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**Translation  
of summary of the  
SAVA RE GROUP INTERNAL AUDIT  
ANNUAL REPORT 2012**

**Report recipients:**

- Management Board of Sava Reinsurance Company
- Sava Reinsurance Company Supervisory Board members
- Sava Reinsurance Company Supervisory Board Audit Committee members

**Ljubljana, 28 February 2013**

## **1. INTRODUCTION**

Pursuant to Article 165 of the Slovenian Insurance Act (ZZavar, hereinafter “Insurance Act”), Article 25 of the Sava Re Group Internal Audit Rules and International Standards for the Professional Practice of Internal Auditing, the Group Internal Audit (GIA) prepared this annual report on internal auditing for 2012.

The report includes:

- effectiveness and efficiency of internal control systems;
- realisation of annual plan for 2012 and deviations;
- summary of major findings in internal audit reviews;
- monitoring the realisation of recommendations;
- other activities of GIA (personnel and training) and
- program for improving quality assurance.

The GIA is an autonomous organisational part, functionally and organisationally separate from other parts of Sava Reinsurance Company, and reports directly to the Management Board of Sava Reinsurance Company. Its position in the Company ensures autonomy and independence of operation.

## **2. EFFECTIVENESS AND EFFICIENCY OF INTERNAL CONTROL SYSTEMS AT SAVA REINSURANCE COMPANY**

As part of individual audit tasks, GIA reviewed the effectiveness and efficiency of internal control systems. GIA considers that control systems at Sava Reinsurance Company are appropriately defined and that controls, authorisations and responsibilities are largely set out in internal rules and complied with in practice. When reviewing individual areas, GIA found minor deviations which were pointed out and recommendations were given together with actions for the elimination of irregularities and weaknesses. Weaknesses and deviations relating to operational efficiency of the internal control system have been promptly eliminated by business functions, except for those relating to improvements in the information system, which will take more time to implement.

Regular reviews have also been targeted to establishing the probability of fraud, and exposure and vulnerability to IT risks. In fields subject to internal auditing, internal control systems have been set up and are operating so as to prevent fraud. As part of audit reviews, recommendations were given to improve the Company's information system, which is currently being implemented.

## **3. REALISATION OF THE 2012 ANNUAL PLAN**

In 2012 the GIA carried out audits and other activities in line with its annual plan 2012. There were 17 internal audit reviews carried out; of these, 9 were carried out at Sava Reinsurance Company and 8 in subsidiary companies in co-operation with each company's internal audit function. The internal audit review of the procurement process at Sava Reinsurance Company planned for 2012 will be carried out in 2013.

Internal audit reviews carried out in Sava Reinsurance Company:

- claims liquidation process and adequacy of claims reserving level;
- implementation of the IT support project for consolidating, planning and reporting – project completion;
- payment transactions;
- reporting to external and internal users;
- auditing trail in all key applications;
- Solvency II harmonisation project;
- amending the Pozavarovalna pogodba application;
- amending the Taurus application.

In addition, we have reviewed the adequacy of asset valuation models.

The following joint internal audit reviews were carried out in subsidiaries:

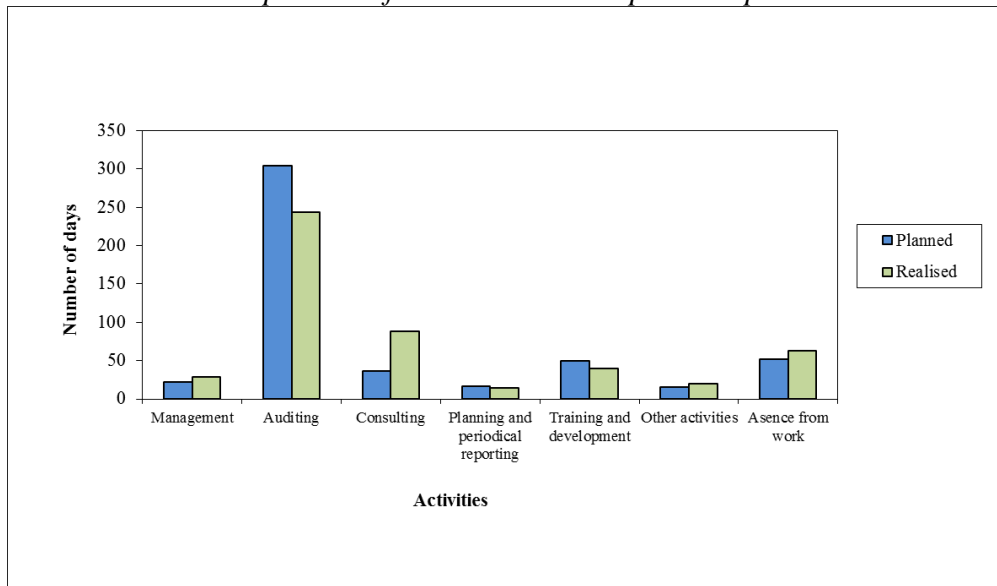
- financial management and cost management in Sava Montenegro;
- review of IT systems in Sava Montenegro;
- financial management and cost management in Illyria (Pristina);
- risk management in contract relationships in Zavarovalnica Tilia;
- repeated reviews of financial management and cost management carried out in Sava životno osiguranje (Belgrade), Sava osiguranje (Belgrade), Velebit osiguranje (Zagreb) and Velebit životno osiguranje (Zagreb).

