COMPANY ANALYSIS - Sava Re Group

InterCapital Research

InterCapital

Insurance

January 5th, 2018

Looking for Growth Outside Slovenia

EUR '000	2017E	2018E	2019E	2020E	2021E	2022E
Gross written premium	507,425	520,404	533,682	549,785	566,328	583,415
Gross claims settled	-284,155	-269,136	-276,732	-284,047	-291,938	-300,038
Net investment income	17,034	17,537	21,035	24,912	28,511	30,123
EBT	37,597	42,217	45,442	49,305	53,164	57,924
Net profit / loss	31,957	35,885	38,626	41,910	45,189	49,235
Total assets	1,704,032	1,761,442	1,821,396	1,884,543	1,950,579	2,020,165
Equity	318,458	342,751	368,626	396,510	426,270	458,534
Technical provisions	1,168,200	1,196,601	1,225,804	1,255,779	1,286,586	1,318,248
ROA	1.9%	2.1%	2.2%	2.3%	2.4%	2.5%
ROE	10.4%	10.9%	10.9%	11.0%	11.0%	11.1%
P/GWP	0.54	0.52	0.51	0.49	0.48	0.47
P/E	8.51	7.58	7.04	6.49	6.02	5.53
P/B	0.85	0.79	0.74	0.69	0.64	0.59

* Multiples were calculated based on the market price on January 5th 2017

Following the new strategy for the 2017-2019 period and 9M 2017 results, which were both slightly above our expectations, we update our model for Sava Re Group.

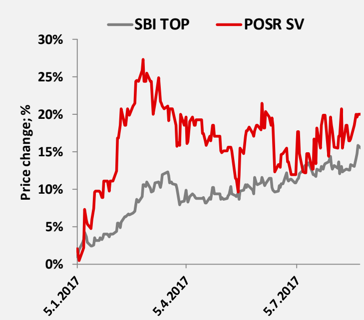
For 2017 we expect GWPs of EUR 507m, in line with the target of roughly EUR 505m given by Sava Re. In the projected period, we believe Slovenian market will lag behind other markets, especially in life segment due to a large number of upcoming maturities. However, we projected a double-digit premium growth in insurance subsidiaries outside Slovenia. We believe the reinsurance space is attractive in a broader insurance sector context, thus we see the possibility of increased earnings in Sava Re's case, further backed byreinsurance rate increases. Taking into account the differing views on the extent of rate increases among industry participants, we were slightly conservative in our estimates. We see potential upside from new business, such as pension funds and healt insurance.

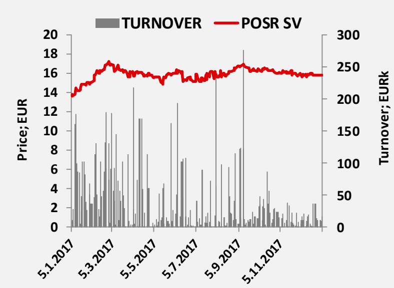
We believe overall profitability will remain broadly stable as the expected improvement in underwriting performance is offset by continued pressure on investment income, although we recognise some downside risk over time arriving from significant focus on „new" markets. We expect the investment result to decline by roughly EUR 6m on the yearly basis, amountin to EUR 17.0m in 2017, with a return on investments of 1.6%. In our opinion, the period will end with a return of 2.6% and net investment income of EUR 30.1m.

We recognize the Group's efforts to step up the number of goals and initiatives within its Strategy 2017-2019, among them focus on higher organic growth outside Slovenia, some digitalisation initiatives (development of an innovation platform, increased web presence, setting up a tool for managing customer relation etc.), seeking growth through acquisitions, developement of pension and health insurance. We believe the dividend yield is attractive and sustainable at around 5-7% in the projected period (compared to current price).

GENERAL SHARE INFORMATION

Bloomberg ticker	POSR SV
Number of shares	17,219,662
Market capitalization (EURm)	272.1
1Y high/low (EUR)	17.25 / 13.25
1Y average daily turnover (EURk)	36.99
Free Float	44.44%
Index member	YES
Website	www.sava-re.si/en/





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Key themes related to Sava Re's business activities

Today's insurers face a wide range of complex challenges, from navigating financial market uncertainty and evolving consumer demands to outpacing digitally savvy new competitors. While these factors may add new risk, they also present opportunities for insurers, reinsurers, and brokers, to rethink strategy, redesign financial and capital models, revamp sales, service and support processes with technology, or explore new growth in emerging markets or through product innovation.

Intensified regulatory scrutiny and enhanced compliance and capital requirements through ORSA, IFRS and Solvency II regimes are at the forefront. In addition, modernizing technology and processes to derive value from the vast volume of data and driving efficiencies in front and back office operations will continue to challenge business models for several years to come. As insurers seek to secure profitable growth, mergers and acquisitions (M&A) are an increasingly important element of the overall strategy.

Global insurance market review 2017 and outlook 2018/19

According to Swiss Re, global growth prospects continued to improve during 2017 and a recession next year is unlikely. Even so, only moderate growth is expected this year. Emerging markets are performing better, especially in Asia (6% growth), but growth in commodity exporting regions is also accelerating as energy and metal prices rise. Inflation is currently fairly subdued globally, but with low unemployment rates in some countries (US, UK, Germany), the risk to casualty lines from inflation needs to be monitored. The multitude of large natural CAT events – Harvey, Irma, Maria, earthquakes in Mexico, wildfires in California – in the second half of the year have drained capital out of the re/insurance P&C sector. Price increases in loss-affected segments are already happening and could be substantial.

Global non-life insurance premiums have grown by about 3% this year, and growth is forecast to remain steady at around 3% in 2018 and 2019 but could be stronger depending on the afore-mentioned price increases. Assuming 2018 is an average CAT loss year, profits will improve. Global life insurance premiums are estimated to have grown by about 3% in 2017 (up from 2% in 2016), supported by robust performance of savings products in emerging markets, particularly in Asia. Premiums are forecast to increase by close to 4% annually over the next two years.

Non-life premium growth in CEE has eased slightly to below 5% in 2017 from 5.7% in 2016. Strong growth in most of the countries from the region has been more than offset by the drag from weakness in Russia (premiums down 5%). In the next two years, stable demand for non-life insurance is expected in CEE, with growth around 4-5% on an annual basis. Life premium growth in CEE has rebounded formidably in 2017 after contracting for four years in a row, but lower growth of around 5-6% is expected in the coming two years, reflecting the large share of Russia. However, elsewhere in the region, life business should rebound assuming steady economic growth.

Reinsurance

As we already stated before, the multitude of large nat cat events in the second half of the year have drained capital out of the reinsurance. Apart from the unusually high burden from nat cat, the reinsurance industry has also continued to suffer from headwinds arising from the ongoing low interest rate environment and the recent overall softening of underwriting conditions. As a consequence, ROE in non-life reinsurance declined from around 15% between 2012 and 2014 to 11% in 2016. For the first six months of this year, the industry ROE further dropped to 9%, based on a combined ratio of 93% and an investment yield of 2.5%. Assuming no further large nat cat events for the rest of the year, the combined ratio for 2017 is estimated to be around 115%. Accordingly, overall global industry profitability (ROE) for the full-year is forecast to come in at around -4%. The ultimate volume of losses is not yet known, but it will likely be large enough to cause price rises even beyond the affected sectors/regions. Swiss Re believes that non-life reinsurers´ premiums will grow slightly less than, and profits slightly more than those of primary non-life insurers, but follow the same pattern.

