Sava Re Group Solvency and Financial Condition Report 2016

SAVA Re GROUP

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Management Board

Marko Jazbec
Chairman of the Management Board

Jošt Dolničar
Member of the Management Board

Srečko Čebron
Member of the Management Board

Mateja Treven
Member of the Management Board

Summary

Introduction

The Solvency II regime came into force on 1 January 2016, introducing major changes to the management of (re)insurance companies and insurance groups. The regulations comprise three pillars: quantitative requirements; the governance system, including the own risk and solvency assessment; and prudential reporting and public disclosure. The Sava Re Group (hereinafter: the Group) has made thorough and systematic preparations for the new regime over the past two years, entering the new system well-prepared.

The first Solvency II pillar introduced a new method of calculating capital adequacy. Under the new system, the amount of the solvency capital requirement that a company or Group must meet on an ongoing basis is based on the risks to which it is exposed. Regulations allow for the use of two methods for calculating the solvency capital requirement, by use of the standard formula or an internal model. The Group calculates the solvency capital requirement using the standard formula.

The second pillar of the Solvency II regime emphasises the importance of an adequate system of group governance, including the proper functioning of administrative, supervisory and management bodies, the introduction of new key functions, systematic risk management and an internal control system. In addition, the Group must annually conduct an own risk and solvency assessment. It requires that the Group, in addition to the statutory capital adequacy calculation, make its own calculation and projection of its capital requirements and eligible own funds over a (minimum) three-year strategic horizon.

The third pillar comprises mostly reporting requirements, both public and prudential. The Group's Solvency and Financial Condition Report 2016 is the Group's first public report on its system of governance, risk profile, Solvency II valuation, eligible own funds, and its solvency capital requirement.

Profile of the Sava Re Group

The Sava Re Group is one of the largest insurance groups in south-eastern Europe. It comprises seven insurance companies, one pension company and one reinsurance company, which also functions as the Group's controlling company. The Group employs over 2,700 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 present in international reinsurance markets for 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.

The Group's consolidated gross premiums written totalled € 489.1 million in 2016.

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.

In 2016 there were changes in the composition of the controlling company's management and supervisory boards. Details are provided in section B.1.1.

In 2016, the Group conducted a major reorganisation, merging four of its EU-based Group companies (Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje) into Zavarovalnica Sava, which operates both in Slovenia and Croatia and is the Group's largest insurer.

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 the internal audit function.

Risk profile

The Group's risk profile is dominated by non-life underwriting risk and is exposed to a significant level of market risk. The Group is also – to a lesser extent – exposed 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 presents the Group's solvency capital requirement in accordance with the Solvency II standard formula (hereinafter: Group SCR) by risk module as at 31 December 2016.

Solvency capital requirement by module

(€ thousand)	**31/12/2016**
Group SCR	**207,113**
Capital requirements of other financial sectors	4,943
Consolidated SCR at the Group level	**202,169**
Adjustments for TP and DT	-292
Operational risk	14,827
Basic solvency capital requirement	**187,634**
Sum of risk components	272,604
Diversification effect	-84,970
Market risk	63,861
Counterparty default risk	19,611
Life underwriting risk	26,098
Health underwriting risk	24,178
Non-life underwriting risk	138,857

Solvency II valuation

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. Accordingly, the Group values liabilities at amounts for 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 Group uses the full consolidation method 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 pension company Moja naložba is included in the consolidation in accordance with Article 335 (e) of the Commission Delegated Regulation (EU) (2015/35) 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 equity in accordance with IFRSs and own funds under Solvency II.

Adjustments to capital (IFRS) for the SII valuation of the balance sheet

(€ thousand)	31/12/2016
IFRS equity	**296,318**
Difference in the valuation of assets	-120,592
Difference in the valuation of the technical provisions	285,731
Difference in the valuation of other liabilities, not elsewhere shown	-25,081
Foreseeable dividends, distributions and charges	-12,398
Adjustment for minority interests	-584
Deduction for participations in other financial undertakings	-8,008
Total basic own funds after deductions	**415,386**
Total own funds in other financial sectors	8,008
Total eligible own funds to comply with capital adequacy at the Group level	**423,394**
Of which tier 1	423,394

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 for achieving other goals of the Group.

When allocating own funds to operating 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. When drafting the business and strategic plans, the Group makes sure that the plans are in line with the risk appetite, making adjustments if necessary. On the whole, the Group seeks to achieve an optimal allocation of capital.

The solvency ratio is the ratio of eligible own funds for covering the Group's SCR to the Group's SCR.

Capital adequacy of the Group

(€ thousand)	31/12/2016
(1) Group SCR	**207,113**
Capital requirements for other financial sectors	4,943
(3) Consolidated SCR at the Group level	**202,169**
(4) Eligible own funds of the Group (excluding other financial sectors)	**415,386**
(5) Own funds in other financial sectors	8,008
(6) Eligible own funds to cover the Group SCR	**423,394**
(7) Group solvency ratio ((7)=(6)/(1))	**204 %**

As at 31 December 2016, all eligible own funds to cover the Group SCR are tier one funds.
As can be seen from the table, eligible own funds for covering the Group SCR significantly exceed the Group SCR as reflected in the high level of the Group's solvency ratio of 204 % as at 31 December 2016. According to the risk strategy, a Group solvency ratio of 140 % is still considered adequate (albeit suboptimal), while the optimal level of capitalisation starts at 170 %. This demonstrates that the Group is well capitalised, also in terms of its own criteria.

Group Solvency and Financial Condition Report

In accordance with Solvency II reporting requirements, the Group issues its solvency and financial condition report as at 31 December 2016 as its first report of the kind. The structure of the report is set out in Annex XX of the Commission Delegated Regulation (EU) 2015/35. All figures included in this report are consistent with those reported as part of quantitative reporting for the Slovenian Insurance Supervision Agency. Figures in this report are stated in thousands of euros. Since the Solvency II regime only came into force on 1 January 2016, no comparative figures as at 31 December 2015 are provided.
The Group's Solvency and Financial Position Report has been reviewed by the auditing firm Ernst & Young, who have issued a report (opinion) on the review for submission to the ISA in accordance with the Decision on the Additional Audit Review of Insurance Companies and Additional Auditor's Report and the Slovenian Insurance Act ZZavar-1.

A. Business and Performance

A.1. Business

The Sava Re Group comprises the reinsurer Sava Re as the controlling company, seven insurance companies, a pension company and seven other non-insurance companies. On 1 November 2016, four Group companies based in Slovenia and Croatia (Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje) merged into Zavarovalnica Sava, a composite insurer based in Slovenia with a branch in Croatia. Sava neživotno osiguranje (SRB), Sava osiguruvanje (MKD), Illyria and Sava osiguranje (MNE) are non-life insurers. Sava životno osiguranje (SRB) and Illyria Life are life insurance companies. In addition to the above (re)insurers, the Group consists of:

- **Illyria Hospital**: wholly-owned subsidiary based in Kosovo, which owns some property, but currently does not transact any business,
- **Sava Car**: vehicle inspection company wholly-owned by the insurer Sava osiguranje (MNE),
- **Sava Agent**: insurance agency wholly-owned by the insurer Sava Montenegro,
- **Sava Station**: vehicle inspection company wholly-owned by the insurer Sava osiguruvanje (MKD),
- **ZS Vivus**: wholly-owned subsidiary of Zavarovalnica Sava specialised in marketing life products of its parent. ZS Vivus owns the company Ornatus KC.
- **ZM Svetovanje**: wholly-owned subsidiary of Zavarovalnica Sava specialised in marketing life products of its parent.
- **Moja naložba**: pension company wholly-owned by Sava Re.

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

Name and legal form of the controlling company

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

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

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

Name and contact details of the company's external auditor

ERNST & YOUNG Revizija,
poslovno svetovanje, d. o. o.
Dunajska cesta 111
1000 Ljubljana
Slovenia

The financial statements of the Sava Re Group have been audited by Ernst & Young d.o.o., who have been tasked with the auditing of the financial statements of the Sava Re Group and Sava Re in 2016 for the fourth year in a row. In 2016 the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. A new contract for the auditing of the financial statements was signed with Ernst & Young in 2016 for the period 2016–2018. The Group's Solvency and Financial Position Report has been reviewed by the auditing firm Ernst & Young, who have issued a report (opinion) on the review, which was submitted to the ISA in accordance with the Decision on the Additional Audit Review of Insurance Companies and Additional Auditor's Report and with the ZZavar-1.

Holders of qualifying shares in the company as at 31 December 2016

Shareholder	No. of shares	Holding	Share in voting rights (%)
SDH, d. d.	4,304,917	25.0 %	27.8 %
Zagrebačka banka d. d. - fiduciary account	2,469,432	14.3 %	15.9 %

- 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 via its legal representative Rojs, Peljhan, Prelesnik & partnerji, o.p., d.o.o., 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.

Composition of the Sava Re Group as at 31 December 2016

SAVA RE group

MOJA NALOŽBA – 100 %
Slovenia

SAVA NEŽIVOTNO OSIGURANJE – 100 %
Serbia

SAVA ŽIVOTNO OSIGURANJE – 100 %
Serbia

SAVA OSIGURANJE – 100 %
Montenegro

→ **SAVA CAR**
Montenegro

→ **SAVA AGENT**
Montenegro

ILLYRIA – 100 %
Kosovo

ILLYRIA LIFE – 100 %
Kosovo

ILLYRIA HOSPITAL – 100 %
Kosovo

SAVA OSIGURUVANJE – 92.44 %
Macedonia

→ **SAVA STATION**
Macedonia

ZAVAROVALNICA SAVA – 99.74 %
Slovenia, Croatia

→ **ZS SVETOVANJE**
Slovenia

→ **ZS VIVUS**
Slovenia

↓ **ORNATUS KC**
Slovenia

The new names of the companies ZS Svetovanje and ZS Vivus were entered in the register of companies in January 2017. Effective as of 3 April 2017, the pension company Moja naložba was renamed Sava pokojninska družba; the short form is Sava pokojninska. In this document, the name Moja naložba is used.

Major classes of business transacted and major market presences

The Sava Re 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 the Group operates.

Premiums by lines of business

(€ thousand)	Gross premiums written in 2016
Fire and other damage to property insurance and proportional reinsurance	106,355
Motor vehicle liability insurance and proportional reinsurance	100,612
Other motor insurance and proportional reinsurance	84,820
Income protection insurance and proportional reinsurance	44,298
Index-linked or unit-linked insurance	25,968
Non-proportional property reinsurance	25,927
Other life insurance	22,678
Insurance with profit participation	20,628
General liability insurance and proportional reinsurance	17,880
Assistance insurance and proportional reinsurance	11,639
Marine, aviation and transport insurance and proportional reinsurance	7,992
Credit and suretyship insurance and proportional reinsurance	6,600
Non-proportional marine, aviation and transport reinsurance	4,265
Medical expense insurance and proportional reinsurance	3,340
Miscellaneous financial loss insurance and proportional reinsurance	2,989
Non-proportional casualty reinsurance	1,748
Legal expenses insurance and proportional reinsurance	771
Non-proportional health insurance	358
Health insurance	228
Total	**489,095**

The following table shows the most important markets of the Sava Re Group in terms of premiums written. Listed are countries where the Group wrote over € 8,500 thousand gross premiums.

Major countries in which the Group operates

(€ thousand)	Gross premiums written in 2016
Slovenia	347,815
South Korea	18,767
Serbia	17,450
Macedonia	12,299
Montenegro	11,761
China	10,535
Kosovo	8,861

Significant events in 2016

Events related to the merger of Sava Re Group subsidiaries

- On 6 May 2016 the management boards of the EU-based Sava Re Group insurers (Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje, Velebit životno osiguranje) involved in the merger process signed a Cross-border Merger Plan and Merger Contract. On 13 May 2016 the supervisory boards of all four companies approved the contract, including a joint report of the management boards on the merger and cross-border merger and an auditor's opinion on the exchange ratio issued by the audit firm BDO revizija d.o.o. In June 2016 the companies Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje held their general meetings of shareholders, granting their consent to Zavarovalnica Maribor's merger by absorption of Zavarovalnica Tilia and the cross-border merger of the two Croatian companies into Zavarovalnica Maribor.
- On 23 September 2016 the Insurance Supervision Agency granted authorisation for the merger of insurance companies, including the merger of Zavarovalnica Tilia and the cross-border merger of the companies Velebit osiguranje and Velebit životno osiguranje into Zavarovalnica Maribor.
- On 2 November 2016 the process of merging the four insurance companies Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje, all members of the Sava Re Group, was officially completed. As of that day, the above merger was entered into the register of companies, including the change in the company name from "Zavarovalnica Maribor, d.d." to "Zavarovalnica Sava, d.d." In the opinion of the owner, the merger process ran both according to plan and successfully.

Governance-related events

- In its session of 23 February 2016, the workers' council of Sava Re was presented with and accepted the notice of resignation of Helen Dretnik as member of the supervisory board representing employee interests. Helena Dretnik had handed in her notice of resignation on 19 February 2016 with effect from the same date. Until the appointment of a new member of the supervisory board representing employee interests, the supervisory board of Sava Re operated as a five-member body. In accordance with the Workers' Participation in Management Act, the workers' council, in its session of 29 March 2016, appointed Mateja Živec as its new representative in the supervisory board. The member so appointed entered her term of office on 1 April 2016.
- In August 2016 Sava Re received a letter from the Insurance Supervision Agency notifying the company of its intention to order supervisory measures and noting that Branko Tomažič, chairman of the company's supervisory board, failed to meet all of the conditions for appointment as member of the company's supervisory board.
- In its extraordinary session on 22 August 2016, the supervisory board of Sava Re recalled Zvonko Ivanušič from the position of both chairman and member of the company's management board as of 23 August 2016. The supervisory board appointed management board member Jošt Dolničar as temporary chairman of the management board as of 23 August 2016, and adopted a decision by which the management board be composed of three members effective 23 August 2016. The supervisory board immediately began the process of selecting a new chairman of the management board. On 14 October 2016, the company received a claim filed by Zvonko Ivanušič with the Ljubljana District Court for annulment of the supervisory board resolution on his recall from the position of chairman and member of the management board, annulment of entry of the change of representatives into the court register, reinstatement as chairman of the management board and payment of non-pecuniary damages. Prior to that, the company had already received a claim filed by Zvonko Ivanušič with the Labour and Social Court of Ljubljana for wrongful termination (termination of both employment contract and employment relationship), also requesting full reinstatement.
- On 11 October 2016, the company received a notice of resignation from Branko Tomažič as chairman and member of the supervisory board, effective as of that day. His functions in other supervisory board committees ceased as of the same day. Pending further steps, the supervisory board operated with five members. On 12 October 2016, the members of the supervisory board of Sava Re, d.d., elected from among themselves Mateja Lovšin Herič as chair of the supervisory board and Slaven Mićković as deputy chair. On 12 October 2016, Keith Morris was appointed new member of the supervisory board nominations committee. On 28 October 2016, Slaven Mićković was appointed chairman of the audit committee of the supervisory board (previously audit committee member), and Mateja Lovšin Herič was appointed member of the

audit committee (previously chair of the audit committee). On 28 October 2016, Mateja Živec was appointed new member and chair of the supervisory board's fit and proper committee.

- In its regular session of 16 December 2016, the Sava Re supervisory board completed the process of selecting a new chairman of the management board of Sava Re, selecting Marko Jazbec as the most suitable candidate. On 16 December 2016, Marko Jazbec was appointed as chair of the management board of Sava Re, d.d. with a five-year term of office starting on the day after the licence to perform the function of management board member is issued by the Insurance Supervision Agency.

Other events

- In their session of 6 April 2016, the supervisory and management boards of Sava Re drew up a proposal for the general meeting providing for a dividend – relating to the profit of 2015 – of € 0.80 gross per share, of which € 0.65 gross per share would comprise the regular dividend (representing an 18-percent increase over the 2014 dividend) and € 0.15 gross per share would comprise an extraordinary dividend. The management board of Sava Re cancelled the 31st general meeting scheduled for 24 May 2016, and in July 2016 reconvened it for 30 August 2016.

- In April 2016, Sava Re carried out a share repurchase procedure on the OTC market. After the process of sending offers was closed, the company set the price (€ 15) and purchase volume of POSR shares (845,599) to be repurchased. From 1 April to 22 April 2016, Sava Re purchased a total of 895,796 own shares for an amount of € 13.4 million in both the regulated and the OTC markets. The total number of own shares after the purchases was 1,721,966, representing 10.0 % less one share of the company's issued share capital. There were no more share buy-back after 22 April 2016, as the general meeting authorisation was limited to 10 % less one share of the share capital.

- In early May 2016, after obtaining the required approvals from the National Bank of Serbia, the Serbian insurer Sava neživotno osiguranje (SRB) assumed the entire portfolio of the insurer AS osiguranje Beograd.

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- In July, after its regular annual rating review, rating agency Standard & Poor's reaffirmed Sava Re's existing "A-" ratings with a stable outlook. The ratings reflect the company's strengthened risk management, its long-term stability and financial soundness.

- On 30 August 2016, the 31st general meeting of shareholders was held, at which no challenging actions were announced.

- In August, the north-eastern and central parts of Slovenia were hit by a storm. The associated net loss for the Sava Re Group was about € 5 million.

- On 19 October 2016 the Slovenian Constitutional Court – with respect to the cancellation of subordinated financial instruments – held that while the disputed Banking Act formally allowed the holders of cancelled shares and subordinated bonds of banks to bring claims against the Bank of Slovenia, this form of judicial protection was ineffective because claimants had no access to information for the assessment of the value of bank assets and other relevant data based on which the Bank of Slovenia imposed emergency measures relating to qualified liabilities of banks resulting in the cancellation of banking shares and subordinated bonds. Furthermore, the law provided no procedural rules nor procedures of collective judicial protection for making fair decisions in disputes between expropriated share or bond holders and the Bank of Slovenia. Therefore, the Constitutional Court ordered the Slovenian National Assembly to – within six months of the publication of the decision – pass legislation that would allow the constitutionally consistent and effective enforcement of the right to justice for all claims already filed and future claims for damages relating to the cancellation of shares and bonds, while extending the limitation period for such claims. The total absolute value of cancelled subordinated instruments is € 10,038,000 for Sava Re, € 22,957,200 for Zavarovalnica Sava, and € 4,965,000 for Moja naložba. All these Sava Re Group companies will continue to work to protect their interests. In order to protect their rights with regard to limitation provisions, in December 2016, the Sava Re Group members brought actions against the issuing banks of the subordinated financial instruments that they held and were subsequently cancelled.

- On 4 November 2016, rating agency A.M. Best affirmed the financial strength rating and issuer credit rating of Sava Re of A- (Excellent) with a stable outlook.

Significant events after the reporting date

- On 7 March 2017, the 32nd general meeting of Sava Re took place at the Horus Hall of the Austria Trend Hotel in Ljubljana. The general meeting elected the new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (term of office to start on 7 March 2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (terms of office to start on 16 July 2017). As of 7 March 2017, the supervisory board of Sava Re operates with all of its six members.

- In 2006 and 2007, Sava Re raised a subordinated debt in the nominal amount of € 32 million maturing in 2027. Sava Re raised the subordinated debt 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 laws and the Standard & Poor's model. In January 2014, Sava Re repaid € 8 million of the nominal amount of its subordinated debt. Under the contractual provisions, the remaining nominal amount of € 24 million could be early repaid as of 2017. After receiving the approval of the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of € 12 million on 15 March 2017. The remaining part of the subordinated debt in the nominal amount of € 12 million is scheduled to be repaid in June 2017. After the repayment of the subordinated debt, Sava Re and the Sava Re Group will maintain a high solvency ratio under the applicable law. Furthermore, the simulations of models of rating agencies Standard & Poor's and A.M. Best have shown that the early repayment of the subordinated debt would not affect the capital position, so that both the company and the Sava Re Group will maintain a solid target level of capitalisation.

