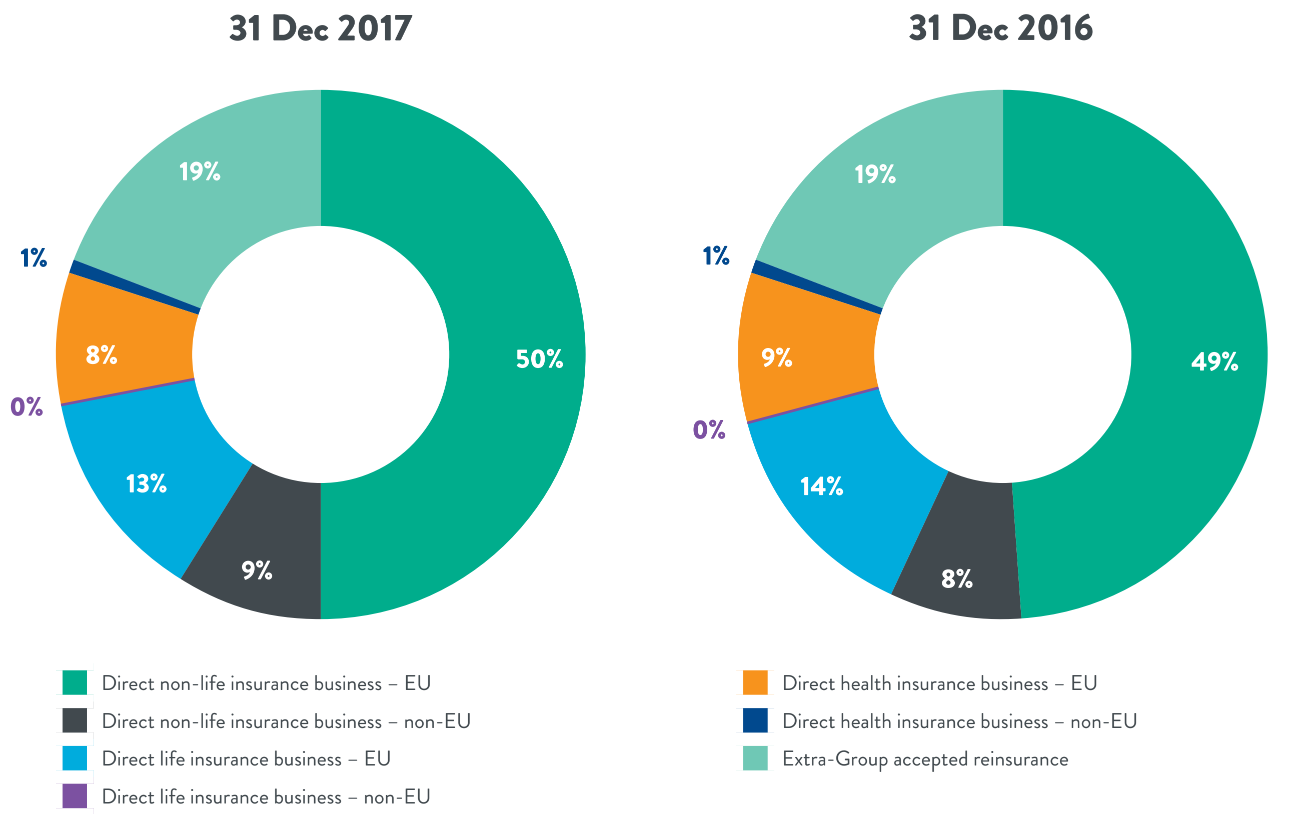
Underwriting risk arises from the Group's (re)insurance activities, i.e. the underwriting of (re)insurance contracts, and execution of insurance contracts and transactions directly related to insurance activities. It relates to the risks covered under (re)insurance contracts and associated processes, and arises from the uncertainty related to the occurrence, scope and timing of obligations.

Underwriting risk is generally divided into:
- non-life underwriting risk,
- life underwriting risk, and
- health underwriting risk.

The Group markets all three types of (re)insurance and is consequently exposed to all three risk categories.

The chart below shows the structure of gross premiums written by line of business, separately for EU-based and non-EU based Group companies. The structure of gross premiums did not change significantly in 2017.

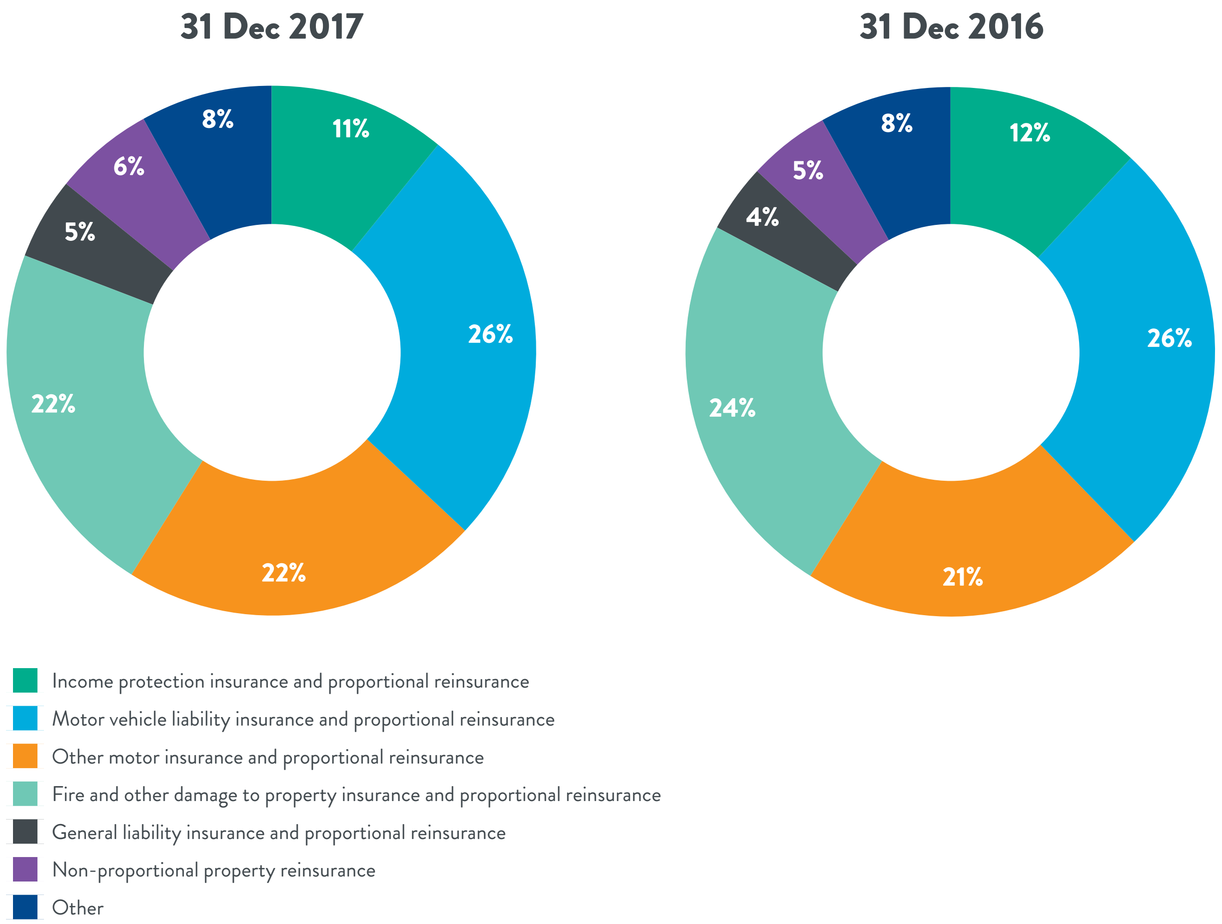
Split of Group gross premiums written



C.1.1 Non-life underwriting risk

The chart below shows net non-life premiums earned by material line of business. The breakdown of the Group's net non-life premiums earned in 2017 did not change significantly.

Net premiums earned by material line of business



Risk exposure

Non-life underwriting risk is divided into:

- **Premium risk** – the risk that premiums written are insufficient to meet the obligations arising from (re)insurance contracts. This risk depends on many factors, such as inadequate assessment of market developments, poor assessment of claims development, use of inadequate statistics, intentionally insufficient premiums for certain lines of business expected to be offset by other lines of business, or inadequate assessment of external macroeconomic factors that may change significantly during the term of a contract. These include:
  - underwriting process risk,
  - product design risk, and
  - risk of unexpected increase in claims.

  Given the Group's portfolio composition, motor vehicle and property insurance, as well as proportional and non-proportional property reinsurance contribute the most to premium risk.

- **Reserve risk** – the risk that either technical provisions are insufficient to meet the obligations arising from (re)insurance contracts due to inadequate methods, inappropriate, incomplete and inaccurate data, inefficient procedures and controls or inadequate expert judgement, or misreporting, resulting in unreliable information about a company's financial position. These include:

  - the risk of data availability and accuracy,
  - the risk of adequacy of methods and assumptions used,
  - the risk of a calculation error,
  - the risk of complex tools used in processes yielding misleading results.

  Similar to premium risk, the bulk of reserve risk arises from motor and property business for which the best estimates of provisions are also structurally the most important owing to the Group's traditional focus on such business.

- **Catastrophe risk** is the risk of an occurrence of a catastrophic event; such events are rare but their financial impact is too high to be covered merely by otherwise adequate premiums and provisions. Catastrophe risk may materialise in the case of extreme events or a large number of catastrophic events in a short period. The risk also includes an excessive geographical accumulation of risks. The Group's portfolio is geographically relatively well diversified, with risks being slightly more concentrated in Slovenia, which is further addressed by means of the retrocession programme. The capital requirement is relatively high because of the aggregation of a large number of such requirements for various smaller natural perils and regions and various man-made catastrophic events.

- **Lapse risk** – the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates. The Group is not materially exposed to this type of risk.

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

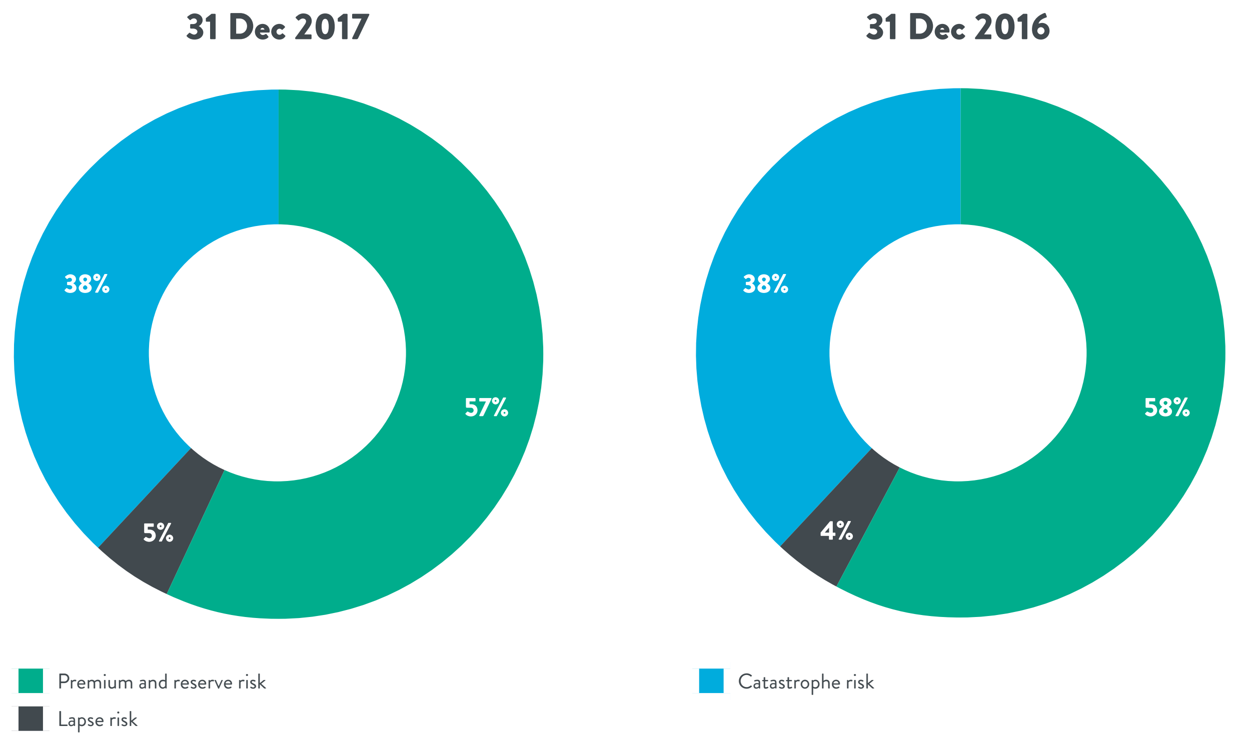
Risk measurement

For the quantitative assessment of non-life underwriting risk, the Group uses the Solvency II standard formula. It does not apply Group-specific parameters. According to this formula, the Group was exposed to non-life underwriting risk in the amount of EUR 142.4 million as at 31 December 2017 (31/12/2016: EUR 138.9 million). The capital requirement for non-life underwriting risk represented 52.2% of the undiversified basic solvency capital requirement of the Group (31/12/2016: 50.9%). Premium and reserve risks, followed by catastrophe risk, represented the largest portion of the undiversified non-life underwriting risk. Lapse risk for non-life business was relatively low.

Non-life underwriting risk by risk sub-module

(EUR thousand)	31/12/2017	31/12/2016
Non-life underwriting risk	142,437	138,857
Diversification	-45,446	-41,826
Premium and reserve risk	106,905	104,353
Lapse risk	10,414	7,462
Catastrophe risk	70,564	68,868

Undiversified non-life underwriting risk by risk sub-module



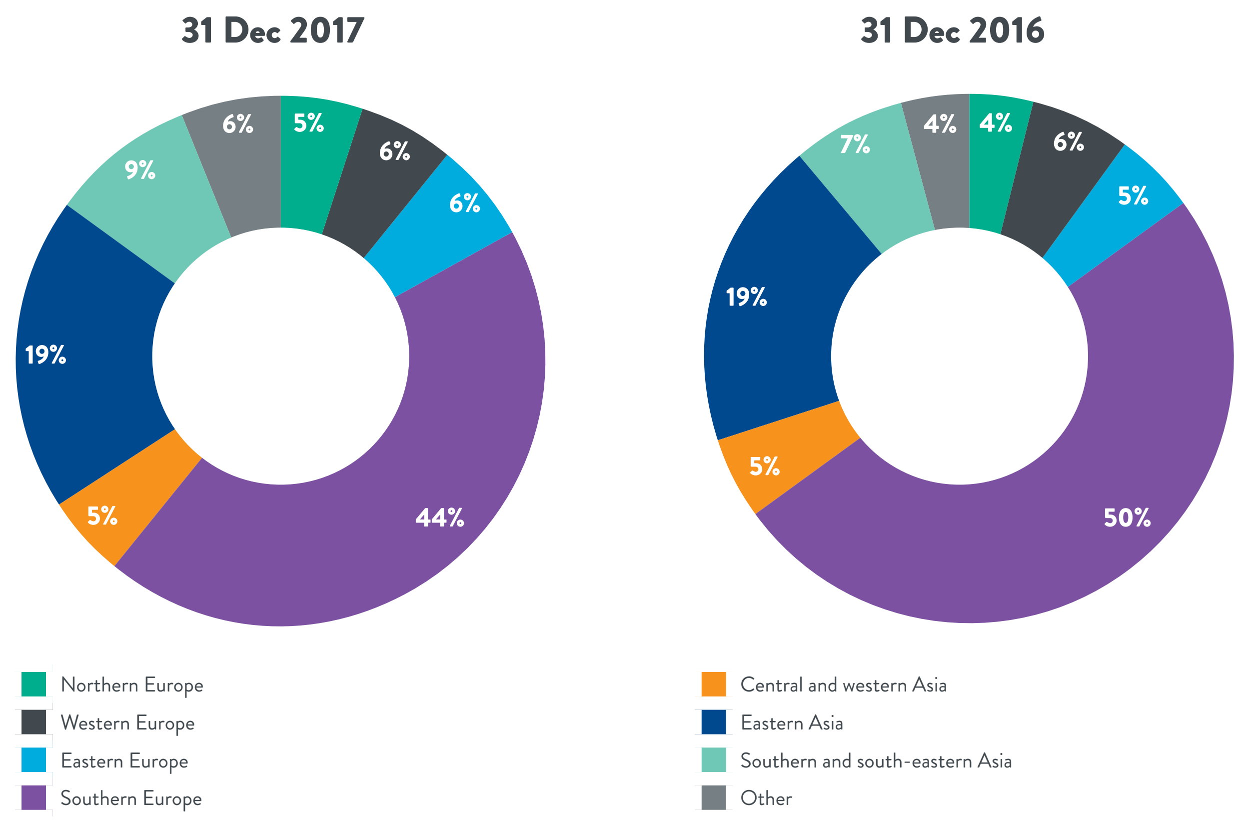
Non-life underwriting risk is measured quantitatively, also as part of the ORSA, where premium and reserve risk is currently measured using Undertaking-Specific Parameters (hereinafter: USP); the calculation for the Group uses weighted USP averages of individual Group companies. Also as part of the Group ORSA, we calculated capital requirements for storm and hail risks in Slovenia, which are not included in the standard formula, and adjusted the assessment for man-made fire catastrophe risk by using probable maximum loss figures within a 200-meter radius instead of sums insured.

In addition to said quantitative risk measurement, individual Group companies monitor their exposures to non-life underwriting risk quarterly, using various risk indicators. This information allows Group companies and the Group to promptly detect any changes, which in turn allows management to respond in a timely manner.

Risk concentration

The chart below shows a breakdown of net premiums earned relating to fire and other damage to property business, and to proportional and non-proportional property reinsurance business by region. It shows that the Group sources more premiums from Southern Europe, where the Group's direct insurance companies operate; Exposure to Slovenia is predominant. Diversification increased over the past year.

Net premiums earned relating to property (re)insurance



In terms of exposure in Slovenia, the highest portfolio concentration is in the Štajerska and Dolenjska regions.

Risk management

The Group manages underwriting risk through:

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

The Group does not mitigate underwriting risk using special purpose vehicles or hedging techniques.

In addition to the above, the Group analyses the impact of various stress tests on the level of risk. In the calculation as at 31 December 2017, we tested the impact of a **10% increase in the volume measure for the premium risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 6.3% increase in the premium and reserving risk of non-life insurance and a 7.6% increase in the premium and reserving risk of NSLT health insurance. The increase in the Group's overall SCR is smaller than the materiality threshold[6] and does not materially affect the Group's solvency.

We also analysed the impact of a **10% increase in the volume measure for the reserving risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the reserve volume measure would result in a 3.7% increase in the premium and reserving risk of non-life insurance and a 2.4% increase in the premium and reserving risk of NSLT health insurance. The increase in the overall SCR is below the materiality threshold; thus the stress test does not affect the Group's solvency.

The sections below explain risk management in greater detail by each non-life underwriting risk.

Premium risk

The Group seeks to mitigate underwriting process risk by restricting authorisations for mass underwriting, as well as by means of additional training of underwriters and agents, by providing understandable, clear and detailed instructions, and by defining appropriate underwriting limits that are consistent with the business strategy, the risk strategy and the reinsurance programme. In addition, we make special efforts to offer products to appropriate target clients (to prevent mis-selling and/or adverse selection), to accept reinsurance from trusted cedants, and to ensure that appropriate limits are in place for exposure concentration by geographical location and homogeneous risk groups, which maintain favourable risk diversification. Another underwriting process risk is PML error (inaccurate assessment of the Probable Maximum Loss, PML). In order to mitigate this risk, the Group has in place guidelines for PML assessment, requirements that PML assessments are a team exercise, and makes sure that the retrocession programme covers PML error.

The Group seeks to mitigate product design risk before launching a product by making in-depth market analyses, keeping informed (media, competitors, clients), monitoring applicable regulations and associated requirements, and monitoring historical claim trends (for the entire market) and forecasts. In accepted reinsurance underwriting, it is important to know the market and to verify how reliable partners are. The reinsurer may also use special clauses in accepted reinsurance contracts to limit performance volatility, e.g. a sliding scale commission and profit commission, and loss ratio limitations.

The Group mitigates claims risk through in-depth assessments of underwriting process risk, by restricting the authorisations in the underwriting process, and by developing IT support that allows an accurate overview of claims accumulation. For accepted reinsurance, this risk, too, can be managed by means of special clauses in proportional reinsurance contracts, which limit the reinsurer's share of unexpected claims, and by not accepting unlimited layers under non-proportional contracts. Also central to reducing this risk is the annual testing of the appropriateness of reinsurance protection using a variety of stress tests and scenarios, and setting appropriate retentions.

Reserve risk

The Group manages reserve risk by means of robust processes and effective controls as regards the calculation of technical provisions both in accordance with IFRS and Solvency II regulations. In addition, it conducts annual backtesting of the appropriateness of technical provisions, analysing any major reasons for their insufficiency. All experience so gained is then used in the calculation of future technical provisions.

By documenting and understanding such a process, the Group can identify and describe potential risks, such as:
- the risk of data availability and accuracy,
- the risk of adequacy of methods and assumptions used,
- the risk of a calculation error,
- the risk associated with supporting IT systems and tools.

Controls are put in place for the mitigation of each identified risk. These controls ensure data quality and mitigate the risks associated with the calculation of technical provisions. The design and operational effectiveness of controls are reviewed at least annually and whenever a significant change occurs in the process or methods and models used to calculate technical provisions.

Such controls include:
- reconciliation of technical provision items with accounting records,
- peer review of actuarial methods and assumptions,
- changes to management controls relating to the IT tools used in the process,
- actuarial review and approval of the level of technical provisions.

The process by which technical provisions are calculated is subject to periodic approval. Where substantial changes have been made to the process, the methodology or models used in the calculation of technical provisions, a validation is carried out in accordance with the reporting schedule.

Lapse risk

It is estimated that lapse risk is less important for the Group, as the vast majority of non-life insurance policies is written for one year and cannot be terminated early without the insurer's consent (except in case of premium default or if the subject-matter of the insurance policy is no longer owned by the policyholder or has been destroyed due to a loss event). The majority of accepted reinsurance contracts is also written for a period of one year. The risk associated with these contracts is also mitigated by nurturing good business relations with cedants and by closely analysing the market situation.