Continued recovery in primary life insurance should support growth in life reinsurance revenues, including a recovery in traditional renewable business. Premium growth will nonetheless likely remain modest, especially in the large advanced markets. In real terms, global life reinsurance premiums are forecast to increase by just over 1% in 2018. Premiums in the advanced markets are projected to decline after adjusting for inflation, driven by developments in the US where cession rates continue their long-term down trend and growth in the primary market remains weak. In Western Europe, where cession rates are usually lower, reinsurance premiums are forecast to grow by about 1%. The strongest contribution to real growth in the advanced markets will likely come from developed Asia.

Low interest rate environment

Profitability remains challenging given the global low interest rate environment, which is putting pressure on investment returns and existing long-duration books of business. As interest rates gradually rise, investment income will grow only slowly, and with a lag to the rising rates. In the downside scenario, yields on government bonds would stay very depressed for another few years at least. It has now reached zero. The longer interest rates languish at these low levels, however, the greater the fallout and the stronger the redistributive effects.

In this benign inflation environment, interest rates are expected to remain very low. ECB is expected to increase the repo rate in 2019 at the earliest, and the Bank of Japan (BoJ) will likely keep rates close to zero over the forecast horizon. The US Fed is expected to continue to raise rates gradually, three times in both 2018 and 2019. In November, the Bank of England (BoE) raised interest rates for the first time in over a decade, reversing the post-Brexit emergency cut. The BoE indicated that another two hikes over the next three years would be appropriate to return inflation to target but highlighted that any decision would evaluate the progress of the ongoing Brexit negotiations carefully.

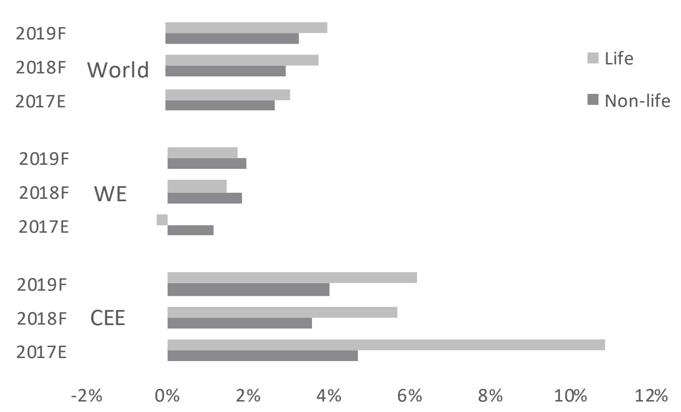
M&A

Over recent years the insurance world has changed materially and made economies of scale more important, especially in the areas of:

1. Regulation – smaller insurers face higher costs in relative terms to implement Solvency II models than larger insurers;
2. Capital requirements / diversification – larger insurers face higher diversification benefits than smaller insurers;
3. Asset management – larger insurers have better access to illiquid assets which offer a higher yield than smaller insurers who lack the expertise; and
4. IT/digitalisation – smaller insurers are likely to have more problems to move into the digital world than larger insurers (data platforms, product solutions).

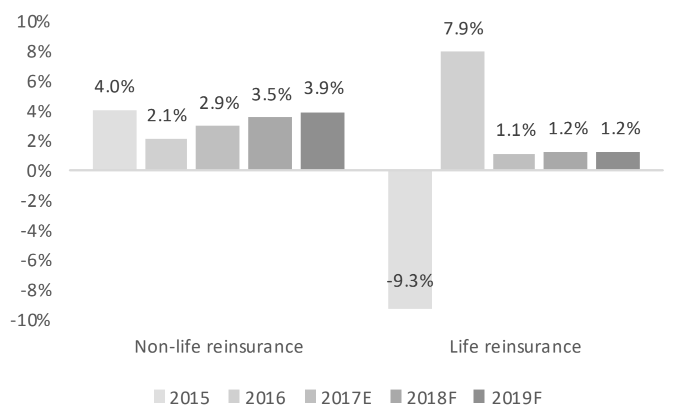
We believe that weaker insurers, especially smaller players, might eventually run into trouble, having a cost problem and probably losing market share. Add to that the low yield environment which allows cheap debt financing (both senior and subordinated) in addition to financing from internal funds and through raising equity capital, and it would be a surprise if we did not see increased M&A activity in years to come, not least because we now have more clarity on solvency positions. To sum up, with the low yield environment ongoing, and the recent hike in interest rates not having changed the situation dramatically, we believe consolidation will eventually accelerate.

Exhibit 5 GWP growth forecast in insurance until 2019 (YoY)



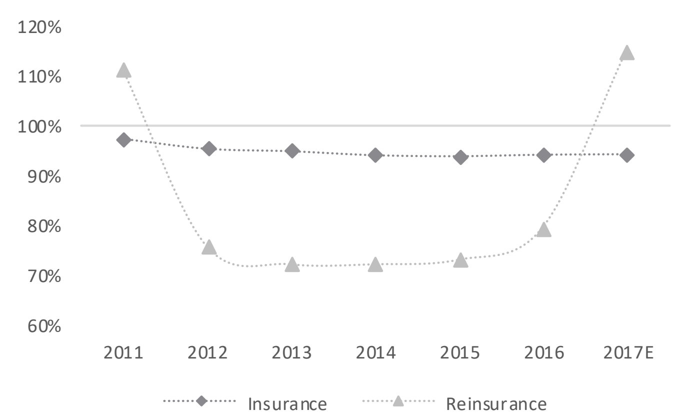
Source: Swiss Re, InterCapital Research

Exhibit 6 GWP growth forecast in reinsurance until 2019 (YoY)



