Solvency and Financial Condition Report of Sava Re, d.d. 2017

Ljubljana, May 2018

The management board of Sava Re, d.d.

Marko Jazbec, Chairman of the Management Board

Srečko Čebron, Member of the Management Board

Jošt Dolničar, Member of the Management Board

Polona Pirš Zupančič, Member of the Management Board

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General information

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

The Company's Solvency and Financial Condition Report has been reviewed by the auditing firm Ernst & Young, who have issued an independent auditor's assurance report.

Summary

Company profile

Sava Re is the largest reinsurance company domiciled in Central and Eastern Europe. The Company is also the controlling company of an insurance group. Apart from the composite insurer Zavarovalnica Sava, the Group comprises four non-life and two life insurers, all operating in the Adria region.

We are a public limited company 17.7% owned by Slovenian Sovereign Holding.

We are a medium-sized company but with a global reach. With a team of about 100 people, Sava Re is headquartered in Ljubljana. We aim to lead and support all lines of treaty reinsurance business, both proportional and non-proportional reinsurance contracts with good capacity in order to provide our clients:

- capacity,
- capital substitute,
- catastrophe support,
- creativity.

Sava Re is rated A– by rating agencies Standard & Poor's and A.M. Best. Our core strengths lie in our regional knowledge, reliability, responsiveness, flexibility and our financial strength.

With over 40 years of experience in international reinsurance, Sava Re provides a full range of reinsurance coverages. Our guiding principle is to build long-term relationships with our partners that will allow us to achieve our common goals throughout all economic cycles.

Assumed risks are diversified globally as we underwrite business on all continents. We currently have over 300 clients in more than 100 countries and we look to focus on regions and insurers who share our vision of a long-term partnership in order to achieve growth. Our preferred classes of business are property, engineering, marine hull & cargo, and energy.

Business and performance

In 2017 Sava Re wrote 3.9% more gross premiums written than in 2016 (due to growth in international business, outside the Group), while the Company's net profit for the year rose by 0.3%. The 2017 performance of Sava Re was impacted by exchange losses of €0.7 million (2016: €0.5 million), specifically, there were exchange gains of €4.7 million on the technical provisions side (2016: losses of €1.8 million) and exchange losses of €5.5 million on the investments side (2016: gains of €1.4 million). The reinsurance portfolio was hit by several major loss events that occurred abroad. Most notable were the claims relating to hurricane losses in the Caribbean and the USA of €4 million, and two large loss events in Russia, totalling €5.3 million. As a result, the net combined ratio, excluding exchange differences, deteriorated by 2.9 p.p. compared to 2016.

The net investment income relating to the investment portfolio, excluding exchange differences, totalled €30.8 million, up €4.5 million from 2016. Net investment income improved largely due to lower expenses relating to the investment portfolio.

In 2017 the Company wrote most premiums in Asian markets and the main classes of business remain proportional and non-proportional property reinsurance.

System of governance

The Company has in place a well-defined system of governance that includes:

- an adequate organisation, including management bodies, key functions and committees,
- an integrated risk management system,
- an internal control system.

The Company has four key functions as part of its risk management system: the actuarial function, compliance function, risk management function, and internal audit function. Furthermore, the Company has a risk management committee and actuarial committee.

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

- The first line of defence constitutes all organisational units with operational responsibilities (e.g. reinsurance 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.

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

Sava Re Group strategy highlights

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

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

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

Risk profile

The Company calculates its capital requirement in accordance with the Solvency II standard formula. Our risk profile is dominated by market and non-life underwriting risk. We are also – to a lesser extent – exposed to other types of risk: health underwriting risk, counterparty default risk and operational risk. Apart from the above risks, which are captured by the standard formula, we are also exposed to liquidity risk; and additionally to various strategic risks as a result of our complex internal and external environment.

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

Solvency capital requirement by module

(€ thousand)	31/12/2017	31/12/2016
SCR	**160,073**	**147,655**
Adjustments for TP and DT	0	0
Operational risk	4,469	4,519
Basic solvency capital requirement (BSCR)	155,604	143,136
Sum of risk components	201,727	186,271
Diversification effect	-46,124	-43,135
Market risk	98,476	85,337
Counterparty default risk	5,518	6,714
Life underwriting risk	0	0
Health underwriting risk	3,615	3,554
Non-life underwriting risk	94,118	90,666

Valuation for solvency purposes

In accordance with article 174 of the Slovenian Insurance Act, assets are valued at amounts for which they could be exchanged between knowledgeable and willing parties in 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 following table shows the adjustments to the balance sheet items in accordance with the International Financial Reporting Standards (hereinafter: IFRS) made by the Company for Solvency II purposes. The table below shows equity in accordance with IFRSs and eligible own funds under Solvency II.

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

(€ thousand)	31/12/2017	31/12/2016
IFRS equity	**290,966**	**270,356**
Difference in the valuation of participations	147,582	102,799
Difference in the valuation of other assets	-82,116	-71,184
Difference in the valuation of technical provisions	98,527	90,861
Difference in the valuation of other liabilities	11,003	9,295
Foreseeable dividends, distributions and charges	-12,398	-12,398
Solvency II eligible own funds	**453,565**	**389,728**

Capital management

The Company 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 Company.

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

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

The Company's capital adequacy

(€ thousand)	31/12/2017	31/12/2016
Solvency capital requirement (SCR)	160,073	147,655
Eligible own funds to meet the SCR	453,565	389,728
Of which tier 1	*453,565*	*389,728*
Of which tier 2	*0*	*0*
Of which tier 3	*0*	*0*
Solvency ratio	**283%**	**264%**
Minimum capital requirement (MCR)	40,018	36,914
Eligible own funds to meet the MCR	453,565	389,728
Of which tier 1	*453,565*	*389,728*
Of which tier 2	*0*	*0*
Of which tier 3	-	-
MCR ratio	**1,133%**	**1,056%**

As at 31 December 2017, all the Company's eligible own funds were tier one funds. As at 31 December 2017, it complied with the regulatory requirements on the level and quality of capital to cover the SCR and MSR as its solvency ratio exceeded the regulatory requirement of 100% and stood at 283%, while the MCR ratio was 1,133%.

The Company also tested the adequacy of eligible own funds to cover the MCR several times during the year and found that it complied with the regulatory requirements throughout the year.

According to the risk strategy, a solvency ratio of 180% is still considered adequate, albeit suboptimal, while the optimal level of capitalisation starts at 220%. This demonstrates that the Company is well capitalised, also in terms of its own criteria.

A. Business and performance

A.1 Business

Name and legal form of the Company

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

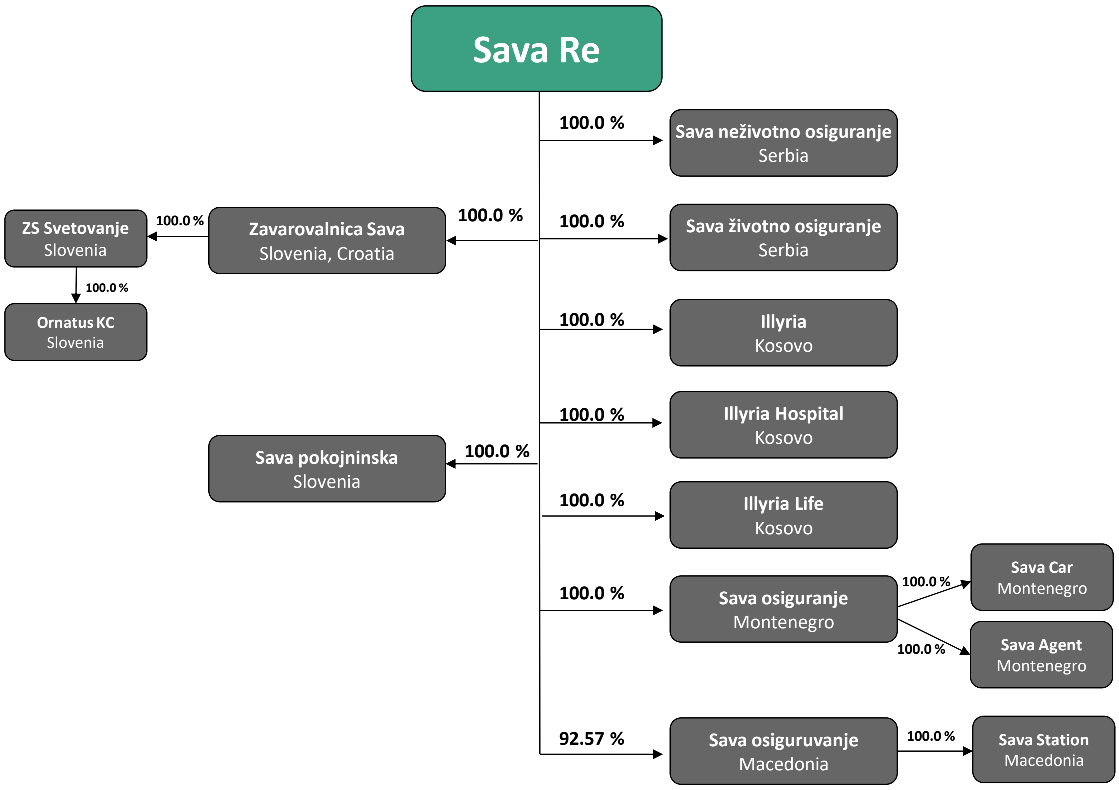
Sava Re transacts reinsurance business. In addition, it is the controlling company in the Sava Re Group. The Sava Re Group comprises one composite insurance company in Slovenia (Zavarovalnica Sava), two life insurers based outside Slovenia (Sava životno osiguranje (SRB) and Illyria Life) and four non-life insurers outside Slovenia (Sava neživotno osiguranje (SRB), Sava osiguruvanje (MKD), Illyria and Sava osiguranje (MNE)).

In addition to the above (re)insurers, the Sava Re Group consists of:

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

The following chart shows the position of Sava Re within the legal structure of the Group.

Position of Sava Re as at 31 December 2017



The tables below give details of all the subsidiaries of Sava Re.

Subsidiaries as at 31 December 2017

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

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

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: 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
Telephone: +386 1 583 17 00
Fax: +386 1 583 17 10
Email: info@si.ey.com

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

Holders of qualifying shares in the Company as at 31 December 2017

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

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

Major lines of business transacted by the Company and its main markets

The Company writes reinsurance contracts in the market of the Republic of Slovenia and globally. The two tables below list Sava Re's most important markets in 2017 (with premiums written exceeding €4.5 million) and the Company's major lines of business. As evident from the first table, Sava Re (apart from its intra-Group business) sources most of its premiums from Asian markets.

Major markets in which the Company operates

(€ thousand)	Premiums in 2017[1]	Premiums in 2016	Index
Slovenia	52,944	52,111	101.6
South Korea	15,569	17,159	90.7
China	9,260	9,696	95.5
Russia	4,725	4,778	98.9
Other countries	70,722	63,683	111.1
Total	**153,220**	**147,427**	**103.9**

In terms of lines of business, proportional and non-proportional property reinsurance were the dominant lines, accounting for 60.3% of total gross premiums written in 2017. These were followed by proportional motor reinsurance lines, representing 18.4% of the total gross premiums written.

[1] Premiums include premium estimates.

Premiums by line of business

(€ thousand)	Gross premiums written in 2017	Gross premiums written in 2016
Proportional fire and other damage to property reinsurance	59,290	64,088
Non-proportional property reinsurance	33,093	31,711
Proportional other motor reinsurance	15,657	13,778
Proportional motor vehicle liability reinsurance	12,571	10,684
Proportional marine, aviation and transport reinsurance	7,916	5,561
Proportional income protection reinsurance	5,934	5,090
Proportional general liability reinsurance	5,727	4,778
Non-proportional casualty reinsurance	3,742	3,301
Non-proportional marine, aviation and transport reinsurance	3,736	4,476
Proportional medical expense reinsurance	3,225	418
Proportional miscellaneous financial loss reinsurance	1,003	1,742
Proportional credit and suretyship reinsurance	1,030	997
Non-proportional health reinsurance	286	390
Proportional legal expenses reinsurance	10	9
Life reinsurance	0	404
Total	**153,220**	**147,427**

Significant events in 2017

- On 7 March 2017, the 32nd general meeting of shareholders took place. The general meeting elected new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (beginning on 07/03/2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (beginning on 16/07/2017). Since 7 March 2017, the supervisory board of Sava Re has operated with all of its six members.
- In 2006 and 2007, Sava Re raised subordinated debt in the nominal amount of €32 million maturing in 2027. These funds were raised to expand the Sava Re Group to the markets of the former Yugoslavia and to improve its capital adequacy position in accordance with the then applicable insurance law and the Standard & Poor's model. In January 2014, Sava Re had prepaid €8 million of the nominal amount of its subordinated debt. After receiving approval from the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of €12 million on 15 March 2017. The remaining part of the subordinated debt in the nominal amount of €12 million was repaid in June 2017. Following the repayment of the subordinated debt, Sava Re and the Sava Re Group continue to maintain a high solvency ratio under the applicable law.
- On 19 April 2017, Sava Re jointly with other expropriated shareholders presented its comments and proposals relating to the draft Law on Judicial Protection of Holders of Qualifying Liabilities of Banks in connection with the cancellation of subordinated financial instruments. They emphasised that the draft law did not eliminate the unconstitutionality of such, nor did it fully comply with the requirements of the Constitutional Court. It was reiterated that the cancellation of subordinated bonds was unjustified, wrong, and the most draconian of measures taken in Europe, as demonstrated by new facts and figures. At the time this report was finalised, the law had not been passed.
- On 12 May 2017, Marko Jazbec took up the position of chairman of the management board of Sava Re, after obtaining the ISA licence for performing the function.
- On 19 May 2017, the 33rd general meeting was held to consider regular topics. The general meeting approved the proposed dividend of €0.80 gross per share, in total €12,398,156.8 (taking into account the number of own shares), or 37.7% of the net profit of the Sava Re Group. The

ordinary dividend increased by 23% and was on the same level as the sum of last year's ordinary and special dividends.

- In June, a court settlement was concluded in the labour dispute between Sava Re and Zvonko Ivanušič (plaintiff), finally resolving all disputed relations between the parties concerning the termination of the plaintiff's employment contract with the defendant. Following this, a court settlement was concluded in the commercial dispute between 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.
- In the first half of 2017, the Solvency and Financial Condition Report of Sava Re, d.d. 2016 was published and in July 2017, the Sava Re Group Solvency and Financial Condition Report 2016. The documents demonstrate that the solvency ratio of the Company and the Group were 264% and 204%, respectively.
- On 16 July 2017, the following members of the supervisory board began their four-year term of office based on a general meeting resolution: Andrej Kren, Keith William Morris and Mateja Lovšin Herič. The members of the supervisory board serving new terms of office are Andrej Kren, Davor Ivan Gjivoje, Keith William Morris, Mateja Lovšin Herič, Mateja Živec and Gorazd Kunstek. In its constitutive meeting, on 16 August 2017, the supervisory board members elected from among the members Mateja Lovšin Herič as chair of the supervisory board and Keith William Morris as deputy chair.
- On 26 July 2017, after its regular annual rating review, the rating agency Standard & Poor's affirmed Sava Re's existing "A–" (excellent) issuer credit and financial strength ratings and upgraded the outlook from "stable" to "positive".
- On 8 August 2017, the general meeting of shareholders of Zavarovalnica Sava, d.d. was held, in which the shareholders adopted the resolution to transfer all of the shares of minority shareholders to the majority shareholder Sava Re (main shareholder). On the publication day of the Zavarovalnica Sava general meeting notice, Sava Re held 15,332,411 ordinary, registered no-par-value shares of Zavarovalnica Sava, accounting for 99.74% of the Company's share capital. After the resolution on the share transfer was entered into the register of companies on 10 October 2017, Sava Re became the sole owner of Zavarovalnica Sava.
- In October 2017, following its regular annual rating review, the rating agency A.M. Best affirmed the financial strength rating on Sava Re of "A–" with a stable outlook.
- On 2 November 2017, Sava Re signed a contract for the acquisition of 75% of the company TBS Team 24. TBS Team 24 provides assistance services relating to motor, health and homeowners insurance.
- In its session of 9 November 2017, the supervisory board voted unanimously in support of the proposal of Marko Jazbec, chairman of the management board, and appointed a new Sava Re management board team. Srečko Čebron and Jošt Dolničar were re-elected to serve on the management board for a third consecutive term of office. Polona Pirš Zupančič was appointed as the fourth member of the management board. Two board members who were re-elected are to start their new terms of office on 1 June 2018; the new management board member was to take up her office on 14 January 2018, on the day following the licence to perform the function of management board member was issued by the Insurance Supervision Agency.
- On 08 November 2017, Standard & Poor's assigned Zavarovalnica Sava, d.d. "A–" issuer credit and financial strength ratings with a positive outlook.
- In December 2017, NLB d.d. Ljubljana and NLB banka AD Skopje, as the seller, and Sava Re, as the purchaser, signed a purchase contract for all the shares of NLB Nov penziski fond AD Skopje.
- In December Zavarovalnica Sava started marketing health insurance products, expanding into the health insurance market. This is a significant step towards broadening its product range and is consistent with its strategy of placing the client at the centre of its services and ways of working.
- The reduction in the stake of Slovenian Sovereign Holding from 25% (plus one share) to 17.7% was the result of a government decision to transfer, for no consideration, part of its holding to the Republic of Slovenia. After the transaction, SSH held 3,043,883 shares, representing 17.7% and

19.6% of Sava Re's issued and outstanding shares, respectively. After the transaction, the Republic of Slovenia held 1,737,436 shares, representing 10.1% and 11.2% of Sava Re's issued and outstanding shares, respectively.