Catastrophe risk

The Group manages catastrophe risk by means of a well-designed underwriting process, by controlling risk concentration for products covering larger complexes against natural disasters and fire, by geographical diversification, and by adequate retrocession protection against natural and man-made catastrophes.

To protect against natural catastrophes, the Group has in place a retrocession coverage for its retention, separately for intra- and extra-Group accepted reinsurance. Before the non-proportional protection is triggered, the Slovenian portfolio is protected by proportional covers: a surplus cover providing protection at the level of individual risks (including PML error), and an earthquake quota share cover. This means that if a major event occurs, the Group will suffer a loss equal, at most, to the amount of the retention. The Group will also have to pay a reinstatement premium in order to protect itself against further catastrophic events in the remaining period of coverage. This is a common instrument available in the international reinsurance market at a price usually lower than the original cover due to the shorter coverage period. The extra-Group portfolio is additionally insured through a sublimit in case of a higher catastrophe frequency. It ensures that the Group remains solvent even if several catastrophic events occur in one single year.

The Group periodically analyses scenarios and their impact on its operations and solvency position. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, and taking into account their probability of occurrence. As part of the 2018 ORSA, we decided to test the impact of three 1-in-200 year catastrophes in Slovenia during a single year. The loss level was determined based on results of catastrophe modelling, conducted by subcontractors based on the exposure of the Group portfolio. In 2018, the Group has in place a non-proportional catastrophe retrocession treaty for Slovenia, with two free reinstatements for the first two layers and one free reinstatement for the third and fourth layers. The analysis took into account the terms of retrocession as well as management measures. The management measure consisted of the decision for the Group to purchase an additional cover for the third and fourth layers after the first (major) catastrophic event. Upon the occurrence of the third catastrophic event of the scenario, this would mean that we still have full coverage established for all layers. The severity of the scenario's impact on the level of the Group's eligible own funds exceeds the Group's materiality limit; the impact on the solvency ratio is below 10%. In accordance with the Group's risk strategy, the capitalisation of the Group would still remain above the optimal level. We are aware that such an event would have a number of

[6] The materiality threshold is a Group-internal measure linked to the level of the Group's eligible own funds and solvency capital requirement. As at 31 December 2017, it was set at EUR 9.5 million at the Group level.

other direct effects on the business, which is why the Group also manages such risks through the design of business continuity plans, which include modes and measures for operating in emergency situations. The results of the analysis indicate that the current catastrophe retrocession programme is sufficient and robust irrespective of total loss amount.

C.1.2 Life underwriting risk

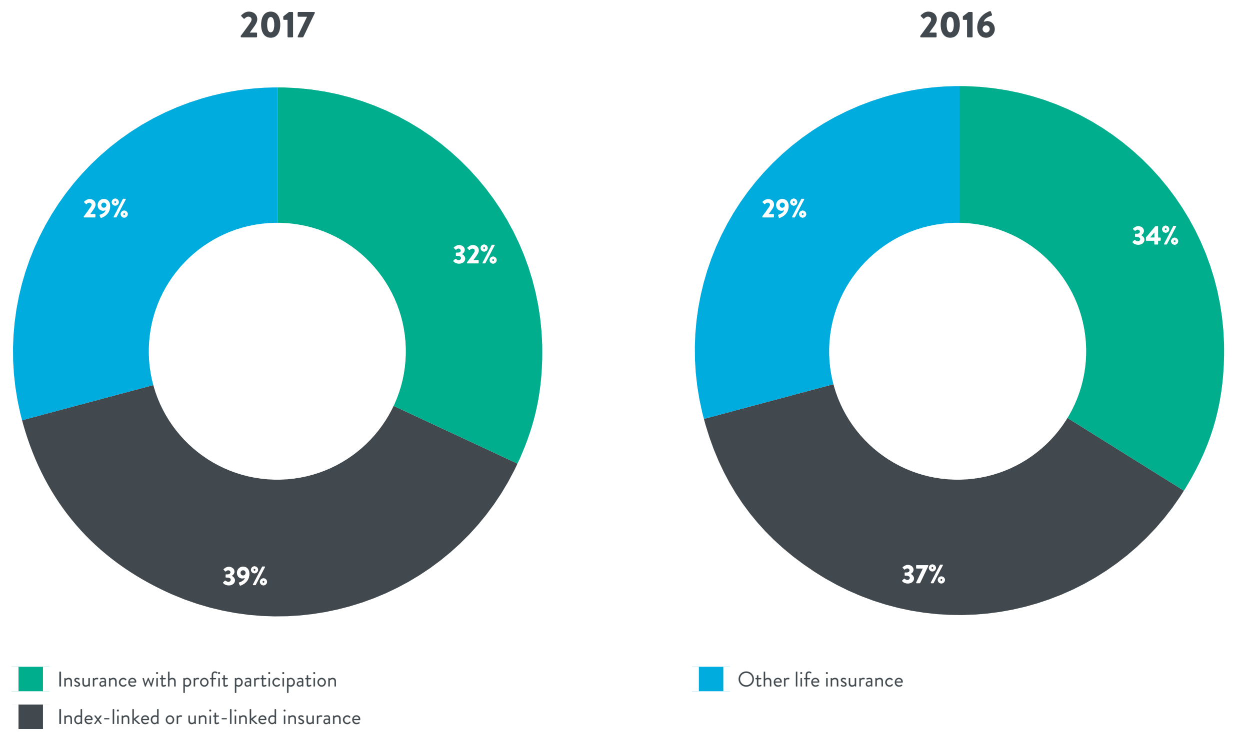
The main life underwriting risks are:

- biometric risks, which are divided into:
  - mortality risk,
  - longevity risk
  - disability-morbidity risk,
- life expense risk,
- revision risk,
- lapse risk, being the risk of early termination of life insurance contracts, includes terminations due to surrenders, conversion to paid-up status, and premium default,
- life catastrophe risk.

Risk exposure

The Group is moderately exposed to life underwriting risk. The life insurance portfolio includes traditional life insurance products and life insurance products where the investment risk is borne by policyholders. The Group's main exposure is to the European Union.

Net life premiums earned by material line of business



We see that in 2017 the share of insurance contracts where the investment risk is borne by the policyholders slightly increased, while the share of insurance contracts with profit participation slightly decreased.

Key exposures are related to lapse risk, mortality risk and life expense risk. Other risks are smaller and hence not discussed in detail.

Lapse risk, which relates to early termination of life insurance contracts, is the risk of an increase or decrease in lapse rates due to surrenders, conversions to paid-up status, or premium default. Risk levels depend on the use of adequate statistics, identification of terminations for various reasons in an underwriting year, and economic situation, which, to a certain extent, affect the behaviour of policyholders. Risk levels also depend on competitive insurance products available in the market, and advice provided by insurance brokers and financial advisers.

Mortality risk is the risk that the actual mortality of insured persons will turn out to be greater than projected in mortality tables used during premium pricing. Risk levels depend on the use of adequate statistics and identification of insured persons with an increased mortality risk due to health reasons or a risky lifestyle.

Life-expense risk is the risk that the actual expenses incurred in servicing life insurance contracts turn out to be greater than projected in pricing. Risk levels depend on the use of appropriate statistics, and an increase in the actual expenses incurred in servicing life insurance contracts.

Risk measurement

The Group makes quantitative assessments of life underwriting risk using the Solvency II standard formula. According to this formula, the Group was exposed to life underwriting risk in the amount of EUR 40.2 million as at 31 December 2017 (31/12/2016: EUR 26.1 million). The capital requirement for life underwriting risk was 14.7% (31/12/2016: 9.6%) of the undiversified basic solvency capital requirement.

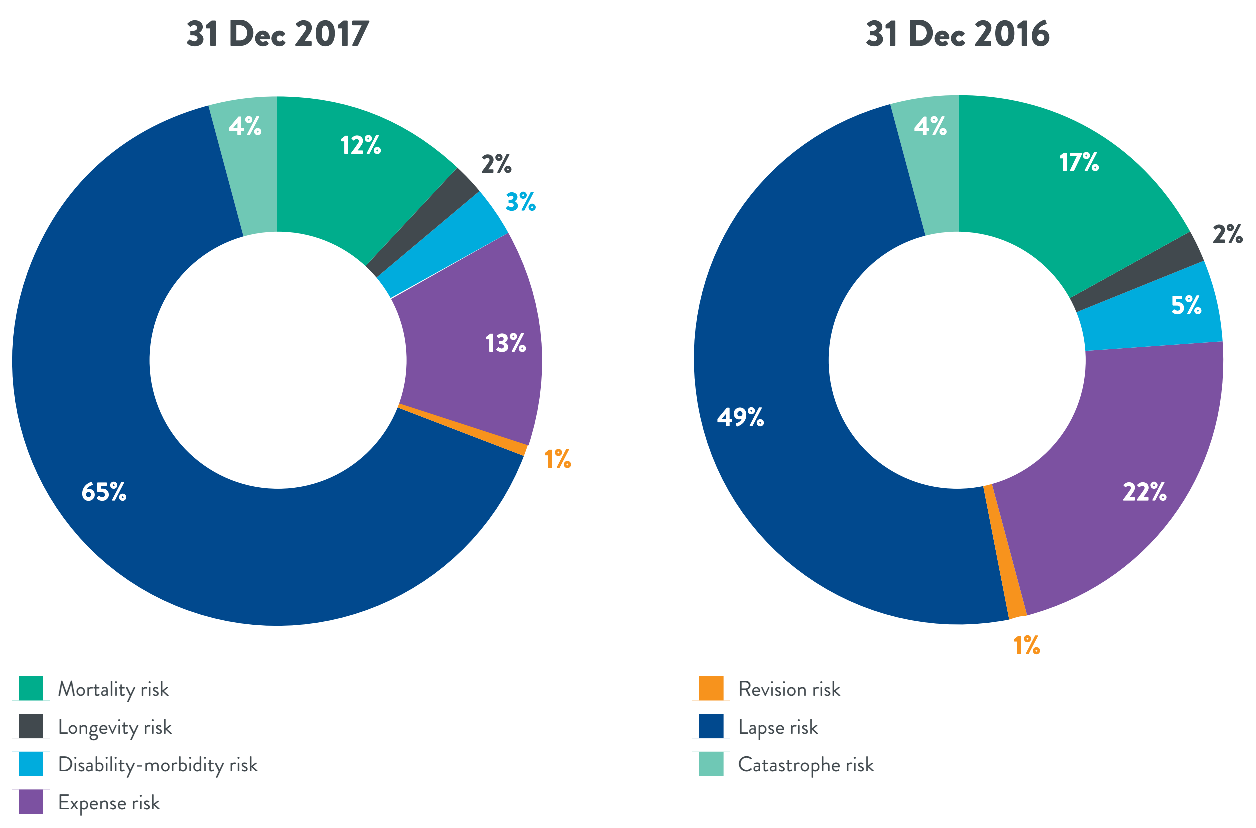
Lapse risk, specifically mass lapse risk, represented the largest part of the undiversified life underwriting risk. In 2017, the related capital requirement first increased due to a more detailed calculation of risk by insurance policy. The increase in this risk is also evident from the below breakdown of undiversified risk by risk sub-module. Consequently, the share of other life underwriting risks decreased in 2017. Mortality risk and expense risk are also significant, while other risks are rather small.

As we believe that our own risk profile for life business does not deviate significantly from the underlying assumptions in the standard formula, we apply the same treatment to life underwriting risks in the ORSA as in the standard formula.

Life underwriting risk by risk sub-module

(EUR thousand)	31/12/2017	31/12/2016
Life underwriting risk	40,210	26,098
Diversification	-12,383	-11,115
Mortality risk	6,362	6,307
Longevity risk	828	681
Disability-morbidity risk	1,722	1,816
Expense risk	7,033	8,027
Revision risk	503	334
Lapse risk	34,261	18,413
Catastrophe risk	1,884	1,635

Undiversified life underwriting risk by risk sub-module



Risk concentration

At the Group level, there is no significant concentration of life underwriting risk, as the portfolio is well-diversified in terms of the age of the insured persons, the remaining period of insurance, exposures (of sums insured and sums at risk), and premium payment schedule. The portfolio is also diversified in terms of the percentage of policies lapsed in a period, expenses and mortality, and morbidity rates by product.

Risk management

The Group manages **lapse risk** mainly by means of quarterly monitoring of the number and percentage of policies lapsed, by restricting surrenders if an approval by the insurer is required, and by the systematic prevention of insurance rearrangements by other intermediaries.

The procedures used to manage mortality risk are: consistent application of underwriting protocols, which specify in detail the deviation from normal mortality risk, regular monitoring of exposures and adequacy of mortality tables used, and appropriate reinsurance protection. To assess and assume life insurance risks, the Group uses a single web-based tool.

Life-expense risk is managed by the Group by periodic monitoring of the expenses incurred in servicing life insurance contracts, monitoring the macroeconomic situation (e.g. inflation), and appropriately planning the servicing of expenses for the coming years.

Life underwriting risks are also managed by periodically monitoring the life portfolio composition, exposures, premium payment patterns, lapse rates and expenses incurred, as well as by analysing the appropriateness of the modelling of the expected mortality and morbidity, and lapse rates. The information so obtained allows for timely action in the case of adverse developments in these indicators.

C.1.3 Health underwriting risk

Health underwriting risk includes:

- health underwriting risks pursued on a similar technical basis as non-life insurance (hereinafter: NSLT health business);
- health underwriting risks pursued on a similar technical basis as life insurance (hereinafter: SLT health business).

The Group is exposed to both types of health underwriting risk. The majority of the exposure relates to accident insurance, which is classified as NSLT health insurance, while the exposure to SLT health insurance is small.

NSLT health underwriting risks are by their nature very similar to non-life underwriting risks, which are discussed in greater detail in section C.1.1 of this report, and are as such managed by the Group using similar techniques, i.e. by means of a well-designed underwriting process, the control of risk concentration for accident and health insurance products, and an adequate reinsurance protection.

SLT health underwriting risks are by their nature very similar to life underwriting risks, and are therefore managed by the Group using similar techniques. Life underwriting risks are discussed in greater detail in section C.1.2.

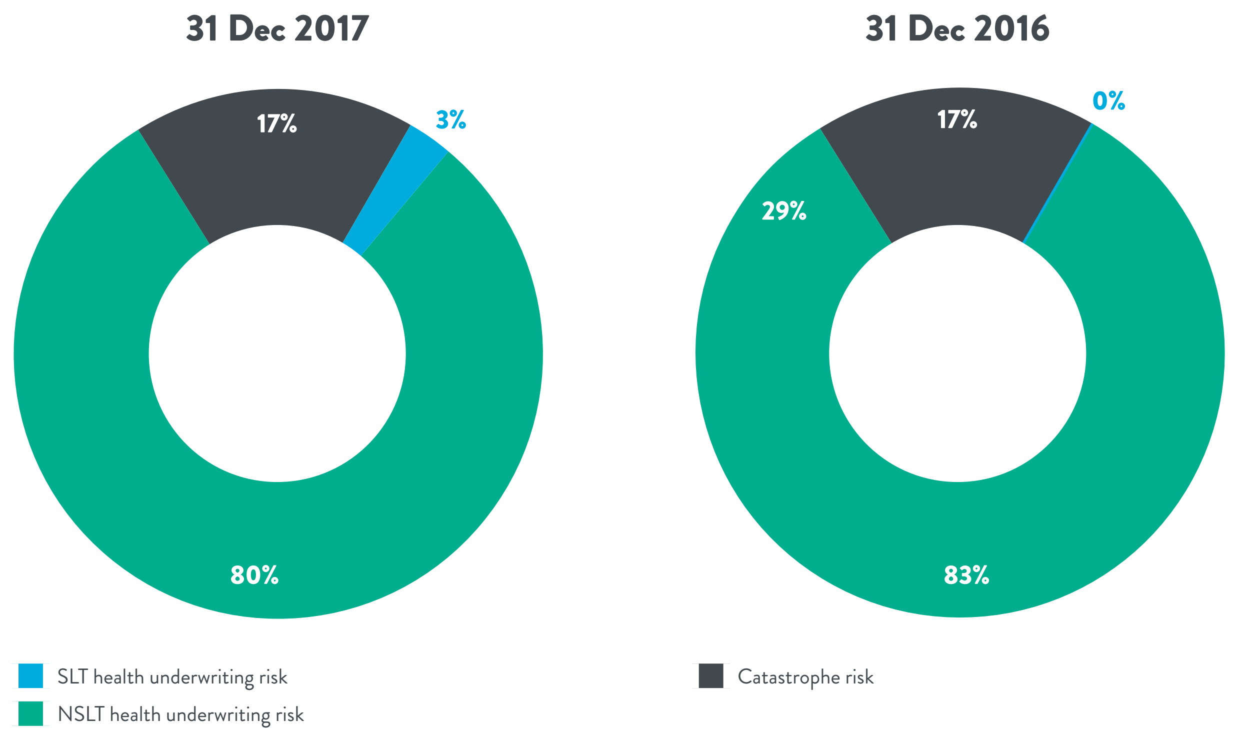
For the quantitative assessment of health underwriting risk, the Group uses the Solvency II standard formula. According to this formula, the exposure to life underwriting risk totalled EUR 23.9 million as at 31 December 2017 (31/12/2016: EUR 24.2 million) or 8.8% (31/12/2016: 8.9%) of the Group's undiversified basic solvency capital requirement. The level of risk pursuant to the standard formula therefore remains at a level comparable to that as at 31 December 2016, while the risk structure by risk sub-module slightly changed, as shown in the chart below.

The majority of this requirement was associated with NSLT health underwriting risk, notably premium and reserve risk. Similar to life underwriting risk, this risk, too, is not optimally evaluated by the standard formula. In ORSA, we therefore used USPs to assess this risk.

Health underwriting risk by risk sub-module

(EUR thousand)	31/12/2017	31/12/2016
Health underwriting risk	23,934	24,178
Diversification	-3,379	-3,030
SLT health underwriting risk	791	113
NSLT health underwriting risk	21,956	22,599
Catastrophe risk	4,565	4,495

Undiversified health underwriting risk by risk sub-module



C.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

To systematically address material market risks, the Group adopted an asset and liability management policy and an investment risk management policy. Market risks are monitored at the individual Group company and Group levels.

Market risks include the following:

- **Interest rate risk** is the risk of a change in market interest rates adversely affecting the value of interest-rate-sensitive assets and liabilities. Interest-rate-sensitive investments include bonds, deposits and loans. When calculating capital requirements for interest rate risk, the amount of interest-rate-sensitive assets is considered on the assets side, while the best estimate of technical provisions, subordinated debt and employee provisions are considered on the liabilities side.
- **Equity risk** is the risk of a fall in the level of equity prices resulting in a fall in the value of equities. The exposure to this risk arises from equity investments and investments in equity and mixed mutual funds. On the liabilities side, the exposure arises from life insurance liabilities where policyholders bear the investment risk.
- **Property risk** is the risk of a fall in the value of property due to changes in the level and volatility of property prices.
- **Currency risk** is the risk of a drop in the value of assets or increase in the level of liabilities due to changes in the level of currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
- **Market concentration risk** is the risk of a suboptimal diversification of the asset portfolio or of an increased exposure to the default of a single counterparty or group of counterparties.

C.2.1 Risk exposure

As at the date of this report, the Group had the following composition of assets that affect its exposure to market risk.

Composition of investments included in the calculation of market risk (Solvency II valuation)[7]

(EUR thousand)	31/12/2017	Structure as at 31/12/2017	31/12/2016	Structure as at 31/12/2016
Asset class				
Bonds	**1,023,284**	**83.9%**	**1,029,651**	**83.7%**
Government bonds	602,511	49.4%	633,073	51.5%
Corporate bonds	420,773	34.5%	392,421	31.9%
Structured products	0	0.0%	4,156	0.3%
Investment funds	**34,009**	**2.8%**	**28,792**	**2.3%**
Deposits	**36,071**	**3.0%**	**34,691**	**2.8%**
Equity investments	**25,835**	**2.1%**	**24,950**	**2.0%**
Participations	8,353	0.7%	8,008	0.7%
Listed equities	13,237	1.1%	12,377	1.0%
Unlisted equities	4,245	0.3%	4,565	0.4%
Property	**58,183**	**4.8%**	**57,014**	**4.6%**
Own-use property	42,187	3.5%	48,703	4.0%
Other property	15,996	1.3%	8,311	0.7%
Deposits to cedants	**5,832**	**0.5%**	**7,836**	**0.6%**
Cash and cash equivalents	**35,736**	**2.9%**	**46,973**	**3.8%**
Total	**1,218,952**	**100.0%**	**1,229,906**	**100.0%**

The value of assets included in the calculation of market risks was EUR 1,219.0 million as at 31 December 2017 (31/12/2016: EUR 1,229.9 million). Their composition shows that the bulk of the Group's financial investments consists of fixed-income financial instruments.

In addition to these investments, investments of policyholders who bear the investment risk of EUR 144.7 million (31/12/2016: EUR 124.4 million) and the related obligations under these contracts were also included in the calculation. These have a significant impact on the level of capital requirements.

[7] Overview of the basic investment portfolio (does not consider the look-through approach).

The predominance of fixed-income financial instruments reflects the Group's policy that defines asset and liability matching as one of the main objectives of investment management.

The Group's investment portfolio shows a relatively high exposure to interest rate and credit risk.

C.2.2 Measurement and concentration of market risks

For the quantitative assessment of market risks, the Group uses the Solvency II standard formula as well as its own risk assessment. The look-through approach was used in the calculation of market risk as at 31 December 2017.