- In its session of 5 April 2017, the supervisory board of Sava Re, d.d. approved the audited annual report of the Sava Re Group and Sava Re, d.d. for 2016 and the proposed agenda for the convocation of the 33rd general meeting of shareholders of Sava Re, d.d., which was published on 14 April 2017. The supervisory and the management boards have prepared a proposed resolution for the general meeting to the effect that shareholders be paid a dividend of € 0.80 gross per share, in total € 12,398,156.80, or 37.7 % of the net profit of the Sava Re Group. The proposed regular dividend is a 23 % increase over that of the previous year and is on the same level as the sum of last year's regular and extraordinary dividends.

- On 19 April 2017, Sava Re jointly, with some other expropriated shareholders, presented 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 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 measure taken in Europe, as demonstrated by new facts and figures.

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

- On 31 May 2017, Sava Re, d.d. and Zvonko Ivanušič concluded a court settlement in the labour dispute, finally resolving all disputed relations between the parties concerning the termination of the plaintiff's employment contract with the defendant. On the following day, on 1 June 2017, a court settlement was concluded in the commercial dispute between the company 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, d.d.

List of Group companies

The tables below give details of all the Group companies.

Subsidiaries as at 31 December 2016

Company name	Sava Re, d.d.	Zavarovalnica Sava	Moja naložba	Sava neživotno osiguranje (SRB)	Sava životno osiguranje (SRB)	Illyria
Registered office	Dunajska cesta 56, 1000 Ljubljana, Slovenia	Cankarjeva 3, 2507 Maribor, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Company ID number	5063825	5063400	1550411	17407813	20482443	70152892
Business activity	reinsurer	composite insurer	pension company	non-life insurer	life insurer	non-life insurer
Share capital	€ 71,856,376	€ 68,417,377	€ 6,301,109	€ 6,665,393	€ 4,838,286	€ 5,428,040
Book value of equity interest		€ 68,239,492	€ 6,301,109	€ 6,665,393	€ 4,838,286	€ 5,428,040
Equity interests (voting rights) held by Group members		Sava Re: 99.74 %	Sava Re: 100.0 %	Sava Re: 100.0 %	Sava Re: 100.0 %	Sava Re: 100.0 %
Bodies of the company	MANAGEMENT BOARD Jošt Dolničar (chair), Srečko Čebron, Mateja Treven	MANAGEMENT BOARD David Kastelic (chair), Primož Močivnik, Rok Moljk, Boris Medica, Robert Ciglarič	MANAGEMENT BOARD Lojze Grobelnik (chair), Igor Pšunder	MANAGING DIRECTOR Edita Rituper CHIEF EXECUTIVE OFFICER Milorad Bosnić	BOARD OF DIRECTORS Gorica Drobnjak (chair), Zdravko Jojić	MANAGING DIRECTOR Gianni Sokolič
	SUPERVISORY BOARD Mateja Lovšin Herič (chair), Slaven Mićković, Keith Morris, Mateja Živec, Andrej Gorazd Kunstek	SUPERVISORY BOARD Jošt Dolničar (chair), Mateja Treven, Polona Pirš Zupančič, Pavel Gojkovič, Aleš Perko, Branko Beranič	SUPERVISORY BOARD Mateja Treven (chair), Katrca Rangus, Rok Moljk, Jure Korent, Andrej Rihter, Irena Šela, Robert Senica	BOARD OF DIRECTORS Jošt Dolničar (chair), Jure Korent, Marija Popović	BOARD OF DIRECTORS Polona Pirš Zupančič (chair), Pavel Gojković, Milan Jelićić	BOARD OF DIRECTORS Primož Močivnik (chair), Rok Moljk, Robert Sraka, Ramis Ahmetaj, Milan Viršek
Position in the Group	parent, reinsurer	subsidiary insurance company	subsidiary pension company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company
Supervisory body	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Narodna banka Srbije , Nemanjina 17, 11000 Beograd, Serbia	Narodna banka Srbije, Nemanjina 17, 11000 Beograd, Serbia	Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo

Company name	Illyria Life	Sava osiguruvanje (MKD)	Sava osiguranje (MNE)	Illyria Hospital	Sava Car
Registered office	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	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro
Company ID number	70520893	4778529	2303388	70587513	2806380
Business activity	life insurer	non-life insurer	non-life insurer	does not currently perform any activities	technical testing and analysis
Share capital	€ 3,285,893	€ 3,820,077	€ 4,033,303	€ 1,800,000	€ 320,000
Book value of equity interest	€ 3,285,893	€ 3,531,279	€ 4,033,303	€ 1,800,000	€ 320,000
Equity interests (voting rights) held by Group members	Sava Re: 100.0 %	Sava Re: 92.44 %	Sava Re: 100.0 %	Sava Re: 100.0 %	Sava osiguranje (MNE): 100.0 %
Bodies of the company	MANAGING DIRECTOR Ramis Ahmetaj	CHIEF EXECUTIVE OFFICER Peter Skvarča chief operating directors: Ruse Drakulovski, Ilo Ristovski	CHIEF EXECUTIVE OFFICER Nebojša Šćekić	DIRECTOR Ilirijana Dželadini	CHIEF EXECUTIVE OFFICER Radenko Damjanović
	BOARD OF DIRECTORS Primož Močivnik (chair), Robert Sraka, Gianni Sokolič, Rok Moljk, Milan Viršek	BOARD OF DIRECTORS Rok Moljk (chair), Peter Skvarča (executive member), Polona Pirš Zupančič, Milan Viršek, Janez Jelnikar	BOARD OF DIRECTORS Milan Viršek (chair), Jošt Dolničar, Edita Rituper		
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary	indirect subsidiary
Supervisory body	Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo	Insurance Supervision Agency, Ulica Vasil Glavinov br. 2, TCC Plaza kat 2, 1000 Skopje, Macedonia	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro	/	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro

Company name	Sava Agent	Sava Station	ZS Vivus	ZS svetovanje	Ornatus KC
Registered office	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro	Zagrebska br. 28 A, 1000 Skopje, Macedonia	Karantanska ulica 35, 2000 Maribor	Betnavska cesta 2, 2000 Maribor	Karantanska ulica 35, 2000 Maribor
Company ID number	2699893	7005350	2154170000	2238799000	6149065000
Business activity	insurance agent & broker services	technical testing and analysis	insurance agency	insurance agency	call centre
Share capital	€ 10,000	€ 199,821	€ 188,763	€ 83,363	€ 11,000
Book value of equity interest	€ 10,000	€ 199,821	€ 188,763	€ 83,363	€ 11,000
Equity interests (voting rights) held by Group members	Sava osiguranje (MNE): 100.0 %	Sava osiguruvanje (MKD): 100.0 %	Zavarovalnica Sava: 100.0 %	Zavarovalnica Sava: 100.0 %	ZS Vivus: 100.0 %
Bodies of the company	EXECUTIVE DIRECTOR Snežana Milović	DIRECTOR Melita Gugulovska	MANAGING DIRECTOR Kristijan Horvatić	MANAGING DIRECTOR Jurij Kislinger	MANAGING DIRECTOR Gregor Štangelj
Position in the Group	indirect subsidiary	indirect subsidiary	indirect subsidiary	indirect subsidiary	indirect subsidiary
Supervisory body	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro	Ministry of Internal Affairs of the Republic of Macedonia	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana

For the preparation of the IFRS consolidated financial statements, the Group uses the full consolidation 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 pension company Moja naložba is included in the consolidation in accordance with Article 335 (e) of the Commission Delegated Regulation (EU) (2015/35) by including 100 % of the company's own funds calculated according to the relevant sectoral rules.

A.2. Underwriting performance

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

Premiums

Consolidated gross premiums written and net premiums earned

(€ thousand)	2016	2015	Index
Gross premiums written	489,095	486,265	100.6
Net premiums earned	456,991	447,560	102.1

Consolidated gross premiums written by material line of business

(€ thousand)	2016
Fire and other damage to property insurance and proportional reinsurance	106,355
Motor vehicle liability insurance and proportional reinsurance	100,612
Other motor insurance and proportional reinsurance	84,820
Income protection insurance and proportional reinsurance	44,298
Other lines of business	153,011
Total	**489,095**

Gross premiums written grew by 0.6 % in 2016, with a largely unchanged breakdown by line of business compared to 2015. Non-life premiums accounted for 86 % of total premiums, life premiums for 14 %. In the breakdown of gross premiums written by line of business, the main lines of business are fire and other damage to property insurance and proportional reinsurance and motor vehicle liability insurance and proportional reinsurance. These two lines of business represent 42 % of gross premiums written.

Below we set out the movements in gross premiums written by operating segment as analysed by the Group. The life insurance operating segment includes the company Moja naložba, which, however, is not included in the above tables.

Gross reinsurance premiums in the **reinsurance** segment declined by 5.6 % in 2016 due to fewer premiums written as a result of limiting growth in response to the soft international reinsurance market conditions.

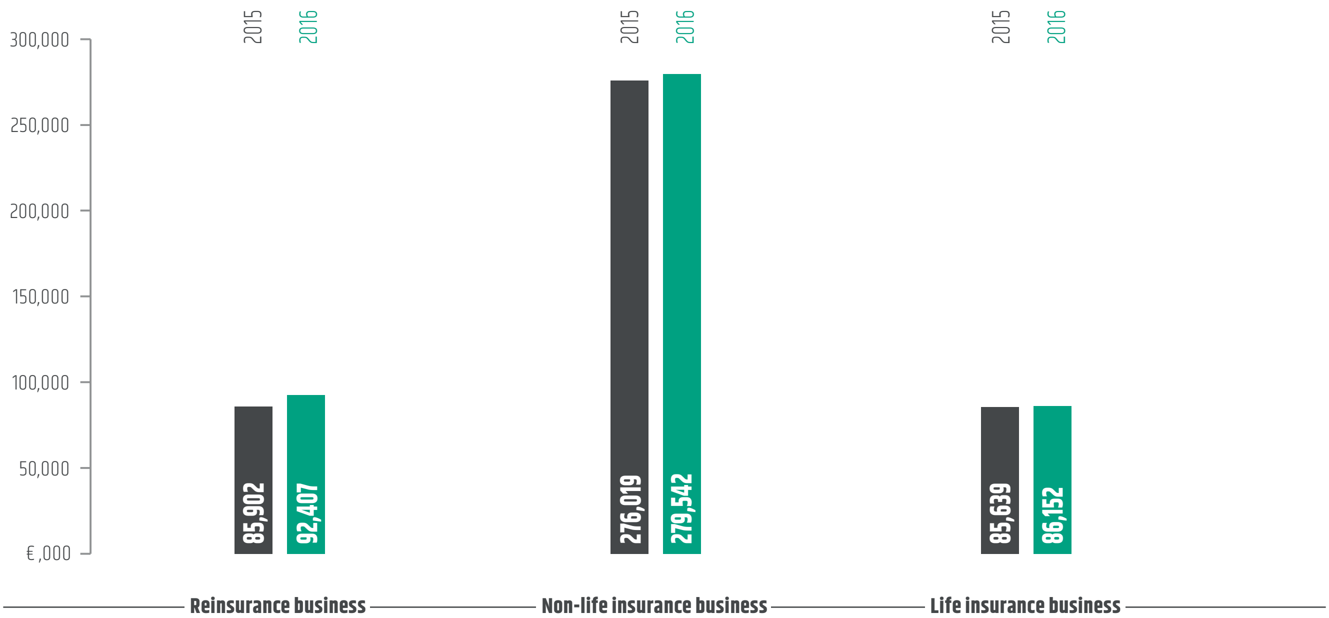
Gross **non-life insurance** premiums grew by 2.9 % in 2016 as a result of the growth in gross non-life premiums of all companies, except the Kosovan insurer. Slovenian gross non-life written insurance premiums rose by 2.3 %, mainly owing to an increased premium volume of motor, credit and property business. The Slovenian non-life insurance market grew at a rate of 2.9 % in the period. Gross non-life insurance premiums written abroad grew by 5.9 %. The largest growth (26.1 %) was posted by the Croatian branch of Zavarovalnica Sava, where premium growth was achieved in most classes of business against the background of an overall growth on the Croatian non-life insurance market of 2.2 %. In Slovenia, Zavarovalnica Sava managed to grow motor, credit and property premiums. Motor premium growth was driven both by growth achieved with individuals, with increases in the number of policies and sums insured on casco policies, as well as in the commercial sector through new clients and partly increased coverages. The Croatian branch of Zavarovalnica Sava posted the highest overall growth in the Group, at 26.1 %, achieved through good positioning in Internet sales, improved premium collection and increased efficiency of the own sales network. The Group's Serbian insurer also posted growth, mainly in casco business and due to the increased number of policies written in assistance insurance. The Macedonian insurer achieved premium growth through more intensive cooperation with a bank and increased sales in its subsidiary, the Sava Station vehicle inspection centre. The Montenegrin insurer grew its MTPL premiums, while the Kosovan insurer lost some of its MTPL business. Said decline is owing to the entry of two new players in the market in 2015, resulting in fierce competition including recruitment of agents from competitors. Another reason for the decline in motor business is the halving of border insurance business. The company could compensate part of its lost MTPL business with increased health insurance premiums.

In 2016, both gross and net **life insurance** premiums increased by 0.6 % as a result of an increase in life insurance premiums outside Slovenia. In 2016, gross life premiums also included single premiums for annuity business of Moja naložba of € 1.1 million. Without these premiums, gross life premiums written in Slovenia would have decreased by 1.6 %, since the life portfolio of Zavarovalnica Sava shrank. This is because new business was not sufficient to offset premiums lost due to surrenders and maturities. The Slovenian insurance market posted a 4.3 % drop in life business in 2016. In 2016 gross life insurance premiums grew in both non-Slovenian companies as well as in the Croatian part of Zavarovalnica Sava. Both life insurers and the Croatian branch of Zavarovalnica Sava have been implementing measures to improve their own sales network through regular education and training events for sales personnel, measures that have already translated into larger and better portfolios.

Consolidated net earned premiums by material line of business

(€ thousand)	2016
Motor vehicle liability insurance and proportional reinsurance	98,686
Fire and other damage to property insurance and proportional reinsurance	95,133
Other motor insurance and proportional reinsurance	82,568
Income protection insurance and proportional reinsurance	45,209
Other lines of business	135,395
Total	**456,991**

Consolidated net earned premiums by operating segment



The graph includes data of Moja naložba.

Claims

Consolidated gross claims paid and net claims incurred

(€ thousand)	2016	2015	Index
Gross claims paid	275,480	278,344	99.0
Net claims incurred	271,855	273,129	99.5

Consolidated gross claims paid and net claims incurred declined in 2016 compared to 2015. 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 Moja naložba, which, however, is not included in the above table.

Gross claims paid relating to the **reinsurance** segment increased by 4.1 % compared to 2015, mainly due to claim payments relating to previous underwriting years with greater premium volumes (premiums were 5.6 % lower).

The increase in gross **non-life insurance** claims paid of 1.1 % in 2016 was mainly due to the increase in gross non-life claims paid by non-Slovenian non-life insurers. Claims paid by Zavarovalnica Sava in 2016 remained on a similar level as in 2015.

Gross claims paid by non-Slovenian insurers were up by 9.3 % mainly due to growth in claims of the Group's non-life insurers in Serbia, Montenegro and Kosovo. The Serbian non-life insurer posted increased claims because of the portfolio assumption from AS osiguranje. Excluding the claims relating to AS osiguranje, the Serbian non-life claims would have posted an increase of 4.0 %. In Kosovo most claims were related to a major property loss (flood), to motor and health business. The increase in the Montenegrin insurer's claims was mainly due to a hail event and a failed aircraft event.

In August 2016, the north-eastern and central parts of Slovenia were hit by a hail storm. As a result, Zavarovalnica Sava paid € 4.6 million in gross claims and set aside further € 2.8 million as provisions. The net effect on the profit of Zavarovalnica Sava was € 4.1 million. In addition, Zavarovalnica Sava paid € 0.9 million to reinstate the reinsurance coverage.

The decline in the net **life insurance** claims paid in Slovenia is due to the decline in claims of Zavarovalnica Sava because of lower claim payments relating to maturities year on year as well as fewer surrenders and accelerated benefits. Gross claims paid relating to non-Slovenian life business increased since the Croatian branch of Zavarovalnica Sava recorded an increase in gross claims, as did the Kosovan company Illyria Life. In contrast, the Serbian insurer's gross claims decreased year on year.

Sava životno osiguranje (SRB) posted a decline in gross life claims paid in 2016 as the insurer paid less maturity and surrender claims than year on year, while Illyria Life paid more gross claims due to more death benefits paid out than in the previous year. Gross life claims paid by the Croatian branch of Zavarovalnica Sava increased because of the increase in the number of maturities and surrenders.

Consolidated net claims incurred by material line of business

(€ thousand)	2016
Other motor insurance and proportional reinsurance	62,687
Motor vehicle liability insurance and proportional reinsurance	61,684
Fire and other damage to property insurance and proportional reinsurance	44,609
Income protection insurance and proportional reinsurance	22,136
Other lines of business	80,739
Total	**271,855**

Expenses

Consolidated operating expenses

(€ thousand)	2016	2015	Index
Acquisition costs, including change in deferred acquisition costs	53,357	48,403	110.2
Other operating expenses	106,206	100,516	105.7
Income from reinsurance commission	-3,732	-3,657	102.1
Net operating expenses	**155,831**	**145,262**	**107.3**

Net operating expenses by material line of business

(€ thousand)	2016
Fire and other damage to property insurance and proportional reinsurance	40,479
Motor vehicle liability insurance and proportional reinsurance	31,146
Other motor insurance and proportional reinsurance	24,371
Other life insurance	12,633
Other lines of business	47,202
Total	**155,831**

Net operating expenses rose by 7.3 % in 2016. In absolute terms, the largest increase in the expenses was seen in the fire insurance and proportional reinsurance line of business. The gross premiums written relating to this line of business grew by 3.2 %. The 2016 structure of net operating expenses by line of business did not change significantly compared to 2015. Below we set out the movements in operating expenses by operating segment as analysed by the Group. All tables showing expenses include data of Moja naložba.