- In 2017 the subsidiary Zavarovalnica Sava suffered a number of weather-related loss events (larger frequency of on average small losses). At the time this report was written, the aggregate loss of these events amounted to about €12 million. One catastrophic event of €5 million had been included in the 2017 Group plan.

Significant events after the reporting date

- In January 2018, Polona Pirš Zupančič began her five-year term of office as a member of the management board. After this change, the Sava Re management board continued to operate as a four-member body. This is because in its session on 20 December 2017, the supervisory board of Sava Re took note of the notice of Mateja Treven on her early termination of her term as Sava Re management board member and accepted Mateja Treven's proposal for a consensual termination of her employment contract as management board member. Mateja Treven concluded her role as management board member on 13 January 2018 and will continue her career within the Sava Re Group.
- On 31 January 2018, Sava Re satisfied all suspensive conditions, thus becoming the owner of 75% of TBS Team 24.
- In accordance with article 171(7) of the Insurance Act (ZZavar-1; Uradni list RS/Official Gazette of the Republic of Slovenia, No. 93/15) Sava Re entered into outsourcing agreements with Zavarovalnica Sava and Sava pokojninska, based on which the key function of internal audit of the companies Zavarovalnica Sava and Sava pokojninska was transferred to Sava Re for an indefinite duration, starting as at 1 February 2018.
- On 13 March 2018, Sava Re satisfied all suspensive conditions, thus becoming the owner of 100% of NLB Nov penziski fond AD Skopje.
- In March 2018, Sava Re obtained approval from Serbia's central bank and other regulators to purchase a 92.94% stake in the Serbian-based company Energoprojekt Garant. Following the acquisition of this majority stake and subsequent steps towards attaining sole ownership, Sava Re intends to merge the target with its existing subsidiary, the Serbian non-life insurer Sava neživotno osiguranje (SRB), and then optimise the subsidiary's capital structure.

A.2 Underwriting performance

Premiums, claims, expenses, and profit or loss

(€ thousand)	2017	2016	Index
Gross premiums written	153,220	147,427	103.9
Gross claims paid	83,525	85,165	98.1
Net operating expenses[2]	24,093	44,475	54.2
Net profit/loss for the period	32,974	32,874	100.3

Gross premiums written by material line of business

(€ thousand)	2017	2016	Index
Proportional fire and other damage to property reinsurance	59,290	64,088	92.5
Non-proportional property reinsurance	33,093	31,711	104.4
Proportional other motor reinsurance	15,657	13,778	113.6
Proportional motor vehicle liability reinsurance	12,571	10,684	117.7
Other lines of business	32,609	27,166	120.0
Total	**153,220**	**147,427**	**103.9**

Gross premiums written by geographical area

(€ thousand)	2017	2016	Index
Slovenia	52,944	52,111	101.6
International	100,276	95,316	105.2
Gross premiums written	**153,220**	**147,427**	**103.9**

In 2017 gross premiums written in Slovenia rose by 1.6%, or €0.8 million (increase in premiums written by Zavarovalnica Sava), while gross premiums written abroad decreased by 5.2% or €5.0 million. This favourable premium growth is driven by the boost in proportional business, with the highest absolute growth achieved in marine, motor liability and general liability reinsurance business.

In terms of classes of business, 2017 gross premiums written were still dominated by fire business. The share of proportional reinsurance premiums fell by 4 p.p., while the share of non-proportional premiums remained on the same level.

[2] In 2017 Sava Re changed the presentation of net operating expenses in its QRTs, excluding expenses relating to the management of its subsidiary companies. The restated expenses for 2016 would amount to €25,959 thousand. The 2017 figure is thus 7.2% lower than the restated amount for 2016.

Gross claims paid by material line of business

(€ thousand)	2017	2016	Index
Proportional fire and other damage to property reinsurance	29,763	34,268	86.9
Non-proportional property reinsurance	15,360	16,265	94.4
Proportional other motor reinsurance	10,652	9,769	109.0
Proportional motor vehicle liability reinsurance	7,302	7,673	95.2
Other lines of business	20,449	17,190	119.0
Total	**83,525**	**85,165**	**98.1**

Gross claims paid by geographical area

(€ thousand)	2017	2016	Index
Slovenia	28,635	26,870	106.6
International	54,891	58,295	94.2
Total	**83,525**	**85,165**	**98.1**

Sava Re gross claims paid decreased by 1.9% in 2017. Gross claims paid relating to domestic business rose by 6.6% in 2017 compared to 2016 (slightly above premium growth at a still favourable loss ratio), while gross claims paid relating to international business fell by 5.8% (in 2016 claims increased owing to claim payments for previous underwriting years). The structure of claims paid by material line of business did not change significantly compared to 2016.

Net claims incurred decreased by 3.9% in 2017 compared to 2016, but increased by 5.4% on exclusion of exchange differences as a result of major loss events (hurricane losses in the Caribbean and the USA, and two large loss events in Russia).

Net operating expenses

(€ thousand)	2017	2016	Index
Acquisition costs, including change in deferred acquisition costs	33,186	33,061	100.4
Change in deferred acquisition costs (+/-)	-881	3,598	-24.5
Other operating expenses	10,808	10,629	101.7
Reinsurance commission income	-1,935	-2,814	68.8
Net operating expenses	**41,178**	**44,474**	**92.6**

Net operating expenses by material line of business[3]

(€ thousand)	2017	2016	Index
Proportional fire and other damage to property reinsurance	12,027	21,800	55.2
Non-proportional property reinsurance	4,608	5,209	88.5
Proportional marine, aviation and transport reinsurance	2,076	2,026	102.5
Proportional medical expense reinsurance	1,120	193	579.4
Other lines of business	4,261	15,247	27.9
Total	**24,093**	**44,475**	**54.2**
Expenses relating to management of subsidiaries	17,086	/	/
Total	**41,178**	**44,475**	**92.6**

In 2017, acquisition costs increased by 0.4% against a 3.9% growth in gross premiums written. The ratio of acquisition costs to gross premiums written increased by 0.7 p.p. year on year to 21.7%. In 2017, deferred acquisition costs increased compared to 2016 as a result of growth in proportional business from abroad. In 2016, deferred acquisition costs were €3.6 million lower due to the reduction for the amount of the estimated future sliding scale commission for Group cedants, but also reflecting weaker premium growth resulting in a smaller increase in acquisition costs in 2016 over 2015.

Compared to 2016, other operating expenses increased by 1.7% mainly due to growth in personnel costs, service costs relating to advertising to strengthen brand awareness, and amortisation costs for higher software expenses.

The lower reinsurance commission income is primarily the result of reduced commission income generated by Sava Re on retrocessions relating to reinsurance programmes of Slovenian cedants. This effect is due to lower commissions from excess of loss reinsurance treaties as because of a benign claims development in 2016, Sava Re paid more commissions to its retrocessionaires.

[3] In 2017 Sava Re changed the presentation of net operating expenses in its QRTs, excluding expenses relating to the management of its subsidiary companies. The restated expenses for 2016 would amount to €25,959 thousand. The 2017 figure is thus 7.2% lower than the restated amount for 2016.

A.3 Investment performance

The Company monitors the performance of its portfolio investment activities and investment property by investment register and for the Company as a whole. The net investment return and the return on investments are monitored by class of investment as well as by type of income and expense. The following tables show income, expenses and net investment income by class of investment and type of income and expense. The income and expenses relating to strategic investments in subsidiaries are monitored separately.

Investment income and expenses by type

Type of income (€ thousand)	1/1/ – 31/12/	
	2017	2016
Interest income	3,896	4,428
Change in fair value and gains on disposal of FVPL assets	78	100
Gains on disposal of other IFRS asset categories	1,227	676
Income from dividends and shares in group companies and associates	26,137	26,309
Income from dividends and shares – other investments	619	743
Exchange gains	3,823	6,926
Diverse other income	336	138
Income relating to the investment portfolio	**36,116**	**39,320**
Income relating to the investment portfolio, excluding exchange differences	32,293	32,394
Type of expense (€ thousand)	**1/1/ – 31/12/**	
	2017	**2016**
Interest expenses	718	842
Change in fair value and losses on disposal of FVPL assets	76	206
Losses on disposal of other IFRS asset categories	130	185
Impairment losses on subsidiaries and associates	0	4,331
Impairment losses on investments	320	331
Exchange losses	9,306	5,565
Other	232	176
Expenses relating to the investment portfolio	**10,783**	**11,635**
Expenses relating to the investment portfolio, excluding exchange differences	1,476	6,070

In 2017, investment income totalled €36.1 million, down €3.2 million year on year; excluding exchange differences, investment income declined by €0.1 million. The largest contribution to total 2017 income related to dividends received from the subsidiaries, totalling €26.1 million (accounting for 72.4% of total income relating to the investment portfolio), down €0.2 million year on year. Compared to 2016, there was a rise in realised gains on the disposal of investments in 2017, while the dividend income from other investments dropped somewhat. Interest income fell by €0.5 million, accounting for 10.8% of financial income. In 2017 exchange gains of €3.8 million were realised (2016: €6.9 million).

Compared to the same period last year, investment portfolio expenses decreased by €0.9 million, and by €4.6 million excluding exchange differences. In 2017 investment expenses were mainly comprised of exchange losses of €9.3 million (2016: €5.6 million) and interest expenses of €0.7 million (2016: €0.8 million).

Net investment income relating to financial investments

	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	Income/expenses of associates
Held to maturity	**103**	**0**	**0**	**0**	**0**	**0**	**0**	**103**	**0**
Debt instruments	103	0	0	0	0	0	0	103	0
Other investments	0	0	0	0	0	0	0	0	0
At fair value through P/L	**0**	**2**	**0**	**20**	**0**	**0**	**0**	**21**	**0**
Held for trading	0	0	0	0	0	0	0	0	0
Debt instruments	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0	0	0	0	0	0	0
Other investments	0	0	0	0	0	0	0	0	0
Designated to this category	0	2	0	20	0	0	0	21	0
Debt instruments	0	0	0	0	0	0	0	0	0
Equity instruments	0	2	0	20	0	0	0	21	0
Other investments	0	0	0	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0	0	0	0
Available-for-sale	**3,488**	**0**	**1,097**	**599**	**-320**	**-5,325**	**10**	**-451**	**26,137**
Debt instruments	3,488	0	1,042	0	0	-5,325	8	-788	0
Equity instruments	0	0	55	599	-320	0	2	337	26,137
Other investments	0	0	0	0	0	0	0	0	0
Loans and receivables	**261**	**0**	**0**	**0**	**0**	**-158**	**0**	**103**	**0**
Debt instruments	232	0	0	0	0	0	0	232	0
Other investments	29	0	0	0	0	-158	0	-129	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**44**	**0**	**0**	**0**	**0**	**0**	**0**	**44**	**0**
Subordinated liabilities	**-718**	**0**	**0**	**0**	**0**	**0**	**0**	**-718**	**0**
Total	**3,178**	**2**	**1,097**	**619**	**-320**	**-5,484**	**10**	**-899**	**26,137**

The bulk of the Company's net investment income was net investment income generated by Group companies and associates, amounting to €26.1 million. Net investment income accounted for in 2017 was severely impacted by exchange losses. These are due to the Company's currency matching of assets and liabilities for the purpose of managing currency risk and are largely compensated through the impact of exchange differences on liabilities. The net interest income was €3.2 million.

Fair value reserve – movement

(€ thousand)	2017	2016
As at 1 January	**3,786**	**3,007**
Change in fair value	692	1,210
Transfer from fair value reserve to the IS due to disposal	-668	-159
Deferred tax	-5	-272
As at 31 December	**3,805**	**3,786**

The Company holds no securitised assets.

A.4 Performance of other activities

Other technical income and other technical expenses

In 2017, the Company realised €1.9 million (2016: €2.8 million) of reinsurance commission income. As it is largely operating in international markets, exchange differences are significant. Exchange gains relating to other technical income totalled €3.7 million (2016: €5.3 million), while exchange losses relating to other technical expenses amounted to €5.4 million (2016: €5.6 million).

Other income and expenses

In 2017, other income included default interest paid out based on a civil claim.

The Company acts both as lessor and, to a small extent, lessee (of offices and parking space). In connection with the leasing out of its investment property assets, the Company realised income of €326 thousand in 2017 (2016: €131 thousand). Other expenses mainly comprise expenses relating to preparing its investment property for lease of €160 thousand (2016: €112 thousand).

A.5 Any other information

The Company has no other material information relating to its business.

B. System of governance

B.1 General information on the system of governance

B.1.1 Governing bodies

General

Sava Re has a two-tier management system with a management board that conducts the business and a supervisory board in charge of oversight. The governing bodies – the general meeting, the supervisory and management boards – are governed by the laws, regulations, the Company's articles of association, and internal rules. The Company's articles of association, the rules of procedure of both the general meeting and the supervisory board are posted on the Company's website, at www.sava-re.si.

The governing bodies carry out their duties in accordance with statutory regulations, the Company's internal rules, general guidelines established by the Company's corporate governance policy, other policies of the Company and other internal acts.

The Company is run by the management board, whose work is supervised by the supervisory board. The management and supervisory boards work for the benefit of the Company. The Company's articles of association, the Companies Act (Zakon o gospodarskih družbah), Insurance Act, the rules of procedure of the management board and those of the supervisory board establish the segregation of duties and responsibilities between the management and supervisory boards, and the mode of their co-operation.

The management board is autonomous in conducting the Company's business and decision-making. Before making major decisions that could significantly affect the operations, financial or legal position of the Company, the management board notifies the supervisory board thereof in order to reach a consensus regarding such issues. The management board consults the supervisory board on business operations, strategy, risk management and on matters concerning public relations.

The chairman of the management board informs the chairman of the supervisory board or the entire supervisory board about major events essential to assessing the Company's position and to conducting the business. When only the chair of the supervisory board is informed, the chair must communicate the information to other members of the supervisory board and, if necessary, call a supervisory board meeting. The management and supervisory boards collaborate closely in accordance with the law and good practice for the benefit of the Company.

General meeting of shareholders

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

The general meeting decides on the following:

- adoption of the annual report, unless approved by the supervisory board, or if the management and supervisory boards leave the decision on its adoption to the general meeting of shareholders;
- appropriation of distributable profit, at the proposal of the management board and based on a report by the supervisory board;
- appointment and removal of supervisory board members;

- granting of discharge to the management and supervisory board members;
- adoption of amendments to the articles of association;
- measures for the increase and reduction of capital;
- dissolution of the Company and its transformation in terms of status;
- appointment of the auditor, at the proposal of the supervisory board;
- other matters in accordance with the law and articles of association.

Supervisory board

Terms of reference

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 this regard, it acts in accordance with applicable regulations, particularly the Slovenian Companies Act and the Insurance Act, as well as with the Company's articles of association and its own rules of procedure.

The chief tasks of the supervisory board are:

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

- to consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory function over the Company.

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

Size and composition

Pursuant to the Company's articles of association and the applicable legislation, the supervisory board is composed of six members, of which four (shareholder representatives) are elected by the Company's general meeting, and two (employee representatives) are elected by the workers' council, which informs the general meeting of its decisions. Supervisory board members are appointed for a term of up to four years and may be re-elected. The supervisory board members elect a chair and deputy chair from among its members.

The supervisory board is composed so as to ensure responsible oversight and decision making in the best interest of the Company. Its composition takes account of diversity in terms of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent oversight of the Company's affairs. In 2017 the Company sought to align the composition of the supervisory board with its policy on the diversity of the management and supervisory boards.

Aspects considered by the diversity policy relating to the composition of the supervisory board are:

- professional diversity to ensure the complementarity of knowledge and skills,
- gender balance and appropriate representation of the under-represented gender in the selection of candidates,
- efforts to avoid the simultaneous replacement of all of the members of the supervisory board in order to ensure working continuity,
- an adequate proportion of members on the management and supervisory boards with international experience, and
- an appropriate balance between members of different age groups.

The Company's policy on the diversity of the management and supervisory boards is posted on the Company's website, at www.sava-re.si, under the About Us tab.

Since 11 October 2016, the supervisory board operated with five members. In its session of 7 March 2017, the general meeting elected Davor Ivan Gjivoje as a new supervisory board member for the next four-year term of office, starting on 7 March 2017. Since 7 March 2017, the supervisory board of Sava Re has again operated with all of its six members. In addition, the general meeting elected, for a four-year term of office, the following persons as new members of the supervisory board: Mateja Lovšin Herič, Keith William Morris and Andrej Kren, whose term of office started on 16 July 2017.

The members of the supervisory board serving in the new term of office are Andrej Kren, Davor Ivan Gjivoje, Keith William Morris, Mateja Lovšin Herič, Mateja Živec and Andrej Gorazd Kunstek. On 16 August 2017, these elected, in their constitutive meeting, Mateja Lovšin Herič as chair of the supervisory board and Keith William Morris as deputy chair.