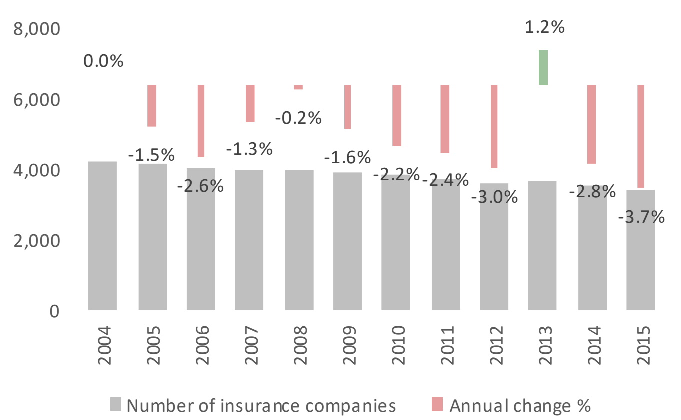
Source: Swiss Re, InterCapital Research

Exhibit 7 Combined ratio developement



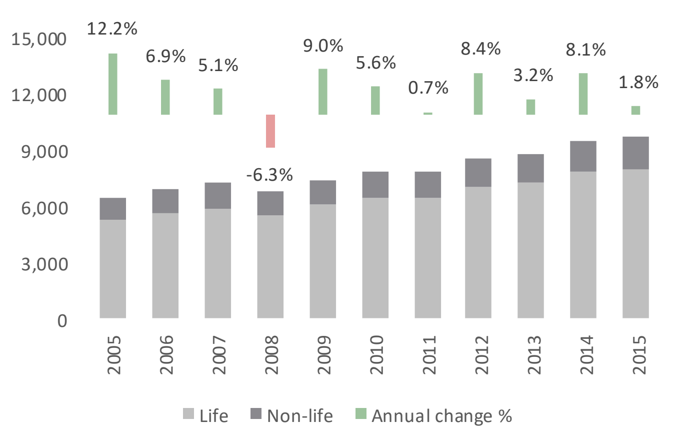
Source: Swiss Re, InterCapital Research

Exhibit 8 Insurance companies in Europe



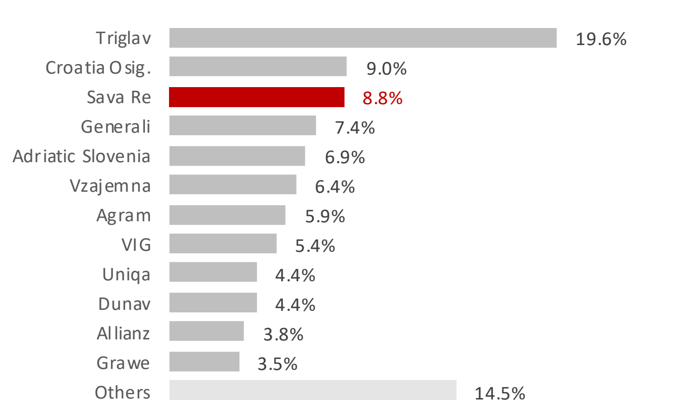
Source: Insurance Europe, InterCapital Research

Exhibit 9 European insurers investment portfolio (EURbn)



Source: Insurance Europe, InterCapital Research

Exhibit 10 Market shares in Adria region in 2016



Source: InterCapital Research, Triglav Group

Digitalization

Digitalization is probably one of the most important themes for insurers currently. It affects insurers on all parts of the insurance value chain, from communication with the client to data processing to offering new insurance solutions, but also heavily touches all other players in the market. This results in its high potential to challenge established companies.

Digitalisation will change the way insurers communicate with their clients and impact the customer's journey with insurers – ranging from first contact with the web to financial advice through web-based conferences to helping the client in the case of an insurance loss. The new trends also lead to different platforms to connect to customers and to additional product solutions and services which have not been possible before. Potential impacts of digitalisation are almost impossible to assess, and we believe capital markets have difficulties to assess implications from it as well.

One thing is clear: digitalisation will come. In banking services we have already seen important applications which make life easier and more efficient (in many cases even without having to write one single word anymore, just scanning and confirming). Firms which position themselves at the forefront of this development and enjoy advantages of scale are likely to be the winners of the development ahead, ultimately gaining market share. As such, we believe digitalisation is highly scalable. Smaller insurers will clearly be at a disadvantage to larger players in developing digital solutions.

However, to lessen dependence on traditional agents and brokers, mainstream carriers may also have to simplify their products for direct or group distribution. Over the years, particularly on the life insurance, agents have frequently encouraged insurers to add additional features to differentiate their products, which have become increasingly complex as a result. While this development may benefit agents, who can help consumers by explaining the various bells and whistles of a given product, it has also added a layer of difficulty to the transaction. This sets the stage for a dual distribution strategy, with more customized, complex products being sold through agents, while a streamlined product set is marketed online or through group sellers.

IFRS 17

The new standard IFRS 17 replaces IFRS 4, and will become effective from 1 January 2021. IFRS 17 is a major departure from current accounting practice. While it is principles-based and allows discretion in how to calibrate and allocate valuation changes, the reform will likely increase volatility in reported equity capital and profits. The framework involves measuring insurance liabilities based on the risk-adjusted cash flows plus a margin for as-yet unearned profit. Liabilities are re-measured in each reporting period and valuation changes are reflected in published financial statements. Premiums written will no longer drive the top line as recognised revenues will no longer include investment components of insurance contracts.

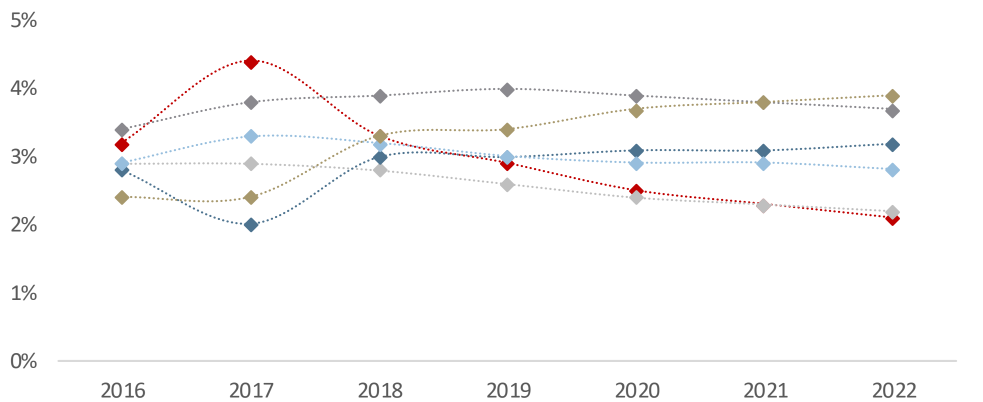
Implementing IFRS 17 will create challenges for many insurers. From an operational perspective, it will likely require significant investment in new data capture, systems and processes. The increased volatility in financial results will put increased emphasis on insurers to better communicate their underlying business performance including the sources of income and balance sheet volatility. This will help ensure that insurers´ costs of capital are not unduly driven higher by investors who misinterpret period-to-period swings in reported financial results.

Insurance market in Slovenia and Western Balkans

Economic growth in Slovenia is projected to remain solid and broad-based. Investment will accelerate as more EU structural funds are disbursed and capacity constraints bite. A strong labour market will lead to faster wage gains, supporting private consumption. Euro area growth should help exports remain buoyant despite cost increases. Accommodative euro area monetary policy is having an expansionary effect, and bank balance sheets have improved substantially. On the other hand, Slovenia has not taken full advantage of globalisation, with a low FDI stock and comparatively weak integration into global value chains. The growth of the Slovene insurance market has been almost unstoppable since the beginning of 2015, except for few months in mid-2016 when a very slight decline has been recorded. The new growing cycle began after the crisis which ruled over the market from 2011 to 2015, driven by the financial crisis in Slovenia (mostly related to banks). After that point in time, both life and non-life insurance segment saw a strong recovery.

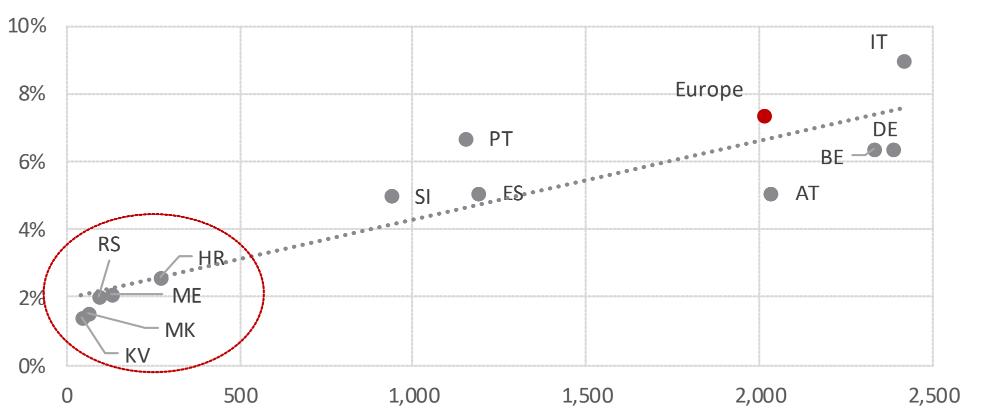
The economic environment continues to be a key driver for the insurance markets, according to a recent Munich Re white paper. Having said that, under the baseline and upside scenarios, insurance premium growth in the market will be close to GDP growth in Slovenia and generally higher than GDP growth in Western Balkans markets, which stand to benefit from increased insurance penetration The following graphs show overview of the markets/countries in which Sava Re Group operates.