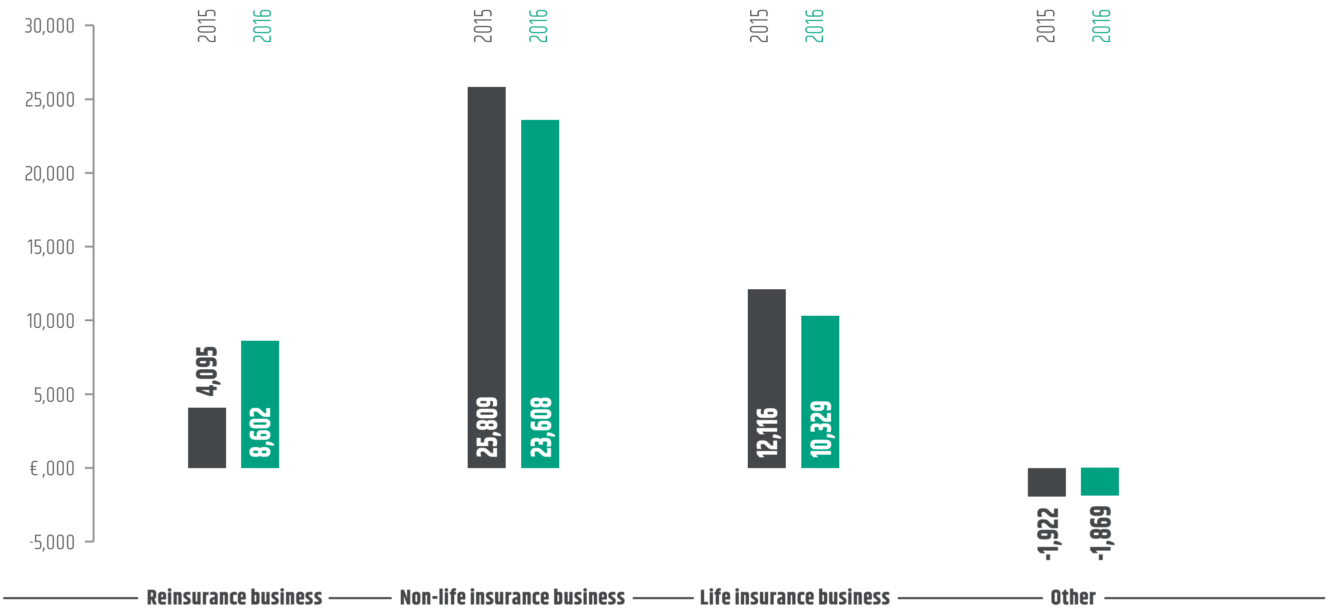
The acquisition costs related to the **reinsurance** segment rose, despite a decline in gross premiums written. Acquisition costs accounted for 23.6 % of gross premiums written in 2016, a deterioration of 2.1 percentage points compared to 2015. The increase in acquisition costs is due to the low reinsurance rates in global markets, manifested in higher commission rates in proportional business. Deferred acquisition costs declined in 2016 in line with the decline in premiums and unearned premiums, which is why their change increases operating expenses; in 2015, premiums, unearned premiums and deferred acquisition costs moved in the other direction and the change in deferred acquisition costs lowered operating expenses. The growth in other operating expenses was driven by increased labour costs and costs of intellectual and personal services.

Acquisition costs relating to the **non-life insurance** segment rose by 4.3 % due to the growth in non-life premiums and the related increase in agent commissions. The rise in other operating expenses is mainly due to the higher expenses at Zavarovalnica Sava in Slovenia and its subsidiary in Croatia. The reason for the increase in expenses in 2016 was the merger project, involving the merger of Zavarovalnica Tilia into and the cross-border merger of the companies Velebit osiguranje and Velebit životno osiguranje into Zavarovalnica Maribor with associated costs. The gross operating expenses (net of changes in deferred acquisition costs) of non-life business increased by 4.4 %, while gross consolidated premiums written rose by 2.9 % as a result of which the gross expense ratio increased by 0.5 percentage points.

Acquisition costs relating to the **life insurance** segment increased due to the rise in the consolidated acquisition costs of Zavarovalnica Sava. This is due to the elimination of transactions among Zavarovalnica Sava and its Slovenian subsidiaries who write life policies for their parent. In 2016 Zavarovalnica Sava wrote more business through its external sales channels and less through its subsidiaries and therefore paid less fees to its subsidiaries than in the previous year; this resulted in less costs being eliminated from the consolidation. Thus, the consolidated acquisition costs of Zavarovalnica Sava increased, although non-consolidated costs declined. Other operating expenses increased by € 1.6 million, almost entirely due to the consolidation of Moja naložba. This company had € 1.2 million of other operating expenses in 2016, but was not included in the consolidated accounts in 2015. The remaining part of the increase in other operating expenses was contributed by all the Group's life insurers, except Illyria Life. In the Slovenian part of Zavarovalnica Sava, the increase in other operating expenses is due to increased material costs and advertising expenses (also related to the merger); in the Croatian part of Zavarovalnica Sava, it is due to increased costs of services and personnel costs. Personnel costs also grew in Sava životno osiguranje (SRB), which is the main reason for higher other operating costs at this company.

Consolidated gross profit/loss

Composition of the consolidated gross income statement by operating segment



* Other includes gross profit of the "other" segment (non-insurance companies).
The graph includes data of Moja naložba.

The Sava Re Group performed well in 2016, achieving a 1.4 % increase in gross profit over 2015. The reinsurance operations segment performed far better in 2016 compared to 2015. This is due to the improved underwriting result of this segment. The non-life insurance segment performance fell short of 2015 mainly owing to the deterioration in the underwriting result. The largest impact came from a hailstorm event. Life insurance business posted weaker results due to higher operating costs of almost all life insurance companies in the Group.

The underwriting result (reinsurance and non-life insurance) improved due to better results of the reinsurance segment achieved through larger net earned premiums and lower net incurred claims. Net claims incurred were high in 2015 due to the increase in claims and the change in the gross claims provision.

The investment result declined in 2016 year on year, both in the reinsurance as well as the non-life segments. This is mainly due to lower interest income as a result of the low interest rate environment.

In 2016 the Sava Re Group performed well, both in Slovenia and abroad. The results of the Slovenian business were good mainly because of the good performance of Zavarovalnica Sava, while Sava Re generated good results with its international business. The premium income written in the ten countries where the largest amount of extra-group premiums were sourced in 2016 represented 97 % of the total gross result[1] of Sava Re extra-group business. The best results were achieved with business from South Korea, Sweden, Russia and Turkey. Details on the foreign-sourced business are provided in the appended "Quantitative Reporting Templates" (template S.05.02.01 Premiums, claims and expenses by country).

1 Gross underwriting result, gross of administrative expenses and retrocession.

A.3. Investment performance

The Group monitors the investment performance by operating segment. The net investment return and the return on investments is 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 investment income of the investment portfolio

(€ thousand)	2016	2015	Absolute change
Net investment income from financial investments	24,580	26,572	-1,992
Net investment income of investment property	32	414	-382
Net investment income of the investment portfolio	24,613	26,986	-2,373
Net investment income of the investment portfolio, excluding exchange differences	23,122	23,707	-585

The net investment return on the investment portfolio of the Group totalled € 24.6 million in 2016. The net investment income of the investment portfolio, excluding the impact of exchange differences, totalled € 23.1 million in 2016.

Investment income and expenses by type

(€ thousands) Type of income	2016	2015
Interest income	21,234	22,637
Change in fair value and gains on disposal of FVPL assets	738	1,359
Gains on disposal of other IFRS asset categories	2,315	1,664
Income from dividends and shares – other investments	1,284	1,228
Exchange gains	7,325	12,513
Diverse other income	622	791
Income relating to the investment portfolio	**33,518**	**40,193**
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	17,959	26,632
(€ thousands) Type of expense	**2016**	**2015**
Interest expenses	842	1,161
Change in fair value and losses on disposal of FVPL assets	632	1,504
Losses on disposal of other IFRS asset categories	499	350
Impairment losses on investments	595	726
Exchange losses	5,835	9,234
Other	504	231
Expenses relating to the investment portfolio	**8,906**	**13,207**
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	11,256	25,931

In 2016, investment income totalled € 33.5 million, down € 6.7 million year on year; excluding exchange differences, investment income declined by € 1.5 million. The largest part of income is interest income, which amounted to € 21.2 million in the period 1–12/2016, equivalent to 63.4 % of total financial income and down € 1.4 million year on year.

In 2016, expenses relating to the investment portfolio increased by € 4.3 million year on year, but decreased by € 0.9 million on elimination of exchange differences. In addition to exchange losses, the largest contributors to expenses are interest on loans granted and expenses arising from changes in market prices. 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 relating to financial investments

(€ thousand)	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains/losses	Other income/ expenses	Total	Net unrealised gains/losses on investments of life policyholders
Held to maturity	**6,029**	**0**	**0**	**0**	**0**	**1**	**-3**	**6,027**	**351**
Debt instruments	6,029	0	0	0	0	1	-3	6,027	351
At fair value through P/L	**141**	**84**	**0**	**26**	**0**	**46**	**-34**	**263**	**6,104**
Debt instruments	141	190	0	0	0	43	48	422	429
Equity instruments	0	-105	0	26	0	4	28	47	5,676
Other investments	0	0	0	0	0	0	-111	-111	0
Available-for-sale	**14,208**	**0**	**1,816**	**1,258**	**-398**	**1,223**	**75**	**18,182**	**241**
Debt instruments	14,208	0	1,704	0	-331	1,223	1	16,806	241
Equity instruments	0	0	112	1,258	-67	0	0	1,302	0
Other investments	0	0	0	0	0	0	74	74	0
Loans and receivables	**818**	**0**	**0**	**0**	**-196**	**220**	**70**	**913**	**6**
Debt instruments	808	0	0	0	-196	220	70	903	6
Other investments	10	0	0	0	0	0	0	10	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**35**	**0**	**0**	**0**	**0**	**0**	**0**	**35**	**0**
Subordinated liabilities	**-840**	**0**	**0**	**0**	**0**	**0**	**0**	**-840**	**0**
Total	**20,392**	**84**	**1,816**	**1,284**	**-594**	**1,491**	**107**	**24,580**	**6,702**

The bulk of the Group's net investment income was comprised of interest income (83 %) in 2016. The large share of interest income is consistent with the Group's investment portfolio composition, which is dominated by debt instruments.

In terms of valuation type, the net investment income of available-for-sale assets represents a share of 83.3 %.
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 2016.

Fair value reserve – movement

(€ thousand)	**2016**	**2015**
As at 1 January	**12,722**	**18,449**
Change in fair value	5,246	-9,406
Transfer of the negative fair value reserve to the IS due to impairment	-594	-726
Transfer from fair value reserve to the IS due to disposal	1,564	3,124
Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associate companies	0	-33
Other net profits/losses	0	143
Deferred tax	-1,479	1,171
Total fair value reserve	**17,459**	**12,722**

As of 1 January 2016, actuarial gains or losses arising out of changes in the present value of the provision for severance pay upon retirement as a result of changes in actuarial assumptions (other net gains/losses) are no longer disclosed in the fair value reserve but in a separate statement of financial position item *reserve due to fair value revaluation*.
The Group held no securitised assets.

A.4. Performance of other activities

Lease contracts

The Group generates 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 2016 the Group generated income of € 315,320 by leasing out its investment property (2015: € 191,766). Maintenance costs associated with investment property are either included in the rent or charged to the lessee, in 2016 a total of € 145,877 (2015: € 60,880).

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

(€ thousand)	2016	2015
Gross premiums written	54,743	53,831
Gross claims payments	-28,364	-35,186
Dividend income	26,309	13,004
Acquisition costs	-11,142	-11,313
Total	**41,546**	**20,337**

Investments in and amounts due from Group companies

(€ thousand)	31/12/2016	31/12/2015
Debt securities and loans granted to Group companies	2,835	2,835
Receivables for premiums arising out of reinsurance assumed	12,892	14,722
Total	**15,727**	**17,557**

Payables to Group companies

(€ thousand)	31/12/2016	31/12/2015
Payables for shares in reinsurance claims due to Group companies	7,434	7,893
Other payables from coinsurance and reinsurance	2,648	2,921
Total (excl. provisions)	**10,083**	**10,813**

A.5. Any other information

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

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 Sava Re 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 against unforeseen events, capital allocation and capital adequacy are managed on the Group level following the top down principle. As part of its risk strategy, the Group sets the risk appetite both at the Group level as well as at the level of its members.

The Group has set up a systematic approach to 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 Group 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. In accordance with the procedures set out in the Group policies, Group companies make their adjustments to Group policies, 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 among 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 (i) operations of Sava Re Group companies, (ii) enhancements of individual business functions and (iii) 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.

Sava Re Group organises professional training relating to various business areas several times a year to unify business processes and 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 corporate control manual.

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

.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.
Individual Sava Re Group subsidiaries implement a two-tier management system; a one-tier management system is, however, implemented where permitted by local legislation. The controlling company of the Sava Re Group and Zavarovalnica Sava operate on a two-tier management system.

B.1.3. Bodies of the company

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. Each company's bodies carry out their duties in accordance with local statutory regulations, its internal rules, and in accordance with the general guidelines established by their corporate governance policy, other policies and other internal acts.

General meeting of shareholders

The general meeting of shareholders is the supreme body of the company through which 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 generally 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, dissolution of the company, 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 board and supervisory board have left the decision on its adoption to the general meeting of shareholders;
- the appropriation of distributable profit, at the proposal of and based on a report by the management 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 compliance 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 (such as supervisory board, board of directors, supervisory committee).

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

Rules governing the supervisory board in a two-tier system, in principle, also apply to the board of directors, supervisory committee in a one-tier system, unless otherwise specified. The supervisory board oversees the management of the company 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. The number of supervisory board members 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. Members are selected so that their professional expertise, experience and skills are complementary.

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

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

- to approve the business policy and financial plan of the Sava Re Group and Sava Re as prepared by the management board;
- to approve the development strategy of the Sava Re Group and Sava Re as prepared by the management board;
- to approve the written rules of the system of governance, risk management, compliance, internal audit, the actuarial function, internal controls and outsourcing;
- to approve the appointment of key function holders;
- to approve the report on the solvency and financial condition of the company;
- to approve the framework annual internal audit plan as prepared by the management board;
- to oversee the appropriateness of the procedures and efficiency of internal audit activities,
- to draft an opinion for the general meeting on the internal audit annual report;
- to consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory competence over the company;
- to review 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 issue a qualified or approving report for the general meeting;
- to review the proposed appropriation of the distributable profit submitted by the management board, and prepare a written report for the general meeting.

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

Composition of the supervisory board of Sava Re in 2016

Member	Title	Beginning of term of office	Duration of term of office
Branko Tomažič	chair (until 11/10/2016)	15/07/2013	until 11/10/2016
Mateja Lovšin Herič	chair (since 12/10/2016)	15/07/2013	15/07/2017
Mateja Lovšin Herič	deputy chair (until 11/10/2016)		
Slaven Mićković	deputy chair (since 12/10/2016)	15/07/2013	15/07/2017
Slaven Mićković	member (until 11/10/2016)		
Keith Morris	member	15/07/2013	15/07/2017
Andrej Gorazd Kunstek	member (employee representative)	11/06/2015	11/06/2019
Mateja Živec	member, employee representative (since 01/04/2016)	01/04/2016	11/06/2019
Helena Dretnik	member, employee representative (until 19/02/2016)	11/06/2015	until 19/02/2016

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 joint responsibility of the supervisory board.
Sava Re has set up two permanent committees, the audit committee and the fit and proper committee, and has established the nominations committee as a temporary committee.
The areas of responsibility and the composition of the supervisory board committees is determined by a special resolution in compliance with applicable regulations, the recommendations of the Corporate Governance Code for Public Joint-Stock Companies and company internal acts.

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, in principle, 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 determines the company's goals, values, mission, vision and business strategy. Business operations are optimised through an adequate structure of human resources and prudent use of financial resources. In addition, it must comply 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 to 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.
Members are selected so that their professional expertise, experience and skills are complementary so as to ensure sound and prudent operation of the company.
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 a multi-member body 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 regularly (at least quarterly) reports 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 organise the operations 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 the company and the Group, which is presented to the supervisory board for consent;
- to adopt internal acts of the company;
- to approve and periodically review strategies and written rules on risk management, the internal control system, internal audit, the actuarial function and regarding outsourcing, and to ensure their implementation;
- to adopt the report on the solvency and financial condition 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 2016

Member	Title	Beginning of term of office	Duration of term of office
Zvonko Ivanušič	chair (until 23/08/2016)	01/06/2013	until 23/08/2016
Jošt Dolničar	chair (since 23/08/2016)	01/06/2013	5 years
Jošt Dolničar	member (until 23/08/2016)		
Srečko Čebron	member	01/06/2013	5 years
Mateja Treven	member	01/06/2013	5 years

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 individual companies 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 Group companies are exposed.

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

The risk management system is set out in detail in the Group's and individual company's risk management policies. Own risk and solvency assessment is set out in detail in the Group's and individual company's own risk and solvency assessment policies.

B.1.5. Key functions of the risk management system

At the Group level, the controlling company has established four key 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 management support services, which report directly to the management board and are involved in decision-making processes.

The main activities of any 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 (i) appropriate framework policies for the key function and (ii) professional guidelines for the adoption of area-specific operational rules for the controlling company and subsidiary companies,
- striving for strict application of uniform standards by all key functions in the Group,
- co-ordinating and implementing joint activities;
- 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 duties independently from each other and from other organizational units of the company. The key functions directly report to the management board. Where any key function is carried out by an independent organizational unit, it must be ensured that the key function holder has direct access to the management board.

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

Key function holders generally cannot implement and oversee the same tasks. Processes must be organised so as to allow that the lines of defence operate separately. Key function holders immediately report any potential conflict of interest to the management board. Key function holders cannot be members of any supervisory board or any of its committees of any Sava Re Group company in order to minimise potential conflicts of interest.

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 organizational position of any key functions within a company, it is directly integrated in the Group's framework of key functions. This establishes a direct link between a subsidiary's key function and the Group's key function, providing for direct information flow between the second and third line of defence, ensuring comprehensive and consistent risk management within 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 in particular 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 Group's risk management policy.

The **actuarial function**, in particular:

- coordinates and oversees the establishment of technical provisions, ensuring the appropriateness and quality of methodologies, assumptions and underlying data,
- expresses an opinion on the underwriting risk policy,
- expresses an opinion on the adequacy of reinsurance arrangements,
- contributes to an effective risk management system, especially with regard to 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 duties of the **compliance function** include, in particular:

- seeking to ensure 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**, in particular:

- provides objective and relevant assurance and advice to the management board in order to add value and improve the efficiency and effectiveness of operations,
- assists 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,
- reports to the management and the supervisory bodies on the purpose, terms of reference and duties of internal audit and the implementation of its plan, the findings of the audit reviews carried out, and proposes recommendations for improvements.

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

Detailed provisions on the scope, manner and time framework for reporting in respect to 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 decision of the management board, set up committees that cover the Group level and the controlling company. Furthermore, the management board of any individual Group subsidiaries may, if necessary, establish a committee by passing a resolution. Committees have either an advisory role or are delegated specific decision-making powers. They oversee specific areas, draft management board resolutions and oversee their implementation, and perform other tasks requiring specific expertise, 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.

The following committees have been set up by Sava Re at the Group level:

- risk management committee and
- actuarial committee.

B.1.7. Information about the remuneration policy

This 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 a guideline – in other companies of the Sava Re Group. It applies to all organisational levels and to all employees. It covers:

- the management body,
- senior and lower management,
- key function holders, and
- other employees.

The remuneration policy aims to build a remuneration system that is competitive and efficient as well as transparent and internally fair. The key principles of the remuneration policy are formulated on the basis of the principles of ethical and sustainable practices and operations.

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

The Group companies run no share option schemes.

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. Such remuneration is determined in a way that prevents the possibility of paying additional remuneration in case of poor performance.

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 refunding 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 generally 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 refunding expenses incurred in rendering services.

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

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 relevant 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 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 (fit) they must have, relevant personnel needs to demonstrate they have good repute and demonstrate high standards of integrity (proper) as exemplified by their actions.

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

In 2016 the basic documents were prepared on the Group level for the implementation of a fit and proper policy for relevant personnel. The Group's EU-based companies have carried out appropriate processes for the fit and proper assessment of the entire relevant personnel.

All relevant personnel are subject to the reporting duty regarding any new facts or circumstances, or changes to information submitted in the initial propriety 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. Statements submitted by relevant persons confirm compliance with current fit and proper standards and their commitment to notify the human resources function immediately of any circumstances that may affect their fit and proper assessment.

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. The following requirements are considered in the fitness assessment:

- 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. 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

The knowledge acquired through education and work experience is to be considered in assessing the fitness of the members of the company's management body. Based on this, the fitness assessment is made considering 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. The members of the management body 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 of the management body in those areas.

Key function holders of the risk management system

The knowledge acquired through education and work experience is to be considered in assessing the fitness of the key function holders of the risk management system. Based on this, the fitness assessment is made considering assigned responsibilities for the individual key function. The following requirements are considered in the fitness assessment:

- qualification, 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 the 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 the relevant person's suitability, are harmful to the reputation of both the relevant person and consequently the company.