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

Composition of the supervisory board in 2017 (until 15 July 2017)

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

Composition of the supervisory board in 2017 (since 16 July 2017)

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

Supervisory board committees

Pursuant to legislation, the Slovenian Corporate Governance Code for Listed Companies and best practices, the supervisory board may appoint one or more committees, tasking them with specific areas, with the preparation of proposed resolutions of the supervisory board, and the implementation of resolutions of the supervisory board in order for the committee to provide professional support to the supervisory board. Notwithstanding the appointment of any committee, decision-making remains the responsibility of the supervisory board.

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

The Company has established the following supervisory board committees:

- the audit committee,
- the risk committee,
- the nominations and remuneration committee,
- the fit and proper committee.

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

Audit committee

The chief tasks of the audit committee are:

- to oversee the integrity of financial information;
- to monitor the efficiency and effectiveness of internal controls, the operation of the internal audit department and risk management systems;
- to monitor the statutory audit of independent and consolidated financial statements;
- to perform other tasks assigned by a valid resolution of the supervisory board, in line with statutory requirements and best practices of comparable companies or insurance groups.

Risk committee

The chief tasks of the risk committee are:

- to assess the impact of various types of risk on economic and regulatory solvency capital requirements;
- to assess the Group's overall risk governance framework, including the risk management policy, the risk strategy, and monitoring of operational risk;
- to assess the appropriateness and adequacy of risk management documents to be approved by the supervisory board;
- to perform other tasks assigned by a resolution of the supervisory board, in line with statutory requirements and best practices of comparable companies or insurance groups.

Nominations and remuneration committee

The chief tasks of the nominations and remuneration committee of the supervisory board include:

- to draft proposals for the supervisory board regarding the criteria for membership of the management board, and to consider and draft proposals concerning nominations to be decided by the supervisory board;
- to consider preliminarily the proposal of the chair of the management board regarding the composition of the management board and the Company's governance, and to draw up proposals for the supervisory board;
- to carry out the nomination procedure for candidates for membership of the supervisory board – shareholder representative;
- to provide support in drawing up and implementing a system for remuneration, reimbursements and other benefits for management board members.

Fit and proper committee

The chief tasks of the fit and proper committee are:

- to carry out procedures for assessing the competence of the supervisory board, supervisory board committees and the management board as collective bodies, and to conduct fit and proper assessments of individual members of these bodies;
- upon request of the Company's workers' council, to carry out a fit and proper assessment of any member of the supervisory board (employee representative) elected by the workers' council.

Management board

Terms of reference

The management board runs the business and represents the Company in its legal transactions. Through its efforts and using its knowledge and experience, the management board pursues the long-term success of the Company, ensuring optimal guidance and risk management. The management board defines the Company's goals, values, mission, vision, and business strategy. Business operations are optimised through an adequate structure of human resources and prudent use of financial resources. In this respect, it acts in accordance with the applicable legislation, particularly the Slovenian Companies Act and the Insurance Act, as well as with its articles of association and the management board's charter and rules of procedure. The management board is committed to high ethical standards and considers the interests of all stakeholder groups.

The chief duties of the 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.

Size and composition

The management board, which conducts the business and represents the Company in public and legal matters, is composed of at least two but no more than five members, of whom one is the chair and the others are members of the management board. The chair and members of the management board are appointed by the supervisory board for a period of five years. Such appointments are renewable without limitations. The chairperson and all members of the management board are employed on a full-time basis. The exact number of management board members and the areas for which each individual member is responsible is laid down in the act on the management board to be adopted by the supervisory board at the proposal of the chair of the management board.

The management is composed so as to ensure responsible oversight and decision-making in the best interest of the Company. Its composition takes account of diversity of technical knowledge, experience and skills, and the way candidates complement each other so as to form a homogenous team and ensure sound and prudent conduct of the Company's business. In 2017 the Company sought to implement its policy on the diversity of the management and supervisory boards.

Aspects considered by the diversity policy relating to the composition of the management board are:

- professional diversity to ensure the complementarity of knowledge and skills,

- gender balance and appropriate representation of the under-represented gender in the selection of candidates,
- efforts to avoid the simultaneous replacement of all of the members of the supervisory board in order to ensure working continuity,
- an adequate proportion of members on the management board with international experience,
- an appropriate balance between members of different age groups.

The Company's policy on the diversity of the management and supervisory boards is posted on the Company's website, at www.sava-re.si, under the About Us tab.

From 23 August 2016 to 11 May 2017, the management board operated with only three members. On 16 December 2016, the Sava Re supervisory board completed the process of selecting a new chairman of the management board, selecting Marko Jazbec as the most suitable candidate. Having received the decision granting him the licence for performing the function, Marko Jazbec started his five-year term of office as chairman of the management board of Sava Re on 12 May 2017.

The following table shows the composition of the management board in 2017.

Composition of the management board in 2017

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

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

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

Events after the reporting date

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

Marko Jazbec as chairman of the management board is, following the mentioned changes, responsible for the coordination of the work of the management board, finance, general affairs, human resources, organisation and legal affairs, public relations, compliance, and internal audit.

Srečko Čebron is – also in the new term of office – responsible for reinsurance operations, facultative reinsurance underwriting and actuarial affairs. Jošt Dolničar is – in the new term of office – responsible for the management of strategic investments in primary insurance subsidiaries, modelling, IT, technologies and innovation, and pension insurance. Polona Pirš Zupančič is responsible for corporate finance and controlling, accounting, shareholder relations and risk management.

Reporting

The management board reports, on at least a quarterly basis, to the 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.

B.1.2 Risk management

The risk management system is one of the key building blocks of the system of governance. The management board ensures that it has in place an effective risk management system based on an appropriate organisational structure. More about these risks is contained in section B.3.

B.1.3 Key functions of the risk management system

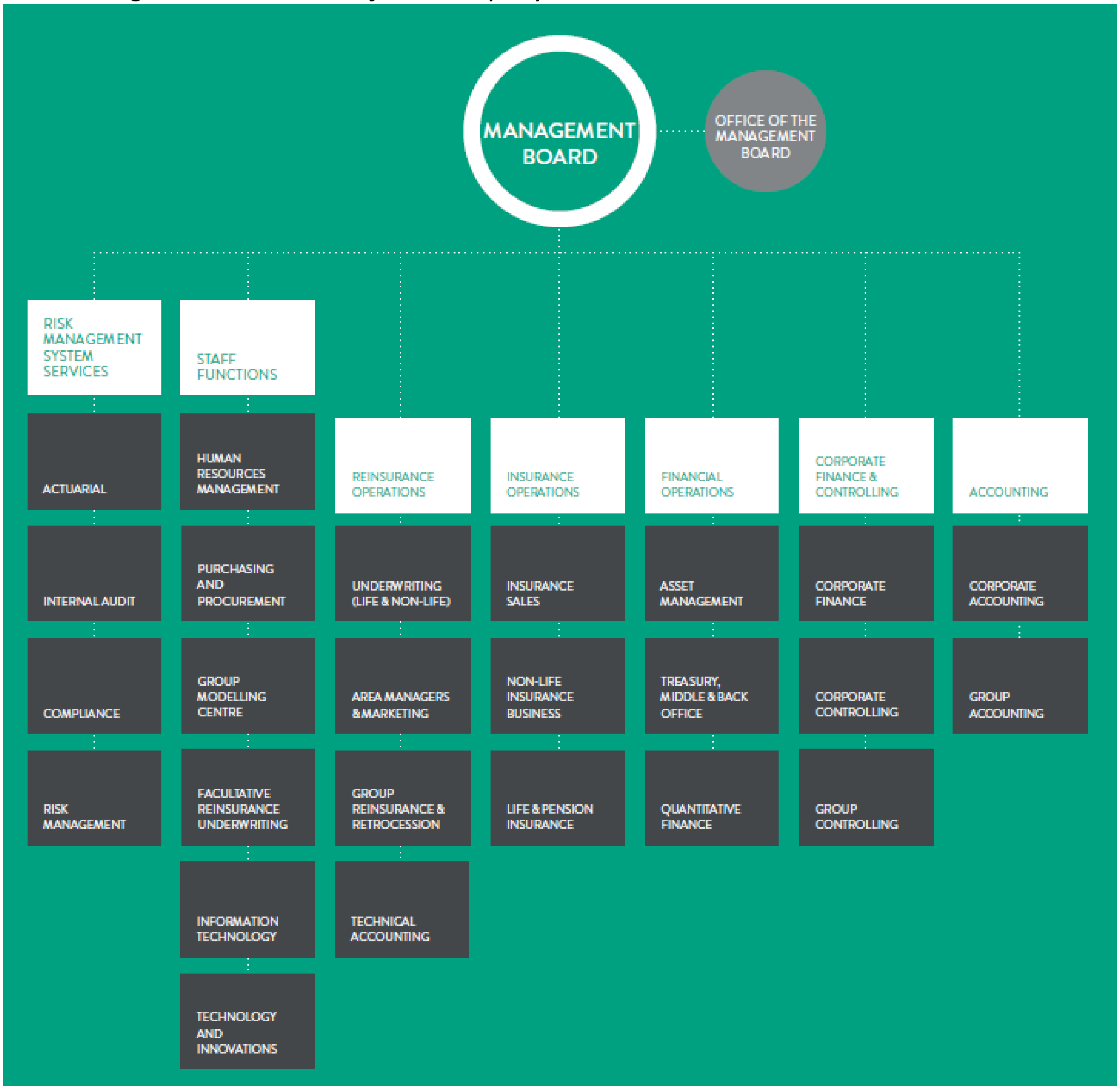
General

The Company has certain functions integrated into the organisational structure and decision-making processes. These are the risk management function, internal audit function, actuarial function and compliance function, defined by applicable law as the key functions of the governance system (hereinafter: key functions).

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

The key functions perform their duties independently from each other and from other organisational units of the Company. The Company's key functions are organised as services of the risk management system and are directly subordinated to the Company's management board, as illustrated in the chart below.

Internal organisational chart of the Company



Generally, the controlling company's key function holders also act as key function holders at the Group level. They have access to all information, data and reports required for their smooth operation.

The chief responsibilities of individual key function holders at the level of the Company are set out in the following section, while the chief responsibilities of any key function holder at the Group level are:

- coordinating the development of a uniform methodology for all key functions in the Sava Re Group,
- seeking to develop appropriate framework policies for individual key functions and professional guidelines for the adoption of area-specific operational rules for the controlling company and its subsidiaries,
- striving for strict application of uniform standards by all key functions in the Group,
- coordinating and implementing joint activities in the Sava Re Group,
- providing guidance and overseeing the operations of key functions in all Group companies,
- professional development and exchange of good practices relating to the key functions of the Group.

Role of individual key functions

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

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

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

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

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

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

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

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

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

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

- 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, providing assistance with 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 Company's compliance policy.

Reporting by key function holders

Individual key function holders report to the management and supervisory boards or individual supervisory board committees, if so stipulated by the Company's rules and regulations.

Detailed provisions on the scope, manner, and time framework for reporting of any key function are set out in its internal regulations.

B.1.4 Committees of the governance system

The Company's management board sets up committees tasked with advisory roles based on resolutions. Such committees consider issues from specific areas, draft management board resolutions and oversee their implementation, and perform other tasks requiring specific expertise, thus providing professional support to the management board.

Committees are an integral part of the Company's system of governance, dealing with issues from various areas, such as: risk management, asset-liability management, actuarial affairs.

Committees set up at the controlling company level perform their roles at both the controlling company and the Group levels.

The terms of reference, powers and composition of committees are set out in internal regulations adopted by the Company's management board.

The Company has set up a risk management committee and an actuarial committee as detailed in section B.6.

Risk management committee

The risk management committee is primarily responsible for drafting recommendations and proposals for the management board and monitoring of the Company's risk profile. It also plays a crucial role in the communication process, as it acts as a discussion forum on elements of the risk management system. In addition, it is responsible for reviewing the effectiveness of the risk management processes in place. The main objectives of the committee are to unify risk management practices throughout the Company and provide professional risk management advice to the Company's management board in order to ensure effective operation.

The chief responsibilities of the risk committee are:

- set up and review the functioning of the risk management system,
- regularly monitor key risks and the risk profile against the Company's risk appetite and review the compliance with the risk strategy,
- prepare recommendations for the management board relating to risk management,
- monitor quantitative risk assessment calculations and respond adequately,
- issue opinions relating to major business decisions with a significant impact on the risk profile,
- identify and monitor any emerging new risks.

B.1.5 Information about the remuneration policy

The Company's remuneration policy establishes the framework for the planning, implementation and monitoring of remuneration systems and schemes that support the Company's long-term strategy and risk management policy.

The remuneration policy applies to all organisational levels of the Company and to all employees: the management board, senior and lower management, key function holders and other employees.

Principles of the remuneration policy

The Company's 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 policy incorporate the main principles of ethical and sustainable practices and operations.

The chief principles of the remuneration policy are:

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

Remuneration structure

The Company's remuneration structure includes:

- a basic salary,
- a variable part of the salary,
- other benefits and incentives,
- remuneration upon termination of the employment contract.

The **basic salary** is set based on the employee's role and position, taking into account knowledge acquired, professional experience, responsibilities, complexity of the job and the situation on the local labour market.

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 are considered and approved by the supervisory board. The variable remuneration for the management board is based on the achievement of the board's goals and performance of the Company or the Group as a whole.

The system and scheme of variable remuneration for the risk management system's key function holders are considered, determined and approved by the management board. If necessary, the supervisory board gives its consent to it. In addition to the Group's performance, the variable part of the salaries of key function holders depends primarily on the attainment of the goals of each key function, which are strictly separate from the goals of the business functions they oversee.

The system and scheme of variable remuneration for senior and junior management is considered, determined and approved by the management board. Variable remuneration of senior and lower management is based on a combination of performance assessment of the individual, the team they head, and the performance of the Group.

The system and scheme of remuneration for other employees is considered and approved by the management board. This is done with due regard to the statutory provisions relating to cooperation with social partners. The variable part of the salary of other employees depends on a combination of the employee's assessed individual performance and overall performance of the Group.

The Company runs no share option schemes.

Other benefits and incentives: The Company set up a collective voluntary supplementary pension insurance scheme funded by the employer. It has a contract in place on joining the pension company's pension scheme, entered into the pension scheme register with the Financial Administration of the Republic of Slovenia. The Company pays voluntary supplementary pension insurance premiums for its employees who have joined the pension scheme. This entitles the Company to tax relief related to the amount of voluntary supplementary pension insurance premiums paid to the pension scheme provider for its employees in any single tax year. Employees may opt to join a third pillar pension scheme, for which the level of contributions paid by the Company depends on the type of employment contract (management board, employees with special powers, and other employees), level of gross salary, and seniority. Contributions to pension insurance schemes are accounted for as employee benefits.

Remuneration upon termination of the employment contract: Upon termination of a contract of employment, employees are eligible to severance pay in accordance with the law and their employment contract. Severance payments not prescribed by law are capped to six times the average monthly salary in the last year of employment. Upon the termination of a contract of employment, any additional remuneration cannot include payments in the event of failure.

The Company granted no loans neither to its employees nor members of the management or supervisory boards, so there were no such transactions in 2017.

The Company has no additional pension schemes.

B.1.6 Material related-party transactions

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

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

Material transactions in 2017 include:

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

All third-party transactions are set out in detail in the Company's annual report in section 23.10 "Related party disclosures".

B.2 Fit and proper requirements

B.2.1 General

In accordance with the law, the Company ensures that persons who effectively run and oversee the Company are properly qualified (fit) and suitable (proper) for doing so in a professional manner.

To this end, the Company conducts fit and proper assessments of its employees: management and supervisory board members, members of the supervisory board's committees, key managers, key function holders of the risk management system and personnel overseeing outsourced activities. The assessment is carried out before the appointment to the role and periodically thereafter whenever circumstances arise that require a reassessment of whether such persons are still fit and proper.

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

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

All relevant personnel are subject to the reporting duty regarding any new facts or circumstances, or changes to information submitted in the initial suitability assessment. An appropriately composed fit and proper committee 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.

In 2017 full fit and proper assessment procedures were carried out for new relevant personnel as well as an annual review based on annual statements for persons already assessed.

B.2.2 Fitness requirements for relevant personnel

Supervisory board and its committees

In assessing the fitness of members of the Company's supervisory board, including its committees, it is necessary to consider the knowledge acquired through education and work experience. Requirements considered in the fitness assessment:

- qualifications,
- sufficient professional experience,
- general knowledge and experience.

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 supervisory board, 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.

Management board

In assessing the fitness of the members of the Company's management board, it is necessary to consider the knowledge acquired through education and work experience. 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 board, viewed as a whole, must have sufficient expertise. Its members must have relevant experience and knowledge of the above-mentioned areas, depending on their specific area of responsibility. Individual members of the management board with distinct special expertise may, in particular based on the assignment of responsibilities for a certain area, compensate for any less profound expertise of other members in those areas.

Key function holders of the risk management system

In assessing the fitness of the key function holders of the risk management system, it is necessary to consider the knowledge acquired through education and work experience. Based on this, the assessment is made considering assigned responsibilities for each key function. Requirements considered in the fitness assessment:

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

Other relevant personnel

In assessing the fitness of other relevant personnel, it is necessary to consider the knowledge acquired through education and work experience. Based on this, the assessment is made with the consideration of the assigned responsibilities for individual areas. Requirements considered in the fitness assessment:

- qualifications,
- sufficient professional experience relevant to a particular area of responsibility,
- general knowledge and experience.

B.2.3 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 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 by collecting documents for carrying out the fit and proper assessment procedure.