Exhibit 11 GDP growth forecast for market in which Sava Re operates (in %)



Source: Focus Economics, InterCapital

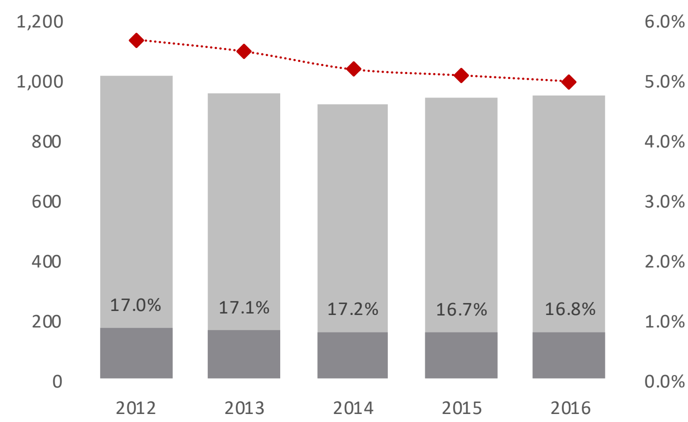
Exhibit 12 Insurance density (EUR) and penetration (in %) in selected European contries in 2015



Source: Insurance Europe, InterCapital Research

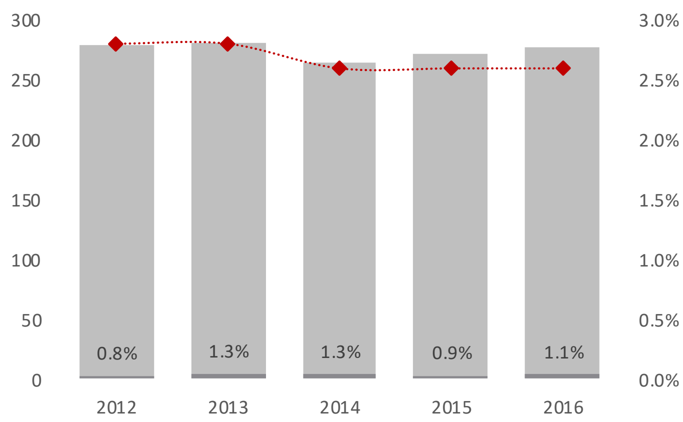
Insurance density (EUR per capita) | Sava Re's market share | Insurance penetration (% of GDP)

Exhibit 13 Slovenia



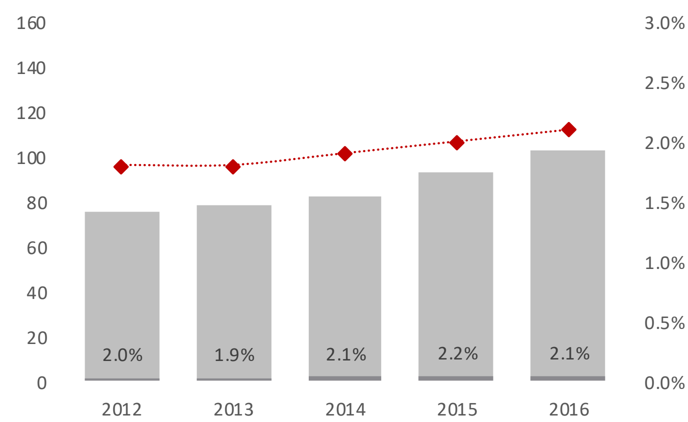
Source: Sava Re, InterCapital Research

Exhibit 14 Croatia



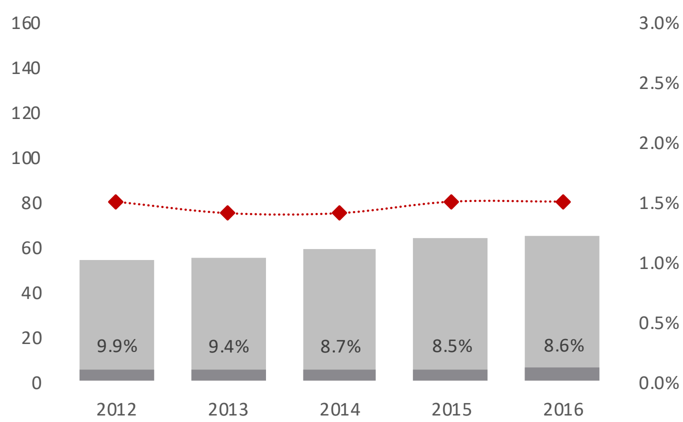
Source: Sava Re, InterCapital Research

Exhibit 15 Serbia



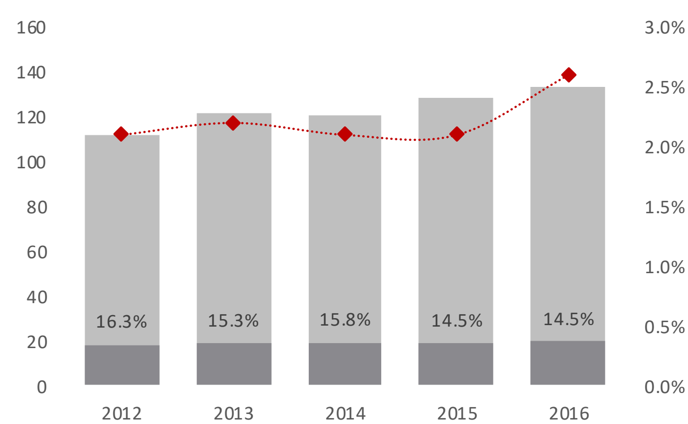
Source: Sava Re, InterCapital Research

Exhibit 16 Macedonia



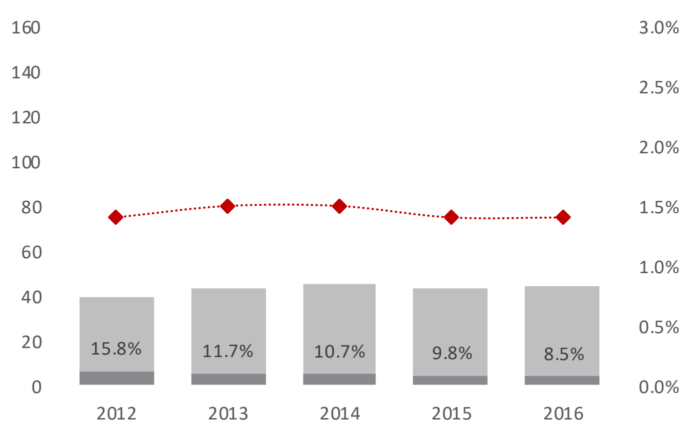
Source: Sava Re, InterCapital Research

Exhibit 17 Montenegro



Source: Sava Re, InterCapital Research

Exhibit 18 Kosovo



Source: Sava Re, InterCapital Research

Sava Re Group Results for 9M 2017

Sava Re Group continues to show strong improvement on the top line in most of its operating segments. However, Q3 brought a couple of large losses which impacted the Group's profitability.