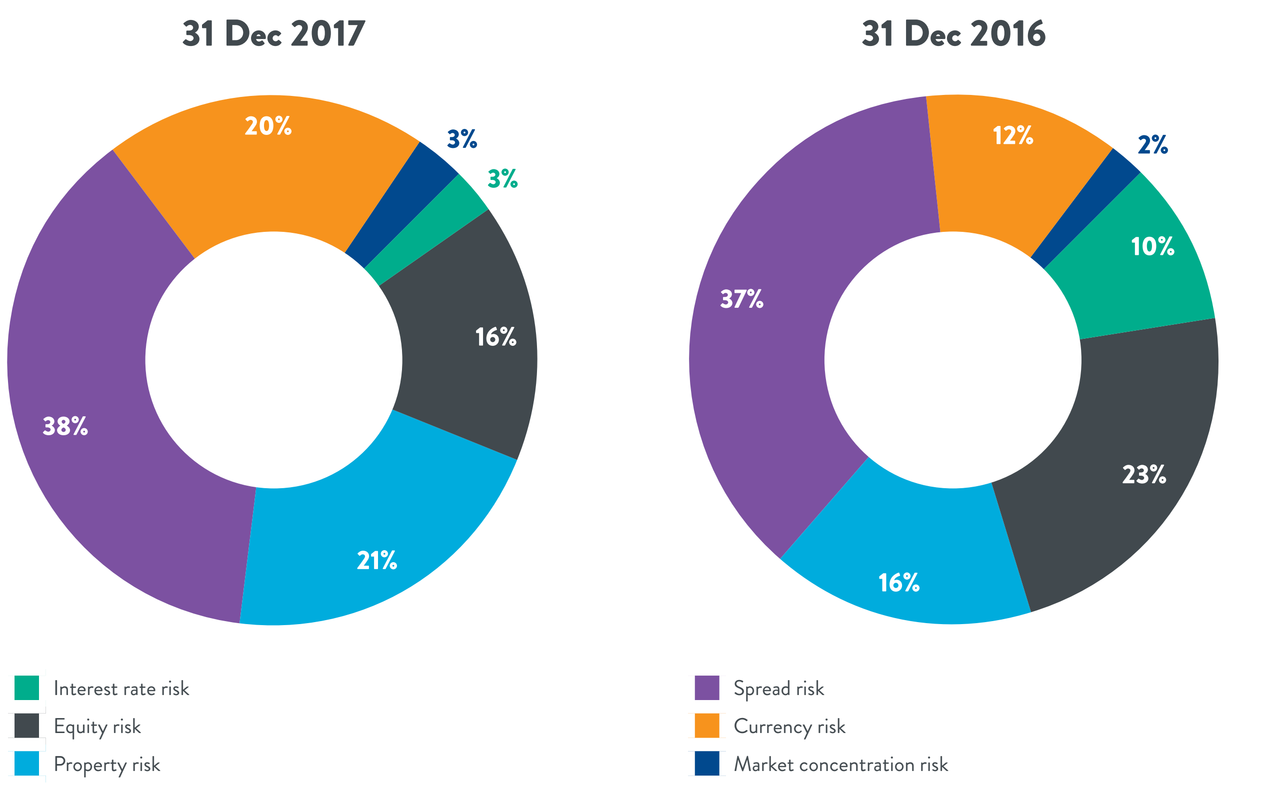
The solvency capital requirement for market risk that the Group calculated using the standard formula amounted to EUR 51.7 million as at 31 December 2017 (31/12/2016: EUR 63.9 million) or 19.0% of the total undiversified basic solvency capital requirement (31/12/2016: 23.4%). The decrease in the solvency capital requirement for market risk in 2017 is mostly the result of the application of the look-through approach.

The spread risk and property risk constitute the largest share in the market risk structure (31/12/2016: the largest share was attributed to credit risk and equity risk). The changed composition compared to 31 December 2016 is the result of the application of the look-through approach.

Market risks by risk sub-module

(EUR thousand)	31/12/2017	31/12/2016
Market risk	51,671	63,861
Diversification	-18,290	-23,401
Interest rate risk	1,817	8,607
Equity risk	11,113	20,365
Property risk	14,546	14,254
Spread risk	26,417	32,017
Currency risk	13,782	10,205
Market concentration risk	2,286	1,815

Undiversified market risk by risk sub-module



- **Interest rate risk** accounted for 3% of the total undiversified capital requirement for market risks. Interest-rate-sensitive investments include bonds, deposits and loans. On the liabilities side, interest-rate-sensitive liabilities mainly include technical provisions of longer maturities, especially those supporting life insurance obligations. Compared to 31 December 2016, interest rate risk decreased due to fluctuations in the risk-free interest rate term structure. The change affected the amount of assets and liabilities after implementation of the specific shock for the calculation of interest rates (the rise or fall in the risk-free interest rate term structure), which in turn led to the decrease in interest rate risk.

- **Equity risk** accounts for 16% of total undiversified market risk. The application of the look-through approach led to the decrease of risk in 2017, since the solvency capital requirement for type 2 equity risk significantly decreased compared to the previous year. Capital requirements arise partly from portfolio investments and partly from the mutual-fund investments that the Group holds to match the liabilities under life insurance contracts where policyholders bear the investment risk. The Group matches the assets and liabilities of such policies with the amount of technical provisions pursuant to IFRSs. Due to the Solvency II valuation of obligations arising from such insurance contracts, the shock has a different impact on the amount of assets and liabilities, reflected in the calculation of equity risk as a mismatch of assets and liabilities, which can in turn lead to an additional capital requirement.

- **Property risk.** The allocation to investment property within the investment portfolios of Group companies is limited by the limits system and is therefore relatively small also at the Group level. The risk mainly relates to property held for own use. Due to the high capital charge for property risk used in the standard formula, this risk represented 21% of total undiversified market risk, despite the small exposure.

- **Currency risk** represented 12% of undiversified market risk. Both assets and liabilities are exposed to this risk. The Group's exposure to currency risk arises mainly from the reinsurance business of Sava Re, from Group companies established outside the euro area and the look-through approach. Notwithstanding the high degree of currency matching between IFRS assets and liabilities, there is partial currency mismatching under Solvency II due to differences in the valuation of technical provisions under IFRS and Solvency II, and capital of Group companies not denominated in euros. The increased share compared to market risk as at 31 December 2016 is mainly the result of the application of the look-through approach.

- **Spread risk** is the largest market risk, accounting for 38% of the total undiversified capital requirement for market risk. This is due to the Group's relatively large exposure to corporate bonds and deposits. The risk declined modestly compared to 31 December 2016.

- **Market concentration risk** of the Group is low due to its well-diversified investment portfolio, accounting for 3% of undiversified market risk.

When assessing the risks associated with the investment portfolio, the Group also regularly monitors other risk and performance measures relating to the investment portfolio:
- income volatility,
- net investment income and return on investment.

In managing assets and liabilities, the Group and each EU-based Group company calculate the following on a quarterly basis:
- risk measures: modified duration, convexity and key rate duration,
- estimated future cash flows,
- the currency composition of assets and liabilities.

In addition to the standard formula, the Group uses its own risk assessment model (within ORSA) to monitor and assess market risk. Depending on the possibilities of each Group company, the following risks are assessed in the internal model: equity risk, interest rate risk and credit risk. Apart from counterparty default risk, credit risk comprises market concentration risk and spread risk. In accordance with Article 180 of the Delegated Regulation, the standard formula assigns a risk factor stress of 0% to certain government bonds, which – given past market behaviour – actually bear a certain level of risk. Accordingly, this is assessed within the internal model, together with other debt securities.

The Group's highest single issuer concentration (as well as the highest regional concentration) arises from the Republic of Slovenia. Aware of these concentrations, the Group actively manages them by reducing the maximum exposure limit set in the internal limit system.

C.2.3 Risk management

The framework for market risk management is set out in the Group's asset and liability management policy and investment risk management policy. Specifically, the two policies define the following:

- the basic investment guidelines,
- measures to be used in the monitoring of investment performance,
- measures to be used in the monitoring of investment risks,
- persons responsible in the investment process.

The Group's framework for market risk management has been appropriately transferred to and is being used by each Group company.

In the management and monitoring of market risks, the Group takes account of the following:

- its risk appetite as set out in the risk strategy,
- operational limits for financial investments,
- performance and risk measures relating to investments and liabilities.

The Group manages the risks arising from the financial investments portfolio by regularly monitoring and analysing issuers' financial data, by monitoring the market prices of financial instruments, and by regularly analysing asset and liability management.

The Group companies address any asset and liability mismatch by means of adjustments and hedging, and – if practicable and cost efficient – by adjusting assets to liability cash flows. Group companies do not use derivative financial instruments for asset and liability matching.

The Group manages equity risk through the diversification of this investment portfolio segment to various capital markets and a limit system that limits the exposure to equities.

Currency mismatches are managed at the individual Group company level through currency overlay and based on IFRS liabilities. The monitoring and management of currency risk is presented in greater detail in the Group's annual report, in the Currency risk section (section 17.7.5.1.4).

To avoid concentration of investments by investment type, issuer, industry, and other similar concentrations, Group companies ensure that their investment portfolios are diversified within the possibilities of their respective capital markets and legal frameworks, in accordance with local insurance regulations and their own internal rules. To avoid risk concentration at the Group level, additional issuer-related limits are set at this level. The Group thus prevents large concentrations within the investment portfolio, and limits the risk. The Group's portfolio broken down by these parameters and by rating is shown in its annual report, in section 17.7.5.3.

In addition, the Group carried out three stress tests, applying various parameters that affect the level of the solvency capital requirement for market risk and the level of the company's eligible own funds, and consequently the solvency position.

The first sensitivity test was an **increase and decrease in interest rates.** We carried out a stress test of interest rate sensitivity by raising and lowering the base curve of the risk-free interest rate for all maturities by 100 basis points. Then, we made a new calculation of eligible own funds and the solvency capital requirement for all interest-rate-sensitive assets and liabilities. An increase in interest rates of 100 basis points would results in a decrease of the Group's eligible own funds below the Group's materiality threshold[8] and an increase in the Group's SCR, also below the materiality threshold. The impact of the stress test on the solvency ratio is relatively small and comparable with the calculation of the stress test impact as at 31 December 2016. A stress test envisaging a fall in interest rates of 100 basis points resulted in a slightly larger decrease in the Group's eligible own funds (but still below the Group's materiality threshold) and a decrease in the Group's SCR. The absolute impact on the solvency ratio is relatively small and comparable with the calculation of the impact as at 31 December 2016.

The second is a stress test of a fall in stock prices, specifically a 20% fall in the prices of equity securities as at the reporting date (listed and unlisted equities; equity, bond, money market and mixed mutual funds). We calculated the impact of the stress test on the Group's eligible own funds (we also evaluated the impact of this change on the best estimate of provisions, which depend on the amount of investments), but we did not calculate the impact on the SCR. The stress test revealed a decrease in eligible own funds, with the decrease remaining below the materiality threshold, resulting in a very modest impact on the Group's solvency ratio.

The impact of a change in property prices on the Group's solvency position was analysed through a stress test assuming a **25% fall in property prices.** The calculation was made using the amount of property as at the reporting date. The stress test mainly resulted in a decline in eligible own funds – a decline that did not exceed the materiality threshold. In addition, this resulted in a decline in the capital requirements for the property risk and currency risk sub-modules and in an increase in the capital requirement for concentration risk. The impact of the stress test on the solvency ratio is small and comparable to the impact calculation as at 31 December 2016.

[8] The materiality threshold is an internal measure associated with the level of eligible own funds and solvency capital requirement. As at 31 December 2017, it was set at EUR 9.5 million at the Group level.

Absolute impact of market risk stress tests on the solvency ratio

Stress test	31/12/2017
Increase in interest rates of 100 basis points	-4.8%
Decrease in interest rates of 100 basis points	3.5%
Decrease in prices of equity securities of 20%	-1.0%
Decrease in property prices of 25%	-3.8%

In addition to sensitivity and stress tests, the Group considered a number of scenarios and their impacts on its operations and solvency position. We selected scenarios based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, and taking into account their probability of occurrence. We decided to test a financial crisis scenario and analysed a deterioration in economic conditions in 2018, assuming a change in interest rates, credit risk spreads, and exchange rates. We assumed the largest yield drop for bonds would be seen in secure bonds (German and US government bonds), i.e. their prices rise, while there is an increase in the yield spread of other bonds depending on the type, currency and country of issuer, which results in a lower price for these investments. For equities and investment property, we assumed various value drops, depending on the region and type of investment. Such a scenario would have a very large impact on the Group's eligible own funds (with the impact greatly exceeding the Group's materiality threshold). Such a decline in the value of investments would also result in lower capital requirements for market risk and, consequently, a lower Group SCR. The decline in the SCR also exceeds the materiality threshold. If such a scenario occurred in reality, the solvency would deteriorate; however, it would still remain within the range of appropriate capital, in line with the risk strategy.

Prudent person principle

The Group makes investment decisions that take into account all investment-related risks, not only risks considered in capital requirements. In the optimisation process, strategic asset allocation is defined based on risk appetite and restrictions imposed by local legislation.

Persons responsible for undertaking investment decisions assume and manage investment risk in line with the guidelines set out in the investment risk management policy, which is designed in accordance with the prudent person principle.

All assets are invested in such a way as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition, these assets are localised to ensure their availability.

Assets held to cover technical provisions are invested in a manner appropriate to the nature and duration of the reinsurance liabilities. These assets are invested in the best interest of all policyholders and beneficiaries.

Each Group company has in place a limit system based on applicable legislation and its risk appetite.

Group companies have in place set exposure limits for specific investment classes and commercial issuers. Exposure to individual commercial and government issuers is monitored at both individual Group company and Group levels. In case of a conflict of interest, each Group company ensures that the investment is made in the best interest of policyholders and beneficiaries.

C.3 Credit risk

Credit risk is the risk of loss or adverse change in the Group's financial position resulting from fluctuations in the credit standing of issuers, counterparties and any debtors to which the Group is exposed.

C.3.1 Credit risk

Credit risk is composed of:

- **counterparty default risk,** which may result in losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the coming 12 months. Counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements and receivables from intermediaries, as well as any other credit exposures not covered in the spread risk sub-module of the standard formula (cash and cash equivalents and deposits of up to 3 months). Receivables-related credit risk arises from delays in the payment of receivables arising from the Group's primary insurance and accepted reinsurance business, and in the payment of recourse receivables. To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue receivables. This is why the Group's exposure to counterparty default risk is low.
- **spread risk,** and
- **market concentration risk.**

Spread and market concentration risks are discussed and presented within the market risk section in accordance with the risk classification and measurement of the standard formula. Below, we provide details regarding counterparty default risk.

C.3.2 Risk measurement and concentration

The Group makes quantitative assessments of credit risk using the Solvency II standard formula. As mentioned, spread and market concentration risks are assessed within the market risk module, while counterparty default risk is assessed in a separate module. This section shows the results for counterparty default risk, while market risk is discussed in section C.2.

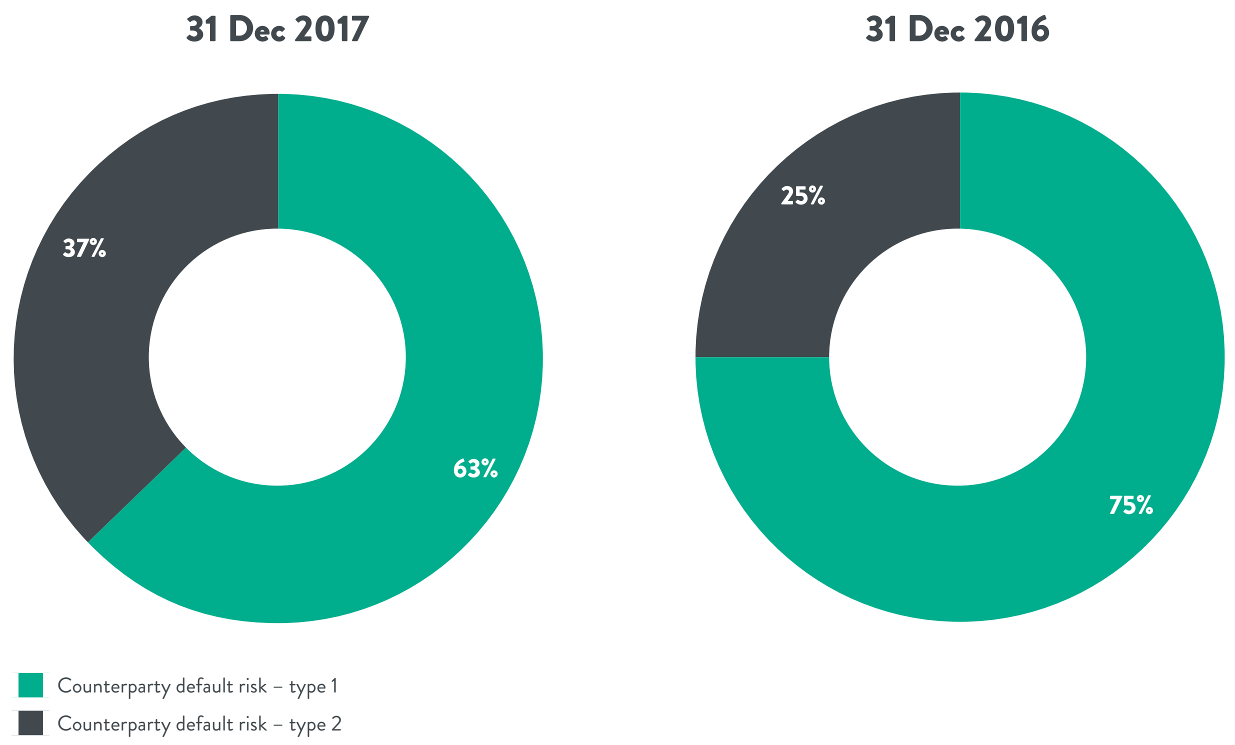
The Group's solvency capital requirement in accordance with the Solvency II standard formula for counterparty default risk amounted to EUR 14.4 million as at 31 December 2017 (31/12/2016: EUR 19.6 million) or 5.3% (31/12/2016: 7.2%) of the Group's total undiversified basic solvency capital requirement. The decline in this risk is mostly the result of the lower solvency capital requirement relating to cash and cash equivalents.

The chart below shows the composition of the counterparty default risk module in accordance with the standard formula.

Counterparty default risk by risk sub-module

(EUR thousand)	31/12/2017	31/12/2016
Counterparty default risk	14,364	19,611
Diversification	-917	-1,001
Counterparty default risk – type 1	9,645	15,373
Counterparty default risk – type 2	5,636	5,239

Undiversified counterparty default risk by risk sub-module



Type 1 exposure includes exposures related to reinsurance and co-insurance contracts, cash and cash equivalents, and deposits to cedants. Type 2 exposure includes all receivables not included under type 1 exposure other than: pending premium receivables, pending commission receivables, tax assets and deferred tax assets.

In addition to the calculation of the solvency capital requirement in accordance with the standard formula, the Group develops its own model (in ORSA) to assess credit risk relating to financial investments. This model takes account of spread, migration and default risks for all investments in debt instruments. Closely interrelated, these risks are addressed within a single model in the ORSA. As regards counterparty default risk related to reinsurers and co-insurers, we believe that the standard formula appropriately evaluates the risk and, therefore, make no own calculations for this part. The own credit risk calculation also takes account of the diversification effect.

The Group has no significant concentration with counterparty default risk.

C.3.3 Risk management

To avoid late payments, Group companies closely monitor policyholders, and actively collect overdue unpaid receivables.

Group companies manage the risk associated with reinsurance and co-insurance contract assets by limiting the exposure to any one reinsurer and co-insurer and by entering into contracts with highly-rated partners. Group companies mainly arrange reinsurance directly with the controlling company. Exceptionally, if so required by local regulations, they buy reinsurance from providers of assistance services and local reinsurers. In such cases, local reinsurers transfer the risk to Sava Re, so that the actual exposure to counterparty default risk arising from assets under reinsurance contracts is low.

The Group manages credit risk relating to cash equivalents by means of diversification by banks, whereby individual Group companies set up maximum exposure limits for this type of investment.

The Group monitors and reports on credit risk exposure on a quarterly basis, which ensures timely actions, where needed. Partner credit ratings are also monitored, with a focus on any indications of their possible downgrading. To this end, the Group also has a process in place for checking external ratings.

A credit rating subcommittee has been set up as part of the Group's risk management committee. It is responsible for the assessment of reinsurers, and for reviewing the assessment of the appropriateness of external credit ratings for the purpose of capital requirement calculations under the standard formula.

C.4 Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient liquid assets to meet its obligations as they fall due, and will have to sell its less liquid assets at a discount or raise new loans. Liquidity risk should be understood as risk arising from short-term cash flows rather than risk arising from long-term mismatch of assets and liabilities.

C.4.1 Risk exposure

The Group has substantial monetary obligations (mainly to policyholders), and must therefore adequately manage its cash flows, ensuring an appropriate level of liquidity. Group companies carefully plan and monitor realised cash flows (cash inflows and outflows). Furthermore, they regularly monitor the receivables aging analysis, considering the impact of receivables settlement on their current liquidity.

C.4.2 Risk measurement and concentration

Liquidity risk is difficult to quantify and hence is not covered within the Solvency II standard formula. Therefore, the Group focuses on the periodic monitoring and managing of this risk.

In accordance with their capabilities, Group companies determine their exposures to liquidity risk by implementing, analysing and monitoring these risk measures:

- cash in bank accounts,
- the percentage of highly-liquid assets[9] and the haircut amount in relation of the total amount of financial investments, in accordance with the ECB methodology (or comparable ratio, if established outside the European Union),
- liquidity buffer,
- the difference between the projected cash outflows and inflows for the next quarter, and the percentage of the liquidity buffer represented by this difference,
- any other legally required measures.

The Group is not exposed to a concentration of liquidity risk, but may in certain cases still face certain emergency liquidity needs.

C.4.3 Risk management

In order to effectively manage liquidity risk, the Group has adopted a liquidity risk management policy, which sets out the risk management processes, liquidity risk measures, and procedures involved in the event of emergency liquidity needs. Furthermore, it defines liquidity risk as a key risk in its risk strategy. Due to the nature of liquidity risk, the Group does not manage such risk by holding additional capital, but through an appropriate strategy for ensuring sufficient liquidity.

The estimated liquidity requirement of an individual Group company is composed of the estimated normal current liquidity requirement (arising from operations and investment maturity) and a liquidity buffer (estimated based on stress scenarios).

Group companies conduct assessments of normal current liquidity requirements within a period of up to one year based on projected three-month and weekly cash flows, which take account of the planned investment maturity dynamics and of other inflows and outflows from operations by using historical data from previous monthly and weekly liquidity plans and expectations regarding future performance.

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. Both the Group's EU-based insurers provide the required assets for covering the assessed liquidity buffer by investing at least 15% of their portfolio in highly liquid assets. Other Group companies use cash in bank accounts and short-term deposits as short-term assets for ensuring liquidity. As at 31 December 2017, the two EU-based Group companies held a level of L1A assets significantly exceeding the 15% set in the risk strategy: Zavarovalnica Sava 43.9% and Sava Re 28.2%.