The table below shows realised time for activities compared to the 2012 plan.

*Realisation of annual plan by time of GIA staff dedicated to activities*

Activity	Planned for 2012		Realised in 2012	
	No. of audit days	As % of total time	No. of audit days	As % of total time
<b>Department management</b>	22	4%	29	6%
<b>Audit activities</b>	358	72%	346	69%
Regular reviews	274	55%	206	41%
Extraordinary reviews	8	2%	1	0%
Reviewing reports	22	4%	21	4%
Consulting	37	7%	88	18%
Planning and periodic reporting	17	3%	14	3%
<b>Training and development</b>	50	10%	40	8%
Training	26	5%	25	5%
Development	24	5%	15	3%
<b>Other activities (co-ordination with external auditor, Insurance Supervisory Authority)</b>	16	3%	20	4%
<b>TOTAL</b>	446	90%	435	87%
<b>Absence from work</b>	52	10%	63	13%
<b>Total</b>	<b>498</b>	<b>100%</b>	<b>498</b>	<b>100%</b>

*Comparison of realised time compared to plan*



#### 4. IMPLEMENTATION OF RECOMMENDATIONS FOR ELIMINATION OF WEAKNESSES AND IRREGULARITIES

GIA is required to report periodically on the status of recommendation implementation, i.e., of recommendations based on irregularities and weaknesses established. At 31 December 2012, there were 137 recommendations given, 92 had been implemented, 21 had been partly implemented and 24 recommendations were not past due for implementation. The share of implemented recommendations was 81%.

The table below gives an overview of recommendations given and implemented, separately for Sava Reinsurance Company and its subsidiaries. A detailed overview of recommendations implemented is contained in the GIA quarterly reports.

Realised reviews	Not past due recommendations at 31 Dec 2011	No. of recommendations given 1 Jan – 31 Dec 2012	No. of recommendations at 31 Dec 2012	No. of implemented recommendations	No. of partly (not) implemented recommendations	No. of not past due recommendations	Share of implemented recommendations
2010	1		1	1			100%
2011	41		41	37	4		90%
2012		24	24	17	4	3	81%
<b>Total Sava Reinsurance Company</b>	<b>42</b>	<b>24</b>	<b>66</b>	<b>55</b>	<b>8</b>	<b>3</b>	<b>87%</b>
<b>Total reviews in subsidiaries</b>	<b>30</b>	<b>41</b>	<b>71</b>	<b>37</b>	<b>13</b>	<b>21</b>	<b>74%</b>
<b>Total</b>	<b>72</b>	<b>65</b>	<b>137</b>	<b>92</b>	<b>21</b>	<b>24</b>	<b>81%</b>

Director of GIA  
Andreja Rahne

**OPINION OF THE SUPERVISORY BOARD  
TO THE SAVA RE GROUP INTERNAL AUDIT ANNUAL REPORT 2012**

In 2012, the Group Internal Audit of the Sava Re Group (GIA) carried out audits in the areas set out in the annual plan, which had been adopted by the Management Board of Sava Reinsurance Company and had been approved by the Supervisory Board in its meeting on 10 February 2012.

The audit goals pursued by the GIA were geared towards establishing whether risk management procedures were adequate and efficient and whether the system of internal controls in the most important business and control segments were effective and efficient. Furthermore, the GIA (i) reviewed whether business events were recorded and other records maintained in compliance with the law, internal and other regulations, and (ii) assessed the adequacy of internal controls for the prevention of fraud and potential threats to information technology supporting operations.

There were 17 internal audit reviews carried out in 2012; of these, 9 were carried out at Sava Reinsurance Company and 8 in subsidiary companies in co-operation with each company's internal audit function.

Based on all tests and methods used in individual areas of auditing, it is our opinion that at Sava Reinsurance Company internal controls are largely adequate and that the degree of their reliability is satisfactory. Furthermore, it is our opinion that business events are recorded in compliance with regulations. Audit reviews identified individual irregularities and weaknesses, which were eliminated within set time frames, except for those relating to improvements in the information system, which will take more time to implement. The above is to result in greater efficiency of internal controls and regularity of operations.

Supervisory Board members monitored the effectiveness and efficiency of the GIA through quarterly reports and the Group Internal Audit Annual Report. The Supervisory Board was informed of the self-assessment carried out by GIA. The self-assessment results showed that the activities of GIA comply with the definition of internal auditing, with the professional practice of internal auditing, code of ethics for internal auditors and with the Insurance Act.

Based on the above, the Supervisory Board hereby gives its unqualified opinion to the annual report of the GIA on internal auditing in 2012.

Ljubljana, 8 April 2013

The Supervisory Board  
of Sava Reinsurance Company

Branko Tomažič  
Chairman