Personal reliability and good repute is assessed based on information compiled in the process of collecting documents for the purposes of 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. If during their work a relevant person experiences a conflict of interest, such person is obliged to disclose such conflict of interest and to act in the interests of the company. If this is not possible, such person is obliged to inform the company's management or the supervisory body, in the case of a conflict of interest 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 – demonstrate that they have available time resources to perform the function.

B.2.3. Procedure for fit and proper assessment

The fit and 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 provides assistance with the implementation of operational tasks, such as the acquisition, submission, processing and storage of documents and issuance of the assessment results.

Based on compiled documents and statements, the committees conduct a fit and proper assessment, and issue relevant results. Based on the assessment so obtained, it may also take the necessary steps to ensure adequate qualifications of relevant personnel. The committee also conducts 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

It is of vital importance for the entire economy that insurance companies operate in a prudent manner. It is for this reason that in 2016, the European Union launched the Solvency II Directive, introducing the determination of the level of required capital based on the level of actual risks assumed by an insurance company or group. Additionally, the Solvency II regime introduces a comprehensive system of corporate governance, in which risk management plays a key role. The Sava Re Group management is aware that risk management is key to achieving operational and strategic objectives and to ensuring long-term solvency of the Group. Therefore, the Sava Re Group is continuously upgrading the risk management system at the individual company and the Group level.

The Group companies' strong risk culture is essential to the security and financial soundness of the companies and the Group. 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 on the individual company and Group level.

In order to systematise risk management, the Sava Re Group adopted a risk strategy defining 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.

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 lines:

- The first line of defence constitutes all organisational units with operational responsibilities (e.g. underwriting, sales, claims management, asset management, accounting, controlling and human resources).
- 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 consists of 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 has the following chief responsibilities:

- setting the risk strategy and approval of risk tolerance limits and operational limits,
- adoption of policies relating to the risk management system,
- overseeing risk management process and risk-based decisions,
- monitoring of operations in terms of risk and ensuring that risks are considered when taking business decisions.

The **supervisory board** of each individual company approves the risk strategy, risk management policies and the appointment of key function holders. In addition, the supervisory board considers periodic reports relating to risks.

The **first line of defence** of each individual company involves all the company's employees responsible for operational performance of tasks working in a manner that reduces or eliminates risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line and service directors ensure that the operational performance of the processes for which they are responsible is conducted in a manner that reduces or eliminates 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 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. In addition, the Group's large members also 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 holders 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 **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 the process of identifying risks, assessing, monitoring, managing them and reporting on risks. It is also involved in the preparation of an appropriate risk strategy and the setting of risk tolerance limits. The risk management function regularly reports to the risk management committee, the management and the supervisory boards, the supervisory committee and the Group's risk management function. It actively cooperates with the Group's risk management function. Furthermore, it offers support to the management board in decision making (including in relation to the strategic decisions such as corporate strategy, mergers and acquisitions and major projects and investments).

The main tasks of the **actuarial function** in the risk management system are expressing an opinion on the underwriting policy, expressing an opinion on the adequacy of reinsurance arrangements, and independent verification and challenge of technical provision calculations including assumptions, methods and expert judgment areas. The actuarial function of each individual company works in cooperation with the Group's actuarial function.

The main duties of the **compliance function** related to the risk management system are: identification, management and reporting of any non-compliance with regulations, including monitoring of the legal environment, analysis of existing processes regarding their compliance with internal and external rules, and any changes in regulations.

Apart from the key functions, the second line of defence at Sava Re and Zavarovalnica Sava includes a **risk management committee**. The Sava Re risk management committee is also responsible for the Group level. Both committees include the representatives of key areas of the first line of defence depending on the company's risk profile. 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 risk management committee includes a sub-committee for asset-liability management.

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 of the business operations and other functions. In the context of the risk management system, the internal audit function is responsible for the independent analysis and verification of the effectiveness of risk management processes in place, in particular the bottom-up risk identification process performed by employees.

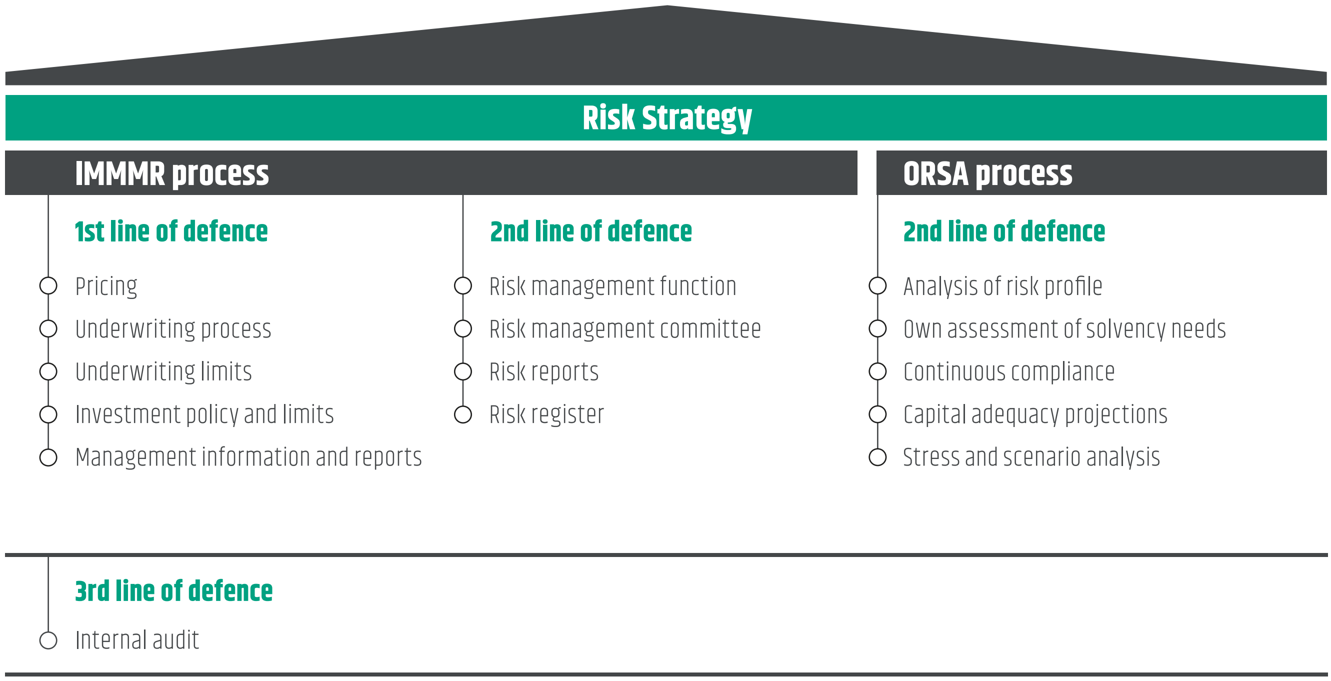
Good practices from Sava Re's risk management model and the organisation of risk management are also being transferred to other Group subsidiaries.

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 line of defence, and
- Own Risk and Solvency Assessment (ORSA).

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, the management board, with the consent of the Sava Re supervisory board, approved the Sava Re Group risk strategy, which defines the Group's risk strategy based on its risk bearing capacity. The individual Group companies draft their own risk strategy, 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
- risk tolerance limits.

The basic principle of the Group is to pursue its business strategy and meet the key strategic objectives while maintaining an adequate capital level.
The key areas that risk appetite is based on are:

- capital,
- liquidity,
- product profitability, and
- the company's reputation.

Each individual Group company sets its 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. Risk tolerance limits are set based on the results of the sensitivity analysis, 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 in line with the set risk appetite. In addition, each Group company ensures that in case of a breach of operational limits, it has in place well-defined and established escalation paths and management actions.
For the purpose of periodic monitoring of the compliance with the risk strategy, risk measures have been defined that allow a simplified monitoring of each individual company's and the Group's current capital position, without having to carry out a complete calculation of the solvency capital requirement. A minimum set of risk measures for each risk category has been defined for regular monitoring by individual Group companies.

Risk management processes

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

- 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 in the decision-making system; all important and strategic business decisions are also evaluated in terms of risk.

In the process of **risk identification,** each individual Group company identifies the risks to which it is exposed. The key risks are compiled in each company's risk register, constituting the company's risk profile, are reviewed on a quarterly basis, and amended 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. It is a high-level identification of new and potential risks based on monitoring of the legal and business environment, market developments and trends and expert knowledge; this 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). The Group company's risk thus identified is categorised and incorporated into the relevant processes of monitoring, measuring and reporting.

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 launching of a new product, investment in a new class of assets, acquisitions and other.

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 for risk measurement. Also, in order to develop models for quantitative risk assessment, the Group is developing support models for risk valuation at the individual company and Group company level.

The Group measures risks in the following ways:

- using the Solvency II standard formula,
- by calculating the overall solvency needs within the Own Risk and Solvency Assessment (ORSA),
- by conducting stress tests and scenarios,
- on the basis of qualitative risk assessment in the risk register,
- using various risk measures allowing simplified measurement and monitoring of the indicative current risk profile.

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 and recommendations 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 in the business planning process that the Group companies review what impact the business strategy has on the capital position, both with regard to the regulator as well as with regard to the own risk and solvency assessment. If during the financial year, decisions are taken that have a significant impact on the risk profile but have not been assessed in terms of risk during business planning, the Group companies assess the impact of such decisions on the risk profile and capital adequacy and verify compliance with the risk appetite. If a business decision could have a significant impact on the Group's risk profile, such impact on the Group's risk profile and capital adequacy is also assessed. Based on the results of the impact analysis, each company takes the necessary actions. 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 is conducted on 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 risk profile of the Group. A standard set of risk measures is defined and monitored by Group companies on a regular basis. Both risks and risk management measures are subject to monitoring and control.

Regular **risk reporting** has been set up in the large Group companies and on the Group level and runs as follows: 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 and then discussed by the company's management and the supervisory boards. Then the report is sent by the company's risk management function to the Group's risk management function.

Own risk and solvency assessment

Own Risk and Solvency Assessment (ORSA) is a process that includes the establishment of the differences between the Group's risk profile and the assumptions of the standard formula, the own assessment of the overall solvency needs, capital adequacy projections and the establishment of the link between the risk profile and capital management. As a result, the ORSA process allows the alignment of the business strategy with risk appetite and capital requirements in the context of the overall risk management framework. It establishes a link between the business strategy, the risks taken in the short term as well as the medium- to long-term and the capital requirements arising from those risks.

The ORSA process takes place at the individual company and at the Group level. The EU-based Group companies and the Group are required to report to the regulator on their ORSA.

One significant result of a company's ORSA process is a more thorough understanding of the Group's risk profile from the perspective of its on-going viability. The ORSA process on the Group level assesses all material risks that may have an impact on the Group's viability, from either an economic or a regulatory perspective, taking into consideration both quantifiable risks and those not so readily quantifiable. As a result, the risk profile reflects the contribution of each material risk to the Group's overall risk exposure and solvency.

The ORSA process includes the following three key elements:

- assessment of solvency needs – Group,
- the assessment of compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions, and
- the assessment of the significance with which the Group's risk profile deviates from the assumptions underlying the solvency capital requirement in accordance with the standard formula.

The Group level ORSA process is generally conducted annually, and ad hoc in the event of a significant change in the Group's risk profile. The ORSA process uses the results of the risk management processes, supplemented by further analysis. The ORSA process is linked to other processes in the company: business and strategic planning, calculation of the solvency capital requirement and the Solvency II valuation of the balance sheet and eligible own funds. The management uses the information collected during the ORSA process for the purpose of capital management, business planning, development and designing of products, as well as for ongoing business decision-making.

The Group level ORSA process defines, analyses and explains the main differences between the own risk profile and assumptions underlying the solvency capital requirement according to the standard formula, indicating whether the deviations are significant. This may be done by using qualitative criteria in the first step. If the deviation is significant, the Group carries out a quantitative evaluation depending on the available risk measurement options. Additionally, the own risk and solvency assessment takes into account all the material risks included in the Group's risk profile that are not covered by the standard formula. These are evaluated depending on the nature of the risk and the possibility for quantification, either qualitatively or quantitatively.

Based on input from the business and strategic plans and the risk strategy, the Group calculates the solvency capital requirement and makes 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 is ensured that the business and strategic plans are aligned with the risk strategy.

To calculate its own assessment of the overall solvency needs, the Group basically uses the methodology of the standard formula, including correlation matrices. Thus the own risk assessment is the revalued standard formula in risk segments that the Group assesses are inadequately captured by the parameters of the standard formula.

In the ORSA process, the Group also carries out stress tests and scenario analyses as relevant with regard to its risk profile. The Group's experts define a sufficiently wide range of stress tests and scenarios for the Group's material risks. Where appropriate, the Group develops stress tests and scenarios over multi-annual horizons.

The Group's risk management committee reviews and approves the assumptions, stress tests and scenarios, and methods to be used in the ORSA calculations. In addition, the committee proposes improvements and challenges the assumptions used. Once coordinated, the stress tests and scenarios are approved by the Sava Re management board.

As part of ORSA, the Group ensures continuous compliance with the regulatory requirements regarding capital and technical provisions. Ongoing compliance must be ensured, over both the business and strategic plan horizons as well as in each financial year. Over the business and strategic plan horizon, ongoing compliance is ensured by aligning the business and strategic plans with the risk strategy and the risk bearing capacity. In any financial year, the Group ensures ongoing compliance by regular monitoring of the risk profile and predetermined risk measure and by monitoring internal and external factors that could have a material impact on the Group's risk profile.

Based on the conducted ORSA, the Group prepares a report that is first considered by the Group's risk management committee. In accordance with the own risk and solvency assessment policy of Sava Re, the Sava Re management board, at least annually, challenges and formally approves the Group ORSA report. The ORSA results are also presented to the supervisory board. Once the management board of Sava Re approves the ORSA results, they are distributed to all the heads of the organisational units of the controlling company. The Group ORSA report is also submitted to the Insurance Supervision Agency.

The ORSA process is embedded in the decision-making process, which allows for key decisions at the Group level 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. At the Group level, the ORSA results are taken into account in decisions-making, capital management and 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 internal control 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 has in place a policy of internal controls 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 governance.

B.4.2. Compliance function

The compliance function is organised at the Group and individual company levels as a management support service, 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 officer is authorised by each company's management board subject to the consent of the 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 compliance function has the following primary duties:

- to monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in the 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 related to compliance with regulations and other commitments.
- to co-ordinate 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 that the company faces;
- to co-operate in exchanging compliance-related questions, best practices and experiences on the controlling company level with other control functions;
- to co-ordinate the preparation and adoption of policies and rules on the controlling company level and between the controlling company and Group subsidiaries;
- to co-ordinate the preparation of comments on draft insurance-related legislation;
- to participate in setting up and updating compliance programmes in certain separate 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 to raise 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, the internal audit service, 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 company's third line of defence of internal control.

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. Furthermore, it establishes the position of the internal audit within the organisation, including the nature of the functional responsibilities of the director of internal audit with regard to the supervisory body, authorises access to records, personnel, premises and equipment relevant to the performance of engagements, and defines the scope and activities of the internal audit.

The internal audit function holder of the Group and Sava Re 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 service.

The director of the internal audit service must hold the title of Certified Internal Auditor. More detailed conditions and criteria defining the performance of the internal audit function are set out in the individual company's fit and proper policy. It is desirable that other internal auditors also hold the title of Certified Internal Auditor.

The internal audit performs control activities, which, however, does not relieve supervisory and management bodies of their responsibility for establishing and observing effective and efficient governance of the company, 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 a level of management that allows the internal audit to fulfil its responsibilities. The director is in charge of the internal audit and internal audit procedures, and reports to the management board member responsible for internal auditing. The director functionally reports to the management board, supervisory board and audit committee, where functional reporting includes all matters related to the substance of internal auditing. In addition, the internal audit function cooperates directly with the supervisory body.

The internal audit function annually submits – to the management and supervisory boards, including its audit committee – the annual work plan and the annual report of the internal audit service. In the annual report, it issues an opinion on the compliance with the code of ethics, including a declaration on disclosure and avoidance of conflicts of interest for the reporting year. The internal audit must be independent, and internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest.

The internal audit function must confirm to the supervisory body, at least annually, the organisational independence of the internal audit as part of the annual reporting on the activities of the internal audit service.

If the internal auditors experience potential impairments to their independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

The internal audit function must adopt measures to mitigate any threats to independence by appointing several auditors who perform each of these services, by establishing independent management and supervision through the defining of separate responsibilities for project results, and by disclosing the potential threat. In the case of a conflict of interest risk related to internal audit employees, the internal audit function must act in accordance with the internal rules for the management of conflict of interest risks.

The tasks of the internal audit of individual Group companies are primarily 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 a manner that ensures the achievement of the following 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;
- evaluation or management of information technology in the company in order to support and contribute to and further its strategies and goals;
- to assess fraud risk and the procedures for their management in the company (however, the expertise of a person whose primary task is to identify and investigate cases of fraud is not expected nor required);
- to offer advice;
- to carry out other tasks subject to 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 Sava Re Group. Internal audit is carried out according to a uniform procedure as laid down by the standards. The procedure is set out in greater detail in the manual on the operation of the internal audit.

Group companies may cooperate in the following manner:
- 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.

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 in the event of own internal audit in the subsidiary company).
The internal audit 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 participates in individual 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.
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 acts as the second line of defence, it is organised so as to prevent any one person from both implementing (first line) and controlling (second line) the same tasks.

A 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 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. Within its powers and in line with the rules of procedure appended to this policy, the Group's actuarial 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 have a responsibility towards the company for communicating information about relevant arrangements to relevant parts of the company.

The actuarial function of individual Group companies has the following primary duties:

- to coordinate the calculation of technical provisions and ensure that technical provisions are consistent 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 board, the supervisory body and the local supervisory authority; the report is to document the implementation of the above tasks and their results, clearly identifying any weaknesses and providing recommendations as to how to eliminate those weaknesses.

The Group's actuarial function has the following primary duties:

- to carry out the above tasks as appropriate at the Group level, summarizing and co-ordinating the findings of individual companies' actuarial functions;
- to express an opinion on the adequacy of the reinsurance arrangements in 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 is to document the implementation of the above tasks and their results, clearly identifying any weaknesses and providing recommendations as to how to eliminate those weaknesses;
- 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 activities of any Sava Re Group company, which are otherwise carried out by the company as part of its licensed activities.

In accordance with the provisions of the applicable Insurance Act, the Group has 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 may be entered into, how they should be maintained and documented, and how to ensure each Group company's 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 register 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 task 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 Group 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 functions or activities outsourced since any company's lia bility to third parties is not transferable to service providers nor other contract acceptors. Each Group company is required, before deciding on the assignment or outsourcing of any tasks or functions, to assess and document the impact that such outsourcing of tasks or functions will have and ensure regular implementation in the future. Each Group company has the right to contract outsourcing business or functions subject to statutory regulations.

There were no outsourcing arrangements on the Group level in 2016; nor did individual Group companies outsource any operations to contractors outside the Group.

B.8. Any other information

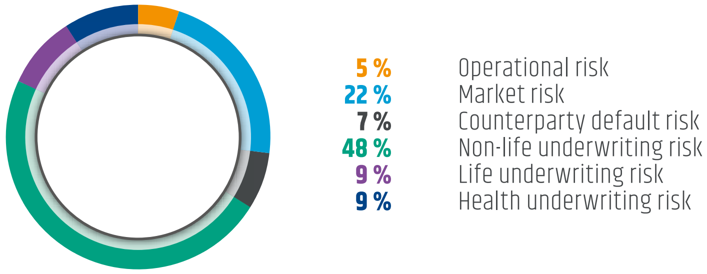
The rules of the Group governance system are subject to regular annual review. This is the responsibility of the Group's compliance function, which – in cooperation with the Group's internal audit function – verifies the consistency of the governance policy with other policies within the governance system 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 compliance function did not carry out a regular annual review of the rules of the governance system in 2016, as the Group, in accordance with the 2016 internal audit plan, engaged an external provider, KPMG, to carry out an internal review of corporate governance. The external provider established that within the scope reviewed, the corporate governance system was largely compliant with the Slovenian Companies Act (ZGD-1) and its subordinate acts, as well as with other Solvency II requirements. The focus of this review was on subsidiary governance, which is the most complex in Sava Re, particularly on the largest subsidiary, Zavarovalnica Sava – in this part, the provider issued recommendations for improvement.