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

An additional liquidity buffer is provided by the credit lines arranged by Sava Re with two commercial banks, also put in place for the emergency liquidity needs of its subsidiaries.

Expected profits included in future premiums

Expected profits included in future premiums (hereinafter: EPIFP) that the Group, in accordance with article 260(2) of Commission Delegated Regulation (EU) (2015/35), calculated as the difference between technical provisions without a risk margin calculated in accordance with Solvency II and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to 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. In the latter calculation, a 100% rate of cancellations is assumed, and all policies are treated as paid-up policies.

EPIFP is calculated separately for each homogeneous risk group, which means that loss-making policies may only be offset against profit-making policies within a homogeneous risk group.

The table below shows EPIFP for the Group's non-life and life business. Compared to the calculation as at 31 December 2016, EPIFP slightly decreased.

EPIFP – life and non-life business

(EUR thousand)	31/12/2017	31/12/2016
Non-life business	19,645	24,952
Life business	42,386	39,869
Total	62,032	64,820

[9] Liquidity class L1A according to the ECB classification of assets eligible for collateral.

C.5 Operational risk

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

C.5.1 Risk exposure

Operational risks are not among the Group's most significant risks. Nevertheless, some are relatively important, in particular:

- risk associated with supervision and reporting,
- risk associated with transactions, execution and maintenance,
- risk associated with valuation and reporting,
- IT security risk,
- risk of inside information leaks,
- risk of loss of key, professional and high-potential employees,
- risk of loss or failure of computer or telecommunication systems,
- risk of incorrect data input and inadequate documentation,
- risk of inadequate products,
- risk of inappropriate insurance claims handling.

C.5.2 Risk measurement and concentration

The Group calculates its capital requirements for operational risks using the Solvency II standard formula at least once annually. Such a calculation, however, is only of limited practical value, as the formula is not based on the Group's actual exposure to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses.

As at 31 December 2017, the solvency capital requirement for market risk pursuant to the standard formula amounted to EUR 15.4 million (31/12/2016: EUR 14.8 million) and did not change significantly compared to 31 December 2016.

Due to the limited application of the standard formula, the Group assesses operational risks qualitatively in the risk register, assessing their frequency and potential financial impact, while the EU-based insurers additionally use scenario analysis. Through regular risk assessments, the Group companies obtain insight into the actual level of their exposure to such risks. In addition to risk registers of individual Group companies, there is also one at the Group level, containing the risks arising at the Group level or those which, at the Group level, do not equal the sum total of risks of individual Group companies. Risks are assessed in the same way as at the individual Group company level.

The Group is not exposed to any significant concentrations of operational risk.

C.5.3 Risk management

Group companies have established processes for identifying, measuring, monitoring, managing and reporting on such risks for the effective management of operational risk. Such processes for operational risk management are also in place at the Group level. Accountability and operational risk management processes are set out in greater detail in the operational risk policy and the risk management rules of the Group.

The internal control system plays a key role in operational risk management, ensuring appropriate control activities and appropriate internal controls integrated into business processes and activities of the company put in place to mitigate and monitor risk. an adequate implementation of internal controls is the responsibility of individual organisational units in which internal controls are to be carried out.

The chief measures of operational risk management at the individual company and Group levels include:

- maintaining an effective business processes management system and system of internal controls;
- awareness-raising and training of all employees on their role in the implementation of the internal control system and management of operational risks;
- a positive climate, good business culture and continuous employee training;
- implementing security policies regarding information security;
- having in place a business continuity plan for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption);
- having in place IT-supported processes and controls in the key areas of business of every Group company;
- awareness-raising and training of all employees.

In addition, the Group also manages such risks through oversight by the internal audit department.

All major internal controls related to operational risk are included in the risk registers of individual Group companies and the Group.

The Group and individual Group companies periodically report on assessed operational risks in risk reports, which are submitted to the risk management committee (if set up in the company), the company's management board, the risk committee (if set up in the company) and to the supervisory board. The risk management function and the risk management committee may issue recommendations to the management board for further steps and improvements to operational risk management processes.

C.6 Other material risks

C.6.1 Strategic risks

Other material risks of the Group consist primarily of strategic risks. These include the risk of an unexpected decrease in the Group's value due to the adverse effects of management decisions, changes in the business and legal environment or market developments. Such events could have an adverse effect on the Group's income or capital adequacy.

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. In 2017, the Group was exposed to the following key strategic risks:

- strategic investment risk,
- project risk,
- competitor risk,
- risk of strategic focus regarding the Group's operations,
- regulatory risk,
- reputation risk.

Risk measurement

Strategic risks are by nature very diverse, difficult to quantify and heavily dependent on various (including external) factors. They are also not included in the calculation of capital requirement in accordance with the Solvency II standard formula.

Therefore, the Group assesses strategic risks qualitatively in the risk register, assessing their likelihood and potential financial severity. In addition, the Group seeks to evaluate key strategic risks using a qualitative analysis of various scenarios (also as part of the ORSA). The two types of analyses combined provide the Group with a picture of the extent and changes in the exposure to this type of risk.

Risk concentration

In 2017, the Group was not exposed to any significant strategic risk concentration (having successfully completed the project of merging four of its EU-based insurers in 2016).

Risk management

Group companies mitigate individual strategic risks mainly through preventive measures.

In addition to the competent organisational units in Group companies, strategic risks are identified and managed by management bodies, risk management committees, risk management functions and the key functions of the risk management system. Strategic risks are additionally identified by the Group's risk management committee.

Strategic risks are also managed by continually monitoring the realisation of short- and long-term goals of Group companies, and by monitoring regulatory changes in the pipeline and market developments.

The Group is aware that its reputation is important for realising its business goals and achieving strategic plans in the long term. The risk strategy therefore identifies **reputation risk** as a key risk. It provides that each Group company must continually strive to minimise the likelihood of actions that could have a major impact on the their reputation or on the reputation of the Group as a whole. In addition, Group companies have taken steps aimed at mitigating reputation risk, such as setting up fit and proper procedures applicable to key employees, ensuring systematic operations of their respective compliance functions, having in place business continuity plans, developing stress tests and scenarios, and planning actions and response in case risks materialise. Risks related to reputation are also managed through seeking to improve services, timely and accurate reporting to supervisory bodies, and well-planned public communication. A crucial factor in ensuring good reputation and successful performance is the quality of services; therefore, each and every employee is responsible for improving the quality of services and customer satisfaction.

The Group manages and mitigates r**egulatory risk** by continually monitoring the anticipated legislative changes in all countries where Group companies are established, and by assessing their potential impact on the operations of the Group in the short and long term. All Group companies have established compliance functions to monitor and assess the adequacy and effectiveness of periodic procedures and measures taken to remedy any deficiencies in complying with legal regulations and other commitments.

25 May 2018 was the effective date of EU Regulation 2016/679 of the European Parliament and of the Council, dated 27 April 2016, on the protection of individuals with regard to the processing of personal data and on their free movement, and the date of the repeal of Directive 95/46/EC (General Data Protection Regulation; GDPR.) In 2017, the EU-based Group companies conducted activities for harmonising their internal rules on data protection, taking measures for effective monitoring and responding in case of any breach, and preparing a risk assessment.

On 1 January 2021, (re)insurance companies will have to begin implementing the application of IFRS 9 Financial Instruments, which is to supersede IAS 39. IFRS 9 introduces new criteria for the classification of financial instruments into categories based on a company's business model and the characteristics of the instrument. In addition, it introduces an expected loss model for impairments. It will affect contractual cash flows, the statement of other comprehensive income and the income statement. In May 2017, the International Accounting Standards Board issued IFRS 17 – Insurance Contracts. IFRS 17 is applicable to annual reports as of 1 January 2021 when it will supersede IFRS 4. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future cash flows (discounted at market rates) with a provision for risk and a contractual service margin. As a result, (re)insurance reporting will become more complex. The EU-based Group companies have already started aligning their operations to comply with both the above-mentioned accounting standards.

C.6.2 Investment contract risks

The Group's investment contracts include a group of life cycle funds called MOJI *skladi življenjskega cikla* (MY life-cycle funds), relating to supplementary pension business of the company Sava pokojninska in the accumulation phase. The company started managing the group of long-term life-cycle funds MOJI *skladi življenjskega cikla* on 1 January 2016. They comprise three funds: MOJ *dinamični sklad* (MDS, MY Dynamic Fund), MOJ *uravnoteženi sklad* (MUS, MY Balanced Fund), and MOJ *zajamčeni sklad* (MZS, MY Guaranteed Fund). As at 31 December 2017, investment contracts assets totalled EUR 129.6 million (31/12/2016: EUR 121.4 million).

For the purpose of calculating capital adequacy, the company Sava pokojninska is consolidated in accordance with the rules applicable to other financial sectors, and is not considered in the modules of the Solvency II standard formula. The risks associated with the company are therefore not discussed as part of underwriting or market risks. The capital requirements for Sava pokojninska were calculated in accordance with sectoral regulations, and amounted to EUR 5.3 million as at 31 December 2017 (31/12/2016: EUR 4.9 million).

Based on its investment contract assets and liabilities, the Group is additionally exposed to the risk of not achieving the guaranteed return on the MZS fund. Policyholders (members) within the supplementary pension insurance business therefore bear the entire investment risk arising out of the two funds, MDS and MUS, and the investment risk above the guaranteed return of the MZS fund. The guaranteed rate of return of the MZS fund is 60% of the average annual interest rate on government securities with a maturity of over one year.

The risk of failing to realise guaranteed returns is managed primarily through an appropriate management of policyholders' assets and liabilities, an appropriate investment strategy, an adequate capital level and provisioning. The Group tests its risk exposure arising out of guaranteed return through stress tests and scenarios as part of its own risk and solvency assessment.

C.7 Any other information

The Group has no other material information relating to its risk profile.

D VALUATION FOR SOLVENCY PURPOSES

VALUATION FOR SOLVENCY PURPOSES

D. VALUATION FOR SOLVENCY PURPOSES

The basis for the balance sheet under Solvency II, where assets and liabilities are valued in accordance with the valuation principles set out in articles 174–190 of the ZZavar-1, is the consolidated balance sheet as prepared for Group reporting under the International Financial Reporting Standards as adopted by the EU Commission (hereinafter: IFRS balance sheet).

The preparation of the IFRS consolidated financial statements of the Sava Re Group involves the full consolidation of all Group companies.

For the purposes of determining the Group's solvency position, the consolidated IFRS balance sheet is adjusted on the basis of article 335 of Commission Delegated Regulation (EU) (2015/35). In accordance with article 335 (a) of Commission Delegated Regulation (EU) (2015/35), consolidated data for the calculation of the Group's solvency includes the full consolidation of data for all insurance companies and ancillary services companies that are subsidiaries of the Sava Re Group. For the Sava pokojninska pension company, meanwhile, article 335 (e) of Commission Delegated Regulation (EU) (2015/35) provides that 100% of the company's own funds be taken into account in the consolidation calculated in accordance with sectoral regulations. The thus adjusted consolidated IFRS balance sheet is the baseline for the preparation of the balance sheet under Solvency II (hereinafter: SII balance sheet).

For the purposes of determining the Group's solvency position, assets are stated – in accordance with article 174 of the Slovenian Insurance Act (ZZavar-1) – at amounts for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction.

Liabilities are valued at amounts by which they could be transferred or settled between knowledgeable and willing parties in an arm's length transaction. The value of liabilities is not adjusted in respect of the Group's creditworthiness.

Assets and liabilities, excluding Technical Provisions (hereinafter:TP), are valued in accordance with IFRSs. If the IFRSs allow for several valuation methods, a method has to be chosen that is consistent with Solvency II principles and article 174 of the Insurance Act ZZavar-1. For most other assets and liabilities (other than TP), the IFRSs provide for a valuation consistent with Solvency II principles.

The reclassification and revaluation of SII balance sheet items is based on the IFRS balance sheet. This section describes the implementation of such reclassifications and revaluations for items where the SII value differs from the IFRS value. For all other items, IFRSs are deemed to ensure a valuation consistent with Solvency II principles.

The fundamentals, methods and main assumptions used at the level of the Group in the valuation of the Group's assets, technical provisions and other liabilities for solvency purposes, are no different from those used by any of the Group companies in its own valuation of its assets, TP and other liabilities for the purposes of Solvency II.

The Group holds no material off-balance sheet liabilities that it would be required to account for as contingent liabilities in the SII balance sheet.

The following table shows the Group's balance sheet as at 31 December 2017 and 31 December 2016. It includes the values of assets and liabilities under the IFRS (before and after adjustments for the Sava pokojninska pension company) as well as assets and liabilities in accordance with the valuation principles set out in articles 174–190 of the ZZavar-1, taking into account the revaluations and reclassifications of asset and liability items.

IFRS and SII balance sheets as at 31 December 2017

(EUR thousand)		IFRS value	Adjustment for Sava pokojninska	IFRS value after adjustment for Sava pokojninska	Revaluation	Reclassification	SII value
Assets							
1.	Goodwill	14,549	-1,530	13,019	-13,019	0	0
2.	Deferred acquisition costs	22,391	0	22,391	-22,391	0	0
3.	Intangible assets	4,281	-54	4,227	-4,227	0	0
4.	Deferred tax assets	2,108	0	2,108	7,451	0	9,559
5.	Property, plant and equipment held for own use	45,273	-80	45,193	-3,006	0	42,187
6.	Property, plant and equipment other than for own use	15,529	0	15,529	467	0	15,996
7.	Participations	0	8,849	8,849	-495	0	8,353
8.	Equities	17,525	-43	17,482	0	0	17,482
9.	Bonds	960,713	-12,015	948,698	7,723	66,863	1,023,284
10.	Investment funds	31,858	-873	30,985	-23	3,047	34,009
11.	Deposits other than cash equivalents	21,605	-10	21,595	945	13,531	36,071
12.	Investments for the benefit of life-insurance policyholders who bear the investment risk	227,228	0	227,228	950	-83,441	144,737
13.	Loans and mortgages	592	0	592	0	0	592
14.	Reinsurance recoverables	30,787	0	30,787	-7,611	-3,290	19,887
15.	Deposits to cedants	5,832	0	5,832	0	0	5,832
16.	Insurance and intermediaries receivables	124,325	0	124,325	0	-92,633	31,691
17.	Reinsurance and co-insurance receivables	6,198	0	6,198	0	-523	5,675
18.	Receivables (trade, not insurance)	7,933	-2	7,932	0	-2,286	5,646
19.	Own shares	24,939	0	24,939	2,268	0	27,207
20.	Cash and cash equivalents	37,956	-2,220	35,736	0	0	35,736
21.	Any other assets, not elsewhere shown	131,666	-129,629	2,037	-1,958	0	78
Total assets		**1,733,287**	**-137,606**	**1,595,681**	**-32,926**	**-98,732**	**1,464,023**

(EUR thousand)		IFRS value	Adjustment for Sava pokojninska	IFRS value after adjustment for Sava pokojninska	Revaluation	Reclassification	SII value
Liabilities							
22.	Technical provisions – non-life	642,786	0	642,786	-206,336	-80,337	356,113
23.	Technical provisions – life (excl. index-linked and unit-linked)	288,612	-6,556	282,057	94,252	0	376,308
24.	Technical provisions – index-linked and unit-linked	226,528	0	226,528	-107,253	0	119,275
25.	Provisions other than technical provisions	7,601	-43	7,558	0	0	7,558
26.	Deferred tax liabilities	5,781	0	5,781	45,567	0	51,349
27.	Financial liabilities other than debts owed to credit institutions	245	0	245	0	0	245
28.	Insurance and intermediaries payables	54,711	0	54,711	0	-13,678	41,033
29.	Reinsurance and co-insurance payables	5,160	0	5,160	0	-3,779	1,381
30.	Other payables (trade, not insurance)	7,168	-381	6,787	0	0	6,787
31.	Subordinated liabilities	0	0	0	0	0	0
32.	Any other liabilities, not elsewhere shown:	153,638	-129,529	24,108	-10,407	-938	12,764
Total liabilities		**1,392,231**	**-136,509**	**1,255,722**	**-184,176**	**-98,732**	**972,814**
Excess of assets over liabilities		341,056	-1,097	339,959	151,251	0	491,209

IFRS and SII balance sheets as at 31 December 2016

(EUR thousand)		IFRS value	Adjustment for Sava pokojninska	IFRS value after adjustment for Sava pokojninska	Revaluation	Reclassification	SII value
Assets							
1.	Goodwill	14,549	-1,530	13,019	-13,019	0	0
2.	Deferred acquisition costs	19,935	0	19,935	-19,935	0	0
3.	Intangible assets	7,535	-28	7,507	-7,507	0	0
4.	Deferred tax assets	2,326	0	2,326	6,742	0	9,068
5.	Property, plant and equipment held for own use	51,748	-38	51,710	-3,007	0	48,703
6.	Property, plant and equipment other than for own use	8,073	0	8,073	238	0	8,311
7.	Participations	0	8,849	8,849	-841	0	8,008
8.	Equities	16,661	-39	16,622	0	0	16,622
9.	Bonds	963,490	-10,343	953,147	12,248	64,256	1,029,651
10.	Investment funds	16,852	-507	16,345	0	12,767	29,112
11.	Deposits other than cash equivalents	24,737	-1,753	22,985	996	10,711	34,691
12.	Investments for the benefit of life-insurance policyholders who bear the investment risk	224,175	0	224,175	1,305	-101,081	124,399
13.	Loans and mortgages	613	0	613	0	0	613
14.	Reinsurance recoverables	28,445	0	28,445	-3,765	-4,510	20,169
15.	Deposits to cedants	7,836	0	7,836	0	0	7,836
16.	Insurance and intermediaries receivables	117,230	-2,651	114,579	0	-87,851	26,727
17.	Reinsurance and co-insurance receivables	4,768	0	4,768	0	-415	4,353
18.	Receivables (trade, not insurance)	5,411	2,650	8,061	0	0	8,061
19.	Own shares	24,939	0	24,939	-2,174	0	22,764
20.	Cash and cash equivalents	33,939	-361	33,578	0	13,395	46,973
21.	Any other assets, not elsewhere shown	122,866	-121,373	1,494	-1,270	-46	178
Total assets		**1,681,579**	**-125,593**	**1,555,986**	**-16,971**	**-92,776**	**1,446,239**

(EUR thousand)		IFRS value	Adjustment for Sava pokojninska	IFRS value after adjustment for Sava pokojninska	Revaluation	Reclassification	SII value
Liabilities							
22.	Technical provisions – non-life	624,273	0	624,273	-185,713	-75,455	363,105
23.	Technical provisions – life (excl. index-linked and unit-linked)	286,948	-4,654	282,295	104,505	0	386,799
24.	Technical provisions – index-linked and unit-linked	226,994	0	226,994	-129,068	0	97,926
25.	Provisions other than technical provisions	8,081	-36	8,045	0	0	8,045
26.	Deferred tax liabilities	6,039	0	6,039	42,846	0	48,885
27.	Financial liabilities other than debts owed to credit institutions	394	0	394	0	0	394
28.	Insurance and intermediaries payables	42,247	0	42,247	0	-12,396	29,851
29.	Reinsurance and co-insurance payables	5,956	0	5,956	0	-4,925	1,031
30.	Other payables (trade, not insurance)	9,130	-408	8,721	0	0	8,721
31.	Subordinated liabilities	23,571	0	23,571	0	0	23,571
32.	Any other liabilities, not elsewhere shown:	140,518	-121,303	19,215	-444	0	18,771
Total liabilities		**1,374,151**	**-126,402**	**1,247,749**	**-167,874**	**-92,776**	**987,099**
Excess of assets over liabilities		307,428	809	308,237	150,903	0	459,140

D.1 Assets

Following are individual categories of assets, along with the valuation methods for material categories.

D.1.1 Goodwill

Goodwill is stated at zero value in the Group's SII balance sheet.

D.1.2 Deferred acquisition costs

Deferred acquisition costs are stated at zero value in the Group's SII balance sheet.

D.1.3 Intangible assets

The Group has not identified any intangible assets that may be sold separately and for which it cannot prove that there is a market value for identical or similar assets. The SII value of intangible assets is stated at zero.

D.1.4 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are accounted for in accordance with IAS 12 Income Taxes.

Deferred tax assets and liabilities are defined based on identified temporary differences. These are differences between the tax value and the book value of assets or liabilities. Temporary differences may be taxable temporary differences, either amounts to be added to the taxable profit in future periods, or amounts to be deducted from the taxable profit in future periods. Deferred taxes are thus recognised as either deferred tax assets or liabilities as a result of accounting for current and future tax implications.

Deferred tax liabilities are income taxes payable in future periods depending on taxable temporary differences. In periods of recognition, they increase income tax expenses and decrease net profit.

Deferred tax assets are the amounts of income taxes recoverable in future periods depending on:
- deductible temporary differences,
- the carryforward of unused tax losses to future periods, and
- the transfer of credits utilised to future periods.

As a general rule, the recognition of deferred tax liabilities is mandatory, while deferred tax assets only need to be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

In the SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:

- the revaluation of participations in subsidiaries if considered strategic investments based on which revaluation differences cases are treated as permanent and therefore there is no basis for accounting for deferred taxes under this item. Consistent with the provisions of article 335 (e) of Commission Delegated Regulation (EU) (2015/35), the pension company, which is 100% owned by the controlling company, was not subject to a full data consolidation. In the IFRS balance sheet, it thus remained among investments in subsidiaries, stated at book value, while in the SII balance sheet it is stated in the amount equal to the pro rata share (in this case 100%) of the pension company's own funds, i.e. the amount of available capital calculated under sectoral regulations applicable in the Republic of Slovenia for pension companies. Since this is a subsidiary of strategic importance, the stated difference does not meet the conditions for a taxable temporary difference and therefore no deferred taxes are accounted for in respect of it;

- the revaluation of the listed own shares item because it does not constitute a taxable temporary difference;

- reclassifications among balance sheet items.

Comparison of deferred tax assets and deferred tax liabilities

31/12/2017 (EUR thousand)	IFRS value	Revaluation	SII value
Deferred tax assets	2,108	7,451	9,559
Deferred tax liabilities	5,781	45,567	51,349
Net deferred tax liabilities			41,790

Comparison of deferred tax assets and deferred tax liabilities

31/12/2016 (EUR thousand)	IFRS value	Revaluation	SII value
Deferred tax assets	2,326	6,742	9,068
Deferred tax liabilities	6,039	42,846	48,885
Net deferred tax liabilities			39,817

In 2017, net deferred tax liabilities increased by nearly EUR 2 million. The main impact mostly arises from the revaluation of technical provisions. Deferred tax assets and deferred tax liabilities were accounted for using the applicable tax rate of 19% (unchanged from 2016).