EUR mil	FY 2015	FY 2016	%	9M 2016	9M 2017	%
Gross written premiums	486.3	490.2	*0.8%*	390.5	409.2	*4.8%*
Net premiums earned	447.6	458.1	*2.4%*	343.8	350.6	*2.0%*
Gross claims paid	271.5	269.4	*-0.8%*	195.3	218.6	*12.0%*
Net claims incurred	273.1	268.4	*-1.7%*	204.1	219.7	*7.7%*
Operating expenses	145.3	155.8	*7.3%*	111.3	112.0	*0.7%*
Net profit	33	33	*-1.3%*	23	21	*-7.5%*
Combined ratio	95.8%	95.0%	*-80 bp*	96.3%	94.5%	*-180 bp*
EUR mil	**Dec 2015**	**Dec 2016**	**%**	**Sep 2016**	**Sep 2016**	**%**
Total Assets	1,607.3	1,671.2	*4.0%*	1,689.5	1,718.1	*1.7%*
Equity	286.4	297.0	*3.7%*	296.2	307.4	*3.8%*
Return on equity	12.0%	11.3%	*-70 bp*	10.2%	9.1%	*-110 bp*
Net technical provisions	1,071	1,110	*3.6%*	1,135	1,154	*1.6%*

Overall, in the first nine months of the year, the Group recorded a 4.8% YoY increase in GWP (EUR 18.7m in absolute terms), ultimately reaching EUR 409.2m. As this figure represents 83% of consolidated GWP planned for 2017, we have no reason to doubt the target will be met. The largest premium growth in absolute terms came from the Slovenian non-life insurance segment (+5.3%; EUR 10.9m), mostly on the back of motor insurance. Note that the growth comes mostly from the beginning of the year (increase of EUR 9.5m in H1) and it is still lower than the 5.6% growth in the Slovenian non-life insurance market. Going further, we see that a significant boost also comes from international non-life (+10.2%), whereby the largest growth was generated in Croatia and Montenegro. Slovenian life insurance business went up by 4.8%, while the largest relative premium growth of 11.6% was posted in international life insurance (exceeding the average market growth rates). As a result of soft market conditions, GWP in reinsurance segment ended flat.

Going further, gross claims paid jumped by 12.0%, due to an above-average number of claims both in the reinsurance segment (American storm and a large property loss in Russia, but note that the loss ratio seems flat due to positive impact from FX differences) and in the Slovenian non-life insurance operations (a number of hail storms). Gross claims paid in Slovenian life business grew by 66.7%, as a result of a large number of unit-linked policies that matured in January 2017. The movement needs to be viewed in conjunction with the change in technical provisions – net claims incurred, including the change in the mathematical and UL provisions went up by 4.7%. Combined ratio is 94.5%, which is a 180 bps improvement compared to 9M 2016. Nevertheless, combined ratio excl. FX differences stands at 95.9%, lower than FY 2017 plan. The Group's net investment income went down by EUR 6.4m to EUR 11.4m, which translates into return on investment of 1.4% (from 2.3% in 9M 2016). The investment result was lower largely because of net negative FX differences (EUR 5.7m). Excl. FX, net investment income comes in EUR 1.1m lower.

As a result of higher claims incurred and poorer investment income, further eroded by higher corporate tax rate, net profit ended 7.5% lower at EUR 20.9m (just 64% of 2017 goal). The annualised return on equity dropped to 9.1% (from 10.2%), also lower than planned.

Last but not least, Sava Re expects that the American storm losses will push up reinsurance prices in international reinsurance markets in the January 2018 renewals, as the leading catastrophe reinsurers incurred huge storm-related losses.

Strategic Plan of the Sava Re Group for the Period 2017–2019

In end-November, Sava Re Group published a strategic plan for the period 2017–2019, stating that its main goals will be: (1) digitalisation and technological modernisation of operations to place clients in the centre; (2) continuous growth of the Group, both organic and acquisitions-based; (3) seeking opportunities in property and infrastructural projects to diversify the investment portfolio; and (4) closing the gap between book value and market value of shares.

However, more interesting guidance is the one concerning key figures. The Group has communicated a profit estimate for 2017 of approximately EUR 31m, at the lower end of the planned profit range for the year, while gross premiums written will be better than planned, exceeding EUR 505m. Annual plan for 2018 envisages a 2.8% YoY growth in gross premiums written, while the profit range is set 20% above the estimated 2017 profit and ROE is planned to breach 11%. The Group's 2018 investment return, still restrained by the low interest rate environment, is planned at approximately 1.7%.

When we look at the longer time horizon, total GWP should reach EUR 514m in 2019, whereby special contribution comes from the organic growth outside Slovenia. By the end of 2019, Sava Re expects the share of GWP by non-Slovenian subsidiaries to increase from 12% to 20% of total GWP, while insurance operations in Slovenia should fall from 69% to 55% of total GWP. Note that almost all countries from Western Balkans are expected to see a strong double-digit growth, with Serbia and Croatia remaining the largest non-domestic markets (with GWP up by 20% and 34% in the next 3 years, respectively). On the flip side, life insurance segment in Slovenia is expected to decrease in the following years. Although this will be mostly off-set by non-life policies, Sava expects total Slovenian business slightly lower for the period (down by 1% in the next 3 years).

According to the 2017-2019 strategy, new business segments (such as pension and health business) are planned to account for 5% of the Group's GWP as demographic changes and the government's moves align in favour to these segments. Reinsurance operations will continue to account for roughly 1/5 of the total figure, with focus on some new markets like Latin America and Africa. The group also believes that, due to major CAT events, the next year will finally bring lower price pressures for reinsurers and that the „soft market environment" might finally turn into other direction.

Profitability-wise, Sava Re targets ROE of 10.4% (+/− 0.5 p.p.) and solvency ratio between 170% and 230% in the period. Combined ratio for non-life insurance and reinsurance is planned at below 95% and below 93%, respectively. In life insurance business, Sava Re's target is a return on new insurance business of over 5% for Slovenia and over 2.5% for non-Slovenian companies.

The Group set the objective of achieving a return on investment of 2% for the strategy period. Regarding the portfolio structure, the management communicated that they aim to increase the proportion of investment properties and infrastructure products. Finally, dividends will reach up to 40% of the Group's net profit, but the management stated that they target a 10% growth of dividend per share on an annual basis.

The Group stated that it is planning growth through acquisitions as well. Sava Re will seek opportunities for growing its regional presence, and for expanding to new business segments, such as pension and health business and ancillary insurance services.

Assumptions for Model Development

9M 2017 results are slightly above expectations, with GWP up by 4.8% YoY. For FY 2017 we expect GWP in the amount of EUR 507m, an increase of 3.5% YoY, way above EUR 494m initially targeted by the Group.

We recognize Sava Re's efforts to step up the number of initiatives both in 2016 and within its 2017-2019 Strategy, among them merger of their EU-based subsidiaries, strengthening brand recognition, some digitalisation initiatives and multi-channel approach. The latter includes online policy sales and claims reporting, developing innovative services and IT supported products and much more, but still lagging behind the "big players".