C. Group Risk Profile

While the Group is exposed to various risks in its operations, two risks prevail, i.e. non-life underwriting risk and market risk. The Group measures its risks using the Solvency II standard formula and own risk assessment. The chart below shows the Group's risk profile in accordance with the standard formula.

Group risk profile as at 31 December 2016[2]



2 Percentages in the chart relate to the sum total of all risks (including operational risks), while percentages in the text below relate to the sum total of all risks, excluding operational risks (i.e. the sum total of non-diversified basic solvency capital requirement).

C.1. Underwriting risk

The underwriting risk arises from Group's (re)insurance activities, i.e. the underwriting of (re)insurance contracts, and from directly related activities. It is related both to the risks covered by such (re)insurance contracts and to the relevant processes, and arises from the uncertainty about the occurrence, level and time of liabilities.
Underwriting risk is generally divided into:

- non-life underwriting risk,
- life underwriting risk, and
- health underwriting risk.

The Group markets all three categories 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.

Structure of gross premiums written

49 %	Direct non-life insurance, EU
8 %	Direct non-life insurance, non-EU
14 %	Direct life insurance, EU
0 %	Direct life insurance, non-EU
9 %	Direct health insurance, EU
1 %	Direct health insurance, non-EU
19 %	Inward extra-Group reinsurance

C.1.1. Non-life underwriting risk

The chart below shows the structure of net non-life premiums earned by material line of business.

Net life premiums earned by material line of business

12 %	Income protection insurance
26 %	Motor vehicle liability Insurance and proportional reinsurance
21 %	Other motor vehicle insurance and proportional reinsurance
24 %	Fire insurance and propotional reinsurance
4 %	General liability insurance and proportional reinsurance
5 %	Non-proportional marine, aviation and transport reinsurance
8 %	Other

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 excessively low 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. Reserve risk includes:
  - underwriting process risk,
  - product design risk,
  - risk of unexpected increase in claims.

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

- **Reserve risk** is 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 the company's financial position. Reserve risk includes:
  - 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.

  As with premium risk, motor vehicle and property (re) insurance contribute the most also to reserve risk, but due to the Group's long experience with this business, the amount of the best estimate of technical provisions for this segment is also the largest.

- **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 appropriate premiums and provisions. Catastrophe risk may materialise in the case of extreme events or in the case of a large number of catastrophic events in a short period of time. The risk also includes the risk of an excessive geographical concentration 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 relatively high capital requirement results from the aggregation of a large number of such requirements for various smaller natural perils and regions and various man-made catastrophic events.

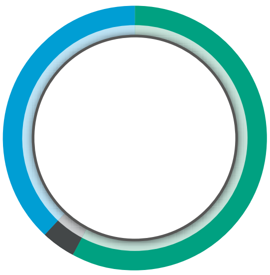
- **Lapse risk** is the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates. The Group is not materially exposed to this type of risk.

Other underwriting 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 measurement of non-life underwriting risk, the Group uses the Solvency II standard formula. According to this formula, the Group was exposed to non-life underwriting risk in the amount of € 138.9 million as at 31 December 2016. Capital requirement for non-life underwriting risk represented 50.9 % of the non-diversified basic solvency capital requirement of the Group. Premium and reserve risks, followed by catastrophe risk, represented the largest portion of the non-diversified non-life underwriting risk. Lapse risk, which relates to early termination of non-life contracts, was relatively low.

Non-diversified non-life underwriting risk by risk sub-module



58 %	Premium and reserve risk
4 %	Lapse risk
38 %	Catastrophe risk

Non-life underwriting risk is also measured quantitatively as part of ORSA, where premium and reserve risk is currently measured using Undertaking-Specific Parameters (USP). Also as part of ORSA, capital requirement was calculated for storm and hail risks in Slovenia, which are not covered by the standard formula. Additionally, the assessment of man-made fire catastrophe risk was adjusted by using probable maximum loss figures within a 200-meter radius instead of sums insured.

In addition to said quantitative risk measurement, Group companies also monitor their respective 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 react in a timely manner.

Risk concentration

The chart below shows the structure of net premiums earned for fire and other damage to property insurance and for proportional and non-proportional property reinsurance by region. The chart shows that the Group sources a large share of its premiums from Southern Europe, which is explained by its insurance business in Slovenia. In other regions, the Group does not have significant exposures.

Net premiums earned relating to property (re)insurance

The exposure in Slovenia is mainly due to Zavarovalnica Sava, which is the largest company in the Sava Re Group. In addition, Zavarovalnica Sava is mainly reinsured by Sava Re. The largest concentrations of its portfolio is in the Štajerska and Dolenjska regions. The table below shows exposures to the perils of hail, flood, earthquake by region in Slovenia.

Exposure by region in Slovenia

Line of business	Hail	Flood	Earthquake
Maribor and surroundings	46.9 %	45.6 %	19.6 %
Ljubljana and surroundings	18.7 %	16.6 %	38.2 %
Novo mesto	13.7 %	18.8 %	25.9 %
Other	20.7 %	19.0 %	16.3 %

Risk management

The Group manages its non-life underwriting risks mainly through:

- established processes, comprising procedures and authorisations 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 individual risks with higher exposures;
- underwriting limits;
- geographical diversification;
- an appropriate actuarial pricing policy applied in product design and monitoring; and
- an appropriate reinsurance (retrocession) programme.

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 producing understandable, clear and detailed instructions, and by defining appropriate underwriting limits that are consistent with their business strategy, risk strategy and reinsurance programme. In addition, special efforts are made that products are offered to appropriate target clients (to prevent mis-selling and/or adverse selection), reinsurance is accepted from trusted cedants, and appropriate limits are in place for exposure concentration by geographical location and homogeneous risk groups, which ensures favourable risk diversification. Another underwriting process risk is that the Probable Maximum Loss (PML) is inaccurately assessed. In order to mitigate this risk, the Group has in place guidelines for PML assessment, requires that PML estimation be 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 analysing the market in detail, by keeping informed (media, competitors, clients), by monitoring the applicable regulations and the related requirements, and observing historical claim trends (for the entire market) and forecasts. In inward reinsurance underwriting, it is important to know the market, but also to verify how reliable partners are. The reinsurer may also use special clauses in inward 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 makes possible an accurate overview of claims accumulation. For inward 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 appropriateness of reinsurance protection using a variety of stress tests and scenarios, and appropriately set 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, as well as by means of annual back-testing 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, e.g.:

- 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. Said 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 or whenever a significant change occurs in the process or methods and/or models used to calculate technical provisions.

Examples of such controls include:

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

The process by which technical provisions are calculated is subject to regular approval. If there are substantial changes to the process, the methodology or models used in the calculation of technical provisions, validation is carried out in accordance with the reporting calendar.

Lapse risk

It is estimated that lapse risk, which relates to early termination of insurance policies, 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 if the client fails to pay the premium, 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 inward reinsurance contracts is written for a period of one year. The risk associated with these contracts is 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 protection against natural catastrophes, the Group has in place a retrocession coverage for its retention, separately for intra- and for 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 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. It ensures that the Group remains solvent even if several catastrophic events occur in a single year.

C.1.2. Life underwriting risk

The main life underwriting risks are:

- biometric risks, consisting of:
    - mortality risk,
    - longevity risk
    - disability-morbidity risk,
- life expense risk,
- revision risk,
- lapse risk, which relates to the risk of early termination of life insurance contracts, including terminations due to surrenders, conversion to paid-up status, and non-payment of premiums,
- 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

34 % Insurance with profit participation
37 % Index-linked and unit-linked insurance
29 % Other life insurance

Key exposures are related to lapse risk, mortality risk and life expense risk. Other risks are smaller and are therefore 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, conversion to paid-up status, or non-payment of premiums. Risk levels depend on the use of adequate statistics, identification of terminations for various reasons in an underwriting year, and economic conditions, 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. The Group is mainly exposed to this risk through its unit-linked life business.

Mortality risk is the risk that the actual mortality of insured persons will turn out to be greater than given in the mortality tables used in 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 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 adequate statistics, and an increase in the actual expenses incurred in servicing life insurance contracts. The Group is exposed to this risk both through its traditional life business and life insurance products where policyholders bear the investment risk.

Risk measurement

For the quantitative assessment of life underwriting risk, the Group uses the Solvency II standard formula. According to this formula, the Group was exposed to life underwriting risk in the amount of € 26.1 million as at 31 December 2016. The capital requirement for life underwriting risk represented 9.6 % of the non-diversified basic solvency capital requirement.

Lapse risk, specifically mass lapse risk, represented the largest portion of the non-diversified life underwriting risk, followed by life expense risk and mortality risk, while other risks were relatively low.

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 ORSA as in the standard formula.

Non-diversified 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 annual and single premium payment. 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

Lapse risk is managed by the Group 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 systematic prevention of insurance rearrangement by other brokers.

The procedures used to manage the **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 application.

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

The Group also manages life underwriting risks by regular monitoring the life portfolio structure, exposures, premium payment patterns, lapse rates and expenses incurred in a period, as well as by analysing the appropriateness of 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.

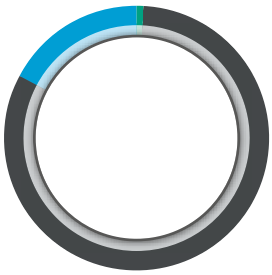
C.1.3. Health underwriting risk

Health underwriting risk is divided into:

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

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 of the retention.
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. of this report.
For the quantitative assessment of health underwriting risk, the Group uses the Solvency II standard formula. According to this formula, the Group was exposed to health underwriting risk in the amount of € 24.2 million, contributing 8.9 % to the non-diversified basic solvency capital requirement.
The majority of this requirement was associated with NSLT health underwriting risk, notably premium and reserve risk. Similar as 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 sub-modules (before diversification)



0 %	SLT health underwriting risk
83 %	NSLT health underwriting risk
17 %	Catastrophe risk

C.2. Market risk

Market risk is the risk of loss or of 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 level of individual Group companies and at Group level.

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 and 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 equity investments. This risk is related to equity investments, as well as to investments in equity and mixed mutual funds. On the liabilities side, life insurance liabilities where policyholders bear the investment risk are exposed to this 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 values 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

On the date of this report, the Group had the following structure of assets that affect its level of market risks.

Investments included in the calculation of market risks (Solvency II valuation)

(€ thousand)		
Asset class	**31/12/2016**	**%**
Bonds	**1,029,651**	**83.7 %**
Government bonds	633,073	51.5 %
Corporate bonds	392,421	31.9 %
Structured notes	4,156	0.3 %
Investment funds	**28,792**	**2.3 %**
Deposits	**34,691**	**2.8 %**
Equity investments	**24,950**	**2.0 %**
Participations	8,008	0.7 %
Listed equities	12,377	1.0 %
Non-listed equities	4,565	0.4 %
Property	**57,014**	**4.6 %**
Own-use property	48,703	4.0 %
Other property	8,311	0.7 %
Deposits to cedants	**7,836**	**0.6 %**
Cash and cash equivalents	**46,973**	**3.8 %**
Total	**1,229,906**	**100.0 %**

The value of assets included in the calculation of market risks was € 1,229.9 million as at 31 December 2016. Their structure shows that the majority of the Group's financial investments consist of fixed-income financial instruments.
In addition to these investments, investments of policyholders who bear the investment risk of € 124.4 million and the related liabilities under these contracts were also included in the calculation of equity risk. The latter significantly affect the level of capital requirements for equity risk.
The predominance of fixed-income financial instruments reflects the Group's policy under which 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, but also its own risk assessment.
The solvency capital requirement for market risks, which the Group calculated using the standard formula, amounted to € 63.9 million as at 31 December 2016 or 23.4 % of the total non-diversified basic solvency capital requirement. Of all market risks, spread risk and equity risk were the highest.

Non-diversified market risks by risk sub-module

- **Interest rate risk** accounted for 10 % of total non-diversified capital requirement for market risks. Interest-rate-sensitive investments include bonds, deposits and loans. Interest-rate-sensitive liabilities mainly include technical provisions of longer maturities, especially those supporting life insurance liabilities.
- **Equity risk** is the second-highest individual market risk, as it accounted for 23 % of total non-diversified capital requirement for market risks. The high capital requirement is related to mutual-fund investments of Zavarovalnica Sava made to match the liabilities under life insurance contracts where policyholders bear the investment risk. Zavarovalnica Sava matches the level of assets and liabilities related to such products with the level of IFRS technical provisions. As the best estimate of technical provisions is lower than the IFRS technical provisions, the asset and liability mismatch is higher and results in an additional capital charge.
- **Property risk:** The percentage of investment property within the investment portfolio of each Group company is limited and therefore relatively small also at the Group level. The risk mainly relates to property held for own use, i.e. property used by the Group in the pursuit of its activities. Due to the high capital charge for property risk used in the standard formula, this risk represented 16 % of total non-diversified market risks, despite the small exposure.
- **Currency risk** represented 12 % of non-diversified market risks. Both assets and liabilities are exposed to the currency risk. The Group's exposure to currency risk arises mainly from reinsurance business of Sava Re, and from Group companies established outside the euro area. 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.

- **Spread risk** is the highest of market risks, accounting for 37 % of total non-diversified capital requirement for market risks. This is due to the Group's relatively high exposure to corporate bonds and deposits.
- **Market concentration risk** of the Group is low due to its well-diversified investment portfolio, representing 2 % of non-diversified market risks.

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,
- income and return, and
- risk to return ratio (Sharpe ratio).

In managing their 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,
- currency structure of assets and liabilities.

In addition to the standard formula, the Group also uses its own risk assessment model (within ORSA) to monitor and assess market risks. 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. In addition to counterparty default risk, credit risk also comprises market concentration 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. This is accordingly assessed within the internal model, together with other debt securities.
The highest single issuer concentration and also the highest regional concentration of the Group are to the Republic of Slovenia. Being aware of said concentrations, the Group actively manages such 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,
- the measures to be used in the monitoring of investment performance,
- the 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 in 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 the risk of change in equity prices through the diversification of this investment portfolio segment to various capital markets, and through a limit system that limits the exposure to equities.
Management of currency mismatching takes place at the level of individual Group companies in the form of 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 (18.7.4.1.4).
To avoid concentration of investments by investment type, partner, sector, etc., and also other possible forms of concentration, 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 said parameters and by rating is shown in its annual report, in the section 18.7.4.3.

Prudent person principle

The Group only invests in financial instruments and other assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

All assets, particularly those covering the minimum capital requirement and solvency capital requirement, are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition, localisation of those assets is such as to ensure their availability.

Assets held to cover technical provisions are also invested in a manner appropriate to the nature and duration of the (re)insurance liabilities. Those assets are invested in the best interest of all policyholders and beneficiaries.

In the case of a conflict of interest, the Group 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 comprises:

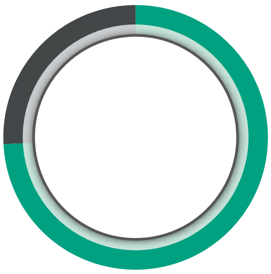
- **counterparty default risk**: this reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors over the coming 12 months. Counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements and receivables 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 liabilities arising from direct insurance and accepted reinsurance business, and from recourse receivables. To avoid such delays, the Group closely monitors policyholders and cedants, and actively collects overdue receivables. This explains its low exposure to counterparty default risk;
- **spread risk**; and
- **market concentration risk**.

Spread and market concentration risks are discussed and presented within the market risks 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

For the quantitative assessment of credit risks, the Group uses the Solvency II standard formula: 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 the counterparty default risk, while market risks are discussed in section C.2.
The solvency capital requirement for counterparty default risk, which the Group calculated using the standard formula, amounted to € 19.6 million as at 31 December 2016 or 7.2 % of the total non-diversified basic solvency capital requirement.
The chart below shows the structure of the counterparty default risk module in accordance with the standard formula.

Non-diversified counterparty default risk by risk sub-module



75 %	Counterparty default risk - type 1
25 %	Counterparty default risk - type 2

Type 1 exposure includes exposures related to reinsurance and coinsurance contracts, cash and cash equivalents, and deposits to cedants. Type 2 exposure includes all other receivables not included in type 1 exposure, with the following excluded: pending premiums 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 has been developing its own model (as part of ORSA) for the assessment of financial investment related credit risk. This credit risk model takes account of spread, migration and default risks for all investments in debt instruments. Being closely interconnected, the ORSA process addresses these risks within a single model. As regards counterparty default risk related to reinsurers and coinsurers, we believe that the standard formula appropriately evaluates the risk and, therefore, do not carry out our own calculations in this part. In its own credit risk calculation, the Group also takes account of the diversification effect.
There is no significant concentration of counterparty default risk at the Group level.

C.3.3. Risk management

To avoid payment delays, Group companies closely monitor policyholders, and actively collect overdue unpaid receivables.
Group companies manage the risk associated with re/coinsurance contract assets by limiting the exposure to a single re/coinsurer and by entering into contracts with highly-rated partners. As a rule, Group companies mainly buy reinsurance directly from the controlling company. If so required by local regulations, they also buy reinsurance from the providers of assistance services and from local reinsurers. In this case, local reinsurers transfer the risk to Sava Re, so that the actual exposure to the counterparty default risk arising from assets under reinsurance contracts is low.
The Group monitors and reports on credit risk exposure on a quarterly basis and is thus able to take timely action if necessary. Partner credit ratings are also monitored, with the 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 the Group's reinsurers, and for reviewing the assessment of the appropriateness of external credit ratings for the purpose of capital requirement calculations according to 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 arises from short-term cash flows and not from long-term asset and liability mismatch.

C.4.1. Risk exposure

The Group has substantial monetary liabilities (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). They also regularly monitor the maturity structure of receivables, and take account of the effect each settlement of obligations has on their current liquidity.

C.4.2. Risk measurement

Liquidity risk is not covered within the Solvency II standard formula. Although difficult to measure, the Group nevertheless regularly monitors and manages this risk.

To determine their exposures to liquidity risk, Group companies, in accordance with their capabilities, implement, analyse and monitor the following risk measures:

- cash in bank accounts,
- the percentage of highly liquid assets[3] and the haircut amount in view 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,
- all other statutorily prescribed measures.

C.4.3. Risk concentration

The Group is not exposed to the concentration of liquidity risks, but can in certain cases still face certain emergency liquidity needs.

C.4.4. Risk management

In order to effectively manage liquidity risks, the Group adopted a liquidity risk management policy, which sets out the risk management processes and risk measures, as well as the processes in the case of emergency liquidity needs. In addition, the Group defined liquidity risk as one of its key risk exposures in its risk strategy. Due to the nature of liquidity risk, the Group does not manage it 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 estimate the normal current liquidity requirement within one year based on projected monthly 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. The two EU-based Group companies ensure that the estimated liquidity buffer is maintained by keeping at least 15 % of their investment 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 2016, the two EU-based Group companies maintained a level of L1A assets significantly exceeding the 15 % set in the risk strategy: Zavarovalnica Sava 54.9 % and Sava Re 37.5 %.

Each Group company also regularly monitors the maturity structure of receivables, assessing its impact on its current liquidity.

An additional liquidity buffer also consists in the two credit lines of Sava Re with two commercial banks, put in place for emergency liquidity needs.