D.1.5 Property, plant and equipment held for own use

Every three years, the Group obtains from independent external property appraisers fair value valuations of its main properties held for own use. Equipment for the direct transacting of the reinsurance business represents an immaterial amount and is stated at the same level in both the SII and IFRS balance sheets. In assessing fair value and fair value less costs to sell, certified property appraisers take into account the International Valuation Standards and the International Accounting Standards. The appraisal includes verifying the adequacy of all the used methods of appraising property rights. Depending on the purpose of the valuation and the quantity of available data, a market value appraisal makes use of the market approach and the income approach.

D.1.6 Investments

Property, plant and equipment other than for own use

The methodology is consistent with the methodology used for property, plant and equipment held for own use, which is described in detail in the preceding section D.1.5 'Property, plant and equipment held for own use'.

Investments in subsidiaries

Consistent with the provisions of article 335 (e) of Commission Delegated Regulation (EU) (2015/35), the pension company, which is 100% owned by the controlling company, was not subject to a full data consolidation. In the adjusted IFRS balance sheet, it thus remained among investments in subsidiaries, stated at book value, while in the SII balance sheet, it is stated in the amount equal to the pro rata (in this case, 100%) share of the pension company's own funds, i.e. the amount of available capital calculated under sectoral regulations applicable in the Republic of Slovenia for pension companies.

Equities

Equities and mutual funds are valued in accordance with the International Accounting Standard IAS 39, which provides for shares and mutual funds to be classified as either Available-For-Sale (AFS) financial assets or financial assets designated at Fair Value Through Profit or Loss (FVTPL).

Equities – listed

The item includes equity securities listed on a stock exchange. All equity securities are classified as either available-for-sale financial assets or as carried at fair value through profit or loss, in accordance with IAS 39. This means that the value for IFRS reporting is calculated based on the last available exchange-quoted price. The value in the IFRS balance sheet is the fair value (market value) of marketable equity securities.

The revaluation methodology pursuant to the requirements of Solvency II is consistent with the methodology used for the IFRS balance sheet valuation, as marketable equities are already stated at their market value, rendering a restatement for the purposes of the SII balance sheet redundant.

Equities – unlisted

Unlisted equities are initially recognised at cost. As at the balance sheet date, their value is measured using a model designed, to determine whether the cost still represents their fair value. If the model shows that the cost is too high, an impairment loss is recognised in the amount of the difference between the model value and its cost.

Since unlisted equities represent an immaterial part of the Sava Re Group investment portfolio, they are not stated at fair value in the SII balance sheet but rather at the IFRS balance sheet amount.

Bonds

For the purposes of the IFRS balance sheet valuation, bonds are measured in accordance with International Accounting Standard 39. They are measured based on the IAS category into which they are classified.

Market value is also calculated for held-to-maturity bonds.

The Group obtains market prices from the Bloomberg system, from the local stock exchange, and other markets on which any bond is listed.

Structured financial products

In 2017, the Group held no structured financial products.

Investment funds

The IFRS value is calculated based on the most recent published Net Asset Value Per Share (hereinafter: NAVPS). The IFRS value is the fair value (market value) of investment funds. Notwithstanding their classification, the book value of these funds equals their market value and is calculated using the formula: NAVPS as at the valuation day * number of lots. NAVPS amounts are obtained from asset managers.

The methodology of revaluation for the purposes of SII is consistent with the methodology used for the valuation of the IFRS balance sheet, as in the latter investment funds are carried at market value and therefore no revaluation is required for the preparation of the SII balance sheet.

Deposits other than cash equivalents

These deposits are measured at amortised cost or acquisition cost plus accrued interest. In accordance with the IAS 39, they are classified in the Group's IFRS balance sheet as loans and receivables.

For the purpose of the SII balance sheet valuation, a model has been developed for the valuation of deposits with a contractual maturity. The market value of deposits is calculated quarterly.

The valuation is made using the following data:
- date of valuation,
- date of interest payment,
- nominal value,
- interest rate,
- currency in which the deposit is denominated,
- frequency of interest payments,
- maturity date,
- discount factor and the corresponding interest rate for discounting.

The market value of deposits as at the valuation date is calculated as the net present value of all future cash flows (interest plus principal) discounted at the most recent publicly available interest rates. For euro deposits, the interest rate for deposits published by the Bank of Slovenia is approximated. For deposits in other currencies, the interest rates used are those published on the websites of the central banks of the countries in the currency of which the deposit is concluded.

Investments for the benefit of life-insurance policyholders who bear the investment risk

Assets of unit-linked business without financial guarantees are shown in the SII balance sheet under the assets held for index-linked and unit-linked funds item. The change in the value between the IFRS and SII balance sheets is the result of the reclassification of assets relating to insurance contracts where policyholders bear the investment risk, while the insurer guarantees an defined level of return (guaranteed NAVPS). Assets are reclassified to other financial investments covering life insurance obligations (ZS varnost, ZS Zajamčeni, ZM Garant and ZM Zajamčeni). Thus the SII balance sheet financial investments items covering obligation to policyholders who bear the investment risk include investments in mutual funds and structured products of the investment registers KSNT 1 (Prizma) and KSNT 2a (ZM Prizma Hibrid).

D.1.7 Loans and mortgages

Loans and mortgages are initially recognised at their contract value.

As at the reporting date they are stated at amortised cost in accordance with the amortisation plan, taking into account the actual interest and principal payments. If payments are not made in accordance with the amortisation plan, amounts have to be impaired. The SII balance sheet and the IFRS balance sheet valuations are the same.

D.1.8 Reinsurance recoverables

In the text below the term Solvency II provisions is used for technical provisions calculated in line with the Solvency II regulations, while the term IFRS provisions is used for technical provisions calculated in line with the International Financial Reporting Standards. The main principles used in the calculation of IFRS provisions are described in the notes to the Group's financial statements in the annual report section 17.4.24 'Technical provisions'.

The amount of reinsurance recoverables is measured by the actuarial departments of Sava Re Group companies. The methodology takes into account the guidelines set out in the underwriting and reserving risk policy.

The Group reclassifies items from retroceded premium provisions (reinsurance ceded) for accrued, undue receivables for commission from ceded reinsurance and co-insurance business, and for undue ceded reinsurance and co-insurance premium payables.

As ceded co-insurance and reinsurance business generates relatively small premium volumes, reinsurance recoverables cannot be calculated using the same actuarial methods as for the calculation of gross provisions. Simplifications are applied, whereby the share of the retrocession business is calculated using retrocession data for each homogeneous group and each cohort. A retroceded best estimate of provisions (before costs, reclassifications and discounting) is calculated – using the thus obtained share – from the gross best estimate of provisions (before taking into account the costs, future cash flows from premiums and provisions, and without taking into account the time value of money). The currency structure and the time value of money are taken into account in the same way as for the gross best estimates of provisions. In designing cash flows, historical data on paid claims are used to check for a possible time delay in retrocession payments as opposed to gross disbursements. Adjustments for a counterparty's anticipated default are made on the basis of the amount of reinsurance recoverables (for the IFRS balance sheet valuation) being divided according to the credit ratings of counterparties and the probability of default associated with these ratings.

D.1.9 Deposits to cedants

Under certain reinsurance contracts, cedants retain a part of the reinsurance premiums as a guarantee for the payment of future claims, which is generally released after one year. These deposits bear contractually-agreed interest. Deposits to cedants are stated at cost, less any adjustments.

As these investments are short-term, their book value is considered a sufficiently good approximation of their market value. The market value of such deposits is therefore not calculated in the model, and in the calculation of the solvency capital requirement (SCR) the market value is taken to be the IFRS balance sheet value.

D.1.10 Insurance and intermediaries receivables

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

The Group is excluding the following items from insurance and intermediaries receivables in the SII balance sheet:
- undue insurance receivables, and
- undue receivables for premiums arising from accepted reinsurance and co-insurance.

- The Group factors this item in as future cash flows when calculating the gross best estimate of premium provisions. Since the entire change in premium provisions is disclosed as a reclassification, not-past-due receivables are eliminated in the same way when compiling the SII balance sheet.

D.1.11 Reinsurance receivables

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

The following receivables undue as at the SII balance sheet reporting date are eliminated from reinsurance receivables:
- undue receivables for commission from the reinsurer's retroceded business, and
- undue receivables for commission from the insurers' ceded reinsurance and co-insurance business.

The Group takes these items into account as future cash flows when calculating future cash flows for the reinsurers' share of the best estimate of the premium provision.

Changes in receivables and premium provisions are recognised as reclassifications.

D.1.12 Receivables (trade, not insurance)

Receivables (trade, not insurance) include short-term receivables from the government and other institutions, short-term receivables from the leasing out of premises and equipment, and similar.

Measurement is the same as for the IFRS balance sheet, as the book value constitutes a sufficient approximation of fair value.

D.1.13 Own shares

In the IFRS balance sheet, own shares are stated as a contra account in equity. The Group recognises own shares in the amount of their purchase price on a regulated or non-regulated market. Consistent with the provisions of article 36 of IAS 32 'Financial Instruments – Presentation', they are not revalued to fair value even if they be listed on a regulated securities market.

The SII balance sheet presents own shares under assets. Since the controlling company's own shares are listed on a regulated market, they are restated at their stock exchange price for the purposes of the SII balance sheet as at the balance sheet date.

D.1.14 Cash and cash equivalents

Measurement is the same as for the IFRS balance sheet.

D.1.15 Any other assets, not elsewhere shown

Any other assets, not elsewhere shown, include short-term deferred costs and short-term accrued income. Short-term deferred costs comprise prepaid costs of insurance, licenses, rent, and similar. In the SII balance sheet, any other assets, not elsewhere shown are recognised at the same amounts as in the IFRS balance sheet, except for prepaid costs, which are stated at zero.

D.2 Technical provisions

The Group reclassifies the items of the gross premium provision for booked not-past-due premium receivables relating to direct insurance, accepted reinsurance and co-insurance and for booked not-past-due commission payables relating to accepted reinsurance and co-insurance business. A small portion of the reclassification also relates to undue current tax liabilities in respect to insurance business, which is accounted for based on premiums paid and obligations relating to prepayments and overpayments.

The valuation of gross technical provisions, including the reinsurers' share thereof, is conducted by the actuarial services of Sava Re Group companies. The valuation of the reinsurers' share of the Solvency II provisions (best estimate of provisions for accepted business) is described under valuation of assets, in section D.1.8. Reinsurance recoverables. The methodology follows the guidelines set out in the underwriting and reserving risk policy of the Sava Re Group and complies with applicable actuarial methods.

In the calculation of Solvency II provisions, the Group does not apply the matching adjustment referred to in article 182 of the ZZavar-1 (or article 77b of Directive 2009/138/EC), the volatility adjustment referred to in article 184 of the ZZavar-1 (or article 77d of Directive 2009/138/EC), the transitional adjustment of the risk-free interest rate term structure referred to in article 639 (or article 308c of Directive 2009/138/EC), nor the transitional deduction referred to in article 640 of the ZZavar-1 (or article 308d of Directive 2009/138/EC).

The Group establishes the following categories of Solvency II provisions:
- the best estimate of the claims provisions relating to direct insurance business,
- the best estimate of premium provisions relating to direct insurance business,
- the best estimate of provisions for annuities in payment arising out of direct non-life insurance business (provisions for non-life annuities),
- the best estimate of provisions for direct life insurance business,
- the best estimate of the provision for accepted reinsurance business,
- the risk margin.

The Solvency II provisions are equal to the sum of a best estimate and a risk margin. The above-mentioned categories of provisions are described in more detail below.

The best estimate of the claims provision relating to direct insurance

Claims provisions relate to loss events that have already occurred while the claims are yet to be resolved, whether claims have been reported or not. The best estimate is calculated taking into account the weighted average of all possible scenarios and the time value of cash flows, which means that all cash flows are discounted using risk-free interest rate term structures. The calculation also includes all expenses relating to the period from the date of the loss event to the date when it is accounted for, including any anticipated future recourse receivables from those claims.

Provisions for claims incurred but not yet been paid are established based on historic data from previous years and are calculated together for reported claims and claims that have not yet been reported.

Each individual Group insurer calculates the best estimate of gross claims provisions for each homogeneous risk group using at least two of the following methods:

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

The most important assumptions in calculating the best estimate of claims provisions (short: BE CP) are:

- the expected ultimate loss ratio: the expected final proportion of all settled claims in a given period as a percentage of the premiums earned in that period;
- loss development factors: for long-tail classes, the amount of the IBNR provision heavily depends on the choice of loss development factors, especially the choice of the tail representing the factors for the years for which the companies at the time have no actual loss experience. Development factors are selected based on historical development factors, adjusted for expected future changes, while the tail development factor is determined using a logarithmic regression, where a curve is selected that best fits the chosen development factors for the fully developed accident years. This factor is appropriately adjusted based on actuarial judgement;
- expected proportion of loss adjustment expenses in future claim payments: the proportion of loss adjustment expenses in future claims is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of loss adjustment expenses;
- an expected proportion of recourse receivables as a percent of future claim payments: the proportion of recourse receivables in future claim payments is determined based on historical data on paid recourses and, if necessary, adjusted based on expectations for the future and trends;
- discounting: to calculate the best estimate of the claims provisions, all cash flows are discounted using the relevant risk-free interest rate term structures;
- annuities: the reported motor and general liability claims may include claims paid out in the form of life annuities, annuities until age 26, or until graduation; provisions for these annuities are calculated separately, so all claims paid as annuities are excluded from calculations of the best estimate of claims provisions based on claims triangles.

For the most recent accident year (i.e. 2017), the total average expected ultimate loss ratio is on about the same level as at 31 December 2016, while there have been some changes in individual lines of business: in fire and other damage to property – minor increase due to some large losses and above average hail storms in Slovenia, but slight improvement in the ultimate loss ratio relating to other large lines of business, partly as the result of increased average motor premiums and partly due to a lower level of prudence applied in the best estimate calculation following last year's liability adequacy testing of the best estimate of the claims provision.

The best estimate of premium provisions relating to direct insurance

The premium provision refers to loss events that will occur after the valuation date, i.e. during the remaining period of validity of the insurance coverage. It is calculated for those contracts that are active at the date of the calculation and is made up of all estimated future cash flows within the boundaries of insurance contracts (hereinafter: contract boundaries). The best estimate is calculated taking into account the weighted average of all possible scenarios and the time value of cash flows, which means that all cash flows are discounted based on relevant risk-free interest rate term structures.

The Group's largest direct EU-based insurer takes into account the following cash flows in the calculation of the premium provision, broken down by individual years and, at the end, discounted using the risk-free interest rate term structure:

- all claims that will occur in the future,
- all loss adjustment expenses relating to the handling of claims referred to in the preceding indent,
- all future recourse receivables based on the claims referred to in indent one,

- all future expenses associated with the servicing of in-force contracts,
- all future premium inflows from not-past-due receivables,
- commissions and fire brigade charges arising from the premiums referred to in the preceding indent,
- the estimated value of future premium refunds due to contract lapses,
- future written premiums of multi-year contracts with annual statements of accounts and permanent contracts for periods covered for which premiums have not been booked,
- future written premiums for multi-year contracts accounted for annually and permanent contracts with annual premium accounting within contract boundaries,
- the expenses associated with the premiums referred to in the preceding two indents,
- the amount of future expected bonuses and rebates dependent on the level of the loss ratio of certain contracts.

The smaller direct companies (not EU-based) calculate the premium provision relating to future claims and expenses using a simplified method from the IFRS unearned premiums and the expected loss and expense ratios.

The critical assumptions for calculating the best estimate of the premium provision are defined as follows:

- the expected loss ratios: when setting the expected loss ratios, we take into account the ultimate loss ratios by accident year derived from the calculation of the claims provision, the change in the average premium over the previous year and expected future claim trends;
- the expected proportion of loss adjustment expenses in future claim payments: the proportion of loss adjustment expenses in future claim payments is set based on historical data and, if necessary, adjusted taking into account future expectations and trends in the levels of loss adjustment expenses;
- the expected proportion of commissions as a percentage of future premium cash flows: the proportion of commissions in paid premiums is determined based on historical data and, if necessary, adjusted based on future expectations and potential changes in premium rates;
- the expected proportion of other expenses as a percentage of future premium cash flows: the proportion of other expenses as a percentage of premiums written is determined based on historical data and, if necessary, adjusted based on future expectations and trends in the level of expenses;
- an expected proportion of recourse receivables as a percent of future claim payments: this proportion is determined based on historical data on recourse payments;
- expected claims development by year: this claims development is determined based on historical patterns of claim payments;
- expected development of recourse receivables by year: this development of recourse receivables is determined based on historical data of recourse payments;
- expected lapse rate: the expected lapsed or refunded premiums due to early termination of contracts are determined based on the data of the previous year, which, if necessary, is adjusted in accordance with future expectations.

The total expected ultimate loss ratio used in the calculation of the best estimate premium provision as at 31 December 2017 is slightly lower than the one used in the calculation of the best estimate premium provision as at 31 December 2016, which is chiefly the result of a lower expected ultimate loss ratio for all large lines of business, except fire and other damage to property, in line with the trend in the ultimate loss ratios derived from the calculation of the best estimate of claims provisions.

The best estimate of provisions for non-life annuities of direct insurance

The best estimate of provisions for annuities stemming from non-life insurance is calculated separately from the best estimate of claims provisions relating to non-life insurance business due to the specific mode of benefit payments. It is separately determined for:

- non-life annuities already in payment: the best estimate of these annuities is reported under the line of business annuities stemming from non-life insurance contracts and not relating to health insurance obligations;
- non-life annuities already reported but not yet in payment: the best estimate of the provision for this type of annuity is reported within non-life lines of business as part of the best estimate of claims provisions.
- non-life annuities not yet reported: the best estimate of the provision for this type of annuity is reported in non-life lines of business as part of the best estimate of claims provisions.

The assumptions used in the calculation of the best estimate of the provision for reported non-life annuities (both in and not in payment) are:

- expected proportion of loss adjustment expenses as a percentage of future claim payments,
- expected inflation,
- mortality based on relevant mortality tables.

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

- the expected number of such annuities,
- the average amount of the present value of all future annuity obligations at the time of the annuity's inception.

The proportion of loss adjustment expenses as a percentage of future annuity payments is determined on the basis of data of the previous accounting year, while the future expected inflation is determined based on the current macroeconomic situation and outlook.

Best estimate of provisions for direct life insurance

The best estimate of the provisions for life insurance business is made at the insurance contract level using unified assumptions for homogeneous groups of life insurance policies. These are roughly divided into traditional life (endowment, term life, whole life, life annuities), unit-linked life (guaranteed or not, term life or whole life) and similar-to-life-technique health insurance. The calculation is made based on best estimates of future contractual cash flows, including best estimates of all contractual cash flows and of related cash flows such as claims handling costs, administrative expenses and financial income from invested assets covering the obligations arising from insurance contracts. The best estimate of the claims provisions for life insurance business is calculated separately.

The expected contractual cash flows include:

- income from premiums,
- claim/benefit payments (death, critical illness, maturity, surrender),
- expenses (agent commissions, other policy acquisition costs, loss adjustment expenses, administrative expenses),
- income from investments (investment management charges).

For individual contracts, the following needs to be considered:

- annual premiums, payment frequency, death benefits, critical illness and maturity benefits;
- product technical bases: technical interest rate, mortality and morbidity tables, expenses,
- assumptions: the proportion of unrealised mortality and morbidity, lapse rate, future profitability, realised expenses, future inflation.

For cash flows estimated until the policy expiry, their present value as at the reporting date is calculated using the risk-free interest rate. In respect of the majority of life policies, a separate estimate of the present value of embedded options and guarantees is made, using stochastic economic scenarios. The future dynamic behaviour of policyholders has not been modelled, while future management actions have only been modelled for the calculation of the present value of options and guarantees where it is anticipated that amounts in the fair value reserve will be realised in the event of scenarios if certain investment income – before realising fair value reserve surpluses – does not meet the required level based on guaranteed interest rates in traditional life policies.

The best estimate of the provisions for guaranteed payouts upon childbirth are calculated based on the anticipated number and level of payments for written policies. These provisions are calculated based on estimated future payments calculated using the triangle method, taking into account the number of births by policy year and development year or based on analytical formulas. The present value of the cash flows is calculated using the risk-free interest rate.

The best estimate of claims provision for life insurance is calculated using the method of average claims, making separate estimates for the provision for incurred reported claims and for the provision for incurred but not reported claims (IBNR). The best estimate of the provision for incurred reported claims is equal to the case provision. The best estimate of the provision for incurred but not reported claims is calculated as the product of the ultimate number of IBNR claims (estimate from the triangle of reported claims) and the average level of IBNR claims. For this purpose, only claims arising from death risk or critical illness are considered. The average level of IBNR claims is calculated as the average sum at risk for each homogeneous group of policies. The present value of the cash flows is calculated using the risk-free interest rate.

Last year, all assumptions used were re-evaluated and certain minor changes were made. In some segments, expenses as a percentage of insurance rose as the result of smaller portfolios and there were slight increases in expected lapse ratios. No significant changes in assumptions have been perceived compared to the previous year.

Compared to the previous year, in 2017 future discretionary benefits of KSŽZ funds additionally include the fair value reserve relating to available-for-sale investments, which changed the calculation of the best estimate of life insurance provisions.

Best estimate of provisions for accepted reinsurance

Calculations are made on the level of lines of business in accordance with annex 1 to Commission Delegated Regulation (EU) (2015/35), separately for intra-group and extra-group business (for group-level balances, after the elimination of intra-group transactions, only the latter is considered). Due to the nature of the obligations relating to accepted life reinsurance business, the methodology for the valuation of these obligations is the same as for non-life and health not similar to life techniques (hereinafter: NSLT health insurance); therefore, the obligations arising out of accepted life reinsurance are classified as NSLT health insurance. The Group is planning a separate treatment of accepted life reinsurance business.

The best estimate of provisions consists of the best estimate of the premium provision and the best estimate of the claims provision. The calculation is based on the classification of business by underwriting year.