We also encourage Sava Re's focus on the non-Slovenian markets as in terms of insurance penetration and GWP per capita we believe there is still a fairly large catch-up potential compared to other developed markets from Europe. We expect Croatia and Serbia to contribute the most and Montenegro to become more difficult due to the expected liberalization of motor insurance segment. Generally, it seems that the reinsurance segment might finally experiences some hardening on the market, so we expect a stable contribution to the top line. All this appears to shift our previously cautious investment case coming from limited possibilities on the domestic market as well as quite fierce competition, so we project GWP growth of 2.9% CAGR 2016-2022.

The Group stated it will seek opportunities for growing its regional presence, and for expanding to business segments such as pension and health business and ancillary insurance services. Just a few weeks after the strategic plan was released, Sava Re published official notice stating that it has signed a purchase contract for all the shares of NLB Nov penziski fond Skopje. The sellers were NLB Ljubljana and NLB Banka Skopje. NLB Nov penziski fond Skopje is a Macedonia-based pension fund management company, managing two pension funds (mandatory second pillar and voluntary third pillar pension funds) with approximately EUR 3.7m of AUM. Companies from NLB Group and Sava Re Group have been successfully cooperating on the Macedonian market for many years. The cooperation will continue in the future, and the products of the fund will be available in all branches of NLB Bank Skopje. We keep our fingers crossed that Sava Re finds even more lucrative targets, but we haven't put this case into our financial model.

Underwriting result

We expect net claims incurred to increase by 6.3% in 2017, due to multitude of large nat cat events in the second half of the year. Keeping the loss ratio slightly below 60% in the further period, we estimated 6Y CAGR of roughly 2% between 2016 and 2022. Considering synergies from the merger of EU-based subsidiaries of EUR 2.2m in 2017, EUR 4.4m in 2018 and EUR 6.0m in 2019 and every future year, we estimate operating expenses will grow following the business development, but to a somewhat lower extent. Having said that, we projected operating expenses to increase by CAGR 0.7%. Note that positive effects also come from higher economies of scale in the period.

Investment income

Insurers' net investment income has been weak for a while due to the ultra-low interest rate environment, and will not recover anytime soon. We do not expect that Sava Re's net financial income and return on investments will significantly improve over the projected period either. With a conservative approach, we are keeping the rates mostly unchanged in the next couple of years. As effects of interest rate changes are somewhat delayed, especially for fixed rate securities with low turnover, we projected that potential interest rate hike will reflect on the investment portfolio with a time lag. In an attempt to meet higher returns, Sava Re announced a "search for yield" via investments in real-estate (up to 10% of the portfolio), so we have projected mild shift in the portfolio structure. Nevertheless, we are keeping debt and FX securities accounting for almost 90% of total value of financial assets. Overall, we believe return on investment portfolio will end at around 2.5% in 2022.

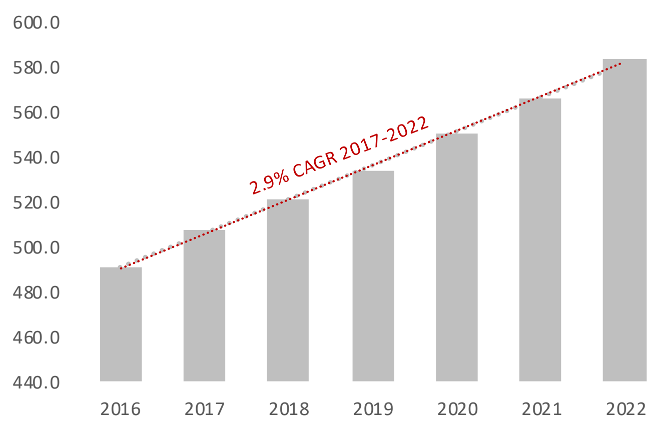
Bottom line

In line with the afore-mentioned, we expect decrease of net income in 2017, while in the remaining period we expect stable growth. Namely, we believe Sava Re will post net income in the amount of EUR 32.0m in 2017 and further growth of roughly CAGR 6.9% in the projected period. According to our model, Sava Re will meet ROE of 10.4% (+/– 0.5 p.p.) communicated in the strategy and we believe it will be more inclined to the upper limit. In the end of the projected period, we envisage ROE to go above 11%.

Balance sheet

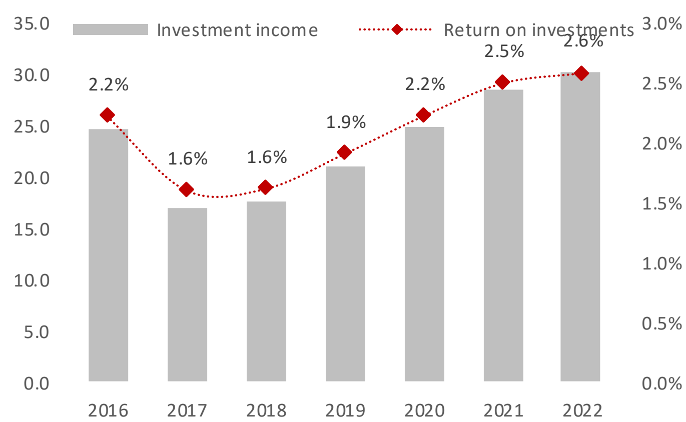
In the structure of total assets, financial assets represent the largest share. Starting from the end of 2016, when this position amounted to EUR 1.030m, we added EUR 3.7m from the afore-mentioned acquisition of the Macedonian pension fund. Overall, financial investments are expected to increase at 2016-2022 CAGR of 1.4%. When it comes to technical provisions, we expect them to increase by 2.5% CAGR up to 2022. Although unearned premiums, mathematical provisions, claims provisions and other technical provisions are difficult to forecast, we rely on the premise that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes.

Exhibit 20 GWP growth projections until 2022 (EURm)



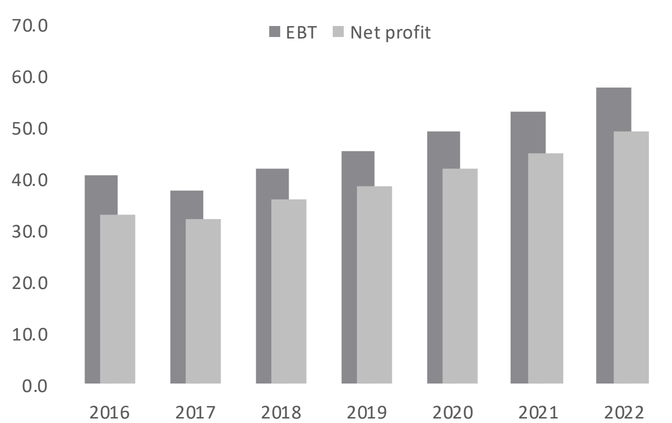
Source: InterCapital Research

Exhibit 21 Net inv. income (EURm) and return on inv. (in%)