Expected profits included in future premiums

In accordance with Article 260(2) of Commission Delegated Regulation (EU) (2015/35), Expected Profits Included in

3 Liquidity class L1A according to the ECB classification of assets eligible for collateral.

Future Premiums (EPIFP) of the Group are 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 cancellation 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 non-life and life business of the Group as at 31 December 2016.

EPIFP – life and non-life business

(€ thousand)	31/12/2016
Non-life business	39,869
Life business	24,952
Total	**64,820**

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 of them are quite important, such as:

- risk associated with supervision and reporting,
- risk of external theft or fraud,
- risk of loss of key, expert and high-potential employees,
- risk of loss or failure of computer or telecommunication systems,
- risk of incorrect data input and inadequate documentation,
- risk of damage to physical assets due to natural disaster or fire.

C.5.2. Risk measurement

The Group calculates its capital requirements for operational risks using the Solvency II standard formula at least once annually. This calculation of operational risk, however, has only limited practical value as the formula is not based on the actual exposure of the Group to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses of the Group.
The exposure to operational risks, which the Group calculated using the standard formula, amounted to € 14.8 million as at 31 December 2016.
Due to the above-mentioned reasons, the Group assesses operational risks qualitatively in the risk register, assessing their frequency and potential financial impact, while the EU-based companies additionally use scenario analysis. Through regular risk assessments, the Group companies obtain insight into the 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. Risk assessment is conducted in the same manner as at the individual Group company level.

C.5.3. Risk concentration

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

C.5.4. Risk management

Group companies have established processes for identifying, measuring, monitoring, managing and reporting of such risks for the effective management of operational risk. Said processes for operational risk management are also in place at the Group level.
The main measures taken at the Group level and at the level of individual Group companies to manage operational risks are the following:

- 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;
- implementing security policies regarding information security;
- having in place a business continuity plan for all critical processes in order to minimise the risk of being unprepared for incidents and external events resulting in 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 operational risks through audit reviews conducted by the internal audit.
All important operational risks-related internal controls are included in the risk register of individual Group companies or the Group, and are linked to individual risks.

C.6. Other material risks

C.6.1. Strategic risks

Other material risks of the Group primarily include strategic risks. Strategic risk is 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, and market developments. The negative impact of such events could affect the Group's income or capital adequacy.

Risk exposure

The Group is exposed to a variety of internal and external strategic risks. The key strategic risks for 2016 include primarily the following:

- risk related to the merger of the Group's four insurers,
- strategic investment risk,
- political risk,
- risk of strategic focus regarding the Group's business,
- 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 frequency and potential financial severity. In addition, the Group tries to evaluate key strategic risks using a qualitative analysis of various scenarios (also in the ORSA). Based on both analyses combined, an overview is obtained of the extent and changes in the exposure to this type of risk.

Risk concentration

The Group's exposure to strategic risk increased in 2016 due to the merger of four EU-based insurers into Zavarovalnica Sava. The risks were regularly monitored during the project, and the management responded promptly, if necessary. Monitoring of the merger-related risks has also continued after the completion of the merger within the regular monitoring of risks in Zavarovalnica Sava.

Risk management

Group companies mitigate individual strategic risks mainly through preventive measures.

In addition to the competent organisational units in Group companies, it is also the management bodies, the risk management committees and the risk management functions that are actively involved in the identification and management of strategic risks. 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 reputation is important for realising its business goals and achieving strategic plans in the long term. The risk strategy therefore identifies reputation risk as one of the key risks, providing 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 been implementing activities aimed at mitigating the reputation risk, such as: they are setting up fit and proper procedures applicable to key employees, ensure systematic operations of their respective compliance functions, have business continuity plans in place, develop stress tests and scenarios, and plan actions in case risks materialise. Reputation risk is 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 **regulatory 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 regular procedures and measures taken to remedy any deficiencies in the Group's compliance with the law and regarding other commitments.

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 Moja naložba in the accumulation phase. Moja naložba 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 (MY Dynamic Fund), MOJ uravnoteženi sklad (MY Balanced Fund), and MOJ zajamčeni sklad (MY Guaranteed Fund). Investment contracts assets as at 31 December 2016 totalled € 121.366 thousand.

For the purpose of calculating capital adequacy, the company Moja naložba is consolidated in accordance with the rules applicable to other financial sectors, and is not considered within the modules of the Solvency II standard formula. The risks associated with Moja naložba are therefore not discussed within underwriting or market risks. Capital requirements in this case were calculated in accordance with sectoral regulations, and amounted to € 4,943 thousand as at 31 December 2016.

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 in the MZS fund. The guaranteed return in 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.

C.7. Any other information

The Group considered the performed sensitivity tests, stress tests and scenarios, and their impact on its operations and solvency position. The Group selected sensitivity tests, stress tests and scenarios based on its own risk profile, while seeking to identify the events that could have a significant impact on its operations and capital adequacy, also in view of their probability. In stress tests or sensitivity tests, one parameter at a time is changed with the other parameters remaining unchanged. In scenarios, several interconnected parameters can be changed at the same time. The text below describes the selected scenarios, stress tests or sensitivity tests.

A change in interest rates

A stress test of interest rate sensitivity was carried out by increasing or lowering the base curve of the risk-free interest rate for all maturities by 100 basis points. On this basis, a new calculation was made of eligible own funds and solvency capital requirement for all interest rate-sensitive assets and liabilities.

An increase in interest rates by 100 basis points resulted in a decline in eligible own funds – a decline that exceeded the Group's materiality threshold[4], as well as a decline in the solvency capital requirement. Thus the impact of the stress test on the solvency ratio was relatively small. A drop in interest rates of 100 basis points had an inverse impact on eligible own funds and the solvency capital requirement, while the impact on the solvency ratio was also relatively small.

A fall in equity prices

The stress test of a fall in equity prices was carried out using a fall in the prices of equity securities of 20 % as at the reporting date (listed and unlisted equities; equity, bond, money market and mutual funds). The value of assets held for index-linked and unit-linked funds remained unchanged. The impact was proportionate to the shock.

This mainly resulted in a decrease in eligible own funds, as well as in changed capital requirements for the equity risk, currency risk and concentration risk sub-modules.

The stress test of a drop in equity prices resulted in a decline in the Group's eligible own funds – a decline that exceeded the materiality threshold of the Group. However, as the solvency capital requirement also decreased, the impact on the solvency ratio was very small.

A fall in property prices

The stress test of a fall in property prices was carried out by decreasing property prices of 25 %. Investment property as at the reporting date was included in the calculation.

The stress test mainly resulted in a decline in eligible own funds – a decline that exceeded the materiality threshold. In addition, this resulted in a decline in the capital requirements of the property risk and currency risk sub-modules and in an increase in the capital requirement relating to concentration risk. The overall impact on the level of the solvency ratio was small.

Earthquake in Slovenia

The scenario tested the impact of an earthquake in Ljubljana with a return period of 1000 years. Considered were the losses on the insurance portfolios of Sava Re and Zavarovalnica Sava. In view of the exposure in Slovenia, the results of AIR modelling for the Group were obtained from the broker Willis, and the estimated amount of the Group's gross claims based thereon. The net loss was calculated taking into account the reinsurance programme and the reinstatement premium. Based on the input data, the impact of the scenario on the eligible own funds was calculated.

The severity of the scenario's impact on the level of the Group's eligible own funds is just below the materiality limit; the impact on the solvency ratio is minor. Even in the event that an extreme earthquake occurs, the Group will maintain a high surplus of eligible own funds over the solvency capital requirement. We are aware that such an event would have a number of 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.

4 The materiality threshold is an internal measure associated with the level of eligible own funds and solvency capital requirement. As at 31 December 2016, it was set at € 8.5 million at the Group level.

D. Valuation for Solvency Purposes

The basis for the balance sheet under Solvency II, where assets and liabilities are stated in accordance with the valuation principles set out in Articles 174–190 of the ZZavar-1, is the consolidated balance sheet as prepared for the purposes of the Group's 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, 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 Moja naložba 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 basis for the preparation of the balance sheet under Solvency II (hereinafter: SII balance sheet).

For the purposes of determining the Group's solvency, 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 stated 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 (TP), are stated in accordance with IFRS. If the IFRS allow for several valuation methods, a method has to be chosen that is consistent with the principles of Solvency II and Article 174 of the ZZavar-1. For most other assets and liabilities, not elsewhere shown (apart from TP), the IFRS provide for a valuation consistent with the principles of Solvency II.

Reclassifications and revaluations of SII balance sheet items are 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 it is considered that the IFRS 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 following table shows the Group's balance sheet as at 31 December 2016. It includes the values of assets and liabilities under the IFRS (before and after adjustments for the pension company Moja naložba) 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 sheet as at 31 December 2016

(€ thousand)		IFRS value	Adjustment for Moja naložba	IFRS value after adjustment for Moja naložba	Revaluation	Reclassification	SII value
ASSETS							
1.	Deferred acquisition costs	19,935	0	19,935	-19,935	0	0
2.	Intangible assets	7,535	-28	7,507	-7,507	0	0
3.	Deferred tax assets	2,326	0	2,326	6,742	0	9,068
4.	Property, plant and equipment held for own use	51,748	-38	51,710	-3,007	0	48,703
5.	Property, plant and equipment (other than for own use)	8,073	0	8,073	238	0	8,311
6.	Participations	0	8,849	8,849	-841	0	8,008
7.	Shares	16,661	-39	16,622	0	0	16,622
8.	Bonds	963,490	-10,343	953,147	12,248	64,256	1,029,651
9.	Investment funds	16,852	-507	16,345	0	12,767	29,112
10.	Deposits other than cash equivalents	24,737	-1,753	22,985	996	10,711	34,691
11.	Assets held for index-linked and unit-linked funds	224,175	0	224,175	1,305	-101,081	124,399
12.	Loans and mortgages	613	0	613	0	0	613
13.	Reinsurance recoverables	28,445	0	28,445	-3,765	-4,510	20,169
14.	Deposits to cedants	7,836	0	7,836	0	0	7,836
15.	Insurance and intermediaries receivables	117,230	-2,651	114,579	0	-87,851	26,727
16.	Receivables arising out of coinsurance and reinsurance business	4,768	0	4,768	0	-415	4,353
17.	Other receivables	5,411	2,650	8,061	0	0	8,061
18.	Own shares	24,939	0	24,939	-2,174	0	22,764
19.	Cash and cash equivalents	33,939	-361	33,578	0	13,395	46,973
20.	Any other assets, not elsewhere shown	137,416	-122,903	14,513	-14,289	-46	178
Total assets		**1,696,128**	**-127,122**	**1,569,005**	**-29,990**	**-92,776**	**1,446,239**
LIABILITIES							
21.	Technical provisions – non-life	624,273	0	624,273	-185,713	-75,455	363,105
22.	Technical provisions – life (excl. index-linked and unit-linked)	286,948	-4,654	282,295	104,505	0	386,799
23.	Technical provisions – index-linked and unit-linked	226,994	0	226,994	-129,068	0	97,926
24.	Provisions other than technical provisions	8,081	-36	8,045	0	0	8,045
25.	Deferred tax liabilities	6,039	0	6,039	42,846	0	48,885
26.	Financial liabilities other than debts owed to credit institutions	394	0	394	0	0	394
27.	Insurance and intermediaries payables	11,910	0	11,910	0	0	11,910
28.	Reinsurance and coinsurance payables	42,247	0	42,247	0	-12,396	29,851
29.	Other payables (trade, not insurance)	5,956	0	5,956	0	-4,925	1,031
30.	Subordinated liabilities	23,571	0	23,571	0	0	23,571
31.	Other liabilities	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		**321,977**	**-721**	**321,256**	**137,884**	**0**	**459,140**

D.1. Assets

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

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 it cannot prove that there is a market value for identical or similar assets. The SII value of intangible assets is stated at zero value.

D.1.4. Deferred tax assets and liabilities

The Group accounts for deferred tax assets and liabilities in accordance with IAS 12 – Income taxes.
Deferred tax liabilities and assets are defined based on identified temporary differences. Temporary differences are differences between the tax value and the book value of an asset or liability. 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 the current and future tax consequences.
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 liabilities 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 if the Group reasonably expects it will generate sufficient profits in the future to reconcile deferred tax assets. In the SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:

- the revaluation of the participations item if participations are considered strategic investments – revaluation differences in such 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 a strategic nature, 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 own shares quoted on a stock exchange, because it does not constitute a taxable temporary difference;
- reclassifications between balance sheet items.

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 in the same amounts in both the SII and IFRS balance sheets.
In assessing fair value and fair value less costs of selling, certified property appraisers take into account International Valuation Standards (IVS) and International Accounting Standards (IAS). 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 will make 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 previous subsection (Property, plant and equipment held for own use).

Participations

Consistent with the provisions of Article 335 (e) of Commission Delegated Regulation (EU) (2015/35), the data of the pension company, which is 100 % owned by the controlling company, was not fully consolidated. 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 (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.

Shares

Shares and mutual funds are valued in accordance with 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, marketable equities already being stated at their market value, rendering a restatement for the purposes of SII balance sheet redundant.

Equities – unlisted

Equity securities not listed on a stock exchange are initially recognised at cost. As at the balance sheet date, their value is measured using a model to determine if the purchase price still represents their fair value. If the model shows the purchase price to be too high, an equity security is impaired for the difference between the value from the model and the purchase price of the equity.

Since equity securities not listed on a stock exchange represent a non-material part of the Sava Re Group investment portfolio, they are not stated at fair value in the SII balance sheet but rather in the amounts from the IFRS balance sheet.

Bonds

For the purposes of the IFRS balance sheet, bonds are measured according to IAS 39. They are measured based on the IAS category into which they are classified.

Market value is also calculated for bonds classified as held to maturity.

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

Structured notes

Both in the SII balance sheet and in the IFRS balance sheet, structured notes are stated in the FVTPL group (at fair value through profit or loss): carrying amount = market value = market price on valuation date * number of lots * par value + accrued interest at the coupon rate. KSNT funds are reclassified to this item, from the assets held for index-linked and unit-linked funds item.

Investment funds

The value for IFRS reporting is calculated based on the most recent published Net Asset Value Per Share (NAVPS). The value in IFRS reporting is the fair value (market value) of investment funds. Notwithstanding their classification, the book value of investment funds equals their market value and is calculated using the following 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.
A model for the valuation of deposits for the purposes of the SII balance sheet has been developed. It determines the market value of deposits with a contractual maturity. The market value of deposits is calculated on a quarterly basis.
Deposits are valued using the following inputs:

- date of valuation,
- date of interest payment,
- nominal value,
- interest rate,
- the currency of the deposit,
- 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 used interest rates are those published on the websites of the central banks of the countries in the currency of which the deposit is concluded.

Assets held for index-linked and unit-linked funds

This item only reports index-linked and unit-linked assets without financial guarantees, among which HTM investments are restated to market value.
The Group reclassifies assets held for index-linked and unit-linked funds designated for the settlement of liabilities for which the subsidiary (insurance company) guarantees a certain return (guaranteed NAVPS). Reference is being made to investment registers KSNT2, KSNT2a and KSNT3, which, pursuant to the legislation, the SII balance sheet cannot include among assets held for index-linked and unit-linked funds, but which are rather reclassified to the Group's other asset items.

D.1.7. Loans and mortgages

Loans and mortgages are initially carried at their contract value.
As at the reporting date they are stated at their residual value according to the repayment plan, taking into account the actual payments of interest and principal. If payments are not being made according to the repayment plan, amounts have to be impaired. The SII balance sheet and the IFRS balance sheet valuations are the same.

D.1.8. Reinsurers' share of technical provisions

The Group reclassifies items from retroceded premium provisions (reinsurance ceded) for accrued undue receivables for commission from ceded business and for accrued liabilities not yet due for a ceded premium.
The revaluation amount is due to differences in the valuation of technical provisions in accordance with IFRS and SII regulations. The amount of reinsurance recoverables is measured by the actuarial departments of Sava Re Group companies, taking into account the guidelines specified in the Sava Re underwriting and reserving risk policy.
As the retrocession 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 gross best estimates of provisions. In designing cash flows, historical data on paid claims is 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 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, a part of the reinsurance premium is retained by cedants as guarantee for the payment of future claims and is generally released after one year. These deposits bear contractually-agreed interest. Retained deposits are stated at cost, less any adjustments.
As deposits to cedants constitute short-term investments, 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 value from financial statements.

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 out of reinsurance and coinsurance assumed.

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, the same manner is used for elimination of not past due receivables in the preparation of the SII balance sheet.

D.1.11. Receivables arising out of reinsurance business

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 coinsurance 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. Other receivables

Other receivables include short-term receivables from state and other institutions, short-term receivables from leasing out premises and equipment, and similar.
Measurement is the same as for the purposes of 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 deduction in equity. The company 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. Own shares are listed on a regulated market, therefore 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 purposes of 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 in the same amount as for the purposes of the IFRS balance sheet, with the exception of prepaid costs, which are stated at zero value.

D.2. Technical provisions

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 controlling company's financial statements in the annual report section 18.4.24.

The Group reclassifies the items of the gross premium provision for booked not-past-due premium receivables relating to direct insurance, accepted reinsurance and coinsurance and for booked not-past-due commission payables relating to direct insurance, accepted reinsurance and coinsurance.

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. "Reinsurers' share of technical provisions." The methodology takes into account the guidelines set out in the Sava Re Group underwriting and reserving risk policy.

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,
- the best estimate of the premium provisions relating to direct insurance,
- 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,
- the best estimate of provisions for accepted reinsurance,
- 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 where the claims are yet to be resolved, regardless 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 resolved 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 claim payments are made;
- 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 Fisher-Lange method (incremental average loss method) under which the average claims and number of claims are estimated based on historical data for each individual development year;
- 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 yet settled 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 resolved claims incurred in a given period as a percentage of the premiums earned in that period; for the accident year 2016, the expected loss ratio for all non-life lines of business was 60.7 %, while for motor vehicle liability insurance, being the largest line of business, the ratio stood at 64.2 %;
- 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 company at the time has 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 include claims paid out in the form of life annuities, annuities until age 26, or until graduation; insurance companies calculate the provisions for these annuities separately, so all claims paid as annuities are excluded from calculations of the best estimate of claims provisions based on claims triangles.

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

- all future 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 servicing of in-force contracts,
- all future premium inflows based on 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 determined based on historical data and, if necessary, adjusted based on future expectations and loss adjustment expense trends;
- the expected proportion of commissions in 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 in future premium cash flows: the proportion of other expenses in premiums written is determined based on historical data and, if necessary, adjusted based on future expectations and trends in the level of expenses;
- the expected proportion of recourse receivables in future claim payments: the proportion of recourse receivables in future claim payments is determined based on historical data on recourse payments;
- expected claims development by year: the expected claims development by year is determined based on historical patterns of claim payments;
- expected development of recourse receivables by year: the expected development of recourse receivables by year 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 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 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 annuities in payment 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 provisions for reported annuities not yet in payment is reported within the 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 within 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 in 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 in future benefit 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.

The best estimate of the provisions for 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 liabilities 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, survival, 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 survival 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 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.

The best estimate of the provision for accepted reinsurance

The calculations are conducted 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 obligations under life reinsurance covers, the methodology for the valuation of these obligations is the same as for non-life and not similar to life technique health insurance (hereinafter: NSLT health insurance); therefore, liabilities from accepted life reinsurance are classified as NSLT health insurance.

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 is conducted in following steps:

- the 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 premium "technical" provision (for future claims) and the claims "technical" 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, the deviation of specific factors from the average is excessive, 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 scattered, 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, the information of 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 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 structure for the IFRS valuation of the balance sheet, specifically the structure 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.