Independence of relevant personnel

Relevant persons may experience conflicts of interest due to the nature of the business relations. Any relevant person who experiences a conflict of interest in their work must disclose such conflict of interest and act in the interests of the Company. If this is not possible, such person must inform the Company’s management or supervisory board if a conflict of interest is seen with any member of either the management or supervisory boards.

Time input

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

B.2.4 Assessment procedure

The fit and proper assessment procedure is conducted by a special committee set up according to an internal framework document (policy). During the assessment of relevant personnel, the Company’s human resources function assists with the implementation of operational tasks, such as the acquisition, submission, processing and storage of documents and issuance of the assessment results.

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

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

The Company's management is aware that risk management is key to achieving operational and strategic objectives and to ensuring long-term solvency. Therefore, the Company is continuously upgrading its risk management system. The Company's strong risk culture is essential to its security, financial stability, and to achieving its goals. In order to establish good risk management practices, the Company promotes a risk management culture with appropriately defined remuneration for employees, employee training and relevant internal information flow.

The Sava Re Group has implemented a risk strategy that defines the Group's risk appetite and policies that cover the entire framework of risk management, own risk and solvency assessments, and risk management for each risk category. Based on the Group's risk strategy and policies, the Company set up its own risk strategy and policies, taking into account its 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 Company's management board. To ensure efficient risk management, the Company 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, 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.
- The third line of defence consists of the internal audit function.

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

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

The supervisory board approves the risk strategy, risk management policy, own risk and solvency assessment policy, and the appointment of key function holders in the risk management system. In addition, the supervisory board reviews periodic risk management reports. A risk committee has been set up as part of the supervisory board to provide expertise in particular with regard to the Company's risk management.

The first line of defence involves all the Company's employees who are responsible for ensuring that operational tasks are performed in such a way as to reduce or eliminates risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line and service directors are tasked with ensuring that the operational performance of the processes for which they are responsible is conducted in 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 data for periodic risk reports for individual areas of risk and the identification of new risks.

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

The **risk management function** is mainly responsible for setting up effective risk management processes and coordinating risk management processes already in place. It is involved in all stages of identification, assessment, monitoring, management, and reporting of risks. It is also involved in the preparation of the risk strategy and the setting of risk tolerance limits. The risk management function regularly reports to the risk management committee, the management and supervisory boards. Furthermore, it offers support to the management board in decision-making (including in relation to strategic decisions, such as corporate strategy, mergers and acquisitions, and major projects and investments).

Apart from the key functions, the second line of defence includes the Company's **risk management committee**. The committee includes the key representatives of the first line of defence with regard to the Company's risk profile. The holders of other key functions of the risk management system are also invited to attend meetings of the committee. The committee is primarily responsible for monitoring the Company's risk profile, analysing risk reports and issuing recommendations to the management board. The risk management committee also encompasses an asset and liability management sub-committee and a credit rating committee.

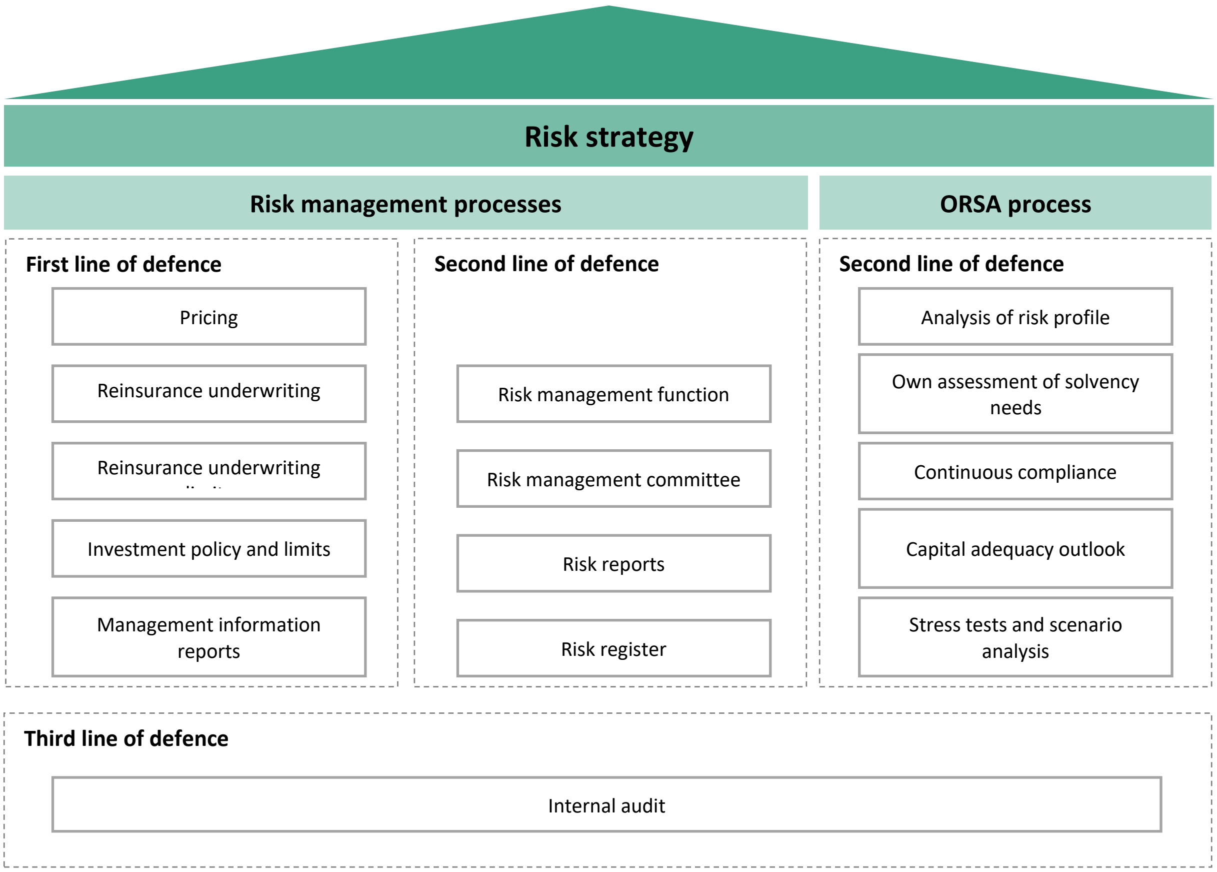
The **third line of defence** consists of the internal audit function. It is completely independent of the business areas and other functions. In the risk management system, the internal audit function is responsible for the independent analysis and verification of the effectiveness of risk management processes and internal controls in place.

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 (hereinafter: ORSA).

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



Risk strategy

In order to establish a solid risk management framework, in 2016 the management board – with the consent of the Company's supervisory board – approved the risk strategy for the period 2017–2019, which, based on its risk bearing capacity, defines:

- the risk appetite,
- permissible levels of certain performance indicators and risks,
- risk tolerance limits.

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

The Company's risk appetite is based on four major areas:

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

The Company sets risk tolerance limits and operational limits based on its risk appetite. Risk tolerance limits are limits set for individual risk categories included in the Company's risk profile, determining approved deviations from planned values. These limits are set based on the results of sensitivity analyses, stress tests and scenarios, and professional judgment.

Based on the risk appetite and risk tolerance limits, the Company sets operational limits, such as reinsurance underwriting limits and investment limits in order to ensure that the activities of the first line of defence are conducted taking into account risk management. In addition, the Company ensures that it has in place well-defined and established escalation paths and management actions for breaches of operational limits.

For periodic monitoring of compliance with the risk strategy, the Company defined a minimum set of risk measure for each risk category to allow a simplified monitoring of the Company's overall current capital position without having to carry out a complete calculation of the solvency capital requirement. The Company periodically reviews these risk measures.

Risk management processes

Risk management processes are fully integrated into basic processes carried out within the Company. All organisational units are involved in the Company's risk management processes.

The main risk management processes are:

- risk identification,
- risk assessment (measuring),
- risk monitoring,
- determining appropriate risk control measures (risk management), and
- risk reporting.

Risk identification

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

In the process of risk identification, the Company identifies the risks to which it is exposed. The key risks are compiled in the risk register, constituting the Company's risk profile, and are reviewed and amended on a quarterly basis to add new risks as required.

Risk identification 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. Such identification of new and emerging risks is based on monitoring of the legal and business environment, market developments and trends, and expert knowledge; this process is mainly used by the Company 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). Risks thus identified are 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 the launch of a new product, investment in a new class of assets, or an acquisition.

Risk assessment

The Company has established a periodic assessment of the risks to which it is exposed. Both qualitative and quantitative methods are used to measure risk. The Company has set up a modelling department for the development of quantitative models for Group-wide risk assessment.

The Group thus measures risks:

- 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 scenario analyses,
- through qualitative risk assessment in the risk register,
- using various risk measures that enable simplified measuring and monitoring of the indicative current risk profile.

Risk management

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

Whenever the need arises to adopt a new risk control measure, the Company conducts an analysis of the measure in terms of its economic and financial viability. Elimination or mitigation of 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 its financial implications.

In practice, it is already in the business planning process that the Company examines the impact of the business strategy on its capital position, both with regard to the regulator as well as with regard to the 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 the business planning process, the Company assesses the impact of such decisions on its risk profile and capital adequacy, and verifies compliance with the risk appetite. If any business decision fails to comply with the risk appetite or any risk tolerance limit is exceeded, the Company is required to document such deviation and take relevant action to resolve the situation.

Risk monitoring

Risk monitoring is conducted on several levels: at the level of individual organisational units and risk owners: the risk management department, the risk management committee, the management board, the supervisory board's risk committee, and the supervisory board. A standard set of risk measures is defined and monitored on a regular basis. Both risks and risk management measures are subject to monitoring and control.

Risk reporting

The Company has also set up a risk reporting scheme. 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 the Company's entire risk profile. The report is first discussed by the risk management committee, followed by the management board, risk committee and supervisory board.

Own Risk and Solvency Assessment (ORSA)

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

It conducts the ORSA based on the business and strategic plans taking into account the current risk profile, including any planned changes thereto. The ORSA results are taken account of in other processes conducted by the Company, in particular in capital and risk management processes.

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

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

In 2017, we have made improvements to the ORSA:

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

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

Based on the results of the suitability analysis of the standard formula for the Company's risk profile, the Company then uses its own solvency model to conduct an own risk and solvency assessment for a further three-year period. In the ORSA process, the Company also carries out (reverse) stress tests and scenario analyses as relevant with regard to its (planned) risk profile.

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

Based on the conducted ORSA, the Company prepares a report that is considered on several levels: it is first discussed by the risk management committee, followed by the management board, risk committee and supervisory board. After the results are approved on all levels, they are distributed to all the heads of business units. The 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 of the Company to be adopted with consideration of the risks involved and for the business strategy to be determined with awareness of the risks and associated capital requirements. The ORSA results are taken into account in decision-making, capital management and product development.

B.4 Internal control system

B.4.1 Internal control system

The purpose of the Company's internal control system is to identify, measure, monitor, and manage risks at all levels of operations, including reporting on risks that the Company is or may be exposed to in its operations. In addition, the system ensures compliance with the Company's 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 Company has 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 system of internal controls as part of the Company's system of governance.

B.4.2 Compliance function

The compliance function as one of the Company's four key functions is a part of the Company's risk management system and is directly subordinated to the management board. The compliance function holder is authorised by the 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 of the risk management system consisting of three lines of defence. Its main duty is to manage the risks arising from non-compliance with the law.

The chief responsibilities of the compliance function are:

- to monitor and periodically assess the adequacy and effectiveness of regular procedures and measures to address any deficiencies in compliance with regulations and other commitments;
- to advise and assist in the coordination of the Company's operations with the obligations imposed by regulations and other commitments;
- to assess potential impacts of changes in the legal environment on the operations of the Company in terms of compliance with its regulations and other commitments;
- to identify risks to the Company's compliance with regulations and other commitments;
- to inform the management and supervisory boards of the Company's compliance status regarding regulations and other commitments and risk assessment relating to compliance with regulations and other commitments.
- to coordinate with top management regarding compliance matters and offer consulting services to them;
- to prepare an annual compliance plan to identify and assess the main compliance risks to which the Company is exposed;
- to cooperate in exchanging compliance-related questions, best practices and experiences with other control functions;
- to coordinate the preparation and adoption of policies and rules on the controlling company level and between the controlling company and Group subsidiaries;
- to coordinate the preparation of comments on draft insurance-related legislation;

- to participate in setting up and updating compliance programmes for certain autonomous areas, including internal controls for compliance of operations, taking into account the requirements and capacities of processes and resources available, according to the requirements of specific legislation or regulations, and factors of the broader business and professional environment (e.g. commitments assumed through contracts, declarations and other collective activities aimed at raising the standards of fair business in the broader environment).

B.5 Internal audit function

Internal auditing in the Company is carried out by an independent organisational unit, the internal audit department, which reports to the management board and is functionally and organisationally separate from other organisational units. Its 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. Internal audit reports, in writing and verbally, directly to the management board, the audit committee and the supervisory board.

The internal audit function, being an internal control function, is part of the third line of defence of the Company's internal control system.

The chief responsibilities of the internal audit are:

- to set up a risk-based, permanent and comprehensive supervision of the Company's operations aimed at verifying and assessing of whether the processes of risk management, control procedures and corporate governance are appropriate and function in 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;
- to assess whether the Company's information technology supports and furthers the Company's strategies and goals;
- to assess fraud risk and the procedures for their management in the Company (while the expertise of a person whose primary task is to identify and investigate cases of fraud is not expected nor required);
- to offer advice;
- to carry out other tasks subject to the law.

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 head 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 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.

The internal audit function holder has been appointed by the management board with the consent of the supervisory board upon the prior opinion of the audit committee and also serves as the director of the internal audit department.

The internal audit must be independent, and internal auditors must be impartial and unbiased, and avoid any conflicts of interest. The director of internal audit 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.

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. They also perform first-line-of-defence actuarial tasks. While the actuarial function is part of the second line of defence, it is organised in a way that prevents any one person from both implementing (first line) and controlling (second line) the same tasks.

The Company's actuarial function holder is responsible for carrying out the actuarial function.

The chief responsibilities of the Company's actuarial function are:

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

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

The actuarial function holders of Sava Re Group companies serve on the Group's actuarial committee. The Group's actuarial committee adopts decisions in the form of proposed resolutions and recommendations to the Sava Re management board, 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 Sava Re Group's actuarial function policy. The members of the actuarial committee have a responsibility towards the Company to communicate information about relevant arrangements to relevant parts of the Company.

B.7 Outsourcing

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

In 2017, the Company had no outsourced operations.

B.8 Any other information

The Company has in place a transparent and appropriate risk-based governance system.

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

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

C. Risk profile

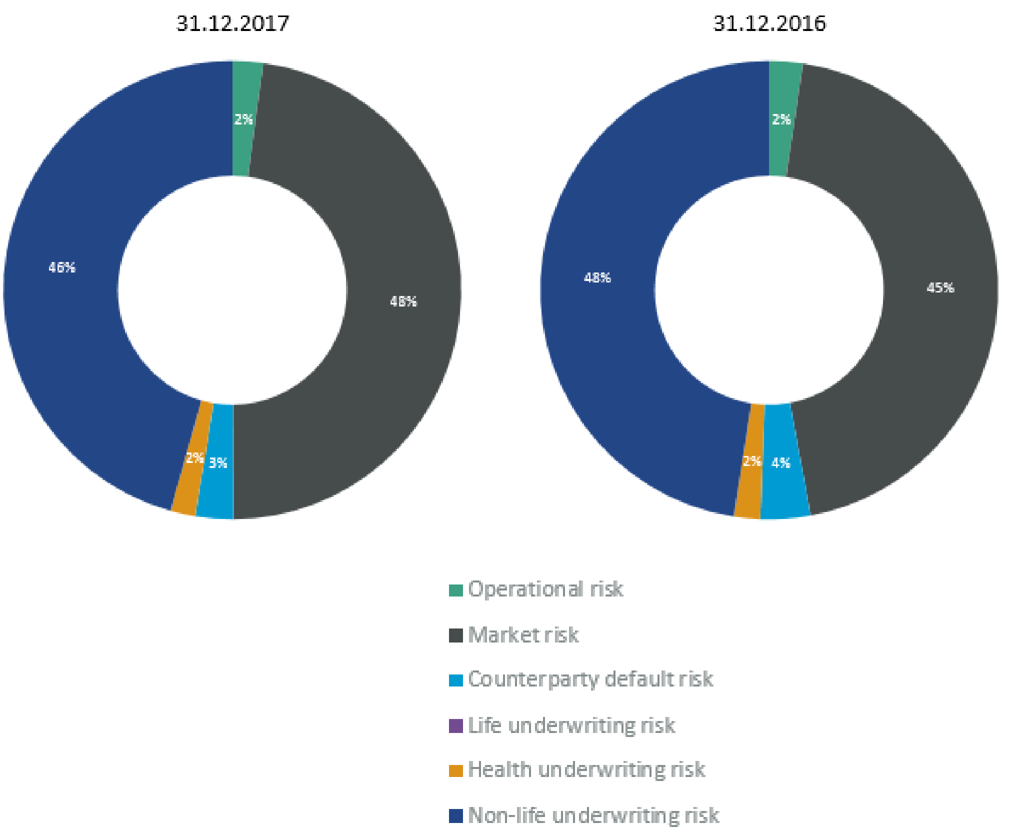
In its operation, the Company is exposed to various types of risk. It identifies, measures, manages, monitors and reports on them through the processes described in section B.3. The main risk categories that the Company is exposed are:

- underwriting risk,
- market risk,
- credit risk,
- liquidity risk,
- operational risks, and
- strategic risk.