The calculation of the best estimate of provisions comprises the following steps:

- a calculation of the 'technical' gross provision, which consists of the best estimate for claims (either incurred or future) relating to business written prior to taking into account the time value of money;
- the breakdown of the 'technical' gross provision into the 'technical' premium provision (for future claims) and the 'technical' claims provision (for incurred, but not yet settled claims);
- taking into account future expenses relating to in-force contracts;
- taking into account future cash flows from premiums and commissions, including booked, but not past due, premiums and commissions;
- the preparation of cash flows, taking into account the currency structure of cash flows and discounting.

'Technical' gross provisions are calculated using the chain-ladder method applied to cumulative paid claims triangles, taking into account the Bornhuetter-Ferguson (hereinafter: BF) modification. In the chain-ladder method, the development factors are selected based on the data from the years reflecting the nature of the portfolio for which the provision is calculated. If, due to extraordinary events, individual factors deviate excessively from the average, they are excluded from the calculation of development factors. The development tail is calculated using an approximation together with one distribution function: Exponential, Weibull, Power, Inverse Power; the R-squared criterion is applied in the selection of the distribution function. The BF prior loss ratio is selected based on the judgement of the actuary and the reinsurance underwriting department.If claims triangles are too dispersed, ultimate losses are assessed based on loss ratios. The expected incurred loss ratio for an underwriting year is set as the selected average of a pre-assessed naive loss ratio set by expert judgment, multi-year averages, information from the reinsurance underwriting department, and the IFRS incurred loss ratio (excluding provisions at the portfolio level). For less recent years for which the development is known, greater weight is assigned to the realised ratio, while for more recent years, the naive loss ratio is assigned greater weight. For payment development or cash flow, the pattern is applied that is obtained from the triangle development. The joint view summarises the results of all methods, based on which the best estimate of ultimate losses is selected, which is used to calculate technical gross provisions.

Future loss adjustment and administrative expenses relating to contracts written are taken into account through expense ratios.

The basis for the split of cash inflows by currency is the currency composition for the IFRS valuation of the balance sheet, specifically the composition of the sum of the claims provision and unearned premiums, net of deferred commissions. Future cash flows broken down using this key are discounted using the relevant risk-free interest rate term structures.

The most important assumptions underlying the calculation are the selection of an appropriate method for each line of business, which did not change in 2017, and the applied ultimate ratios, especially for the last underwriting year, which is subject to the greatest uncertainty due to unknown losses and unexpired coverage. For extra-group accepted reinsurance business of the most recent underwriting year, the ratio of expected ultimate claims and commissions as a percentage of expected ultimate premiums is on the same level year on year, while in proportional fire and other damage to property reinsurance business and in non-proportional property reinsurance, this ratio declined due to a positive run-off analysis of prior-year best estimates of provisions. In non-proportional marine reinsurance, the ratio increased owing to an adverse claims development.

Risk margin

The risk margin, along with the best estimate of provisions, ensures that the value of the technical provisions is equal to the amount that another insurer would require to take on the liabilities towards policyholders, insured persons and other beneficiaries under the insurance contracts. The risk margin is calculated by determining the cost to insure the amount of eligible own funds equal to the solvency capital requirement necessary to support the insurance obligations during their validity or until their expiry. The rate used in determining the cost to ensure the above-mentioned amount of eligible own funds, being a spread above the relevant risk-free interest rate that an insurer would take into account to ensure such eligible own funds, is set at 6%.

In the calculation of the mentioned solvency capital requirement, the Group takes into account all non-hedgeable risks. These risks include:
- non-life underwriting risk,
- life underwriting risk,
- health underwriting risks,
- counterparty default risk relating only to (re)insurance receivables,
- operational risk.

In accordance with article 58 of Commission Delegated Regulation (EU) 2015/35, the simplified calculation method is used for the projection of the solvency capital requirement, namely the level (2) of the hierarchy referred to in article 61 of the Decision on detailed instructions for the evaluation of technical provisions is taken into account: The total solvency capital requirement for each future year is calculated based on the ratio of the best estimate in that future year to the best estimate of technical provisions as at the valuation date. Should this method prove to be inadequate for any company, level 3 of the hierarchy referred to in article 61 of the Decision on detailed instructions for the evaluation of technical provisions should be applied.

The risk margin is calculated separately for life and non-life insurance, and is allocated to individual lines of business so as to adequately reflect the contributions of the lines of business to the solvency capital requirement (in accordance with article 37(3) of Commission Delegated Regulation (EU) 2015/35). In the calculation of the solvency capital requirement, for each line of business we assume that a company writes policies only in the segments for which the capital requirement is calculated; also, only in the following risk modules is the capital requirement calculated for each segment:
- market risk (for the equity risk sub-module)
- life underwriting risk,
- health underwriting risks,
- non-life underwriting risk,
- operational risk.

D.2.1 Value of SII technical provisions

The following tables set out the values of the gross best estimates of provisions, reinsurance recoverables of the best estimates of provisions, and the risk margin as at 31 December 2017 and 31 December 2016 by line of business. There are separate tables for the best estimates of the claims provision, the premium provision, the provision for life lines of business and the risk margin.

Best estimate claims provision (BE CP)

(EUR thousand)	Gross BE CP		Reinsurers' share of BE CP	
Line of business	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Medical expense insurance and proportional reinsurance	1,190	1,095	416	247
Income protection insurance and proportional reinsurance	18,973	23,187	307	300
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	84,487	93,270	895	740
Other motor insurance and proportional reinsurance	17,875	19,630	133	214
Marine, aviation and transport insurance and proportional reinsurance	6,285	4,762	291	282
Fire and other damage to property insurance and proportional reinsurance	61,110	50,716	4,409	3,847
General liability insurance and proportional reinsurance	25,736	31,315	1,466	2,752
Credit and suretyship insurance and proportional reinsurance	936	1,022	0	1
Legal expenses insurance and proportional reinsurance	4	8	0	0
Assistance insurance and proportional reinsurance	1,467	1,544	806	1,010
Miscellaneous financial loss	1,014	1,148	240	232
Non-proportional health reinsurance	1,410	1,345	3	0
Non-proportional casualty reinsurance	11,381	13,522	8,258	7,828
Non-proportional marine, aviation and transport reinsurance	6,586	4,880	64	0
Non-proportional property reinsurance	40,222	39,546	940	1,874
Total	278,677	286,990	18,228	19,327

The decline in the best estimate of the claims provision is largely the result of the above-mentioned adjustment in the assumptions of the ultimate loss ratio for the largest lines of business and reclassification of provisions for annuities that have already been agreed but have not yet started to be discharged to life lines of business, partly offset by the increase due to an adverse claims development in the small lines of business.

Best estimate premium provision (BE PP)

(EUR thousand)	Gross BE PP		Reinsurance recoverables from BE PP	
Line of business	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Medical expense insurance and proportional reinsurance	67	-61	149	15
Income protection insurance and proportional reinsurance	-10,993	-7,692	2	72
Workers' compensation insurance and proportional reinsurance	0	0	0	0
Motor vehicle liability insurance and proportional reinsurance	26,826	26,998	-32	-18
Other motor insurance and proportional reinsurance	26,948	23,813	248	173
Marine, aviation and transport insurance and proportional reinsurance	-976	-471	-54	-17
Fire and other damage to property insurance and proportional reinsurance	5,027	-794	-465	213
General liability insurance and proportional reinsurance	-1,462	245	-246	23
Credit and suretyship insurance and proportional reinsurance	4,187	5,187	0	0
Legal expenses insurance and proportional reinsurance	-237	-267	-225	-320
Assistance insurance and proportional reinsurance	3,623	1,361	3,145	1,370
Miscellaneous financial loss	36	-49	-51	-23
Non-proportional health reinsurance	-202	-243	-1	0
Non-proportional casualty reinsurance	-880	-544	-176	-130
Non-proportional marine, aviation and transport reinsurance	-2,245	-1,974	-18	-34
Non-proportional property reinsurance	-12,882	-10,804	-618	-481
Total	36,837	34,706	1,659	843

The best estimate of the premium provision is on roughly the same level year on year. In this regard, the increase owing to the growth in business within contract boundaries was offset by the lower expected loss ratio relating to this business and higher expected future cash flows from non-past due premium receivables.

Best estimate of the provision for life lines of business

(EUR thousand)	Gross BE	
Line of business	31/12/2017	31/12/2016
Health insurance	-1,824	217
Insurance with profit participation	294,784	297,604
Index-linked or unit-linked insurance	111,898	93,575
Other life insurance	49,651	67,838
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	18,815	11,413
Total	473,324	470,647

The largest difference in the best estimate of technical provisions arose due to the reclassification of part of the investment portfolio from the other life insurance line of business to the index-linked or unit-linked insurance line (investment fund: DWS Garant 80 Dynamic). Provisions for annuities arising out of non-life business grew largely due to the reclassification of provisions for annuities still in the accumulation phase from non-life insurance provisions to life insurance provisions.

Risk margin

(EUR thousand)	Risk margin	
Line of business	31/12/2017	31/12/2016
Medical expense insurance and proportional reinsurance	221	138
Income protection insurance and proportional reinsurance	7,641	7,812
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	6,643	7,681
Other motor insurance and proportional reinsurance	4,017	4,176
Marine, aviation and transport insurance and proportional reinsurance	1,008	1,263
Fire and other damage to property insurance and proportional reinsurance	6,231	6,111
General liability insurance and proportional reinsurance	2,888	2,279
Credit and suretyship insurance and proportional reinsurance	1,172	1,291
Legal expenses insurance and proportional reinsurance	18	24
Assistance insurance and proportional reinsurance	510	367
Miscellaneous financial loss	291	430
Non-proportional health reinsurance	119	205
Non-proportional casualty reinsurance	736	1,428
Non-proportional marine, aviation and transport reinsurance	1,439	1,008
Non-proportional property reinsurance	7,665	7,196
Total non-life	40,599	41,409
Health insurance	399	58
Insurance with profit participation	7,564	3,989
Index-linked or unit-linked insurance	7,377	4,352
Other life insurance	6,781	5,586
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	139	95
Total life	22,260	14,080
Total	62,859	55,489

The risk margin rose compared to 31 December 2016 as the result of a change in the calculation of capital requirements for the life insurance risk module, specifically lapse risk relating to life insurance contracts where we made a more detailed risk calculation by policy as at 31 December 2017. The capital requirements for the life insurance risk module rose, resulting in a higher risk margin for the life insurance portfolio.

D.2.2 Comparison of IFRS technical provisions to Solvency II technical provisions

The main differences between the valuation of Solvency II and IFRS technical provisions are:

- Solvency II provisions are based on the cash-flow principle and include expected future profits of the in-force portfolio, while the IFRS provisions are based on the principle of earned income less expenses. For this reason, it is not meaningful to compare the value of unearned premiums to the best estimate of the premium provision, as unearned premiums represent the amount of premiums not yet earned (the company's future income), while the premium provision takes into account all future cash flows expected of the in-force portfolio. Thus as at 31 December 2017, the expected future profit from the active portfolio accounted for 8% (31/12/2016: 10%) of the difference between IFRS and SII provisions of non-life lines of business. Receivables and payables relating to not-past-due premiums and reinsurance commissions are eliminated from the calculation of the best estimate of the premium provision and are reclassified from the balance sheet items of the IFRS balance sheet. This reclassification represents 32% (31/12/2016: 29%) of the difference between IFRS and SII provisions of non-life lines of business.

- Furthermore, a comparison of the values of the provisions under the two standards (IFRS and SII) is not immediately meaningful, although in terms of their purpose, the provisions under both standards are intended to cover claims incurred but not yet paid. A major substantive difference between the IFRS and Solvency II value of the claims provision is that the Solvency II provisions must be sufficient to meet obligations only in the weighted average of all possible scenarios, while IFRS provisions must be sufficient in practically all cases, which is why the assumptions for IFRS provisions are more prudent. When comparing the most material assumption about the expected ultimate loss ratio for the EU-based Group companies' portfolio of non-life lines of business for the most recent year (where the uncertainty is largest), it stood at 75% for IFRS claims provisions (31/12/2016: 76%) and 61% for the SII best estimate of the claims provision (31/12/2016: 62%).

- SII provisions for non-life insurance take into account the time value of money, while the corresponding IFRS provisions are generally not discounted. However, as interest rates are currently very low, this has no material effect on the difference between IFRS and SII provisions for this business.

- Interest rates used for discounting and inflation assumptions also differ in non-life annuities in payment; for SII provisions, the euro risk-free interest rate term structure is used, which for maturities of up to 22 years is lower than 1.5%, which is used in the calculation of IFRS provisions for such annuities. Both calculations use the same mortality tables.

- SII provisions for life lines of business are based on expected cash flows and take into account both expected losses and profits from life business. The IFRS provision for life lines of business takes into account the expected present value of future cash flows via the LAT test, but only if it exceeds the current mathematical provision established. The SII value of provisions for life insurance with a savings component, including a guaranteed interest rate and/or profit participation is higher than those of IFRS provisions because the risk-free interest rate term structure is lower than the guaranteed interest rate. In contrast, the value of the SII provision for term and unit-linked life insurance is lower than the value of the IFRS provision as the former takes into account the expected future gains based on mortality, morbidity and expenses. IFRS and SII provisions are similar across the entire portfolio of life lines of business.

D.2.3 Description of the level of uncertainty

The level of uncertainty associated with SII provisions has been tested by observing the sensitivity of the provision to key parameters of the calculation. An analysis has been conducted on the portfolios of the EU-based companies, separately for the best estimate of the premium and claims provisions for direct business and for the best estimate of the provision for accepted reinsurance and the best estimate of the provision for life insurance. The following tables sets out the tested scenarios and their impact on the level of tested provisions.

Sensitivity testing of direct insurance premium provisions

Scenario	Stress impact (%)	
	31/12/2017	31/12/2016
Increase in expected loss ratios of 5%	10.7%	10.1%
Increase in expenses (other than commissions) of 5%	2.8%	2.4%
Reduction of proportion of recourse receivables of 5%	0.4%	0.4%

Sensitivity testing of direct insurance claims provisions

Scenario	Stress impact (%)	
	31/12/2017	31/12/2016
Increase in ultimate loss ratios for the most recent accident year of 5%	5.6%	not available
Increase in loss adjustment expenses of 10%	0.6%	0.7%
Reduction in proportion of recourse receivables of 5%	0.2%	0.2%

Sensitivity testing of the provision for accepted reinsurance

Scenario	Stress impact (%)	
	31/12/2017	31/12/2016
Increase in expected loss ratios of most recent underwriting year of 5%	4.2%	3.9%
Decline in the proportion of not-past-due items (premiums less commissions) of 10%	9.8%	9.1%
Increase in expenses (other than commissions) of 50%	0.5%	0.5%

Sensitivity testing of the provision for life insurance

Scenario	Stress impact (%)	
	31/12/2017	31/12/2016
Increase in expected mortality rates of 15%	1.1%	1.3%
Increase in expenses (other than commissions) of 10% and inflation rate of 1%	1.3%	1.6%
Increase in lapse rate of 50%	1.5%	1.6%

It should be noted that the calculation based on own (undertaking-specific) parameters for reserving risk yields lower results for most non-life lines of business than when using the parameters of the standard formula, which leads us to conclude that the volatility of the expected outgo and income used in the calculation of the best estimate of provisions is low.

Based on analyses, we estimate that the level of uncertainty in the calculation of provisions is low.

D.3 Any other liabilities, not elsewhere shown

Comparison of IFRS and SII values of other liabilities

(EUR thousand)	31/12/2017		31/12/2016	
	IFRS value	SII value	IFRS value	SII value
Provisions other than technical provisions	7,601	7,558	8,081	8,045
Financial liabilities other than debts owed to credit institutions	245	245	394	394
Insurance and intermediaries payables	54,711	41,033	42,247	29,851
Reinsurance and co-insurance payables	5,160	1,381	5,956	1,031
Other payables (trade, not insurance)	7,168	6,787	9,130	8,721
Subordinated liabilities	0	0	23,571	23,571
Any other liabilities, not elsewhere shown	153,638	12,764	140,518	18,771

The Group has concluded some agreements on the operating lease of its business premises. No expenses in any material amount have been recognised in this regard.

In the following, we provide notes to the valuation of individual line items of other liabilities.

D.3.1 Provisions other than technical provisions

Other provisions comprise the net present value of employee benefits including severance pay upon retirement and jubilee benefits. They are calculated based on IAS 19, using the ratio of the period of service in the company.

The value of other provisions under the SII methodology is the same as in the IFRS balance sheet. The Group makes no reclassifications in the scope of these liabilities.

D.3.2 Insurance and intermediaries payables

Insurance and intermediaries payables comprise payables relating to insurance claims and commissions and payables relating to claims and commissions for accepted (inward) reinsurance and co-insurance business. In the IFRS balance sheet, these are recognised on the accrual basis. SII valuation of insurance payables does not differ from the valuation in the IFRS balance sheet.

From this item, the Group eliminates not-past-due commission payables relating to accepted reinsurance and co-insurance business as at the SII balance sheet date of EUR 13.7 million (31/12/2016: EUR 12.4 million). A minor portion of the reclassification relates to liabilities associated with prepayments and overpayments.

The Group takes this item into account as future cash flows when calculating the best estimate of the premium provision. Since the change in the premium provision in this part is disclosed as a reclassification, the exclusion of not-past-due payables is disclosed in the same manner in the Solvency II balance sheet.

D.3.3 Reinsurance payables

Reinsurance payables include premium payables relating to ceded reinsurance business of insurance companies and premium payables relating to retroceded reinsurance business of the reinsurer. In the IFRS balance sheet, these are recognised on the accrual basis by reference to (re)insurance accounts. Solvency II valuation of reinsurance payables does not differ from the valuation in the IFRS balance sheet.

The Group eliminates not-past-due reinsurance payables from the reinsurance payables as at the IFRS balance sheet date:

- not-past-due premium payables relating to ceded business of insurance companies and
- not-past-due premium payables relating to retroceded business of the reinsurance company.

These items in the amount of EUR 3.8 million (31/12/2016: EUR 4.9 million) are taken into account as future cash flows when calculating future cash flows for the reinsurers' share of the best estimate of the premium provision. Since the change in the premium provision in this part is disclosed as a reclassification, the exclusion of not-past-due payables is disclosed in the same manner in the Solvency II balance sheet.

D.3.4 Other payables (trade, not insurance)

Other payables comprise short-term payables to employees for accrued salaries and reimbursement of expenses, tax liabilities, trade payables for operating expenses, and other payables. In the IFRS balance sheet, these are recognised on the accrual basis based on authentic documents.

These items are not revalued in the Solvency II balance sheet, nor are these items subject to reclassification based on the Solvency II requirements.

D.3.5 Subordinated liabilities

The controlling company fully repaid its subordinated debt in the first half of 2017.

D.3.6 Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown, primarily include accrued expenses, deferred premium income, and deferred reinsurance and co-insurance commissions.

In this item, deferred commissions relating to accepted co-insurance and reinsurance are valued at zero, as is deferred technical income arising from the non-life insurance segment. The SII valuation of other liabilities does not differ from the IFRS valuation.

A small portion of the reclassification also relates to undue current tax liabilities arising from insurance business, which is accounted for based on premiums paid. The Group takes this item into account as future cash flows when calculating the best estimate of the premium provision. Since the change in the premium provision in this part is disclosed as a reclassification, the exclusion of not-past-due payables is disclosed in the same manner in the Solvency II balance sheet.

D.4 Alternative methods for valuation

The Group uses alternative valuation methods for obtaining the fair value of financial investments for which the Group has no available public market price. Alternative methods comprise the use of internal valuation models, valuation using the IFRS balance sheet value, and the valuation of property obtained from independent external property appraisers.

In 2017, the Group held the following financial investments in its portfolio, which were measured using an internal model.

- Illiquid bonds: the valuation model is based on discounted future cash flows of debt securities. The discount rate used is composed of the following:
  - risk-free interest rate,
  - risk premium for the risk arising out of debt securities,
  - risk premium for country risk,
  - risk premium for illiquidity of investment.

- Unlisted equities are measured at cost. The market value calculated using the internal model, which largely takes into account unobserved input, is only used for impairment testing.

- The participation in the pension company is recognised in the balance sheet at the amount equal to the pro rata (in this case 100%) share of the pension company's own funds, i.e. the amount of available capital calculated under sectoral regulations applicable in the Republic of Slovenia for pension companies.

- Deposits: The valuation model is set out in detail in section D.1.6. 'Investments'.

For cash deposits, deposits to cedants and loans, the carrying amount of the IFRS balance sheet is considered an appropriate approximation of the fair value, which is why this value is used in the SII balance sheet.

The Group periodically (generally every three years) obtains fair value valuations of its properties for own use from independent external property appraisers and of its investment properties. In the Group estimates that these fair value appraisals are most representative of the amount for which the appraised properties could be exchanged between knowledgeable parties in arm's length transactions.

In 2017, the Group valued almost half of its EUR 180 million investments that are measured with alternative valuation methods, using an internal model, a fifth using the IFRS valuation and a third at values obtained from independent external property appraisers. Compared to 2016, alternative valuation methods were used in the same proportions, except for a larger share (one quarter) of investments valued at IFRS balance sheet measurements.

D.5 Any other information

The Group has no other material information relating to its valuation.

CAPITAL MANAGEMENT

E CAPITAL MANAGEMENT

E. CAPITAL MANAGEMENT

The Group defined capital management in the capital management policy of the Sava Re Group and Sava Re, d.d., which sets out the objectives and key activities associated with capital management. Capital management is inseparable from the risk strategy, which defines the risk appetite.

The Group's capital management objectives are:
- solvency, in the range of the optimal long-term capitalisation as defined in its risk strategy;
- adequate degree of financing flexibility;
- ability to achieve adequate profitability for operating segments that tie up capital;
- ability to achieve an adequate return on equity or adequate dividend yields for shareholders.

The Group manages its capital to ensure that each Group company has available, on an ongoing basis, sufficient funds to meet its obligations and regulatory capital requirements. The composition of own funds held to ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. The amount of own funds of each Group company and the Group must be sufficient, at all times, to meet the statutory solvency capital requirement, as well as to satisfy the requirements of its target credit rating and other objectives of any Group member or the Group.

An important input element of capital management and business planning is the Group's risk strategy, including the risk appetite set out therein. For the purposes of determining a capital management framework, the Group risk strategy defines levels of capital adequacy as listed in section E.2. The level of capital adequacy for each Group company is determined based on the Group's capital adequacy.