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 an add-on 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 company takes into account all non-hedgeable risks. These risks include:

- non-life underwriting risks,
- life underwriting risks,
- health underwriting risks,
- counterparty 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 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 inappropriate 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 the company writes policies only in the segments for which the capital requirement is calculated; also, only in the following risk modules the capital requirement is calculated for each segment:

- market risk (for the equity risk sub-module)
- life underwriting risk,
- health underwriting risk,
- non-life underwriting risk,
- operational risk.

D.2.1. Values of SII technical provisions

The following tables present the values of the gross best estimates of provisions, the reinsurers' share of the best estimates of provisions and the risk margin as at 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 of the claims provision (BE CP) as at 31 December 2016

(€ thousand)

Line of business	Gross BE CP	Reinsurers' share of BE CP
Medical expense insurance and proportional reinsurance	1,095	247
Income protection insurance and proportional reinsurance	23,187	300
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	93,270	740
Other motor insurance and proportional reinsurance	19,630	214
Marine, aviation and transport insurance and proportional reinsurance	4,762	282
Fire and other damage to property insurance and proportional reinsurance	50,716	3,847
General liability insurance and proportional reinsurance	31,315	2,752
Credit and suretyship insurance and proportional reinsurance	1,022	1
Legal expenses insurance and proportional reinsurance	8	0
Assistance insurance and proportional reinsurance	1,544	1,010
Miscellaneous financial loss	1,148	232
Non-proportional health reinsurance	1,345	0
Non-proportional casualty reinsurance	13,522	7,828
Non-proportional marine, aviation and transport reinsurance	4,880	0
Non-proportional property reinsurance	39,546	1,874
Total	**286,988**	**19,326**

Best estimate of the premium provision (BE PP) as at 31 December 2016

(€ thousand)

Line of business	Gross BE PP	Reinsurers' share of BE PP
Medical expense insurance and proportional reinsurance	-61	15
Income protection insurance and proportional reinsurance	-7,692	72
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	26,998	-18
Other motor insurance and proportional reinsurance	23,813	173
Marine, aviation and transport insurance and proportional reinsurance	-471	-17
Fire and other damage to property insurance and proportional reinsurance	-794	213
General liability insurance and proportional reinsurance	245	23
Credit and suretyship insurance and proportional reinsurance	5,187	0
Legal expenses insurance and proportional reinsurance	-267	-320
Assistance insurance and proportional reinsurance	1,361	1,370
Miscellaneous financial loss	-49	-23
Non-proportional health reinsurance	-243	0
Non-proportional casualty reinsurance	-544	-130
Non-proportional marine, aviation and transport reinsurance	-1,974	-34
Non-proportional property reinsurance	-10,804	-481
Total	**34,707**	**844**

Best estimate of the provision for life insurance as at 31 December 2016

(€ thousand)

Line of business	BE life insurance
Health insurance	217
Insurance with profit participation	297,604
Index-linked or unit-linked insurance	93,575
Other life insurance	67,838
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	11,413
Total	**470,646**

Risk margin as at 31 December 2016

(€ thousand)

Line of business	Risk margin
Medical expense insurance and proportional reinsurance	138
Income protection insurance and proportional reinsurance	7,812
Workers' compensation insurance and proportional reinsurance	0
Motor vehicle liability insurance and proportional reinsurance	7,681
Other motor insurance and proportional reinsurance	4,176
Marine, aviation and transport insurance and proportional reinsurance	1,263
Fire and other damage to property insurance and proportional reinsurance	6,111
General liability insurance and proportional reinsurance	2,279
Credit and suretyship insurance and proportional reinsurance	1,291
Legal expenses insurance and proportional reinsurance	24
Assistance insurance and proportional reinsurance	367
Miscellaneous financial loss	430
Non-proportional health reinsurance	205
Non-proportional casualty reinsurance	1,428
Non-proportional marine, aviation and transport reinsurance	1,008
Non-proportional property reinsurance	7,196
Total non-life (re)insurance	**41,410**
Health insurance	58
Insurance with profit participation	3,989
Index-linked or unit-linked insurance	4,352
Other life insurance	5,586
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	95
Total life (re)insurance	**14,080**
Total	**55,490**

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

The main differences in 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 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 under the in-force portfolio; this accounts for 10 % of the differences between IFRS and Solvency II 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 as much as 29 % of the difference between IFRS and the Solvency II provisions of non-life lines of business.
- Furthermore, a comparison of the values of the provisions under the two standards (IFRS and Solvency II) 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 entire portfolio of non-life lines of business for the most recent year, it stood at 76 % for IFRS claims provisions and 62 % for the Solvency II best estimate of the claims provision.
- Solvency II 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 Solvency II provisions for this business.
- Interest rates used for discounting and assumptions about inflation also differ in non-life annuities in payment; for Solvency II provisions, the euro risk-free interest rate term structure is used, which for maturities of up to 26 years is lower than 1.5 %, which is used in the calculation of IFRS provisions for such annuities. Additionally, Solvency II provisions for annuities in payment are higher as they take into account an inflation rate of 2 %. Both calculations use the same mortality tables.
- Solvency II provisions for life lines of business are based on the expected cash flows and take into account both the expected losses as well as the expected 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 value of Solvency II 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 Solvency II 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. The difference between IFRS and Solvency II provisions relating to the entire portfolio of life lines of business is smaller than for non-life lines of business.

D.2.3. Description of the level of uncertainty

The level of uncertainty associated with Solvency II 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 table sets out the tested scenarios and their impact on the level of tested provisions.

Sensitivity testing of the premium provision

Scenario	Stress impact (%)
Increase in expected loss ratios of 5 %	10.1 %
Increase in expenses (other than commissions) of 5 %	2.4 %
Reduction of proportion of recourse receivables of 5 %	0.4 %

Sensitivity testing of the claims provision

Scenario	Stress impact (%)
Increase in loss adjustment expenses by 10 %	0.7 %
Reduction of proportion of recourse receivables of 10 %	0.2 %

Sensitivity testing of the provision for accepted reinsurance

Scenario	Stress impact (%)
Increase in expected loss ratios of 5 %	3.9 %
Decline in not-past-due items (premiums less commissions) of 10 %	9.1 %
Increase in expenses (other than commissions) of 50 %	0.5 %

Sensitivity testing of the provision for life insurance

Scenario	Stress impact (%)
Increase in expected mortality rates of 15 %	1.3 %
Increase in expenses (other than commissions) of 10 % and inflation rate of 5 %	1.6 %
Increase in lapse rate of 50 %	1.6 %

It should be noted that the calculation based on own 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 the conducted analyses, we estimate that the degree of uncertainty in the calculation of provisions is low.

D.3. 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 Solvency II 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 coinsurance business. In the IFRS balance sheet, these are recognised on the accrual basis. Solvency II 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 (inward) reinsurance business at the Solvency II balance sheet date.
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.

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. 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 carries its subordinated debt at amortised cost. Subordinated debt valuation for the purpose of the Solvency II balance sheet is the same as for the IFRS balance sheet.

D.3.6. Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown, primarily include accrued expenses and deferred reinsurance and coinsurance commissions.
Deferred commissions relating to accepted coinsurance and reinsurance are valued at zero; for other liabilities, fair value valuation does not deviate from the valuation in accordance with the IFRS balance sheet.

D.4. Alternative methods for valuation

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's estimate, 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.

D.5. Any other information

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

E. Capital Management

Capital management at the Group level is defined 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.

The Group's objectives of capital management 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 must be sufficient for each Group company to also meet its other objectives, such as a target credit rating.

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

An important input element of business planning and capital management is the Group risk strategy and its risk appetite set out in the strategy. 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 Group risk strategy provides that the controlling company has to have sufficient excess capital available to meet potential capital requirements of 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 minimum.

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, Sava Re Group subsidiaries subject to the Solvency II regime must have enough capital to absorb small to medium fluctuations in the SCR and own funds due to the standard formula methodology and the possibility of small and medium stresses and scenarios materialising.

Each Group company and the Group as a whole draw up strategic plans for three-year periods. The strategic plans 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, etc.) includes a review of the results of the last calculation of the amount and structure of own funds and the SCR. A strategic 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 solvency ratio. Calculations verify alignment with the risk appetite, whereupon adjustments to the strategic plan are made if necessary. The planned use of capital duly includes items of capital consumption, such as regular dividends, own shares and projects that require additional capital.

E.1. Own funds

As at 31 December 2016 the Group is reporting an excess of assets over liabilities of € 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. In addition, the Group would 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 2016 the Group does not have any such participations in other financial and credit institutions.

Basic own funds are also reduced by:

- € 12,398 thousand of foreseeable dividends, i.e. the amount stated in the proposal of the controlling company's management and supervisory boards to the general meeting;
- € 584 thousand of minority interests not available at Group level;
- € 8,008 thousand of deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities, i.e. an amount equal to the amount of own funds of Moja naložba;
- other items in accordance with the provisions of the ZZavar-1.

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

As at 31 December 2016 the Group is not reporting adjustments for other items in accordance with the ZZavar-1.

Ancillary own funds are items that do not constitute basic own funds and a company may call up to absorb its losses. They include unpaid share capital or initial capital that has not been called up, letters of credit and guarantees, and any other legal commitments received by the Group. As at 31 December 2016 the Group is not reporting any ancillary own funds.

The Insurance Supervision Agency approved the repayment of subordinated liabilities of Sava Re, which totalled € 23.571 thousand as at 31 December 2016. In accordance with the transitional legislative provisions (Article 625 of the ZZavar-1), this item was included in basic own funds in the Group's 2016 interim reports. Even though subordinated liabilities will only be repaid in 2017, the Group had disregarded them as an item of basic own funds from the calculation as at 31 December 2016.

The table below shows the structure of the Group's own funds as at 31 December 2016.

Structure of the Group's own funds

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

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

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

(€ thousand)	31/12/2016
IFRS equity	**296,318**
Difference in the valuation of assets	-120,592
Difference in the valuation of the technical provisions	285,731
Difference in the valuation of other liabilities, not elsewhere shown	-25,081
Foreseeable dividends, distributions and charges	-12,398
Adjustment for minority interests	-584
Deduction for participations in other financial undertakings	-8,008
Basic own funds after deductions	**415,386**
Basic own funds in other financial sectors	8,008
Group's available own funds	**423,394**
Of which tier 1	423,394
Of which tier 2	0
Of which tier 3	0

As is evident from the table above, 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. A detailed description of the used methodology is provided in section D.2 of this document.

The Solvency II legislation classifies own funds into three capital tiers; they differ with respect to duration and ability to absorb risk.

Tier 1 includes own funds that largely 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-in ordinary shares;
- paid-in capital reserves;
- reconciliation reserves representing the surplus of assets over liabilities, less the paid-in ordinary shares and capital reserves, and less the value of own shares and foreseeable dividends.

Tier 2 includes own fund items that largely 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 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 that are not classified as tier 1 or tier 2. They include letters of credit and guarantees held by an independent trustee in custody for the benefit of insurance creditors and 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 %	no restrictions	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 2016. They are classified into the statutory tiers described above.

Eligible own funds to meet the Group SCR

(€ thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2016	423,394	423,394	0	0

Eligible own funds to meet the Group MCR

(€ thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2016	415,386	415,386	0	0

As at 31 December 2016, all the Group's eligible own funds designated to meet the Group SCR and the Group MCR are tier 1 funds. The Group is not reporting any tier 2 or tier 3 eligible own fund items as at 31 December 2016.[5]

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 are also not reporting 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 € 584 thousand.

5 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.

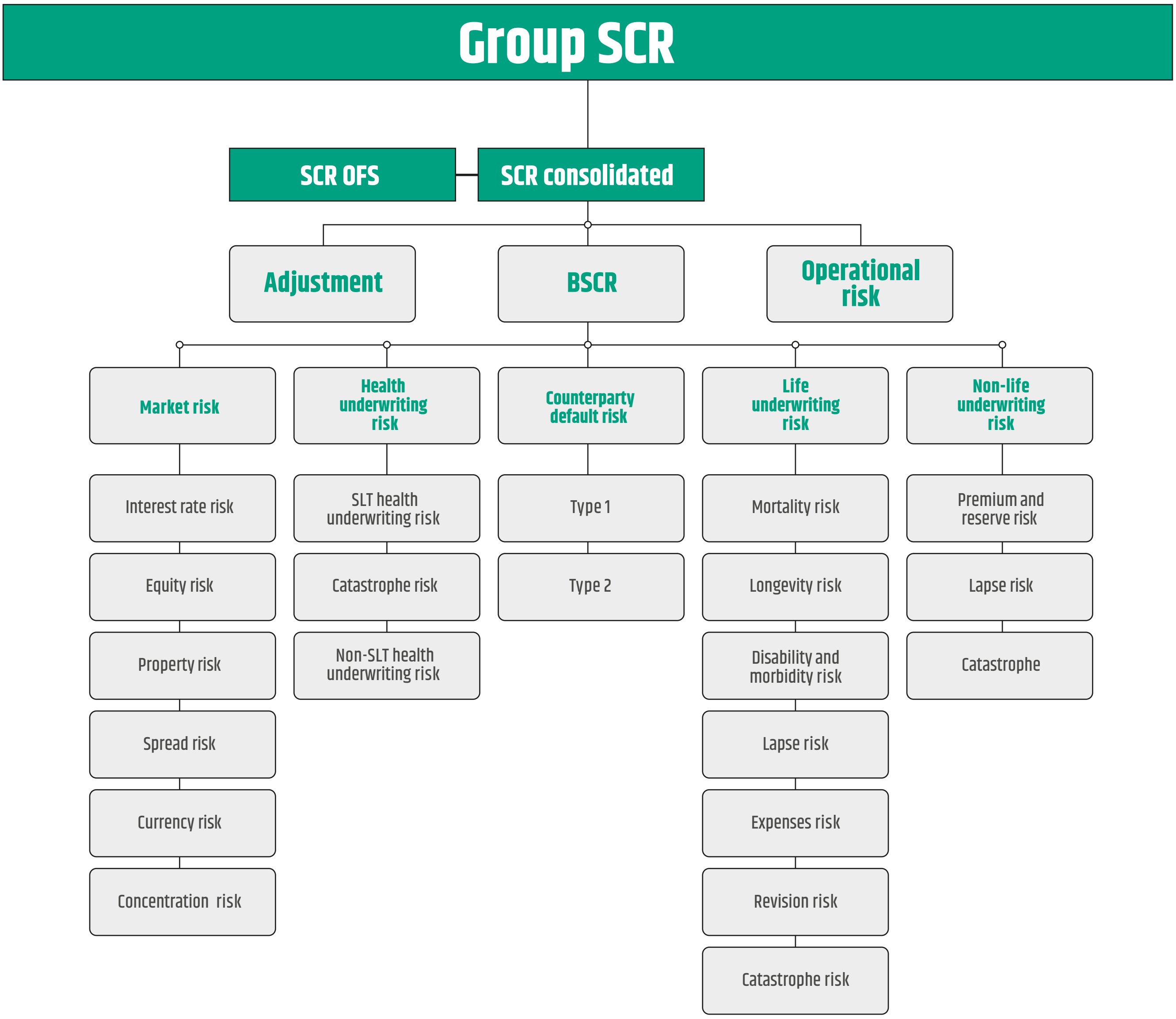
E.2. Solvency capital requirement and minimum capital requirement

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 figure below illustrates the modular structure of the Group SCR calculation.

Structure of the SCR calculation



Using the prescribed method, the Group calculates the capital requirement for each (sub-)module. The calculation of each module involves the calculation of the reduction in net asset value arising from a particular shock. Taking into account the defined correlations between (sub-)modules, the Group calculates the basic solvency capital requirement (BSCR). The SCR 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).

$$SCR_{cons} = BSCR + Adj + SCR_{Op}$$

$$SCR_{group} = SCR_{cons} + SCR_{OFS}$$

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

$$\text{Group solvency ratio} = \frac{\text{Group eligible own funds}}{\text{Group SCR}}$$

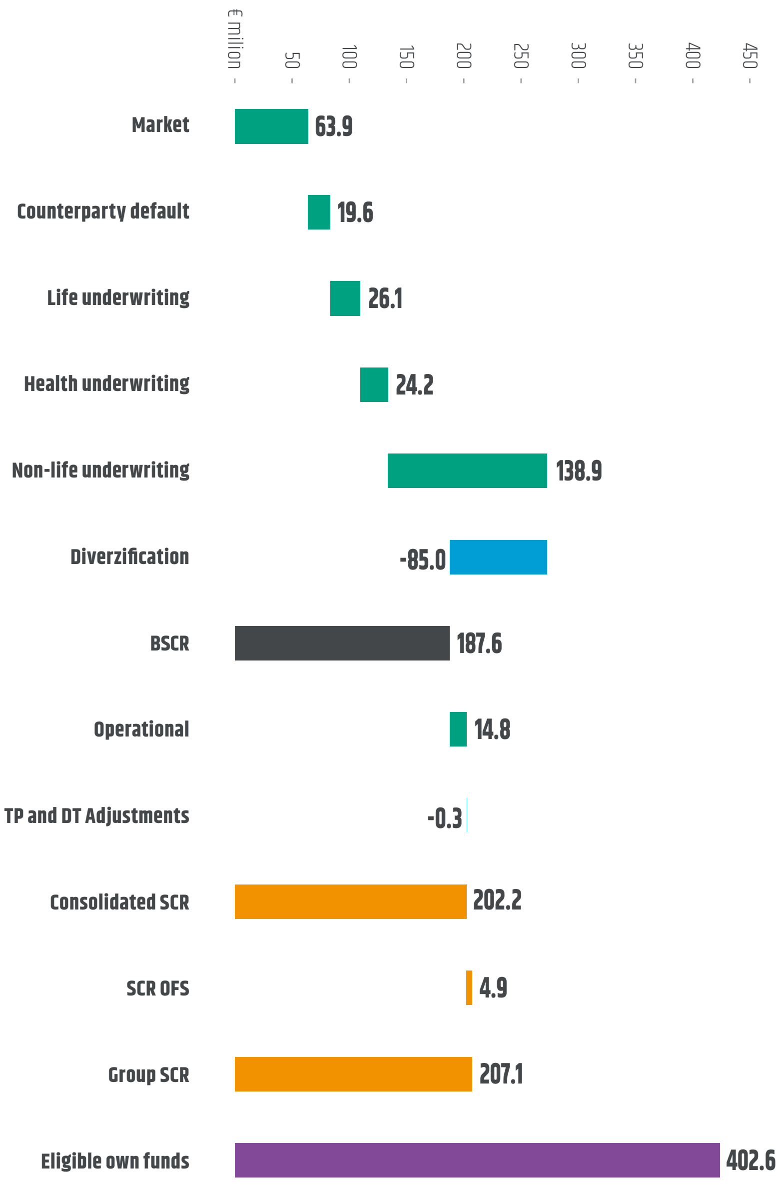
The table below shows Group SCR, the capital requirement for other financial sectors, the consolidated SCR at Group level, the SCR of each risk module, and the Group solvency ratio as at 31 December 2016.