The following subsections discuss individual risk categories, except strategic risk, which is discussed in subsection C.6 "Other material risks".

The Company regularly measures some of the above risk categories using the Solvency II standard formula, while other risks (in particular those not readily quantifiable) are measured using the methods described in section B.3. The chart below shows the Company's risk profile in accordance with the standard formula.

Undiversified SCR by risk module



The structure of the risk profile in accordance with the standard formula did not change materially in 2017. The risk profile is dominated by non-life underwriting and market risk; other risk categories are small.

C.1 Underwriting risk

The Company's exposure to underwriting risk arises out of its accepted reinsurance contracts. It is associated with the risks covered under reinsurance contracts and with the relevant processes, and arises from the uncertainty related to the occurrence, scope and timing of obligations.

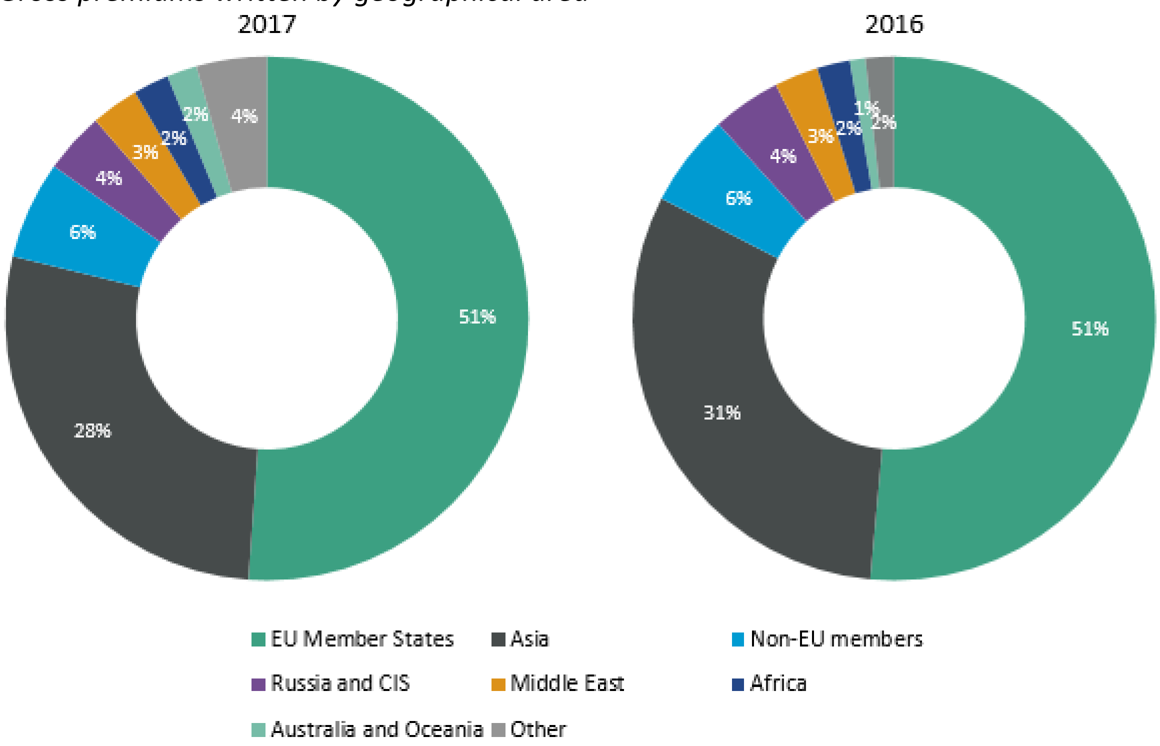
Underwriting risk is generally divided into:

- non-life underwriting risk,
- life underwriting risk,
- health underwriting risk (including accident reinsurance).

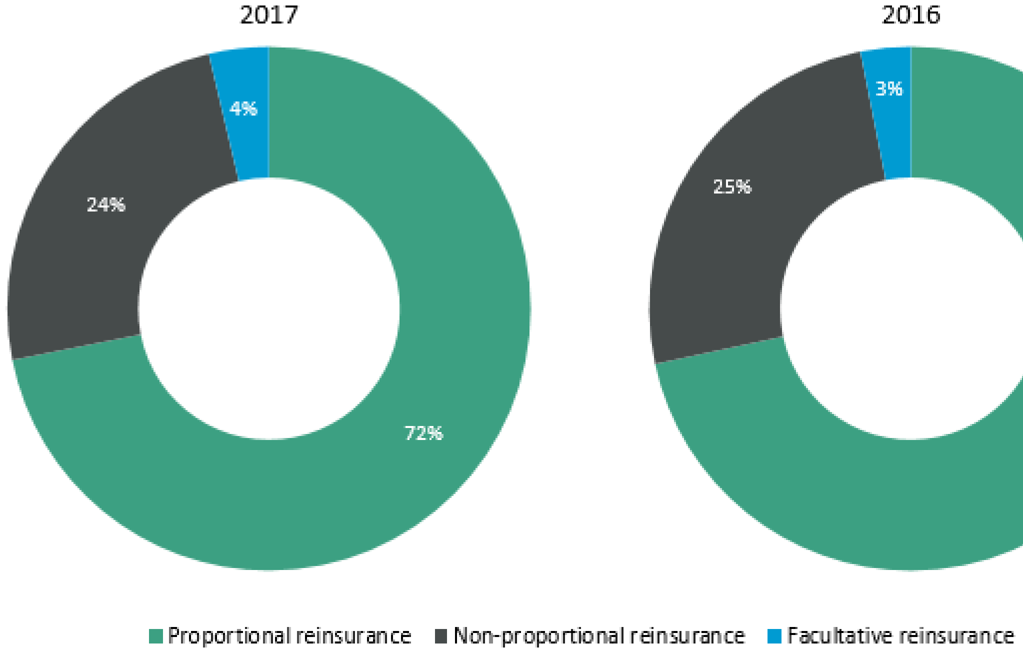
The Company markets all three types of reinsurance. In life business, it does not reinsure the savings component, but reinsures the risk component on an annual basis, which makes these contracts technically similar to accident reinsurance. This is why the Company's life reinsurance risks are discussed under accident reinsurance risks. The Company is considering a separate treatment of life insurance risk, although this will have no material impact on the level of the SCR.

The table below shows gross premiums written by three different criteria – geographical area, form of reinsurance and insurance group.

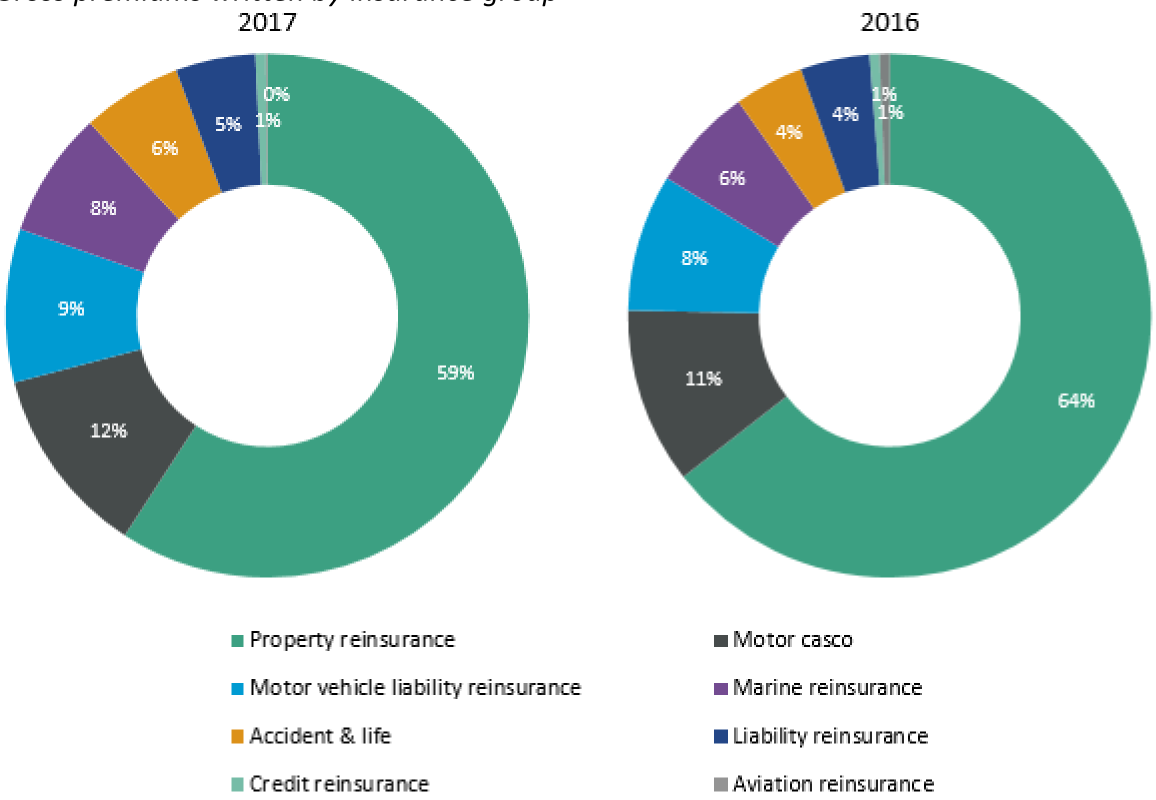
Gross premiums written by geographical area



Gross premiums written by form of reinsurance



Gross premiums written by insurance group



C.1.1 Risk exposure

The Company is mainly exposed to the following risks associated with non-life insurance and Not Similar to Life Technique (NSLT) health insurance (hereinafter: NSLT health business).

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

  Given the portfolio composition, property reinsurance business contributes the most to premium risk, both the proportional reinsurance business as the largest form of reinsurance, and the non-proportional reinsurance business, because it is relatively riskier due to claims volatility.
- **Reserve risk** – the risk that either technical provisions are insufficient to meet the obligations arising from (re)insurance contracts due to inadequate methods, inappropriate, incomplete and inaccurate data, inefficient procedures and controls or inadequate expert judgement, or misreporting, resulting in unreliable information about the Company's financial position. These include the following risks:
  - 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, property insurance contributes the most to the reserve risk, but due to the Company's long experience with this business, the amount of the best estimate of technical provisions is also the largest.
- **Catastrophe risk** includes the risk of an occurrence of a catastrophic event; such events are rare but their financial impact is too high to simply be covered 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. The risk also includes an excessive geographical concentration of risks. The Company's portfolio is geographically well diversified and also further balanced through the retrocession programme, so 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, and is due to the fact that coverage against catastrophic events is the Company's primary and most important activity.
- **Lapse risk** – the risk of loss or adverse change in the value of insurance liabilities resulting from changes in the level or volatility of lapse rates. The Company is not significantly 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.

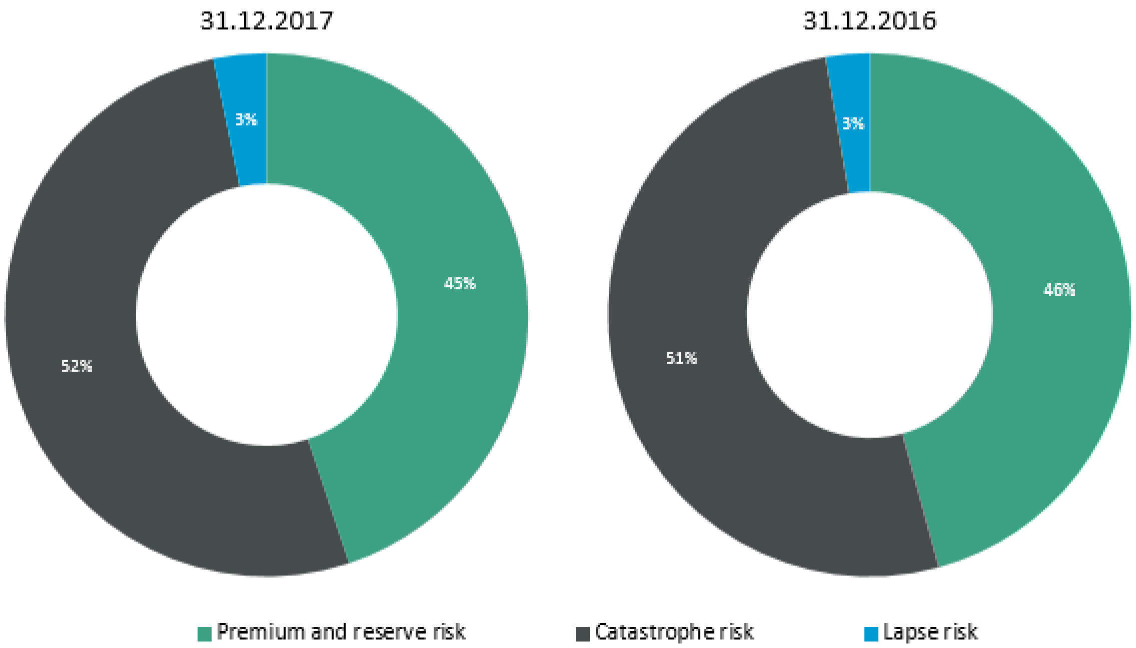
C.1.2 Risk measurement

The Company uses the Solvency II standard formula for the quantitative assessment of non-life and health NSLT underwriting risks. To this end, we applied undertaking-specific parameters for individual companies, in accordance with article 104(7) of Directive 2009/138/EC.

The Company was exposed to non-life underwriting risk in the amount of €94.1 million (31/12/2017: €90.7 million) and health NSLT underwriting risks in the amount of €3.6 million (31/12/2016: €3.6 million). Capital requirements for non-life and health NSLT underwriting risks represented 45.6% and 1.9%, respectively, of the undiversified basic solvency capital requirement. Catastrophe risk, followed by premium and reserve risks, represents the largest portion of undiversified non-life underwriting risks.

The figure below shows the composition of non-life underwriting risks, the largest category of underwriting risks.

Undiversified non-life underwriting risk by risk sub-module



Non-life underwriting risk is measured quantitatively, also as part of the ORSA. Premium and reserve risks are estimated using Undertaking-Specific Parameters (hereinafter: USP). Also as part of the ORSA, we calculated capital requirements for storm and hail risks in Slovenia, which are not included in the standard formula, and adjusted the assessment for man-made fire catastrophe risk by using probable maximum loss figures within a 200-meter radius instead of sums insured. The result of all effects together is a slightly lower capital requirement for non-life underwriting risks compared to the standard formula.

In addition to this quantitative risk measurement, the Company monitors its exposure to non-life underwriting risk also quarterly, analysing the combined ratios of individual contracts and homogeneous risk groups, verifying the adequacy of technical provisions, monitoring aggregate exposures to natural perils by geographical location, and monitoring major new contracts. Based on all interim information, the Company monitors its underwriting risk profile to detect any changes, which allows the management to respond in a timely manner.

C.1.3 Risk concentration

The Company considers the risk related to natural perils as the largest non-life underwriting risk. The largest exposure to natural perils is in Slovenia, while other exposures are relatively well diversified globally.

The table below shows the ten largest gross exposures to natural perils by country.

Ten largest gross exposures to natural perils

(€ thousand)	31/12/2017
Slovenia	277,688
China	42,249
India	33,958
Serbia	32,393
Croatia	28,136
Japan	30,787
Turkey	28,645
Vietnam	27,783
Philippines	27,054
Greece	26,078
Total	**554,771**

C.1.4 Risk management

The Company manages underwriting risk mainly through an established underwriting process, as set out in internal reinsurance underwriting guidelines. These define the requirements for partners, the minimum required level of information about the business, and the expected profitability range. In addition, they also define the underwriting process and levels of authority, so that appropriate controls are included in the process. The Company also manages underwriting risk by means of geographical diversification and aggregate exposure limits, and an appropriate reinsurance (retrocession) programme.

The Company annually reviews and sets underwriting limits. These limits relate to the sums insured or probable maximum loss figures of individual contracts and to reinsurance premiums, all for assumed shares in the Company's retention, as well as to the expected aggregate exposure to catastrophic risk by geographical area. Underwriting limits must also be confirmed by the holder of the actuarial function to ensure their consistency with the Company's risk appetite. Underwriting limits are an integral part of the reinsurance underwriting guidelines. For more complex transactions, these guidelines also define the process of approving risk acceptance, including roles and responsibilities and escalation procedures.

In addition to the above, the Company analyses the impact of various stress tests on the level of risk. In the calculation as at 31 December 2017, we tested the impact of a **10% increase in the volume measure for the premium risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the premium volume measure would result in a 5.3% increase in the premium and reserving risk of non-life insurance and a 6.3% increase in the premium and reserving risk of NSLT health insurance. The increase in the Company's overall SCR is smaller than the materiality threshold[4] and does not materially affect the Company's solvency.

We also analysed the impact of a **10% increase in the volume measure for the reserving risk of non-life and NSLT health insurance** on the level of premium and reserving risk and the overall SCR. A 10% increase in the reserve volume measure would result in a 4.7% increase in the premium and reserving risk of non-life insurance and a 3.7% increase in the premium and reserving risk of NSLT health insurance. The increase in the overall SCR is below the materiality threshold; and the stress test does not affect the Company's solvency.