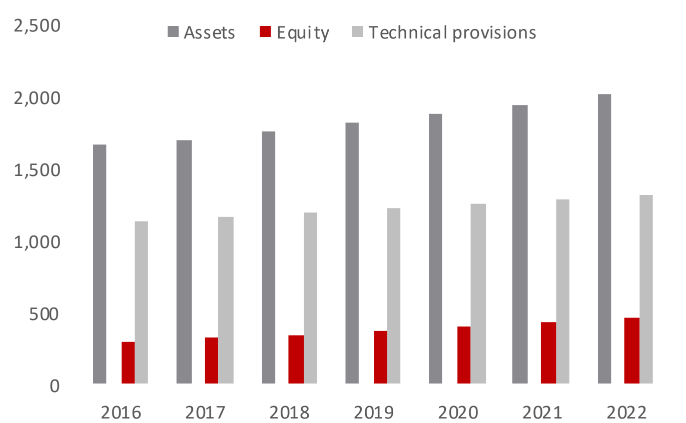
Source: InterCapital Research

Exhibit 22 EBT and net profit projections until 2022



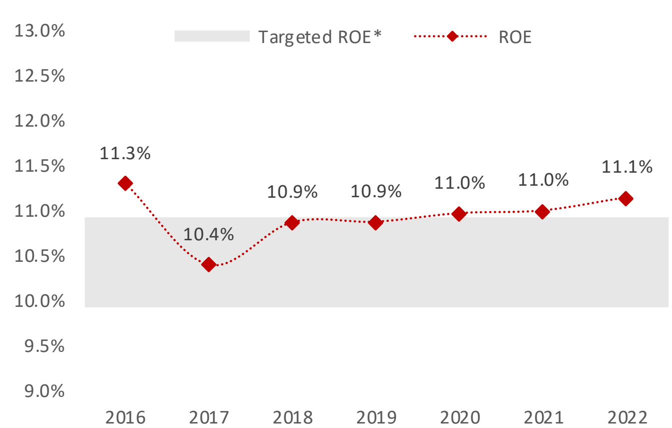
Source: InterCapital Research

Exhibit 23 Balance sheet positions (EURm)



Source: InterCapital Research

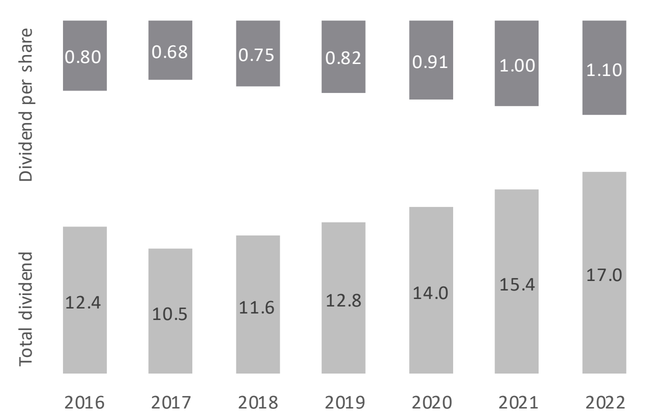
Exhibit 24 ROE projections until 2022



*according to Sava Re Group's strategy for 2017-2019

Source: InterCapital Research

Exhibit 25 Total dividend (EURm) and dividend per share (EUR)



Source: InterCapital Research

Valuation

Excess Return Model

The excess return model calculates the value of the company as the sum of current invested capital plus the present value of excess returns which the company is expected to generate in the future.

The two inputs needed to determine the value of the equity under the excess return model are the capital currently invested in the company and the excess of value in future periods.

The capital currently invested in the company is usually measured as the equity book value. Although it represents an accounting measures and is therefore influenced by accounting decisions, it should be much more reliable in valuing financial rather than manufacturing companies, as assets of financial companies are often marked to market.

As a starting point in the valuation we have used cost of equity of 7.9% (for year 2017). However, the CoE is gradually lifted on an annual basis to reach somewhat below 10% in the terminal year. The explanation for such model development lies in our belief that the low-interest environment and the entire QE regime are not going to be extended throughout the entire period.

Exhibit 26 Summary of Excess Return Valuation

EUR	2017E	2018E	2019E	2020E	2021E	2022E	TV
Net Income	31,957,487	35,884,553	38,625,773	41,909,540	45,189,061	49,235,491	45,853,437
- Equity Cost	23,534,525	26,337,915	29,537,735	33,048,166	36,925,425	41,177,717	45,887,313
Excess Equity Return	8,422,962	9,546,638	9,088,039	8,861,374	8,263,636	8,057,774	-33,877
Beginning BV of Equity	297,038,327	318,458,143	342,751,181	368,626,212	396,509,861	426,270,366	458,534,370
Cost of Equity	7.9%	8.3%	8.6%	9.0%	9.3%	9.7%	10.0%
Return on Equity	10.4%	10.9%	10.9%	11.0%	11.0%	11.1%	10.0%

Comparables Method

In selecting comparable companies, we have given importance to the business model as well as countries and markets in which they operate. The fundamental characteristic of the peer group is that they are largely present in the region and that they are among leaders in their respective domestic markets.

Relative valuation involves estimating the value of a firm by reference to the observed prices and fundamentals of peer companies. The most common approach for implementing relative valuation is based on price multiples. Given the choice of fundamental and a set of comparable companies, intrinsic value is estimated by simply multiplying the fundamental for the company by the corresponding multiple, which is based on the ratio of stock price to that fundamental for the group of comparable companies.

Exhibit 27 Comparables – key data and multiples

Valuation conclusion

Given the uncertain assumption about future profit distribution, i.e. the amount of regular dividend, the traditional model of discounting dividends was not eligible for valuation of this group. Also, we could not determine value using the cash flow to equity discount model due to the difficult defining of cash flow, CAPEX and working capital. Having said that, we are confident that financial service firms are best valued using equity valuation models, rather than enterprise valuation models, and with actual or potential dividends, rather than free cash flow to equity.

Regarding the peers, their size and markets in which they operate are slightly different than Sava Re Group's, but we believe that their business models and the investors they attract are similar enough to make them a good basis for valuation.

As the two valuation methods used in this analysis reflect the company's future operating results, in our opinion they are optimal for valuation. We have confidence in peer analysis and give 50% weight to this method, while the value through excess return model represent remaining 50% of our final price. One should note it very sensitive to cost of equity, which is currently at its historical low, and this is also the main reason why we increased it by the end of the period.

Exhibit 29 Results for FY 2016 and projections until 2022

INCOME STATEMENT (EUR '000)	2016	2017	2018	2019	2020	2021	2022	6Y CAGR
Net premium income	**458,102**	**468,513**	**481,375**	**492,457**	**505,473**	**519,517**	**533,931**	***2.6%***
- gross written premium	**490,205**	**507,425**	**520,404**	**533,682**	**549,785**	**566,328**	**583,415**	***2.9%***
- ceded written premium	-31,243	-33,117	-35,104	-37,210	-39,443	-41,810	-44,318	*6.0%*
- change in unearned premium reserve	-861	-5,795	-3,924	-4,015	-4,869	-5,002	-5,166	*34.8%*
Net investment income	**22,886**	**17,034**	**17,537**	**21,035**	**24,912**	**28,511**	**30,123**	***4.7%***
Net unrealised gains on investments of life insu	17,959	17,959	17,959	17,959	17,959	17,959	17,959	*0.0%*
Other income from insurance operations	18,237	18,878	19,361	19,855	20,454	21,069	21,705	*2.9%*
Other income	6,490	6,490	6,490	6,490	6,490	6,490	6,490	*0.0%*
Net claims incurred	**-268,394**	**-270,624**	**-256,320**	**-263,554**	**-270,521**	**-278,036**	**-285,750**	***1.0%***
- gross claims settled	**-269,446**	**-284,155**	**-269,136**	**-276,732**	**-284,047**	**-291,938**	**-300,038**	***1.8%***
- reinsurers' share	14,820	13,531	12,816	13,178	13,526	13,902	14,288	*-0.6%*
- other	-13,768	0	0	0	0	0	0	-
Change in insurance technical provisions	-22,697	-29,224	-27,691	-28,473	-29,225	-30,037	-30,871	*5.3%*
Expenses for bonuses and discounts	-1,264	-1,308	-1,341	-1,376	-1,417	-1,460	-1,504	*2.9%*
Operating expenses	**-159,563**	**-152,227**	**-151,958**	**-154,768**	**-159,438**	**-164,235**	**-166,273**	***0.7%***
Net unrealised losses on investments of life ins	-11,256	-11,256	-11,256	-11,256	-11,256	-11,256	-11,256	*0.0%*
Other insurance expenses	-17,311	-17,919	-18,377	-18,846	-19,415	-19,999	-20,603	*2.9%*
Other expenses	-2,518	-2,015	-1,007	-1,033	-1,064	-1,096	-1,129	*-12.5%*
Profit before tax	**40,670**	**37,597**	**42,217**	**45,442**	**49,305**	**53,164**	**57,924**	***6.1%***
Income tax expense	-7,752	-5,640	-6,333	-6,816	-7,396	-7,975	-8,689	*1.9%*
Net profit	**32,918**	**31,957**	**35,885**	**38,626**	**41,910**	**45,189**	**49,235**	***6.9%***