The Group's risk strategy provides that capital adequacy must satisfy regulatory and rating agency requirements, and the controlling company must have sufficient excess capital to meet potential capital requirements of subsidiaries if a major stress scenario were to materialise in any of them. To this end, an excess of eligible own funds is determined over the statutory requirement.

As provided by the risk strategy, all Group subsidiaries must have, on an ongoing basis, a sufficient amount of capital available to meet solvency requirements. In addition, Group subsidiaries subject to the Solvency II regime must have enough capital to absorb small to medium fluctuations in own funds and the solvency capital requirement due to the standard formula methodology and potential small and medium stresses and scenarios materialising.

Every year, Group companies and the Group prepare a financial plan for the next three-year period. The financial plan of the Group and each company must be in line with the risk strategy, meaning that they must ensure the Group's and each company's capital adequacy at an acceptable level.

The first phase of the annual verification of the potential for capital optimisation and additional allocation of capital (dividends, own shares, acquisitions, and such like) includes a review of the results of the last calculation of the amount and structure of eligible own funds and the SCR. A financial plan for the following three-year period and a capital management plan are thereupon prepared, including measures required to achieve the target capital allocation.

Three-year projections of financial parameters are the basis for the calculation of eligible own funds, the SCR and consequently the Group's solvency ratio. Calculations verify alignment with the risk appetite, whereupon adjustments to the financial plan are made, if necessary. The planned use of capital duly includes capital consumption items, such as regular dividends, own shares and projects that require additional capital.

In allocating capital to business segments, adequate return on equity is a prerequisite. For the capital allocated to cover risks, we seek to maximise the ratio of return generated by a particular operating segment tying up capital to allocated capital (optimum ratio of return to risk).

E.1 Own funds

As at 31 December 2017, the Group reported an excess of assets over liabilities of EUR 491,209 thousand (31/12/2016: EUR 459,140 thousand). Basic own funds are calculated as the excess of assets over liabilities, less the amount of own shares and plus subordinated liabilities that are part of basic own funds. The Group would also have to decrease basic own funds by the total value of participations in other financial and credit institutions (excluding the insurer) exceeding 10% of the Group's own-fund items (paid-up share capital plus capital reserves). As at 31 December 2017, the Group did not have any such participations in other financial and credit institutions, the same as at 31 December 2016.

Basic own funds are also reduced by:

- the foreseeable dividends in the amount of EUR 12,398 million(31/12/2016: EUR 12,398 thousand). Their amount is determined based on a proposed resolution of the controlling company's management and supervisory boards for the general meeting;
- EUR 206 thousand of minority interests not available at the Group level (31/12/2016: EUR 584 thousand);
- deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities of EUR 8,353 thousand (31/12/2016: EUR 8,008 thousand), i.e. an amount equal to the amount of own funds of Sava pokojninska;
- other items in accordance with the provisions of the ZZavar-1.

In this way, basic own funds after deductions are obtained. The Group's available own funds are basic own funds after deductions plus the own funds of Sava pokojninska, which is not, in accordance with the ZZavar-1, subject to capital requirements under Solvency II.

As at 31 December 2017, the Group had no adjustments for other items in accordance with the ZZavar-1, the same as at 31 December 2016.

Ancillary own funds are items that do not constitute basic own funds and that a company may call up to absorb its losses. They include unpaid share capital or uncalled initial funds, letters of credit and guarantees, and any other legal commitments undertaken by the Group. As at 31 December 2017, the Group held no ancillary own funds, the same as at 31 December 2016.

The Group held no subordinated liabilities as part of its basic own funds neither as at 31 December 2017 nor as at 31 December 2016.

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

Composition of the Group's own funds

(EUR thousand)	31/12/2017	31/12/2016
Ordinary share capital (gross of own shares)	71,856	71,856
Non-available called but not paid in ordinary share capital at Group level	0	0
Share premium account related to ordinary share capital	43,036	43,681
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0
Subordinated mutual member accounts	0	0
Non-available subordinated mutual member accounts at Group level	0	0
Surplus funds	0	0
Non-available surplus funds at Group level	0	0
Preference shares	0	0
Non-available preference shares at Group level	0	0
Share premium account related to preference shares	0	0
Non-available share premium account related to preference shares at Group level	0	0
Reconciliation reserve (= (1)-(2)-(3)-(4)-(5)-(6))	336,393	307,679
(1) Excess of assets over liabilities	491,209	459,140
(2) Own shares (held directly and indirectly)	27,207	22,764
(3) Adjustment for own-fund restricted items in respect of matching adjustment portfolios and ring-fenced funds	0	0
(4) Foreseeable dividends, distributions and charges	12,398	12,398
(5) Other basic own funds items	115,211	116,299
(6) Other non-available own funds	0	0
Subordinated liabilities	0	0
Non-available subordinated liabilities at Group level	0	0
Amount equal to the value of net deferred tax assets	0	0
Amount equal to the value of net deferred tax assets not available at Group level	0	0
Minority interests (if not reported as part of a specific own funds item)	318	761
Unavailable minority interests at Group level	-206	-584
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	-8,353	-8,008
Total basic own funds after deductions	443,045	415,386
Total own funds in other financial sectors	8,353	8,008
Total eligible own funds to comply with capital adequacy at the Group level	451,398	423,394

The table below shows adjustments of IFRS equity for the SII valuation of the balance sheet.

Adjustments to IFRS equity for the SII valuation of the balance sheet

(EUR thousand)	31/12/2017	31/12/2016
IFRS equity	315,020	296,318
Difference in the valuation of assets	-133,926	-120,592
Difference in the valuation of technical provisions	299,674	285,731
Difference in the valuation of other liabilities, not elsewhere shown	-16,766	-25,081
Foreseeable dividends, distributions and charges	-12,398	-12,398
Adjustment for minority interests	-206	-584
Deduction for participations in other financial undertakings	-8,353	-8,008
Total basic own funds after deductions	443,045	415,386
Total own funds in other financial sectors	8,353	8,008
Total eligible own funds to comply with capital adequacy at the Group level	451,398	423,394
Of which tier 1	451,398	423,394
Of which tier 2	0	0
Of which tier 3	0	0

As is evident from the table above with figures as at 31 December 2017, the majority of differences originate from differences in the valuation of technical provisions in accordance with the requirements of the Solvency II legislation in (re)insurance undertakings in and outside the European Union, the same as at 31 December 2016. A detailed description of the used methodology is provided in section D.2 of this document.

An improvement in the model (calculation made using the merged portfolios of former Zavarovalnica Maribor and Zavarovalnica Tilia) resulted in a changed calculation of the best estimate of provisions for non-life business as at 31 December 2017. This led to a material increase in own funds.

The Solvency II legislation classifies own funds into three capital tiers based on both permanence and loss absorbency.

Tier 1 funds include own funds that mostly meet the conditions laid down in items one and two of article 196 (1) of the ZZavar-1; such items are available to absorb losses at all times (permanent availability) and in the event of the Group's winding-up they become available to the holder only after all of the Group's other obligations are met. It is important whether an item of own funds has a maturity, whether the absence of incentives to repay has been confirmed, and whether the item is clear of encumbrances.

The Group includes the following into its tier 1 own funds:

- paid-up ordinary shares;
- paid-up capital reserves;
- reconciliation reserves set as the excess of assets over liabilities, less paid-up ordinary shares and capital reserves, and less the value of own shares and foreseeable dividends.

Tier 2 funds include own fund items that mostly exhibit the features from item two of article 196(1) of the ZZavar-1; in the event of the Group's winding-up, such items become available to the holder only after all of the Group's other obligations are met and paid. It is important whether an item of own funds has a maturity, whether the absence of incentives to repay has been confirmed, and whether the item is clear of encumbrances.

Tier 3 includes own fund items classified neither as tier 1 nor tier 2. They include letters of credit and guarantees that are held in trust for the benefit of insurance creditors by an independent trustee and are provided to the Group by credit institutions. Tier 3 also includes own funds from net deferred tax assets.

Not all own funds are eligible for meeting capital requirements. The table below illustrates the legal restrictions regarding how the Group solvency capital requirement (Group SCR) and the Group minimal capital requirement (Group MCR) are to be met.

Statutory restrictions regarding own funds designated to meet the Group SCR and the Group MCR

	Tier 1	Tier 2	Tier 3
Group SCR	min 50%	35% to 50%	max 15%
Group MCR	min 80%	max 20%	not eligible

Eligible own funds designated to meet the Group SCR are obtained from available own funds by additionally factoring in statutory restrictions. Eligible own funds to meet the Group MCR are obtained from basic own funds after making deductions subject to statutory restrictions.

The two tables below show the amounts of the Group's eligible own funds designated to meet the Group SCR and the Group MCR as at 31 December 2017 and compared to figures as at 31 December 2016. They are classified into the statutory tiers described above.

Eligible own funds to meet the Group SCR

(EUR thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2017	451,398	451,398	0	0
As at 31/12/2016	423,394	423,394	0	0

Eligible own funds to meet the Group MCR

(EUR thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2017	443,045	443,045	0	-
As at 31/12/2016	415,386	415,386	0	-

As at 31 December 2017, all the Group's eligible own funds designated to meet the Group SCR and the Group MCR are tier 1 funds. The Group held no tier 2 or tier 3 eligible own fund items as at the reporting date.[10]

As provided for by article 330 (1) of Delegated Regulation (EU) 2015/35, the controlling company has assessed the availability of eligible own funds of associated undertakings at Group level. No legal or regulatory requirements were found to apply to own fund items such as would restrict the ability of those items to absorb all types of losses Group-wide or restrict the transferability of assets to other Group companies, nor has a time limit been established for the availability of own funds to meet the Group SCR. Group companies held no own fund items referred to in article 330 (3) of Commission Delegated Regulation (EU) 2015/35.

The only item of non-available own funds is thus minority interests in subsidiaries (insurance undertakings) exceeding the subsidiary's contribution to the SCR calculated based on consolidated data of insurance undertakings in the Group, in the amount of EUR 206 thousand as at 31 December 2017 (31/12/2016: EUR 584 thousand).

[10] In the remainder of this document, the term Group eligible own funds refers to eligible own funds designated to meet the Group SCR, unless stated otherwise.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Group solvency capital requirement (Group SCR)

The Group calculates the solvency capital requirement (SCR) and the minimum capital requirement (MCR) in accordance with the Solvency II standard formula. Solvency is calculated using the accounting consolidation method (first method in accordance with article 377 of the ZZavar-1).

The SCR, as calculated based on consolidated figures of insurance undertakings in the Group (SCR_{cons}) (hereinafter: consolidated SCR at Group level), is calculated by adding to the BSCR adjustments for the loss-absorbing capacity of best estimate provisions and deferred taxes (Adj) and the capital requirement for operational risk (SCR_{Op}). In accordance with article 336 of Delegated Regulation (EU) (2015/35), the Group solvency capital requirement (SCR_{group}) is calculated as the sum of the consolidated SCR at the Group level plus the capital requirement for other financial sectors, calculated in accordance with relevant sectoral regulations (SCR_{OFS}) (hereinafter: capital requirement for other financial sectors).

The solvency ratio is the ratio between Group eligible own funds and the Group SCR.

The table below shows Group SCR, the capital requirement for other financial sectors, the consolidated SCR at Group level, the SCR of each risk module, and the Group solvency ratio.

Group SCR

(EUR thousand)	31/12/2017	31/12/2016
Solvency capital requirement at Group level	205,015	207,113
Capital requirements of other financial sectors	5,300	4,943
Consolidated SCR at the Group level	199,716	202,169
Adjustments for TP and DT	-218	-292
Operational risk	15,407	14,827
Basic solvency capital requirement	184,526	187,634
Sum of risk components	272,615	272,604
Diversification effect	-88,089	-84,970
Market risk	51,671	63,861
Counterparty default risk	14,364	19,611
Life underwriting risk	40,210	26,098
Health underwriting risk	23,934	24,178
Non-life underwriting risk	142,437	138,857
Eligible own funds (excluding other financial sectors)	443,045	415,386
Eligible own funds in other financial sectors	8,353	8,008
Eligible own funds to meet the Group SCR	451,398	423,394
Solvency ratio	220%	204%

Thus as at 31 December 2017, the largest share of the Group SCR arose from risks associated with non-life business, the same as at 31 December 2016. The second largest group of risks faced by the Group is market risks.

For the Group SCR calculation as at 31 December 2017, we made some adjustments to the calculation methodology applied in the calculation as at 31 December 2016. These mostly include improvements that have no material effect on the level of the Group SCR. We made two significant changes to the methodology of calculating the Group SCR:

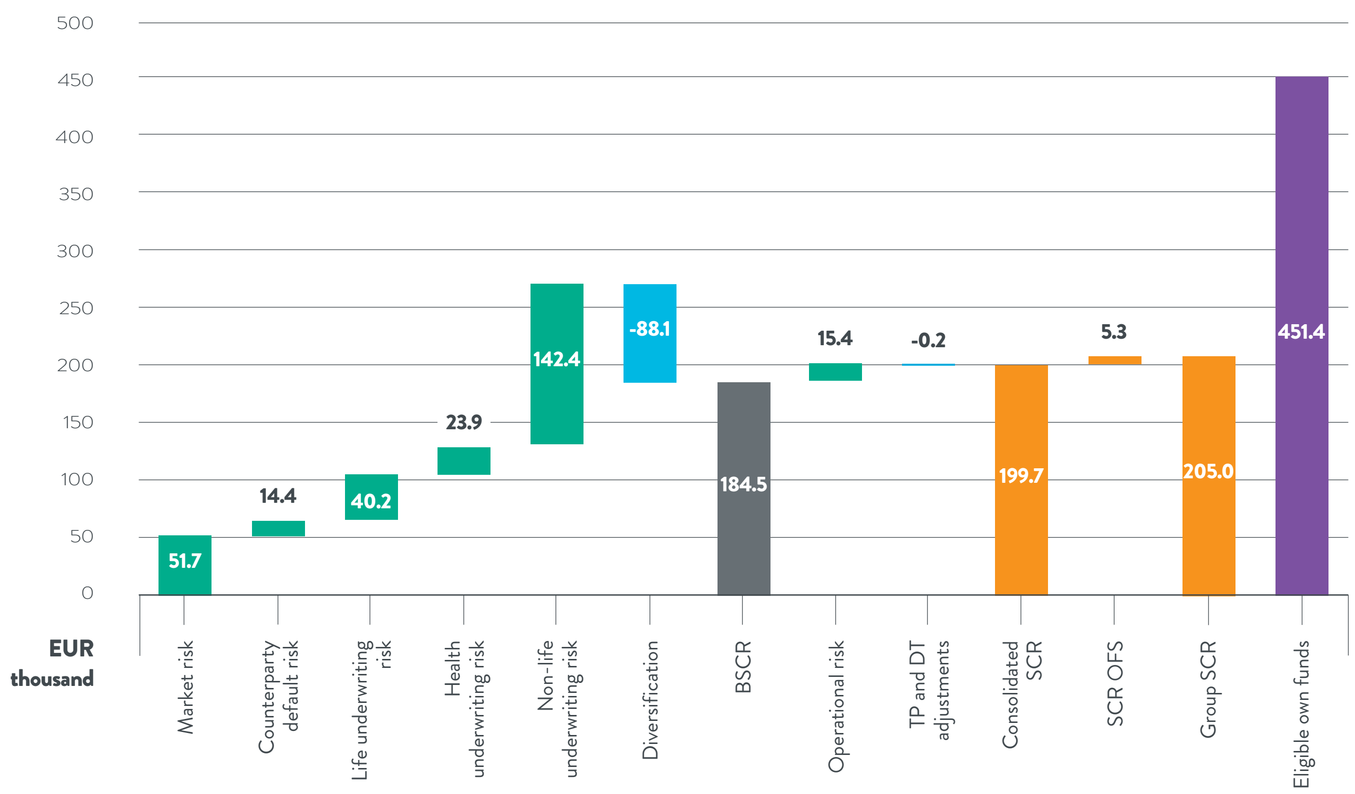
- We applied the look-through approach in the calculation of market risk as at 31 December 2017. This change had a material impact on the amount of the consolidated SCR at the Group level, which dropped as a result.
- For lapse risk relating to life insurance contract as at 31 December 2017, we made a more detailed risk calculation by policy. While the consolidated SCR on the Group level is below the Group's materiality threshold owing to the diversification effect, there was a minor decline in the Group's solvency ratio.

The Group does not use the simplifications referred to in articles 88–112 of Commission Delegated Regulation (EU) 2015/35, nor does it use undertaking-specific parameters in the calculation of the Group SCR.

The Group applied no Group SCR adjustments for deferred taxes.

The figure below shows the individual risk modules of the standard formula, the Group SCR and Group eligible own funds as at 31 December 2017.

Solvency capital requirement by module



As illustrated by the figure above, Group eligible own funds significantly exceed the Group SCR, as reflected in the Group's high solvency ratio of 220% as at 31 December 2017 (31/12/2016: 204%).

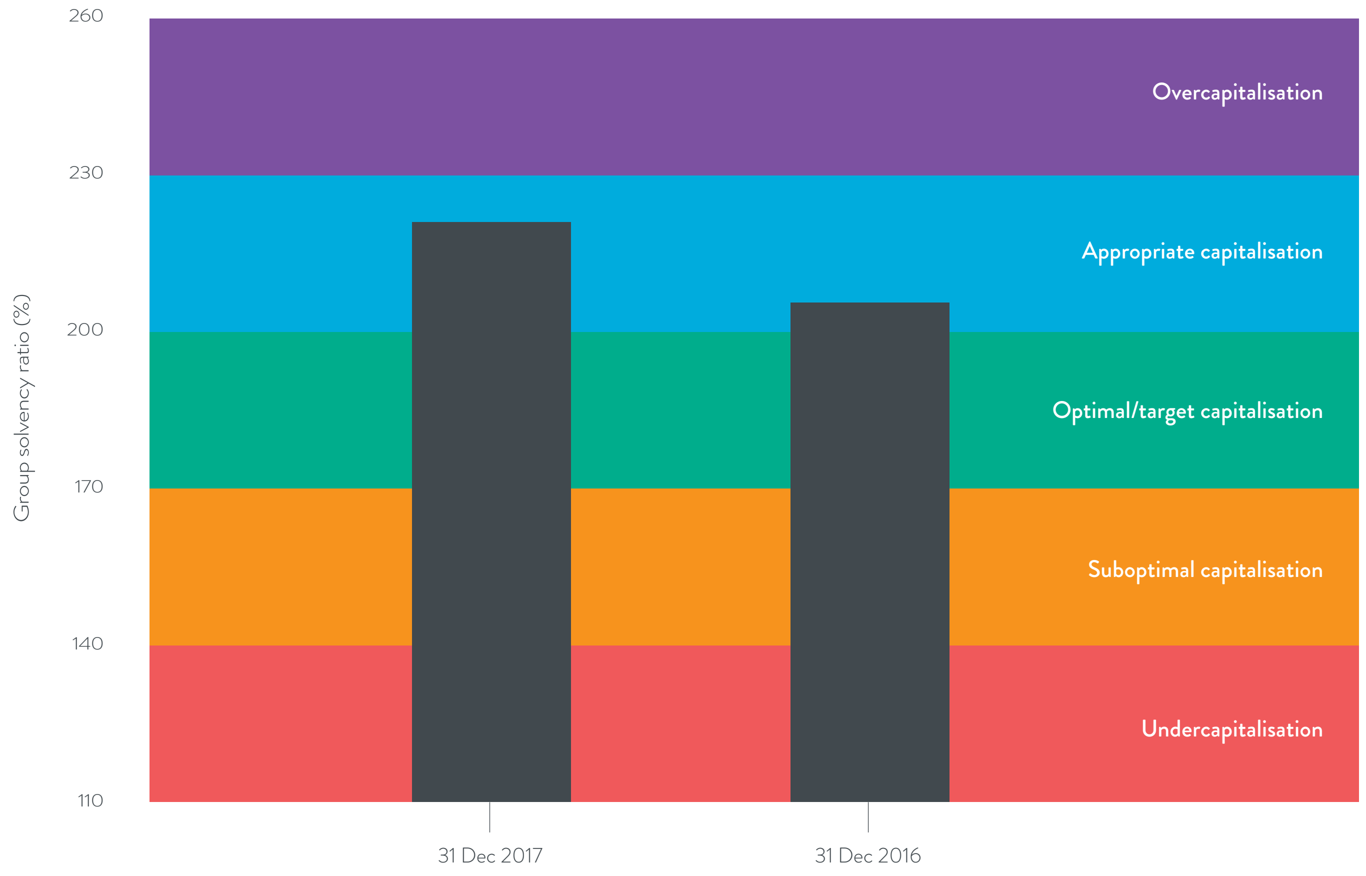
The Group has a long-term strategy embedded in its capital management policy of pursuing solvency within the range of optimal capitalisation as per its risk strategy, in which a major criteria of risk appetite is the level of the solvency ratio. In addition, to maintain its desired credit rating, the Group maintains a level of eligible own funds at least equal to the level required for an A-range credit rating. It must also have available a sufficient level of eligible own funds to meet potential capital requirements of its subsidiaries if a major stress scenario were to materialise in any of them. To this end, excess of eligible own funds is determined over the statutory requirement.

In line with the risk strategy, the Group's acceptable solvency ratio limit is therefore 140%, while its optimum capitalisation is in the 170–200% range.

Based on this, the Group's capitalisation is good, also by internal criteria. In December 2017, the Sava Re supervisory board approved the business plan of Sava Re and the Sava Re Group, including financial projections and the calculation of eligible own funds, the SCR and the solvency ratio for the 2018–2020 period. In the 2018–2020 period, the Group's solvency ratio is planned at a level slightly above the optimal capitalisation as defined in the risk strategy.

As evident from the preceding figure, the solvency ratio is aligned with the Group's risk strategy, its level slightly above the ceiling of optimum capitalisation (in the adequate capitalisation range).

Alignment of the Group solvency ratio with the risk strategy



E.2.2 Minimum capital requirement (MCR)

The Sava Re Group calculates the Group MCR as the sum of the controlling company's MCR and the MCRs of subsidiaries, which are insurance companies; for insurance companies based outside the EU, local capital requirements are factored in.