Below we set out the risk management of individual non-life and health NSLT underwriting risks in greater detail.

Premium risk

Premium risk is managed mainly through proper reinsurance underwriting and quarterly performance monitoring by insurance class, if necessary also by contract or partner, and through measures taken on this basis.

As regards **underwriting process risk**, the Company seeks to reduce it by means of additional training of underwriters; by producing understandable, clear and detailed instructions; and by defining appropriate underwriting limits that are consistent with the Company's risk appetite as defined in its risk strategy, business strategies and retrocession programme. In addition, we pay special attention that contracts are entered into with verified and trusted cedants and that there are appropriate limits on exposure concentration by geographical area and homogeneous risk groups in order to meet the required risk diversification. Significant reinsurance underwriting process risks include the risk of error in the assessment of the Probable Maximum Loss (hereinafter: PML), especially by the cedants of the Sava Re Group. To reduce this risk, the Company provides guidance on PML assessment, cooperates with its cedants' underwriters when underwriting large risks, organises training in this area, and makes sure that the retrocession programme covers PML errors.

As regards **product design risk**, the Company manages such risk largely indirectly, as it has to follow the fortunes of its cedants in proportional reinsurance business. This is why the verification of cedants constitutes the main part of risk assumption. The Company can manage product design risk directly only as regards the contractual terms and conditions, which, if inappropriate, may include associated risks that the Company, unaware of such when entering into the contract, fails to take account of when setting the premium. This can arise owing to poor and inadequate information provided by the cedant, or due to inadequate interpretation of the terms and conditions. To properly assess all risks, the Company must fully understand all positive and negative aspects of the contract and the associated risks. Before entering into a contract, the Company therefore analyses in detail both the partner and the market, collects the information available (from the media, competitors, clients), monitors the applicable regulations and the related requirements, observes trends in historical claims data (for the entire market) and forecasts. In addition, the Company may use special clauses in reinsurance contracts to limit performance volatility, e.g. a sliding scale commission and profit commission, and loss ratio limitations determined on a sliding scale and profit and loss ratio ceilings.

[4] The materiality threshold is a measure of the Company associated with the level of the Company's eligible own funds and solvency capital requirement. As at 31 December 2017, the Company's materiality threshold was €5.0 million.

As regards **claims risk**, this can be related to an incorrect risk assessment in the underwriting process, new types of claims, changes in case law, increased awareness of policyholders of their rights, changes in macroeconomic circumstances, activities adversely affecting the environment, and an inappropriate retrocession programme. We seek to control this risk by conducting an in-depth assessment of underwriting risks, careful allocation of authorities in the underwriting process, and development of an IT support that allows a thorough overview of claims accumulation. As with product design risk, the Company can manage this risk through the use of special clauses in proportional reinsurance contracts that limit the reinsurer's share of unexpected claims and by not accepting unlimited layers under non-proportional contracts. Also central to reducing this risk is the annual testing of the appropriateness of retrocession protection using a variety of stress tests and scenarios, and setting appropriate retentions.

Reserve risk

The Company manages reserve risk by means of robust processes and effective controls as regards the calculation of IFRS and Solvency II technical provisions. In addition, it conducts annual backtesting of the appropriateness of technical provisions, analysing any major reasons for their insufficiency. All experience so gained is then used in the calculation of future technical provisions. An effective calculation process for technical provisions comprises several key steps. By documenting and understanding such a process, the Group can identify and describe potential risks, such as:

- the risk of data availability and accuracy,
- the risk of adequacy of methods and assumptions used,
- the risk of a calculation error,
- the risk associated with supporting IT systems and tools.

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

Examples of controls include:

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

The process by which technical provisions are calculated is subject to periodic 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, being the risk of early termination of reinsurance contracts, is less important for the Company, as the vast majority of reinsurance contracts is entered into for one year, and the risk is also managed by developing and maintaining good business relations with cedants and closely monitoring the market situation.

Catastrophe risk

The Company manages catastrophe risk by means of a well-designed underwriting process, geographical diversification and adequate retrocession protection against natural and man-made catastrophes.

To protect against catastrophic events, the Company has in place catastrophe retrocession covers (CAT XL), for both intra- and extra-Group business; with a retention of €5 million for both parts of the portfolio. This means that if a catastrophic event occurs, the Company will suffer a loss of €5 million and will have to pay a reinstatement premium (of about €2 million). For the intra-Group business, the exposure on one geographical area is relatively large, therefore, the CAT XL protection has a larger capacity, i.e. €65 million for all natural catastrophes or €115 million for earthquake, divided into four or five layers, with the first two layers with two free reinstatements each and one free reinstatement for each other layer. The extra-Group business is very diversified in terms of geography, and therefore has a per event capacity of €20 million in two layers with one free reinstatement for each. If in a year with an extreme loss experience the number of free reinstatements is exhausted, the Company will buy a further CAT XL cover for the remaining period. This is an ordinary instrument available in international reinsurance markets, the price of which is lower than the initial cover because of the shorter period of exposure. Owing to a potentially higher frequency of catastrophic events, the extra-Group business is additionally protected by a cover in the amount of €3 million in excess of a €2 million priority. The coverage may be used starting from the occurrence of the third catastrophic event in the year. In case of a third event, the Company's net loss would amount to €2 million. This ensures that the Company remains solvent even if several catastrophic events occur in any one year.

The Company also considered scenarios and their impact on operations and the solvency position. For this purpose, scenarios were selected based on the own risk profile, striving to identify events with a potentially maximum impact on the operations and capital adequacy, taking into account the probability of them materialising.

Catastrophe risk is a very important risk for the Company. Therefore, we decided in the ORSA process to test the impact on the Company's solvency of a reoccurrence of two consecutive hurricanes (Irma and Maria) that occurred in the Caribbean in 2017. In the scenario, we redirected the hurricane paths so that they crossed in precisely the area of our largest exposure. We assumed that both would be highest-grade category 5 hurricanes. The return period of one hurricane is conservatively assessed at 50 year, that of two consecutive hurricanes at 100 years. In case of such a catastrophic event, the eligible own funds would be affected by the amount of the claim payment. Such an event would have a material effect on the profit or loss for the year; however, Sava Re would maintain a substantial surplus of eligible own funds over the SCR. The solvency ratio would drop by a few percentage points but still remain on a level within the optimal capitalisation range.

C.2 Market risk

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. 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 equities. The Companies participations in its subsidiaries are exposed to this risk, as well as investments in equities, and equity and mixed mutual funds.
- **Property risk** is the risk a fall in the value of property due to changes in the level and volatility of property prices.
- **Currency risk** is the risk of a drop in the value of assets or increase in the level of liabilities due to changes in the level of currency exchange rates.
- **Spread risk** is the risk of the sensitivity of the values of assets and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
- **Market concentration risk** is the risk of a suboptimal diversification of the asset portfolio or an increased exposure to the default of a single counterparty or group of counterparties.

C.2.1 Risk exposure

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

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

(€ thousand)	31/12/2017	Structure as at 31/12/2017	31/12/2016	Structure as at 31/12/2016
Asset class				
Bonds	**225,422**	**37.6%**	**225,453**	**41.0%**
Government bonds	117,013	19.5%	123,681	22.5%
Corporate bonds	108,409	18.1%	101,772	18.5%
Mutual funds	**2,862**	**0.5%**	**2,388**	**0.4%**
Deposits	**3,127**	**0.5%**	**3,017**	**0.5%**
Equity investments	**351,391**	**58.6%**	**304,238**	**55.3%**
Participations in subsidiaries	340,992	56.9%	294,439	53.6%
Listed equities	6,820	1.1%	5,899	1.1%
Unlisted equities	3,579	0.6%	3,899	0.7%
Property	**11,834**	**2.0%**	**11,875**	**2.2%**
Own-use property	3,361	0.6%	8,594	1.6%
Other property	8,473	1.4%	3,281	0.6%
Loans and mortgages	**4,610**	**0.8%**	**2,835**	**0.5%**
Total	**599,246**	**100.0%**	**549,807**	**100.0%**

The value of assets that the Company includes in the calculation of market risks was €599.2 million as at 31 December 2017 (31/12/2016: €549.8 million). The increase in investments in 2017 is mainly due to the increased value of participations. Some €31.6 million of the €46.6 million increase in the value of participations relates to the changed valuation methodology (details are set out in section E.1).

Their structure shows that the Company’s financial investments mainly consist of strategic participations and fixed-income financial instruments. The predominance of fixed-income financial instruments reflects the Company’s policy that defines asset and liability matching as one of the main objectives of investment management.

Variable-income investments account for a relatively low share of portfolio investments[5], as the majority of equity investments consist of participations. Portfolio investments show 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 risk, the Company uses the Solvency II standard formula in addition to its own risk assessment.

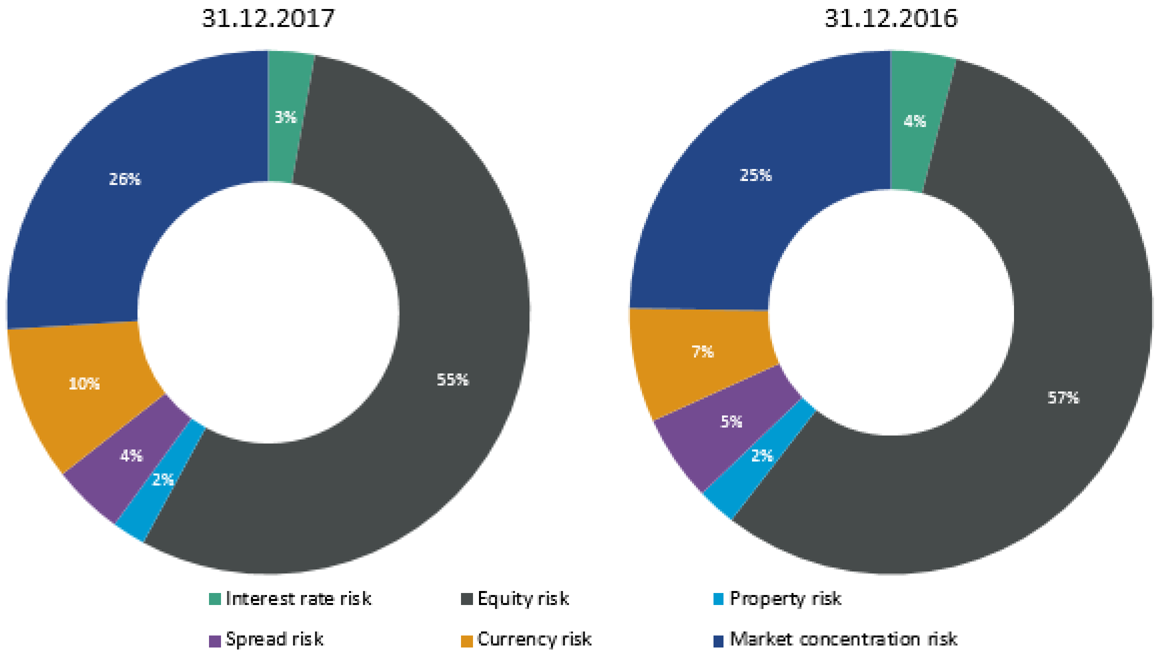
The solvency capital requirement in accordance with the Solvency II standard formula for market risk amounted to €98.5 million as at 31 December 2017 (31/12/2016: €85.3 million) or 47.8% of the total undiversified basic solvency capital requirement.

The increase in the capital requirement is largely due to an increased exposure to Group companies and the application of a look-through approach.

The Company has participations in insurance companies in and outside the European Union in the amount of €290.6 million and €41.3 million, respectively. The Company’s exposure due to participations in subsidiaries therefore accounts for a significant proportion of the capital requirement for equity and concentration risks.

[5] Assets included in the calculation of market risks less participations.

Undiversified market risk by risk sub-module



- **Interest rate risk** accounts for a relatively small proportion of capital requirements for market risk. Interest-rate-sensitive investments include bonds, deposits and loans. Interest-rate-sensitive liabilities mainly include technical provisions. The Company regularly monitors, analyses and addresses the scope of the assumed interest rate risk. We believe that with its specific activities and internal controls, it manages interest rate risk well.
- **Equity risk** is the largest individual market risk, representing 55% of total market risk. Equity risk arising from portfolio investments is relatively low due to the smaller exposure. There is a rather significant amount of equity risk arising from participations, which contributes much of the capital requirement.
- **Property risk** is the proportion of property within the investment portfolio that is capped through the Company's limits system and therefore relatively small. Consequently, property risk to which the Company is exposed is low.
- **Currency risk** represents 10% of market risks. Both assets and liabilities are exposed to this risk. The monitoring and management of currency risk is presented in greater detail in the Company's annual report, in section 23.5.3.2.4 "Currency risk". As at 31 December 2017, the Company reported highly matched assets and liabilities in accordance with IFRSs. Nevertheless, the Company still had some currency mismatches under the Solvency II methodology as a result of the lower level of the best estimate of technical provisions. Currency risk increased compared to the previous year, mainly because of the use of a look-through approach with subsidiaries, which affected the currency structure of their assets and liabilities. This had an effect on the currency structure of the Company's assets through participations, and these in turn affected the level of currency risk.
- **Spread risk** represents a relatively small proportion of market risk and contributed 4% to the capital requirement. The Company has a limits system in place to manage credit risk. The system defines maximum exposures to a single issuer, region, sector and credit rating, and thus prevents the assumption of risks inconsistent with the Company's risk appetite.
- **Market concentration risk** is the second largest subcategory of market risk, accounting for 26% thereof. The level of this risk is due to the Company's participations in non-EU based subsidiaries, which are considered as a single exposure under the standard formula. The Company monitors and adjusts the exposures or concentrations by region, sector and investment type, thus

preventing any large concentrations in the investment portfolio and limiting the risk. The Company's portfolio broken down by theses parameters and by rating is shown in its annual report, in section 23.5.3.4 "Credit risk".

When assessing the risks associated with the investment portfolio, the Company also regularly monitors other risk measures, i.e. performance of the investment portfolio:

- income volatility,
- market and book return.

As part of its asset and liability matching, the Company calculates and monitors on a quarterly basis the following for each asset and liability portfolio:

- risk measures: modified duration, convexity and key rate duration,
- estimated future cash flows,
- the currency structure of assets and liabilities.

In addition to the standard formula, the Company also uses its own solvency risk assessment model (within ORSA) to monitor and assess market risk. In our own calculation of risk, we assess the following financial risks: equity risk, part of interest rate risk and credit risk. The valuation of equities is conducted using the Capital Asset Pricing Model (CAPM), where for each equity instrument, a stock index is determined representing market return in the model (relevant economic scenario generators are used as a basis). In its own model, the Company includes all marketable equity securities sufficiently liquid to allow it to estimate, with sufficient accuracy, the parameters of the model using historic data. For other investments, the Company uses stresses prescribed by the standard formula. In the ORSA, interest rate risk is assessed for investments and liabilities in EUR, USD, DKK and BGN[6]. For other currencies, it only uses the standard stress test for interest rate rises. In its own model, the Company also assesses credit risk, which also captures market concentration and spread risks. For more details on these risks, see section C.3.2.

Among its financial investments in subsidiaries and associates, Sava Re has one major exposure, i.e. to Zavarovalnica Sava, the value of which accounts for 85.2% (2016: 85.1%) of the total value of its financial investments in subsidiaries and associates. The Company's highest single issuer concentration (as well as the highest regional concentration) is to the Republic of Slovenia. The Company is aware of the risks related to the mentioned concentrations and is actively managing them by gradually reducing exposures and setting adequate maximum exposure limits in the Company's limits system.

C.2.3 Risk management

The framework for the market risk management is set out in the Company'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,
- the monitoring of compliance of the portfolio with the limits system,

[6] Euro, US dollar, Danish krone, Bulgarian lev.

- persons responsible in the investment process.

In the management and monitoring of market risk, the Company 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 investment and liabilities.

The Company's main method of matching asset and liability is through matching and hedging. If possible and cost-effective, the Company does so by matching assets to liability cash flows. The Company does not use derivative financial instruments for asset and liability matching.

The Company manages the risks arising from the financial investments portfolio by regularly monitoring and analysing issuers' financial data, monitoring the market prices of financial instruments, regularly analysing asset and liability management figures submitted to the risk management committee, and analysing sensitivity tests for material parameters of market risk.

We carried out four stress tests applying various parameters that affect the level of the solvency capital requirement for market risk and the level of the Company's eligible own funds, and consequently the solvency position.

The first sensitivity test was an **increase and decrease in interest rates**. We carried out a stress test of interest rate sensitivity by increasing and lowering the base curve of the risk-free interest rate for all maturities by 100 basis points. Then, a new calculation was made of eligible own funds and the solvency capital requirement for all interest-rate-sensitive assets and liabilities. An increase in interest rates by 100 basis points resulted in a decrease in the Company's eligible own funds slightly below the Company's materiality threshold[7] as well as a decline in its SCR. Thus the impact of the stress test on the solvency ratio is relatively small and comparable with the calculation of the stress test impact as at 31 December 2016. A drop in interest rates by 100 basis points had an inverse impact on eligible own funds and the SCR, while the impact on the solvency ratio was also relatively small and comparable to the calculation of the impact as at 31 December 2016.