Group SCR as at 31 December 2016

(€ thousand)	31/12/2016
Group SCR	**207,113**
Capital requirements of other financial sectors	4,943
Consolidated SCR at the Group level	**202,169**
Adjustments for TP and DT	-292
Operational risk	14,827
Basic solvency capital requirement	**187,634**
Sum of risk components	272,604
Diversification effect	-84,970
Market risk	63,861
Counterparty default risk	19,611
Life underwriting risk	26,098
Health underwriting risk	24,178
Non-life underwriting risk	138,857
Eligible own funds of the Group (excluding other financial sectors)	**415,386**
Basic own funds in other financial sectors	8,008
Eligible own funds of the Group	**423,394**
Group solvency ratio	**204 %**

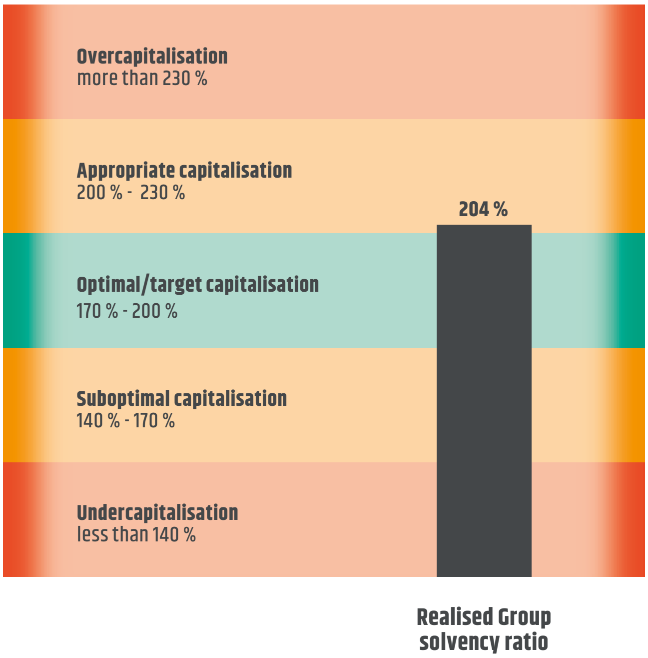
The largest share of the Group SCR arises out of risks associated with non-life underwriting; the second largest group of risks faced by the Group is market risks.
The Group does not use the simplifications referred to in Articles 88–112 of Commission Delegated Regulation (EU) 2015/35, nor does it use undertaking-specific parameters in the calculation of the Group SCR.
The figure below shows the individual risk modules of the standard formula, the Group SCR and Group eligible own funds as at 31 December 2016.

Solvency capital requirement (SCR) by module as at 31 December 2016



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 204 % as at 31 December 2016.

Alignment of the Group solvency ratio with the risk strategy



As evident from the figure above, the solvency ratio is aligned with the Group risk strategy, its level slightly above the ceiling of optimum capitalisation.

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 as at 31 December 2016

(€ thousand)	31/12/2016
Sava Re	36,914
Zavarovalnica Sava	47,845
Sava neživotno osiguranje (SRB)	3,197
Sava životno osiguranje (SRB)	3,197
Sava osiguruvanje (MKD)	2,985
Sava osiguranje (MNE)	3,000
Illyria	3,000
Illyria Life	3,200
Group MCR	**103,337**

Group eligible own funds designated to meet the MCR (€ 415,386 thousand) substantially exceed the Group MCR (€ 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 – 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 % has an impact of approximately -/+MD % on the portfolio.
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 the company within its risk appetite.
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 them.
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	Represents 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 rare 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 the day-to-day risk management process. 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 changes 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.
Tier of capital	Kakovostni razred 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 standard deviations for premium and reserve risk of NSLT health underwriting for business for which a system for equalising health risk is used by parameters specific to the undertaking concerned, in accordance with Article 104(7) of Directive 2009/138/EC.
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.

Quantitative Templates

All amounts in quantitative templates are in thousands of euro.

S.32.01.22 Undertakings in the scope of the Group

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
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
XK	70587513	1	" Illyria Hospital " SH.P.K.	99	PLS	2	
XK	70520893	1	Illyria Life s.h.a., Pristina	1	SA	2	BQK
XK	70152892	1	Illyria s.h.a., Prishtine	2	SA	2	BQK
SI	LEI/213800K2LJ7JKL6CU689	2	Moja naložba pokojninska družba d.d.	9	SA	2	AZN
ME	1550411	1	Društvo za zastupanje u osiguranju Montagent DOO	99	PLS	2	ANO
SI	6149065000	1	ORNATUS KLICNI CENTER, podjetje za posredovanje telefonskih klicov, d.o.o.	99	PLS	2	AZN
SI	LEI/549300P6F1BDSFSW5T72	2	Pozavarovalnica Sava d.d., Ljubljana	3	SA	2	AZN
ME	02806380	1	Sava Car d.o.o., Podgorica	99	PLS	2	ANO
ME	02303388	1	Sava osiguranje a.d., Podgorica	2	SA	2	ANO
RS	17407813	1	SAVA NEŽIVOTNO OSIGURANJE A.D.O. BEOGRAD	2	SA	2	NBS
MK	4778529	1	Sava osiguruvanje a.d., Skopje	2	SA	2	ASO
MK	7005350	1	Sava Stejšn dooel Skopje	99	PLS	2	MUP
RS	20482443	1	Sava životno osiguranje a.d., Beograd	1	SA	2	NBS
SI	2154170000	1	ZS VIVUS zavarovalno zastopniška družba d.o.o.	99	PLS	2	AZN
SI	2238799000	1	ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o.	99	PLS	2	AZN
SI	LEI/485100000GX4W2DFYV52	2	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	4	SA	2	AZN

Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
% capital share	% used for the establishment of consolida-ted 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
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		3
1	1	1		1	1	1		1
1	1	1		1	1	1		1
								1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
0,92	1	0,92		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	1		1	1	1		1
1	1	0,997		1	1	1		1

S.02.01.02 Balance sheet

Assets		Solvency II value C0010
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	9.068
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	48.703
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1.126.394
Property (other than for own use)	R0080	8.311
Holdings in related undertakings, including participations	R0090	8.008
Equities	R0100	16.622
Equities - listed	R0110	12.377
Equities - unlisted	R0120	4.245
Bonds	R0130	1.029.651
Government Bonds	R0140	640.169
Corporate Bonds	R0150	385.326
Structured notes	R0160	4.156
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	29.112
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	34.691
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	124.399
Loans and mortgages	R0230	613
Loans on policies	R0240	120
Loans and mortgages to individuals	R0250	65
Other loans and mortgages	R0260	428
Reinsurance recoverables from:	R0270	20.169
Non-life and health similar to non-life	R0280	20.169
Non-life excluding health	R0290	19.535
Health similar to non-life	R0300	634
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	7.836
Insurance and intermediaries receivables	R0360	26.727
Reinsurance receivables	R0370	4.353
Receivables (trade, not insurance)	R0380	8.061
Own shares (held directly)	R0390	22.764
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	46.973
Any other assets, not elsewhere shown	R0420	178
Total assets	**R0500**	**1.446.239**

Liabilities		Solvency II value C0010
Technical provisions – non-life	R0510	363.105
Technical provisions – non-life (excluding health)	R0520	337.318
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	304.064
Risk margin	R0550	33.255
Technical provisions - health (similar to non-life)	R0560	25.787
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	17.632
Risk margin	R0590	8.155
Technical provisions - life (excluding index-linked and unit-linked)	R0600	386.799
Technical provisions - health (similar to life)	R0610	275
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	217
Risk margin	R0640	58
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	386.524
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	376.854
Risk margin	R0680	9.670
Technical provisions – index-linked and unit-linked	R0690	97.926
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	93.575
Risk margin	R0720	4.352
Other technical provisions	R0730	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	8.045
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	48.885
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	394
Insurance & intermediaries payables	R0820	29.851
Reinsurance payables	R0830	1.031
Payables (trade, not insurance)	R0840	8.721
Subordinated liabilities	R0850	23.571
Subordinated liabilities not in Basic Own Funds	R0860	23.571
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	18.771
Total liabilities	**R0900**	**987.099**
Excess of assets over liabilities	**R1000**	**459.140**

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

		Medical expense insurance	Income protection insurance
		C0010	C0020
Premiums written			
Gross - Direct Business	R0110	2.921	43.020
Gross - Proportional reinsurance accepted	R0120	418	1.278
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	757	280
Net	R0200	2.583	44.017
Premiums earned			
Gross - Direct Business	R0210	2.861	43.710
Gross - Proportional reinsurance accepted	R0220	696	2.405
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	492	906
Net	R0300	3.065	45.209
Claims incurred			
Gross - Direct Business	R0310	2.060	20.548
Gross - Proportional reinsurance accepted	R0320	618	1.948
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	448	361
Net	R0400	2.231	22.136
Changes in other technical provisions			
Gross - Direct Business	R0410	-193	-525
Gross - Proportional reinsurance accepted	R0420	-116	0
Gross - Non- proportional reinsurance accepted	R0430		
Reinsurers'share	R0440	0	0
Net	R0500	-308	-525
Expenses incurred	**R0550**	**1.975**	**11.804**
Other expenses	**R1200**		
Total expenses	**R1300**		

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						
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
C0030	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
0	99.829	82.600	2.983	59.698	15.236	6.466
0	783	2.219	5.008	46.656	2.644	134
0	1.938	2.026	177	10.620	463	69
0	98.674	82.793	7.815	95.734	17.416	6.531
0	99.261	80.890	2.813	59.566	15.288	3.620
0	754	2.021	5.209	47.701	2.394	128
0	1.328	344	179	12.134	1.106	19
0	98.686	82.568	7.843	95.133	16.575	3.729
0	61.646	61.574	386	28.983	6.832	1.546
0	458	1.747	3.395	25.379	1.376	258
0	420	633	-69	9.753	-97	-3
0	61.684	62.687	3.850	44.609	8.305	1.807
0	397	1.189	-345	-890	-1.177	756
0	0	0	188	0	0	17
0	1	2	0	127	10	53
0	396	1.187	-157	-1.017	-1.188	720
0	**31.146**	**24.371**	**3.055**	**40.479**	**6.176**	**1.405**

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross - Direct Business	**R0110**	762	11.639	1.754
Gross - Proportional reinsurance accepted	**R0120**	9	0	1.235
Gross - Non-proportional reinsurance accepted	**R0130**			
Reinsurers' share	**R0140**	534	6.156	426
Net	**R0200**	237	5.482	2.563
Premiums earned				
Gross - Direct Business	**R0210**	761	11.040	1.675
Gross - Proportional reinsurance accepted	**R0220**	8	-1	2.835
Gross - Non-proportional reinsurance accepted	**R0230**			
Reinsurers' share	**R0240**	305	5.820	386
Net	**R0300**	464	5.219	4.124
Claims incurred				
Gross - Direct Business	**R0310**	1	4.446	907
Gross - Proportional reinsurance accepted	**R0320**	2	-2	1.564
Gross - Non-proportional reinsurance accepted	**R0330**			
Reinsurers' share	**R0340**	0	3.722	514
Net	**R0400**	3	722	1.957
Changes in other technical provisions				
Gross - Direct Business	**R0410**	-2	29	40
Gross - Proportional reinsurance accepted	**R0420**	0	0	0
Gross - Non- proportional reinsurance accepted	**R0430**			
Reinsurers'share	**R0440**	0	0	13
Net	**R0500**	-2	29	27
Expenses incurred	**R0550**	**365**	**5.616**	**1.000**
Other expenses	**R1200**			
Total expenses	**R1300**			

	"Line of Business for: accepted non-proportional reinsurance"				Total
	Health	Casualty	Marine, aviation, transport	Property	
	C0130	C0140	C0150	C0160	C0200
					326.908
					60.385
	358	1.748	4.265	25.927	32.299
	0	885	391	5.906	30.630
	358	863	3.874	20.022	388.962
					321.485
					64.149
	358	1.768	4.544	25.440	32.110
	0	920	321	6.014	30.274
	358	848	4.223	19.426	387.470
					188.929
					36.744
	331	3.571	5.333	18.281	27.517
	0	1.958	0	2.586	20.226
	331	1.613	5.333	15.696	232.964
					-721
					89
	0	0	0	0	0
	0	0	0	0	207
	0	0	0	0	-839
	84	**489**	**1.031**	**5.190**	**134.186**
					0
					0

		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance
		C0210	C0220	C0230	C0240
Premiums written					
Gross	**R1410**	228	20.628	25.968	22.678
Reinsurers' share	**R1420**	0	34	181	399
Net	**R1500**	228	20.595	25.787	22.279
Premiums earned					
Gross	**R1510**	229	20.625	25.891	22.776
Reinsurers' share	**R1520**	0	0	0	0
Net	**R1600**	229	20.625	25.891	22.775
Claims incurred					
Gross	**R1610**	391	20.134	12.399	6.786
Reinsurers' share	**R1620**	0	0	67	1.113
Net	**R1700**	391	20.135	12.333	5.673
Changes in other technical provisions					
Gross	**R1710**	71	-5.117	-12.262	-7.195
Reinsurers' share	**R1720**	0	0	0	0
Net	**R1800**	71	-5.117	-12.262	-7.195
Expenses incurred	**R1900**	**18**	**4.095**	**4.870**	**12.580**
Other expenses	**R2500**				
Total expenses	**R2600**				

Line of Business for: life insurance obligations		Life reinsurance obligations		Total
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	
C0250	**C0260**	**C0270**	**C0280**	**C0300**
0	0	0	0	69.503
0	0	0	0	613
0	0	0	0	68.890
0	0	0	0	69.521
0	0	0	0	0
0	0	0	0	69.521
0	590	0	0	40.301
0	231	0	0	1.411
0	358	0	0	38.890
0	0	0	0	-24.502
0	0	0	0	0
0	0	0	0	-24.502
0	**81**	**0**	**0**	**21.645**
				0
				0

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - nonlife obligations					Total Top 5 and home country
		C0010						C0070
	R0010		CN	KR	MK	ME	RS	
		C0080	China	South Korea	Macedonia	Montenegro	Serbia	C0140
Premiums written								
Gross - Direct Business	**R0110**	280.444	0	0	12.198	11.657	14.745	319.044
Gross - Proportional reinsurance accepted	**R0120**	602	7.915	15.365	4	88	1.043	25.017
Gross - Non-proportional reinsurance accepted	**R0130**	120	2.620	3.402	97	16	350	6.605
Reinsurers' share	**R0140**	75.432	762	1.348	1.525	1.380	1.606	82.054
Net	**R0200**	205.734	9.773	17.419	10.774	10.381	14.531	268.612
Premiums earned								
Gross - Direct Business	**R0210**	275.761	0	0	11.853	11.131	14.413	313.157
Gross - Proportional reinsurance accepted	**R0220**	594	7.973	18.443	5	88	971	28.074
Gross - Non-proportional reinsurance accepted	**R0230**	123	2.566	3.318	97	16	362	6.482
Reinsurers' share	**R0240**	22.466	733	1.296	1.518	1.393	1.674	29.080
Net	**R0300**	254.012	9.806	20.465	10.437	9.842	14.072	318.633
Claims incurred								
Gross - Direct Business	**R0310**	168.844	0	0	4.997	4.154	5.817	183.812
Gross - Proportional reinsurance accepted	**R0320**	55	5.521	12.202	-8	11	304	18.084
Gross - Non-proportional reinsurance accepted	**R0330**	2.268	3.315	2.374	0	0	57	8.014
Reinsurers' share	**R0340**	42.991	500	884	36	104	696	45.211
Net	**R0400**	128.176	8.337	13.692	4.953	4.060	5.481	164.699
Changes in other technical provisions								
Gross - Direct Business	**R0410**	-1.026	0	0	-37	0	342	-721
Gross - Proportional reinsurance accepted	**R0420**	0	17	32	0	0	0	49
Gross - Non- proportional reinsurance accepted	**R0430**	0	0	0	0	0	0	0
Reinsurers' share	**R0440**	369	0	0	0	0	0	369
Net	**R0500**	-1.396	17	32	-37	0	342	-1.042
Expenses incurred	**R0550**	**73.557**	**3.310**	**6.104**	**5.000**	**5.581**	**8.059**	**101.610**
Other expenses	**R1200**							
Total expenses	**R1300**							

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
								C0210
	R1400							
								C0280
Premiums written								
Gross	**R1410**	66.649						66.649
Reinsurers' share	**R1420**	612						612
Net	**R1500**	66.036						66.036
Premiums earned								**0**
Gross	**R1510**	66.645						66.645
Reinsurers' share	**R1520**	0						0
Net	**R1600**	66.645						66.645
Claims incurred								**0**
Gross	**R1610**	39.659						39.659
Reinsurers' share	**R1620**	1.411						1.411
Net	**R1700**	38.248						38.248
Changes in other technical provisions								**0**
Gross	**R1710**	-23.278						-23.278
Reinsurers' share	**R1720**	0						0
Net	**R1800**	-23.278						-23.278
Expenses incurred	**R1900**	**19.591**						**19.591**
Other expenses	**R2500**							**0**
Total expenses	**R2600**							**0**

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			
Non-available called but not paid in ordinary share capital at group level	R0020	0	0			
Share premium account related to ordinary share capital	R0030	43.681	43.681			
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0			
Subordinated mutual member accounts	R0050	0				
Non-available subordinated mutual member accounts at group level	R0060	0				
Surplus funds	R0070	0				
Non-available surplus funds at group level	R0080	0				
Preference shares	R0090	0				
Non-available preference shares at group level	R0100	0				
Share premium account related to preference shares	R0110	0				
Non-available share premium account related to preference shares at group level	R0120	0				
Reconciliation reserve	R0130	307.679	307.679			
Subordinated liabilities	R0140	0				
Non-available subordinated liabilities at group level	R0150	0				
An amount equal to the value of net deferred tax assets	R0160	0				
The amount equal to the value of net deferred tax assets not available at the group level	R0170	0				
Other items approved by supervisory authority as basic own funds not specified above	R0180	0	0			
Non available own funds related to other own funds items approved by supervisory authority	R0190	0	0			
Minority interests (if not reported as part of a specific own fund item)	R0200	761	761			
Non-available minority interests at group level	R0210	584	584			
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	0			
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	**R0230**	8.008	8.008			
whereof deducted according to art 228 of the Directive 2009/138/EC	**R0240**	0	0			
Deductions for participations where there is non-availability of information (Article 229)	**R0250**	0	0			
Deduction for participations included by using D&A when a combination of methods is used	**R0260**	0	0			
Total of non-available own fund items	**R0270**	584	584			
Total deductions	**R0280**	8.592	8.592			
Total basic own funds after deductions	**R0290**	415.386	415.386			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Non available ancillary own funds at group level	**R0380**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**					
Own funds of other financial sectors						
Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	**R0410**	0	0			
Institutions for occupational retirement provision	**R0420**	8.008	8.008			
Non regulated entities carrying out financial activities	**R0430**	0	0			
Total own funds of other financial sectors	**R0440**	8.008	8.008			

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**					
Own funds aggregated when using the D&A and a combination of method net of IGT	**R0460**					
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**	415.386	415.386			
Total available own funds to meet the minimum consolidated group SCR	**R0530**	415.386	415.386			
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**	415.386	415.386			
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	415.386	415.386			
Minimum consolidated Group SCR	**R0610**	103.337				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	401,97%				
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**	423.394	423.394			
Group SCR	**R0680**	207.113				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	204,43%				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	**R0700**	459.140				
Own shares (included as assets on the balance sheet)	**R0710**	22.764				
Forseeable dividends, distributions and charges	**R0720**	12.398				
Other basic own fund items	**R0730**	116.299				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**					
Other non available own funds	**R0750**					
Reconciliation reserve before deduction for participations in other financial sector	**R0760**	**307.679**				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	39.869	39.869			
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	24.952	24.952			
Total EPIFP	**R0790**	**64.820**	**64.820**			

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	63.861		
Counterparty default risk	R0020	19.611		
Life underwriting risk	R0030	26.098	None	
Health underwriting risk	R0040	24.178	None	
Non-life underwriting risk	R0050	138.857	None	
Diversification	R0060	-84.970		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	187.634		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	14.827
Loss-absorbing capacity of technical provisions	R0140	-292
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	202.169
Capital add-on already set	R0210	
Solvency capital requirement	R0220	202.169
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	103.337
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	4.943
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	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520	4.943
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	
Overall SCR		
SCR for undertakings included via D and A	R0560	
Solvency capital requirement	R0570	207.113

Sava Re, d.d.
Dunajska cesta 56, P.O.B. 318
SI-1001 Ljubljana, Slovenia

T + 386 1 47 50 200
F + 386 1 47 50 264

info@sava-re.si
www.sava-re.si