BALANCE SHEET (EUR '000)	2016	2017	2018	2019	2020	2021	2022	6Y CAGR
Assets	**1,671,189**	**1,704,032**	**1,761,442**	**1,821,396**	**1,884,543**	**1,950,579**	**2,020,165**	***3.2%***
Intagible assets	25,509	25,764	26,021	26,282	26,544	26,810	27,078	*1.0%*
Property, plant and equipment	51,887	53,963	56,121	58,366	60,701	63,129	65,654	*4.0%*
Deferred tax receivables	51,887	53,963	56,121	58,366	60,701	63,129	65,654	*4.0%*
Investment property	7,934	10,825	10,996	44,684	56,907	58,153	59,578	*39.9%*
Financial investments	**1,030,235**	**1,055,477**	**1,077,583**	**1,061,256**	**1,069,858**	**1,093,274**	**1,120,074**	***1.4%***
Funds for the benefit of policyholders who bea	224,175	235,384	247,153	259,511	272,486	286,111	300,416	*5.0%*
Reinsurers' share of technical provisions	28,445	29,205	29,915	30,645	31,394	32,165	32,956	*2.5%*
Investment contract assets	121,366	125,007	128,757	132,620	136,599	140,697	144,917	*3.0%*
Receivables	127,409	130,981	151,768	173,738	194,510	213,357	231,174	-
Other assets	17,965	18,863	19,806	20,797	21,836	22,928	24,075	*5.0%*
Cash and cash equivalents	**33,939**	**16,238**	**10,996**	**11,171**	**11,381**	**11,631**	**11,916**	***-16.0%***
Equity and liabilities	**1,671,189**	**1,704,032**	**1,761,442**	**1,821,396**	**1,884,543**	**1,950,579**	**2,020,165**	***3.2%***
Equity	**297,038**	**318,458**	**342,751**	**368,626**	**396,510**	**426,270**	**458,534**	***7.5%***
Controlling interests	296,277	317,696	341,989	367,863	395,746	425,506	457,769	*7.5%*
- Share capital	71,856	71,856	71,856	71,856	71,856	71,856	71,856	*0.0%*
- Reserves and retained net profit	215,372	213,883	234,248	257,381	281,980	308,460	336,677	*7.7%*
Non-controlling interests	761	762	763	763	764	765	766	*0.1%*
Subordinated liabilities	23,571	0	0	0	0	0	0	-
Insurance technical provisions	**1,138,216**	**1,168,200**	**1,196,601**	**1,225,804**	**1,255,779**	**1,286,586**	**1,318,248**	***2.5%***
Other provisions	8,081	8,081	8,081	8,081	8,081	8,081	8,081	*0.0%*
Deferred tax liabilities	6,039	5,737	5,450	5,177	4,919	4,673	4,439	*-5.0%*
Investment contract liabilities	121,230	124,867	128,613	132,471	136,445	140,538	144,755	*3.0%*
Other financial liabilities	394	355	319	287	259	233	209	*-10.0%*
Operating liabilities	48,791	50,505	51,796	53,118	54,721	56,367	58,068	*2.9%*
Other liabilities	27,831	27,831	27,831	27,831	27,831	27,831	27,831	*0.0%*

Source: Sava Re Group, InterCapital Research

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The author of fundamental analyses in this report is Margareta Maresic. Margareta Maresic is employed in InterCapital Securities Ltd registered in Zagreb, Masarykova 1 as Junior Analyst. InterCapital Securities Ltd is supervised by Croatian Financial Services Supervisory Agency (HANFA). All our analysts are certified Investment Advisory by HANFA.

Margareta Maresic has no ownership interest in Sava Re Group. He doesn't own any shares of Sava Re Group, and neither do his immediate family members.

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Strong buy - equities with expected absolute revenue of more than 20% in the monitored time period

Buy - equities with expected absolute return of 10%-20% in the monitored time period

Hold - equities with expected absolute return of -10% to 10% in the monitored time period

Sell - equities with expected absolute return below -10% in the monitored time period

Under review - an issuer might be placed Under Review due to new information which is not included in the analysis.

Up to August 14, 2014 the Hold recommendation was used for equities with an expected return of 0% to 10%, while the Sell recommendation was used for equities with an expected negative absolute return. Criteria for other recommendation remained unchanged.

3Q 2017 (1 July - 31 September 2017)

	Number	Share	Companies which InterCapital Securities Ltd. provided investment banking service within last 12 months
Strong Buy	4	21.1%	-
Buy	8	42.1%	ATGR-R-A
Hold	2	10.5%	-
Sell	1	5.3%	-
Under Review	4	21.1%	ADPL-R-A

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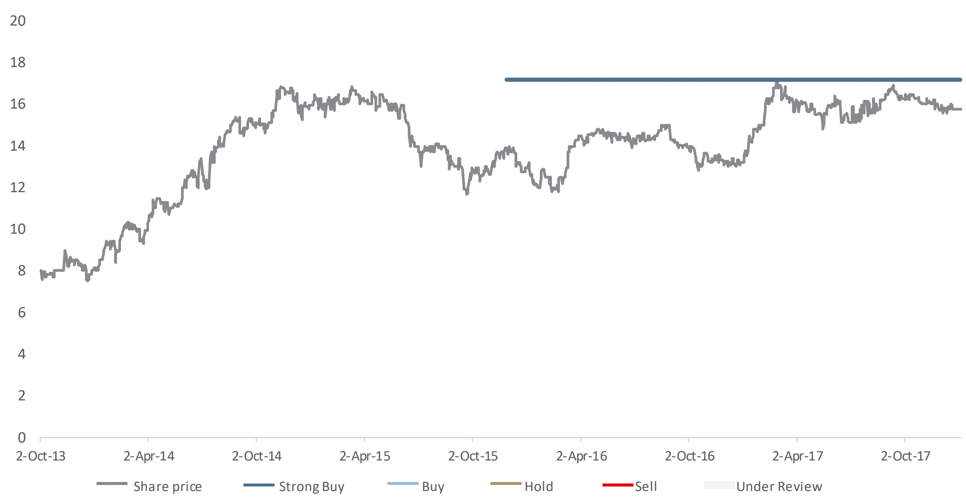
Chronology of share recommendations



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