The second was a stress test of a **fall in the prices of the Company's equities**, which was carried out by decreasing equity prices by 20% as at the reporting date. However, we did not decrease the value of participations in subsidiaries. The impact on equities was proportionate to the shock. This mainly resulted in a decrease of eligible own funds, as well as in a decline in the capital requirement within the equities risk sub-module. The decline in eligible own funds and in the SCR is below the Company's materiality threshold, while the impact on the solvency ratio is very small and comparable to the calculation of the stress test impact as at 31 December 2016.

The impact of a change in property prices on the Company's solvency position was analysed through a stress test assuming a **25% fall in property prices**. The basis of the calculation was the balance of property assets as at the reporting date. This mainly resulted in a decline in eligible own funds, but the capital requirement of the property risk sub-module also decreased. The impact of a fall in property prices on eligible own funds and the SCR is below the materiality threshold. The impact of the stress test on the solvency ratio is thus very small and comparable to the impact calculation as at 31 December 2016.

[7] The materiality threshold is an internal measure associated with the level of eligible own funds and solvency capital requirement. As at 31 December 2017, the Company's materiality threshold was €5.0 million.

As mentioned, the value of participations in subsidiaries has a material effect on the balance sheet and the level of the Company's market risk; we, therefore, tested the impact on the solvency position of a **20% fall in the value of the largest subsidiary**, Zavarovalnica Sava. Investments in the Company's insurance subsidiaries are valued in the Solvency II balance sheet using the adjusted capital method – as the excess of the companies' Solvency II assets over liabilities. The value of the participation in Zavarovalnica Sava totalled €290.6 million in the Solvency II balance sheet as at 31 December 2017, accounting for 85.2% of the overall value of financial investments in subsidiaries and associates. The stress test assuming a 20% fall in the value of the participation in Zavarovalnica Sava materially reduces the eligible own funds and the Sava Re SCR. Since eligible own funds suffer a greater loss than the SCR, there is also a significant fall in the Company's solvency ratio, while its solvency is not compromised thanks to a still-high solvency ratio. The impact of the stress test on the Company's solvency position is similar to the impact of the stress test as at 31 December 2016.

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

Prudent person principle

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

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

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

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

The Company has in place a limit system based on the calculated maximum expected losses of individual issuers, restrictions regarding concentration risk prescribed by the Solvency II standard formula, and restrictions arising out of risk appetite and acceptable volatility of return on financial investments. In addition to limits by type of investment, industry, region and issuer, the Company set a minimum proportion of investments rated A– or better of at least 40% of the investment portfolio value and a restriction on the maturity of debt instruments the credit rating of which must not exceed the investment grade level.

In the case of a conflict of interest, the Company ensures that the investment is made in the best interest of policyholders and beneficiaries.

C.3 Credit risk

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

C.3.1 Risk exposure

The Company is exposed to the following risks:

- **counterparty default risk**, which may result in losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the coming 12 months. Counterparty default risk covers risk-mitigating contracts, such as reinsurance arrangements, and receivables from intermediaries, as well as any other credit exposures not covered in the spread risk sub-module under the standard formula (cash and cash equivalents and deposits of up to three months), credit risk from receivables arising out of delays in the payment of liabilities under inwards reinsurance business and recovery arrangements under subrogation rights. In order to avoid such delays, the Company closely monitors the payment behaviour of cedants, running procedures to collect 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 risk section, in accordance with the risk classification and measurement of the standard formula. Below, we provide details regarding counterparty default risk.

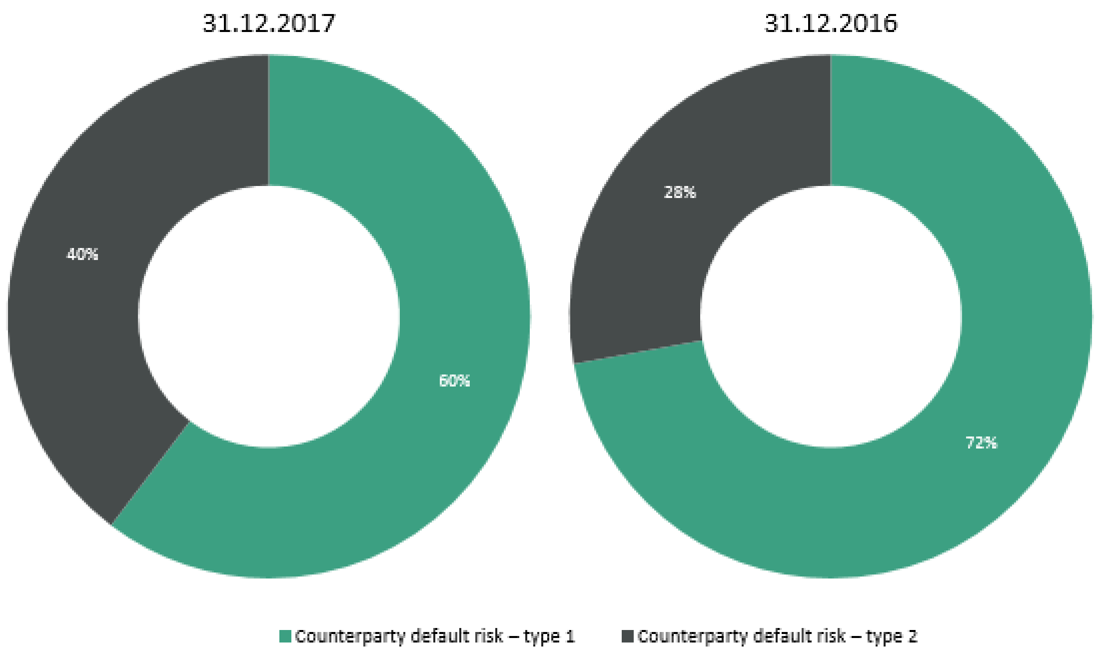
C.3.2 Risk measurement

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

The Company's solvency capital requirement in accordance with the Solvency II standard formula for counterparty default risk amounted to €5.5 million as at 31 December 2017 (31/12/2016: €6.7 million) or 2.7% of the total undiversified basic solvency capital requirement.

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

Undiversified counterparty default risk by risk sub-module



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

In addition to the calculation of the solvency capital requirement in accordance with the standard formula, the Company develops its own model (in ORSA) to assess credit risk relating to financial investments. This model takes account of spread, migration and default risks for all investments in debt instruments. Closely interrelated, these risks are also addressed within a single model in the ORSA. The model only considers financial investments, excluding participations in subsidiaries. As regards counterparty default risk related to reinsurers and co-insurers, we believe that the standard formula appropriately evaluates the risk and, therefore, do not carry out our own calculations in this part. In our own credit risk calculation, we also consider the diversification effect.

The Company has no significant concentration with counterparty default risk.

C.3.3 Risk management

The Company's investment portfolio is reasonably diversified in accordance with the Slovenian Insurance Act and the Company's limits system in order to avoid large concentrations of a certain type of investment, large concentrations with any counterparty or economic sector or other potential forms of concentration.

The Company manages its credit risk associated with assets under re(co)insurance contracts by limiting the exposure to a single re(co-)insurer and by entering into contracts with highly-rated partners.

To avoid such delays, the Company closely monitors the payment behaviour of cedants, running procedures to collect overdue receivables.

The Company monitors and reports on credit risk exposure on a quarterly basis and is thus able, if necessary, to take timely action. Partner credit ratings are also monitored, with a focus on any indications of their possible downgrading. To this end, a process has been put in place (within the credit rating committee) for checking external ratings.

C.4 Liquidity risk

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

C.4.1 Risk exposure

The Company has substantial monetary liabilities (mainly to policyholders), and must therefore adequately manage its cash flows, ensuring an appropriate level of liquidity. The Company carefully plans and monitors cash flows (both inflows and outflows). Furthermore, it regularly monitors the receivables aging analysis, considering the impact of the settlement of receivables on its current liquidity.

C.4.2 Risk measurement

Liquidity risk is also a risk difficult to quantify and hence is not covered within the Solvency II standard formula. It is regularly monitored and managed by the Company.

To determine its exposure to liquidity risk, the Company monitors and analyses the following risk measures:

- cash in bank accounts;
- the percentage of highly liquid assets and the haircut category with regard to the total amount of financial investments, in the valuation in accordance with the ECB methodology,
- 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 prescribed measures.

C.4.3 Risk concentration

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

C.4.4 Risk management

The Company defined liquidity risk as one of its key risk exposures in its risk strategy. In order to effectively manage liquidity risks, the Company has adopted a liquidity risk management policy, which sets out the risk management processes and risk measures, as well as the processes involved in the case of emergency liquidity needs. Due to the nature of liquidity risk, the Company does not manage such risk by holding additional capital, but through an appropriate strategy for ensuring sufficient liquidity.

The estimated liquidity requirement of the Company is composed of the estimated normal current liquidity requirement (arising from operations and investment maturities) and a liquidity buffer (estimated based on stress scenarios).

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

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, the Company maintains a liquidity buffer of highly liquid assets accounting for at least 15% of its investment portfolio. As at 31 December 2017, Sava Re had 28.2% of its investment portfolio invested in highly liquid assets (31/12/2016: 31.7%), which is well above the level defined in the risk strategy.

Two credit lines with two commercial banks have been arranged as an additional liquidity buffer for cases involving emergency liquidity needs.

Due to the high proportion of highly liquid assets and the arrangement of an additional credit line, the Company believes that its liquidity risk is well-managed.

Expected profits included in future premiums

Expected profits included in future premiums (hereinafter: EPIFP) that the Company, in accordance with article 260(2) of Commission Delegated Regulation (EU) (2015/35), calculated as the difference between technical provisions without a risk margin calculated in accordance with Solvency II and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. In the latter calculation, a 100% rate of cancellations is assumed, and all policies are treated as paid-up policies.

The 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.

Expected profits included in future premiums as at 31 December 2017 totalled €6,720 thousand (31/12/2016: €5,559 thousand).

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 Company's major risks. Nevertheless, some are relatively important, in particular:

- risk of inside information leaks,
- risk of incorrect data input and inadequate documentation,
- risk of evaluation and reporting error,
- risk of inadequate communication,
- risks associated with transactions, execution and maintenance,
- risk associated with supervision and reporting,
- compliance risk (laws and regulations),
- risk of loss of key, expert and high-potential employees,
- risk of damage to physical assets due to natural disaster or fire,
- risk of loss or failure of computer or telecommunication systems.

C.5.2 Risk measurement

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

As at 31 December 2017, the Company's exposure to operational risks calculated using the standard formula amounted to €4.5 million (31/12/2016: €4.5 million).

Due to the above-mentioned reasons, the Company assesses operational risks mainly by qualitatively assessing the related probability and financial severity within the risk register, and by analysing various scenarios (also within ORSA). The Company makes quarterly risk assessments to obtain insight into the level of its current exposure to such risks.

C.5.3 Risk concentration

The Company is not exposed to significant concentrations of operational risk.

C.5.4 Risk management

The Company has in place various processes that ensure it can properly identify, measure, monitor, manage, control and report operational risks, thus ensuring their effective management. Accountability and operational risk management processes are set out in greater detail in the operational risk policy and the risk management rules.

The chief operational risk management measures that the Company implements are:

- maintaining an effective business processes management system and internal controls system,

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

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

All major internal controls related to operational risk are included in the risk register.

The Company regularly reports on assessed operational risks in the risk report, which is submitted to the risk management committee, the Company's management board and the supervisory board's risk committee. The risk management function and the risk management committee may issue recommendations to the management board for further steps and improvements to operational risk management processes.

C.6 Other material risks

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

C.6.1 Risk exposure

The Company is exposed to a variety of internal and external strategic risks. The key strategic risks of the Company in 2017 primarily include:

- regulatory risk,
- reputation risk,
- project risk,
- risks arising out of subsidiary and associate companies, and
- competitor risk.

C.6.2 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, strategic risks relating to the risk register are assessed qualitatively by assessing the frequency and potential financial impact of each event. In addition, the Group seeks to evaluate key strategic risks using a qualitative analysis of various scenarios (also as part of the ORSA). Based on both analyses combined, the Company obtains an overview of the extent and change in the exposure to this type of risk.

C.6.3 Risk concentration

The Company manages strategic risks well and has no material exposure to concentration risk.

C.6.4 Risk management

The Company mitigates individual strategic risks mainly through preventive measures.

In addition to individual organisational units, the management board, the risk management committee and the risk management functions are actively involved in the identification and management of strategic risks.

Strategic risks are also managed through on-going monitoring of the realisation of the Company's short- and long-term goals, and by monitoring regulatory changes in the pipeline and market developments.

The Company actively manages **risks arising from subsidiary and associate companies** through:

- a governance system and clear segregation of responsibilities at all levels;
- risk management policies;

- systematic risk management with a three-lines-of-defence framework (discussed in detail in section B.3),
- top-down setting of business and risk management strategies, taking into account both the Group as a whole as well as its individual members;
- a comprehensive system of monitoring operations, reporting on business results and risks at all levels.

The Company is aware that its reputation is important for realising its business goals and achieving strategic plans in the long term. The risk strategy therefore identifies **reputation risk** as a key risk. The Company seeks to minimise the likelihood of actions that could have a material impact on the reputation of any Group company or the Group as a whole. In addition, the Company has taken steps aimed at mitigating reputation risk, such as setting up fit and proper procedures applicable to key employees, ensuring systematic operations of their respective compliance functions, having in place business continuity plans, developing stress tests and scenarios, and planning actions and response in case risks materialise. Risks related to reputation are also managed through seeking to improve services, timely and accurate reporting to supervisory bodies, and well-planned public communication. A crucial factor in ensuring the Company's 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 Company manages and mitigates **regulatory risk** through ongoing monitoring of legal changes and assessing such potential effects on operations in the short and longer term. In accordance with statutory regulations, the Company has established a compliance function to monitor and assess the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Company's compliance with regulations and other commitments.

25 May 2018 is the scheduled starting date for the direct application of the EU Regulation 2016/679 of the European Parliament and of the Council dated 27 April 2016 on the protection of individuals with regard to the processing of personal data and on their free movement and the date of the repeal of Directive 95/46/EC (General Data Protection Regulation; GDPR.) In this regard, the Company has already started work on harmonising its internal rules on data protection, taking measures for effective monitoring and responding in case of any breach, and preparing a risk assessment.

On 1 January 2021, (re)insurance companies will have to begin implementing the application of IFRS 9 Financial Instruments, which is to supersede IAS 39. IFRS 9 introduces new criteria for the classification of financial instruments into categories based on the Company's business model and the characteristics of the instrument. In addition, it introduces an expected loss model for impairments. It will affect contractual cash flows, the statement of other comprehensive income and the income statement. In May 2017, the International Accounting Standards Board issued IFRS 17 – Insurance Contracts. IFRS 17 is applicable to annual reports as of 1 January 2021, when it will supersede IFRS 4. The general model introduced by IFRS 17 proposes that insurance obligations be measured at the expected value of future cash flows (at discounted market rates) plus a risk adjustment and service margins. Accordingly, reinsurance contracts will be treated as separate insurance contracts. This will require the setting of contract boundaries, risk adjustment and, where appropriate, the setting of a contractual service margin. As a result, reinsurance reporting will become more complex. The Company has already started working adjust its operations to comply with both above-mentioned accounting standards.

C.7 Any other information

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

D. Valuation for Solvency purposes

In accordance with article 174 of the Slovenian Insurance Act, assets are valued at amounts for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction. Liabilities are valued at amounts by which they could be transferred or settled between knowledgeable and willing parties in an arm's length transaction. The value of liabilities is not adjusted in respect of the Group's creditworthiness.

The valuation of assets is conducted in accordance with IFRSs as adopted by the European Commission. If the IFRSs allow for several valuation methods, a method has to be chosen that is consistent with Solvency II principles and article 174 of the Insurance Act ZZavar-1. For most other cases of assets and liabilities, not elsewhere shown (apart from technical provisions "TP"), the IFRSs provide for a valuation method consistent with Solvency II principles.

The Company measures all financial instruments at fair value, except for deposits, equities not listed in any regulated market and loans (assumed that the carrying amount is a reasonable approximation of fair value). The fair value of investment property and land and buildings used in business operations are reported based on appraisals conducted by independent external property appraisers (market approach and income approach (weighted 50:50), while new purchases are reported at cost.

The Company determines the fair value of a financial asset on the valuation date by determining the price in the principal market based on:

- for stock exchanges: the quoted closing price on the stock exchange on the measurement date or on the last day of operation of the exchange on which the investment is quoted,
- for the OTC market: quoted closing bid CBBT price or, if unavailable, the Bloomberg bid BVAL on the valuation date or on the last day of operation of the OTC market,
- the price is calculated on the basis of an internal valuation model.

Investments measured at fair value are presented in accordance with the levels of fair value under IFRS 13, which categorises the inputs used to measure fair value into the following three levels of the fair value hierarchy:

- Level 1 financial investments are those for which the fair value is determined based on quoted prices (unadjusted) in active markets for identical financial assets that the Company can access at the measurement date.
- Level 2 financial investments are those whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3 comprises financial investments for which observed market data are unavailable. Thus the fair value is determined based on valuation techniques using inputs that are not directly or indirectly observable in the market.