Input data for the calculation of the Group MCR

(EUR thousand)	31/12/2017	31/12/2016
Sava Re	40,018	36,914
Zavarovalnica Sava	47,187	47,845
Sava neživotno osiguranje (SRB)	3,195	3,197
Sava životno osiguranje (SRB)	3,195	3,197
Sava osiguruvanje (MKD)	3,014	2,985
Sava osiguranje (MNE)	3,000	3,000
Illyria	3,200	3,000
Illyria Life	3,200	3,200
Group MCR	106,009	103,337

The Group's eligible own funds designated to meet the MCR of EUR 443,045 thousand (31/12/2016: EUR 415,386) substantially exceed the Group's MCR of EUR 106,009 thousand (31/12/2016: EUR 103,337 thousand).

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

In calculating the SCR, the Group does not use the duration-based equity risk sub-module.

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

There are no differences between the standard formula and any internal model, because Group companies and the Group do not use an internal model for the calculation of the SCR.

E.5 Non-compliance with the minimum capital requirement (MCR) and non-compliance with the solvency capital requirement (SCR)

The Group is not non-compliant with either the MCR or the SCR.

E.6 Any other information

The Group has no other material information relating to capital management.

APPENDIX A

APPENDIX A

Glossary of selected terms and calculation methodologies for indicators

APPENDIX A
GLOSSARY OF SELECTED TERMS AND CALCULATION METHODOLOGIES FOR INDICATORS

English term	Slovenian term	Meaning
Basic solvency capital requirement – BSCR	Osnovni zahtevani solventnostni kapital – BSCR	The basic solvency capital requirement within the framework of the standard formula is an amount based on the statutory calculation of the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk and counterparty default risk.
Bloomberg valuation	Cena BVAL	Price obtained from the Bloomberg information system.
Business continuity procedures	Načrt neprekinjenega delovanja	Document that includes procedures for ensuring the continuous operation of key business processes and systems. The contingency plan is an integral part of the business continuity plan and sets out technical and organisational measures to restore operations and mitigate the consequences of severe business disruptions.
Capital asset pricing model	CAPM	Model describing the relationship between risk and expected return on assets.
Composite Bloomberg bond trader	Cena CBBT	Closing price published by the Bloomberg system based on binding bids.
European insurance and occupational pensions authority	EIOPA	European Insurance and Occupational Pensions Authority
IFRS	MSRP	International Financial Reporting Standards. EU-wide uniform set of rules governing the accounting of business transactions.
Key rate duration	Ključna stopnja trajanja	Key rate duration is an extension of modified duration, but measures the sensitivity of the shifts along the interest rate curve at specific (key) maturity points. The sum of all KRDs along all key maturity points approximates modified duration.
Market value	Tržna vrednost	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in arm's length transactions. The amounts are based on prices in active and liquid markets that a company has access to and are commonly used.
Minimum capital requirement – MCR	Zahtevani minimalni kapital – MCR	The minimum capital requirement is equal to the amount of own funds below which policyholders, insured persons and other beneficiaries of insurance contracts would be exposed to an unacceptable level of risk if the insurer were allowed to continue operating.
Modified duration	Modificirano trajanje	Modified duration measures the portfolio's sensitivity to parallel shifts in the interest rate curve. A change in interest rates of +/-1% results in an impact on the portfolio of about -/+MD %.
Operational limits	Operativni limiti	Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by first line of defence staff in the day-to-day risk management process to keep a company within its set risk appetite range.
Over the counter	Trg OTC	A transaction in the OTC market is one between two parties in securities or other financial instruments outside a regulated market.
Own funds	Primerni lastni viri sredstev	Own funds eligible to cover the solvency capital requirement.
Own risk and solvency assessment – ORSA	Lastna ocena tveganj in solventnosti – ORSA	Own assessment of the risks associated with a company's business and strategic plan and assessment of the adequacy of own funds to cover risks.
Present value	Sedanja vrednost	The value of future cash flows recalculated to present-day values. This is done by discounting.
Probable maximum loss – PML	Največja verjetna škoda – PML	This is the maximum loss for a risk an insurer assesses could occur in one loss event. Normally, it is expressed as a percentage of the sum insured; in extreme cases, it equals the sum insured (PML is 100% of the sum insured).
Risk appetite	Pripravljenost za prevzem tveganj	Risk level that a company is willing to take in order to meet its strategic goals. At Sava Re defined based on the acceptable solvency ratio, the liquidity ratio of the assets, profitability of insurance products and reputation risk.
Risk management system	Sistem upravljanja tveganj	The risk management system is a set of measures taken by an insurer to manage (i.e. to identify, monitor, measure, manage, report) material risks arising from both the operations of a company and the external environment in order to enhance the implementation of strategic objectives and minimise any loss of own funds.
Risk profile	Profil tveganj	All of the risks that a company is exposed to and the quantification of these exposures for all risk categories.
Risk Register	Register tveganj	List of all identified risks maintained and periodically updated by a company.
Risk tolerance limits	Meje dovoljenega tveganja	Limits for risk categories included in a company's risk profile and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite as stated in the company's risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenario test	Scenarijski test	Scenario-based tests seek to determine the impact of multiple changes in parameters, such as concurrent changes in different risks types affecting the insurance business, the value of financial assets and a change in interest rates.
Solvency capital requirement – SCR	Zahtevani solventnostni kapital – SCR	The SCR is an amount based on the regulatory calculation of all quantifiable risk, including non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.

Solvency ratio	**Solventnostni količnik**	Ratio of eligible own funds to the solvency capital requirement. It represents a company's capital adequacy in accordance with the Solvency II principles. A solvency ratio in excess of 100% indicates that the company has more than sufficient resources to meet the solvency capital requirement.
Standard formula	**Standardna formula**	Set of calculations prescribed by Solvency II regulations used for generating the solvency capital requirement.
Stress test	**Stresni test**	In a stress test, a single parameter is changed to observe the effect on the value of assets, liabilities and/or own funds as well as any effects on the value of the parameter itself.
Tiers	**Kakovostni razredi kapitala**	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether basic or ancillary).
Undertaking-specific parameters – USP	**Parametri, specifični za posamezno podjetje – USP**	Insurance and reinsurance undertakings may, within the design of the standard formula, replace the standard deviations for premium and reserve risk of non-life and NSLT health business with undertaking-specific parameters, in accordance with article 218 of Delegated regulation (EU) 2015/35.
Unit value	**Vrednost enote premoženja – VEP**	The value of a unit or share is the worth of individual units of a sub-fund and is regularly published.

APPENDIX B

APPENDIX B

S.32.01.22 Undertakings in the scope of the Group
S.02.01.02 Balance sheet
S.05.01.02 Premiums, claims and expenses by line of business
S.05.02.01 Premiums, claims and expenses by country
S.23.01.22 Own funds
S.25.01.22 Solvency Capital Requirement – for undertakings on Standard Formula

All amounts in the quantitative reporting templates are in thousands of euro.

S.32.01.22 Undertakings in the scope of the Group

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
XK	SC/70587513	Special code	"Illyria Hospital" SH.P.K.	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual		100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
XK	SC/70520893	Special code	Illyria Life s.h.a., Pristina	life insurance company	public limited company	non mutual	Banka Qendrore e Republikës së Kosovës	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
XK	SC/70152892	Special code	Illyria s.h.a., Pristina	non-life insurance company	public limited company	non mutual	Banka Qendrore e Republikës së Kosovës	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
SI	LEI/213800K2 LJ7JKL6CU689	LEI	Sava pokojninska družba, d.d.	institution for occupational retirement provision	public limited company	non mutual	Agencija za zavarovalni nadzor	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
ME	SC/1550411	Special code	DRUŠTVO ZA ZASTUPANJE U OSIGURANJU "SAVA AGENT" D.O.O. - Podgorica	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual	Agencija za nadzor osiguranja	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
SI	SC/614906 5000	Special code	ORNATUS KLICNI CENTER, podjetje za posredovanje telefonskih klicev, d.o.o.	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual	Agencija za zavarovalni nadzor	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consolidation
SI	LEI/549300P6 F1BDSFSW5T72	LEI	Pozavarovalnica Sava d.d., Ljubljana	reinsurance company	public limited company	non mutual	Agencija za zavarovalni nadzor		100.0%					included in supervision		Method 1: full consolidation

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
ME	SC/02806380	Special code	Sava Car d.o.o., Podgorica	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual	Agencija za nadzor osiguranja	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation
ME	SC/02303388	Special code	Sava osiguranje a.d., Podgorica	non-life insurance company	public limited company	non mutual	Agencija za nadzor osiguranja	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation
RS	SC/17407813	Special code	SAVA NEŽIVOTNO OSIGURANJE A.D.O. BEOGRAD	non-life insurance company	public limited company	non mutual	Narodna Banka Srbije	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation
MK	SC/4778529	Special code	Sava osiguruvanje a.d., Skopje	non-life insurance company	public limited company	non mutual	Agencija za supervizija na osiguruvanje (ACO)	92.6%	100.0%	92.6%		dominant	92.6%	included in supervision		Method 1: full consoli-dation
MK	SC/7005350	Special code	Sava Station dooel Skopje	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual	Ministarstvo unutrašnjih poslova	92.6%	100.0%	92.6%		dominant	92.6%	included in supervision		Method 1: full consoli-dation
RS	SC/20482443	Special code	Sava životno osiguranje a.d., Beograd	life insurance company	public limited company	non mutual	Narodna Banka Srbije	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation
SI	SC/2238799000	Special code	ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o.	ancillary services undertaking as defined under Article 1(53) of Delegated regulation (EU) 2015/35	private limited-liability company	non mutual	Agencija za zavarovalni nadzor	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation
SI	LEI/48510000 OGX4W2DFYV 52	LEI	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	composite insurance company	public limited company	non mutual	Agencija za zavarovalni nadzor	100.0%	100.0%	100.0%		dominant	100.0%	included in supervision		Method 1: full consoli-dation

S.02.01.02 Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	9,559
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	42,187
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1,135,196
Property (other than for own use)	R0080	15,996
Holdings in related undertakings, including participations	R0090	8,353
Equities	R0100	17,482
Equities – listed	R0110	13,237
Equities – unlisted	R0120	4,245
Bonds	R0130	1,023,284
Government Bonds	R0140	602,511
Corporate Bonds	R0150	420,773
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	34,009
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	36,071
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	144,737
Loans and mortgages	R0230	592
Loans on policies	R0240	149
Loans and mortgages to individuals	R0250	39
Other loans and mortgages	R0260	404
Reinsurance recoverables from:	R0270	19,887
Non-life and health similar to non-life	R0280	19,887
Non-life excluding health	R0290	19,010
Health similar to non-life	R0300	876
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	5,832
Insurance and intermediaries receivables	R0360	31,691
Reinsurance receivables	R0370	5,675
Receivables (trade, not insurance)	R0380	5,646
Own shares (held directly)	R0390	27,207
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	35,736
Any other assets, not elsewhere shown	R0420	78
Total assets	**R0500**	**1,464,023**

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	356,113
Technical provisions – non-life (excluding health)	R0520	337,687
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	305,068
Risk margin	R0550	32,619
Technical provisions – health (similar to non-life)	R0560	18,426
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	10,446
Risk margin	R0590	7,981
Technical provisions – life (excluding index-linked and unit-linked)	R0600	376,308
Technical provisions – health (similar to life)	R0610	-1,425
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	-1,824
Risk margin	R0640	399
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	377,733
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	363,250
Risk margin	R0680	14,484
Technical provisions – index-linked and unit-linked	R0690	119,275
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	111,898
Risk margin	R0720	7,377
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	7,558
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	51,349
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	245
Insurance & intermediaries payables	R0820	41,033
Reinsurance payables	R0830	1,381
Payables (trade, not insurance)	R0840	6,787
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	12,764
Total liabilities	R0900	972,814
Excess of assets over liabilities	R1000	491,209

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

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	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	4,422	43,250	0	105,413	91,662	3,137	62,231	16,345	5,509
Gross – Proportional reinsurance accepted	R0120	3,225	1,939	0	965	2,490	7,351	41,278	3,361	283
Gross – Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	676	-12	0	1,543	1,533	219	12,355	771	164
Net	R0200	6,972	45,201	0	104,834	92,618	10,269	91,153	18,935	5,628
Premiums earned										
Gross – Direct Business	R0210	4,435	43,524	0	101,992	86,451	3,047	61,110	16,093	4,435
Gross – Proportional reinsurance accepted	R0220	3,239	2,140	0	1,009	1,723	6,648	41,277	3,303	263
Gross – Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	703	56	0	1,463	1,502	225	11,058	649	164
Net	R0300	6,971	45,607	0	101,539	86,672	9,470	91,329	18,747	4,534
Claims incurred										
Gross – Direct Business	R0310	2,458	16,904	0	52,386	65,342	1,253	41,859	313	1,671
Gross – Proportional reinsurance accepted	R0320	2,512	1,225	0	-102	1,191	4,084	23,382	2,099	342
Gross – Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	190	320	0	2,283	486	595	9,723	1,673	0
Net	R0400	4,780	17,809	0	50,000	66,047	4,743	55,518	738	2,014
Changes in other technical provisions										
Gross – Direct Business	R0410	1	57	0	337	190	34	115	-14	-444
Gross – Proportional reinsurance accepted	R0420	-5	0	0	0	0	142	0	0	22
Gross – Non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0	-2	0	9	5	3	-29	-6	-68
Net	R0500	-4	59	0	328	185	173	143	-8	-354
Expenses incurred	R0550	3,220	14,504	0	31,401	23,071	3,729	36,373	9,466	1,127
Other expenses	R1200									
Total expenses	R1300									

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of Business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross – Direct Business	R0110	759	13,966	2,133					348,826
Gross – Proportional reinsurance accepted	R0120	10	0	428					61,328
Gross – Non-proportional reinsurance accepted					267	2,166	3,566	28,862	34,861
Reinsurers' share	R0140	539	7,684	494	0	1,281	569	5,949	33,765
Net	R0200	230	6,282	2,067	267	885	2,997	22,913	411,249
Premiums earned									
Gross – Direct Business	R0210	755	13,046	2,033					336,922
Gross – Proportional reinsurance accepted	R0220	9	0	449					60,061
Gross – Non-proportional reinsurance accepted					262	2,119	3,540	28,264	34,185
Reinsurers' share	R0240	540	7,238	455	0	1,091	497	5,755	31,396
Net	R0300	225	5,808	2,028	262	1,029	3,043	22,508	399,771
Claims incurred									
Gross – Direct Business	R0310	10	7,405	1,137					190,738
Gross – Proportional reinsurance accepted	R0320	1	0	663					35,396
Gross – Non-proportional reinsurance accepted					153	-632	4,657	16,400	20,578
Reinsurers' share	R0340	0	6,076	305	0	1,749	134	-475	23,060
Net	R0400	11	1,329	1,494	153	-2,382	4,522	16,875	223,651
Changes in other technical provisions									
Gross – Direct Business	R0410	1	6	1					284
Gross – Proportional reinsurance accepted	R0420	0	0	0					159
Gross – Non-proportional reinsurance accepted	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	3	0	0	0	0	-84
Net	R0500	1	6	-2	0	0	0	0	527
Expenses incurred	R0550	325	5,762	776	77	600	647	5,611	136,689
Other expenses									0
Total expenses									136,689

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	310	19,446	27,229	23,116	0	0	0	0	70,100
Reinsurers' share	R1420	0	9	119	350	0	0	0	0	478
Net	R1500	310	19,436	27,110	22,766	0	0	0	0	69,622
Premiums earned										
Gross	R1510	306	19,518	27,229	23,129	0	0	0	0	70,182
Reinsurers' share	R1520	0	9	119	1,078	0	0	0	0	1,206
Net	R1600	306	19,509	27,110	22,051	0	0	0	0	68,976
Claims incurred										
Gross	R1610	306	19,518	27,229	20,668	0	0	0	0	67,721
Reinsurers' share	R1620	0	0	42	460	0	525	0	0	1,027
Net	R1700	306	19,518	27,187	20,208	0	-525	0	0	66,694
Changes in other technical provisions										
Gross	R1710	85	2,345	-10,454	9,730	0	0	0	0	1,705
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	85	2,345	-10,454	9,730	0	0	0	0	1,705
Expenses incurred	R1900	-284	3,389	4,960	8,052	0	212	0	0	16,329
Other expenses	R2500									0
Total expenses	R2600									16,329

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		China	South Korea	Macedonia	Montenegro	Serbia	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross – Direct Business	R0110	298,826	0	0	12,740	12,355	16,555	340,476
Gross – Proportional reinsurance accepted	R0120	574	6,494	14,215	10	88	993	22,375
Gross – Non-proportional reinsurance accepted	R0130	175	2,766	1,353	3	16	400	4,713
Reinsurers' share	R0140	80,291	765	1,265	1,519	2,772	1,750	88,362
Net	R0200	219,284	8,495	14,303	11,234	9,686	16,198	279,201
Premiums earned								
Gross – Direct Business	R0210	288,826	0	0	12,499	11,971	15,734	329,031
Gross – Proportional reinsurance accepted	R0220	616	6,633	13,666	12	82	883	21,891
Gross – Non-proportional reinsurance accepted	R0230	171	2,695	1,400	2	16	403	4,687
Reinsurers' share	R0240	77,313	752	1,243	1,515	2,254	1,626	84,703
Net	R0300	212,300	8,576	13,823	10,998	9,815	15,393	270,905
Claims incurred								
Gross – Direct Business	R0310	168,597	0	0	7,134	4,257	6,036	186,025
Gross – Proportional reinsurance accepted	R0320	-519	5,109	7,285	3	23	386	12,287
Gross – Non-proportional reinsurance accepted	R0330	-688	941	1,917	2	0	152	2,325
Reinsurers' share	R0340	41,237	371	613	1,864	119	1,234	45,439
Net	R0400	126,154	5,679	8,589	5,275	4,160	5,340	155,198
Changes in other technical provisions								
Gross – Direct Business	R0410	-144	0	0	-45	-230	-104	-522
Gross – Proportional reinsurance accepted	R0420	0	4	9	0	0	0	13
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	
Reinsurers' share	R0440	-84	0	0	0	0	0	-84
Net	R0500	-59	4	9	-45	-230	-104	-425
Expenses incurred	R0550	77,856	2,534	4,379	5,249	5,562	9,203	104,785
Other expenses	R1200							0
Total expenses	R1300							104,785

		Home Country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	66,913						66,913
Reinsurers' share	R1420	477						477
Net	R1500	66,436						66,436
Premiums earned								
Gross	R1510	66,988						66,988
Reinsurers' share	R1520	425						425
Net	R1600	66,563						66,563
Claims incurred								
Gross	R1610	67,682						67,682
Reinsurers' share	R1620	703						703
Net	R1700	66,979						66,979
Changes in other technical provisions								
Gross	R1710	329						329
Reinsurers' share	R1720	0						0
Net	R1800	329						329
Expenses incurred	R1900	14,211						14,211
Other expenses	R2500							211
Total expenses	R2600							14,422

S.23.01.22 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	71,856	71,856		0	
Non-available called but not paid in ordinary share capital at group level	R0020	0	0		0	
Share premium account related to ordinary share capital	R0030	43,036	43,036		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Non-available subordinated mutual member accounts at group level	R0060	0		0	0	0
Surplus funds	R0070	0	0			
Non-available surplus funds at group level	R0080	0	0			
Preference shares	R0090	0		0	0	0
Non-available preference shares at group level	R0100	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Non-available share premium account related to preference shares at group level	R0120	0		0	0	0
Reconciliation reserve	R0130	336,393	336,393			
Subordinated liabilities	R0140	0		0	0	0
Non-available subordinated liabilities at group level	R0150	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
The amount equal to the value of net deferred tax assets not available at the group level	R0170	0				0
Other items approved by supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Non-available own funds related to other own funds items approved by supervisory authority	R0190	0	0	0	0	0
Minority interests (if not reported as part of a specific own fund item)	R0200	318	318	0	0	0
Non-available minority interests at group level	R0210	206	206	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	8,353	8,353	0	0	0
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	0	0	0	0	
Deductions for participations where there is non-availability of information (Article 229)	R0250	0	0	0	0	0
Deduction for participations included by using D&A when a combination of methods is used	R0260	0	0	0	0	0
Total of non-available own fund items	R0270	206	206	0	0	0
Total deductions	R0280	8,559	8,559	0	0	0
Total basic own funds after deductions	R0290	443,045	443,045	0	0	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310	0			0	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
Non available ancillary own funds at group level	R0380	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Own funds of other financial sectors						
Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	R0410	0	0	0	0	
Institutions for occupational retirement provision	R0420	8,353	8,353	0	0	0
Non-regulated entities carrying out financial activities	R0430	0	0	0	0	
Total own funds of other financial sectors	R0440	8,353	8,353	0	0	0
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450	0	0	0	0	0
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	0	0	0	0	0
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	443,045	443,045	0	0	0
Total available own funds to meet the minimum consolidated group SCR	R0530	443,045	443,045	0	0	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	443,045	443,045	0	0	0

Total eligible own funds to meet the minimum consolidated group SCR	R0570	443,045	443,045	0	0	
Minimum consolidated Group SCR	R0610	106,009				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	417.9310%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	451,398	451,398	0	0	0
Group SCR	R0680	205,015				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	220.1777%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	491,209
Own shares (held directly and indirectly)	R0710	27,207
Foreseeable dividends, distributions and charges	R0720	12,398
Other basic own fund items	R0730	115,211
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0
Other non-available own funds	R0750	0
Reconciliation reserve before deduction for participations in other financial sector	R0760	336,393
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	42,386
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	19,645
Total Expected profits included in future premiums (EPIFP)	R0790	62,032

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	51,671		
Counterparty default risk	R0020	14,364		
Life underwriting risk	R0030	40,210	none	
Health underwriting risk	R0040	23,934	none	
Non-life underwriting risk	R0050	142,437	none	
Diversification	R0060	-88,089		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	184,526		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	15,407
Loss-absorbing capacity of technical provisions	R0140	-218
Loss-absorbing capacity of deferred taxes	R0150	0
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	199,716
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	205,015
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for Article 304	R0440	0
Minimum consolidated group solvency capital requirement	R0470	106,009
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	5,300
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	0
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	5,300
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non- regulated entities carrying out financial activities	R0530	0
Capital requirement for non-controlled participation requirements	R0540	0
Capital requirement for residual undertakings	R0550	0
Overall SCR		
SCR for undertakings included via D and A	R0560	0
Solvency capital requirement	R0570	205,015