Methodology for the measurement of financial investments

Asset class / principal market	Level 1	Level 2	Level 3
Debt securities			
OTC market	Debt securities measured based on the CBBT price in an active market.	Debt securities measured based on the CBBT price in an inactive market. Debt securities measured at the BVAL price if the CBBT price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider level 2 inputs.
Stock Exchange	Debt securities measured based on stock exchange prices in an active market.	Debt securities measured based on stock exchange prices in an inactive market. Debt securities measured at the BVAL price when the stock exchange price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider level 2 inputs.
Shares			
Stock Exchange	Shares measured based on stock exchange prices in an active market.	Shares measured based on stock exchange prices in an inactive market. Shares without available stock exchange prices and that are measured using an internal model based on level 2 inputs.	Shares measured using an internal model that does not consider level 2 inputs.
Unlisted shares and participating interests			
			Unlisted shares measured at cost. Fair value for the purposes of disclosures calculated based on an internal model used for impairment testing using mainly unobserved inputs.
Mutual funds			
	Mutual funds measured at the quoted unit value on the measurement date.		
Deposits and loans			
with maturity		Measured at amortised cost; for the purposes of disclosure, fair value calculated using an internal model using level 2 inputs.	Measured at amortised cost; for the purposes of disclosure, fair value calculated using an internal model not using level 2 inputs.

The basis for the balance sheet in accordance with Solvency II (hereinafter: SII balance sheet), with assets and liabilities valued in accordance with the valuation principles set out in articles 174 to 190 of the Slovenian Insurance Act ZZavar-1, is the balance sheet drawn up by the Company for reporting purposes in accordance with IFRSs, referred to in this document as IFRS balance sheet.

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

The tables below show the balance sheet as at 31 December 2016 and 31 December 2017 with IFRS values of assets and liabilities (IFRS balance sheet) along with assets and liabilities in accordance with the valuation principles set out in articles 174–190 of the ZZavar-1, taking into account the revaluations and reclassifications of asset and liability items.

IFRS and SII balance sheets as at 31 December 2017

(€ thousand)		IFRS	Revaluation	Reclassification	Solvency II
Assets					
1.	Deferred acquisition costs	7,778	-7,778	0	0
2.	Intangible assets	807	-807	0	0
3.	Deferred tax assets	1,239	2,712	0	3,951
4.	Property, plant and equipment held for own use	2,444	916	0	3,361
5.	Property, plant and equipment other than for own use	8,272	201	0	8,473
6.	Participations	193,410	147,582	0	340,992
7.	Equities	10,399	0	0	10,399
8.	Bonds	224,679	743	0	225,422
9.	Investment funds	2,862	0	0	2,862
10.	Deposits other than cash equivalents	2,399	729	0	3,127
11.	Loans and mortgages	4,610	0	0	4,610
12.	Reinsurance recoverables	20,074	-4,887	-2,497	12,689
13.	Deposits to cedants	5,832	0	0	5,832
14.	Insurance and intermediaries receivables	85,168	0	-69,840	15,328
15.	Reinsurance and co-insurance receivables	3,203	0	-806	2,397
16.	Receivables (trade, not insurance)	232	0	0	232
17.	Own shares	24,939	2,268	0	27,207
18.	Cash and cash equivalents	6,678	0	0	6,678
19.	Any other assets, not elsewhere shown	800	-800	0	0
TOTAL ASSETS		**605,825**	**140,879**	**-73,144**	**673,560**
Liabilities					
20.	Technical provisions– non-life and NSLT health	232,639	-45,070	-53,458	134,112
21.	Provisions other than technical provisions	351	0	0	351
22.	Deferred tax liabilities	0	9,142	0	9,142
23.	Financial liabilities other than debts owed to credit institutions	91	0	0	91
24.	Insurance and intermediaries payables	51,323	0	-16,876	34,447
25.	Reinsurance and co-insurance payables	3,090	0	-2,973	117
26.	Other payables (trade, not insurance)	1,395	0	0	1,395
27.	Subordinated liabilities	0	0	0	0
28.	Any other liabilities, not elsewhere shown:	1,193	-460	0	733
TOTAL LIABILITIES		**289,920**	**-36,387**	**-73,144**	**180,389**
Excess of assets over liabilities		**315,905**	**177,266**	**0**	**493,171**

IFRS and SII balance sheets as at 31 December 2016

(€ thousand)		IFRS	Revaluation	Reclassifications	Solvency II
Assets					
1.	Deferred acquisition costs	6,898	-6,898	0	0
2.	Intangible assets	833	-833	0	0
3.	Deferred tax assets	1,373	1,924	0	3,297
4.	Property, plant and equipment held for own use	7,708	886	0	8,594
5.	Property, plant and equipment other than for own use	3,167	114	0	3,281
6.	Participations	191,640	102,799	0	294,439
7.	Equities	9,479	0	0	9,478
8.	Bonds	224,693	760	0	225,453
9.	Investment funds	2,708	0	0	2,708
10.	Deposits other than cash equivalents	2,399	619	0	3,017
11.	Loans and mortgages	2,835	0	0	2,835
12.	Reinsurance recoverables	18,204	-1,845	-2,158	14,200
13.	Deposits to cedants	7,836	0	0	7,836
14.	Insurance and intermediaries receivables	75,716	0	-62,789	12,927
15.	Insurance and intermediaries receivables	3,888	0	-415	3,473
16.	Receivables (trade, not insurance)	233	0	0	233
17.	Own shares	24,939	-2,174	0	22,764
18.	Cash and cash equivalents	7,990	0	0	7,990
19.	Any other assets, not elsewhere shown	549	-549	0	0
TOTAL ASSETS		**593,086**	**94,803**	**-65,362**	**622,526**
Liabilities					
20.	Gross technical provisions – non-life and NSLT health	226,207	-43,100	-47,761	135,347
21.	Provisions other than technical provisions	332	0	0	332
22.	Deferred tax liabilities	0	8,719	0	8,719
23.	Financial liabilities other than debts owed to credit institutions	104	0	0	104
24.	Insurance and intermediaries payables	40,302	0	-15,028	25,274
25.	Reinsurance and co-insurance payables	3,422	0	-2,573	848
26.	Other payables (trade, not insurance)	2,586	0	0	2,586
27.	Subordinated liabilities	23,571	0	0	23,571
28.	Any other liabilities, not elsewhere shown:	1,268	-413	0	855
TOTAL LIABILITIES		**297,792**	**-34,794**	**-65,362**	**197,637**
Excess of assets over liabilities		**295,294**	**129,596**	**0**	**424,890**

In the Company's Solvency and Financial Condition Report 2016, insurance and intermediaries receivables and reinsurance and co-insurance receivables were reported aggregated in the reinsurance and co-insurance receivables item. Similarly, in our 2016 report, we reported the reinsurance and co-insurance payables item as the total of insurance and intermediaries payables and reinsurance and co-insurance payables.

In 2017, the Company changed the presentation of the sub-items of receivables and liabilities from operating activities. To better reflect the nature of the Company's operations, we now disclose the items relating to accepted reinsurance and co-insurance business (inwards re(co-)insurance, under receivables and liabilities from primary insurance business. Receivables and liabilities from reinsurance and co-insurance business, however, will continue to include items relating to ceded retrocession business. The changed presentation only includes a reclassification from one receivables or payables item to another, which has no effect on the balance sheet total.

The Company’s off-balance sheet items for 2017 include contingent assets in the amount of the cancelled subordinated instruments (€10.0 million), regarding which the Company continues with measures designed to protect its interests. Thus in December 2016, claims were filed against the issuing banks of the cancelled subordinated financial instruments held by the Company. Furthermore, off-balance sheet items in 2017 also include guarantees issued of €0.2 million.

D.1 Assets

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

D.1.1 Deferred acquisition costs

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

D.1.2 Intangible assets

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

D.1.3 Deferred tax assets and liabilities

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

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.

If a company has a loss in its income statement for tax purposes, until the covering of such a loss (there is no time limit under the Slovenian Corporate Income Tax Act ZDDPO-2), the company is not subject to payment of corporate income tax, but it may recognise deferred tax assets, thus reducing its deferred tax expenses. In the statements for tax purposes, a company does not show unused tax losses.

As a general rule, the recognition of deferred tax liabilities is mandatory, while deferred tax assets only need to be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In the SII balance sheet, deferred tax assets and liabilities are accounted for on all revaluations apart from:

- the revaluation of the participations item if participations are considered strategic investments – in such cases revaluation differences are treated as permanent differences and do not meet the requirements of temporary differences and, therefore, there is no basis for accounting for deferred taxes with regard to this item;
- the revaluation of the item own shares listed on a stock exchange, because it does not constitute a taxable temporary difference;
- reclassifications among balance sheet items.

In 2017 deferred tax assets and liabilities were accounted for using a tax rate of 19%. With regard to revaluation, the Company recognises, in accordance with Solvency II principles, net deferred tax liabilities of €6.4 million (2016: €8.3 million).

The largest effect on deferred tax assets relates to the revaluation of deferred acquisition costs to zero. Based on this, a total of €1.5 million of deferred tax assets were recognised (2016: €1.3 million).

The largest effect of deferred tax assets relates to the revaluation of gross technical provisions. Based on this, a total of €8.6 million of deferred tax liabilities was recognised (2016: €9.6 million).

D.1.4 Property, plant and equipment held for own use

Every three years, the Company has the fair values of its properties held for own use appraised by independent external property appraisers. Equipment for own use 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 to sell, certified property appraisers take into account the International Valuation Standards and the International Accounting Standards. The appraisal includes verifying the adequacy of all the used methods of appraising property rights. Depending on the purpose of the valuation and the quantity of available data, a market value appraisal will make use of the market approach and the income approach.

D.1.5 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 section D.1.4 “Property, plant and equipment held for own use”.

Participations

Participations in insurance and pension companies

Two methodologies are applied, one for the revaluation of participations in insurance companies and one for participations in pension companies.

Participations in insurance companies

In the balance sheet, participations in insurance companies are valued on a market-consistent basis. This can be obtained in the following ways:

- market prices that are directly observable, or
- on the basis of an adjusted equity method of valuation (net asset value of participations with adjustment to SII value).

For equity investments in the insurance subsidiaries of Sava Re not listed in any regulated market, the market value is calculated, for the purpose of the capital requirement calculation in accordance with the standard formula, on the basis of an adjusted equity method of valuation – the excess of the insurance company’s SII assets over its liabilities, as none of the Company’s subsidiaries is a listed company.

Where Sava Re holds less than a 100% interest in a subsidiary, proportionate adjustments are made.

Participations in pension companies

In accordance with article 13(5) of Commission Delegated Regulation (EU) 2015/35, the Company values its participation in a pension company using the IFRS equity method. The value of goodwill and other intangible assets that would be valued at zero in accordance with the asset valuation methodology is deducted from the obtained value of the pension company.

Investments in non-insurance companies

Non-insurance subsidiaries carrying on ancillary services to insurance business are valued in accordance with IFRSs for SII balance sheet purposes.

Equities

The Solvency II revaluation methodology for listed equities is consistent with the methodology used for the IFRS balance sheet.

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

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

Bonds

In the IFRS balance sheet, bonds are measured in accordance with International Accounting Standard 39. They are measured based on the IAS fair value category and level into which they are classified.

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

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

Investment funds

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

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 Company's IFRS balance sheet as loans and receivables.

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

The valuation is made using the following data:

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

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

D.1.6 Loans and mortgages

Loans and mortgages are initially recognised at their contract value.

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

The Company's assets do not include loans and mortgages to individuals, but only other loans, which are loans granted to subsidiaries.

D.1.7 Reinsurance recoverables

The Company reclassifies items from retroceded premium provisions for booked, not-past-due commission receivables from retroceded business and booked not-past-due payables for retrocession premiums.

The amount of reinsurance recoverables is measured by the Company's actuarial department. This document only summarises a methodology, which is set out in detail in Sava Re's rules on making best estimates of provisions. These rules take into account the guidelines set out in the Company's underwriting and reserving risk policy.

The Company's core business is accepted reinsurance, which is why, for the sake of clarity, we use the term retrocession for the insurance of such business with subsequent reinsurers – reinsurance ceded.

In view of the relatively small volume of retrocession, we cannot use the same actuarial methods for the calculation of retroceded provisions as we do for gross provisions. Instead, a simplification is used to calculate, based on the retrocession data, the share of retrocession for each homogeneous group and every underwriting year by taking into account the type of retrocession. The calculated share of retrocession is used to calculate the retroceded technical best estimate of premium and claims provisions from the gross technical best estimate of premium and claims provisions (before including expenses, future premium and commission cash flows, and net of the time value of money). Retrocessionaires' shares of provisions for expenses are not accounted for. The currency structure and the time value of money are taken into account in the same way as for the gross best estimates of provisions. In terms of cash flows, a potential expected time lag in payments from retrocessionaires is checked against gross payments, based on historical data on claims paid. 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 (retrocessionaires) and the probability of default associated with these ratings.

D.1.8 Deposits to cedants

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

As deposits to cedants constitute short-term investments, their IFRS balance sheet value is considered a sufficiently good approximation of their market value. The market value of such deposits is therefore not calculated in the model, while in the SCR calculation, the market value is taken to be the value stated in the financial statements.

D.1.9 Insurance and intermediaries receivables

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

In the SII balance sheet, the Company eliminates from the insurance and intermediaries receivables item not-past-due receivables as at the SII balance sheet date, specifically not past due receivables for premiums arising out of accepted reinsurance.

The Company takes the item into account as future cash flows when calculating the gross best estimate of premium provisions, where it is also recognised as a reclassification.

D.1.10 Reinsurance and co-insurance receivables

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

In the SII balance sheet, the Company eliminates from the reinsurance and co-insurance receivables item not-past-due receivables as at the SII balance sheet date, specifically not-past-due reinsurance and co-insurance receivables (commission receivables from retrocession business).

The Company takes the item into account as future cash flows when calculating the reinsurers' share of the best estimate of premium provisions, where it is also recognised as a reclassification.

D.1.11 Receivables (trade, not insurance)

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

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

D.1.12 Own shares

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 SII balance sheet valuation date.

D.1.13 Cash and cash equivalents

Measurement is the same as for the IFRS balance sheet.

D.1.14 Any other assets, not elsewhere shown

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

D.2 Technical provisions

The Company reclassifies the items of the gross premium provision for booked not-past-due premium receivables relating to accepted reinsurance and for booked not-past-due commission payables relating to accepted reinsurance.

The valuation of gross technical provisions is carried out by the Company's actuarial function. This document only summarises the calculation methodology for the best estimate of provisions in the valuation of balance sheet items for the purpose of the Solvency II capital requirement calculation, as detailed in the Company's rules on the calculation of the best estimate of provisions. These rules take into account the guidelines set out in the Company's underwriting and reserving risk policy. The valuation of the reinsurers' share of the technical provisions is described under valuation of assets in section D.1.7.

The calculations are made based on the lines of business specified in annex I to Commission Delegated Regulation (EU) 2015/35, with a distinction made between intra-group and extra-group business. Due to the nature of the obligations relating to the accepted life reinsurance business, the methodology for the valuation of these obligations is the same as for non-life and health not similar to life techniques business. The Company is planning a separate treatment of accepted life reinsurance business.

The technical provisions are made up of the best estimate of provisions and a risk margin. The best estimate of provisions consists of the best estimate of the premium provision and the best estimate of the claims provision. The calculation is based on the classification of business by underwriting year.

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

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

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

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

The basis for the split of cash inflows by currency is the currency 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 split on this basis are discounted using the appropriate risk-free interest rate curves, in which case the Company does not apply the matching adjustment referred to in article 77b of Directive 2009/138/EC, the volatility adjustment referred to in article 77d of Directive 2009/138/EC, the transitional adjustment of the risk-free interest rate term structure referred to in article 308c of Directive 2009/138/EC, nor the transitional deduction referred to in article 308d of Directive 2009/138/EC.

The Company calculates the risk margin according to articles 37–39 of Commission Delegated Regulation (EU) 2015/35. In accordance with article 58 of Commission Delegated Regulation (EU) 2015/35, a simplified calculation method is used for the projection of the solvency capital requirement, namely the level (2) 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. Pursuant to Article 37(3) of Commission Delegated Regulation (EU) 2015/35, the obtained risk margin is allocated to the lines of business based on the ratio of calculated capital requirements.

D.2.1 Values of SII technical provisions

The following tables set out 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 2017 and 31 December 2016 by line of business.

Best estimate of provisions by line of business as at 31 December 2017

(€ thousand)	Gross amount	Reinsurers' share	Risk margin
Proportional medical expense reinsurance	307	0	81
Proportional income protection reinsurance	4,093	307	313
Proportional workers' compensation reinsurance	0	0	0
Proportional motor vehicle liability reinsurance	16,009	157	768
Other proportional motor reinsurance	6,399	9	609
Proportional marine, aviation and transport reinsurance	3,715	54	630
Proportional fire and other damage to property reinsurance	32,302	3,506	3,604
Proportional general liability reinsurance	6,087	245	1,153
Proportional credit and suretyship reinsurance	924	0	217
Proportional medical expense reinsurance	-13	0	0
Proportional assistance reinsurance	0	0	0
Miscellaneous financial loss	369	50	137
Non-proportional health reinsurance	1,204	3	119
Non-proportional casualty reinsurance	14,832	8,258	736
Non-proportional marine, aviation and transport reinsurance	4,310	64	1,420
Non-proportional property reinsurance	26,121	940	7,665
Total portfolio	**116,659**	**13,594**	**17,453**

Best estimate of provisions by line of business as at 31 December 2016

(€ thousand)	Gross amount	Reinsurers' share	Risk margin
Proportional medical expense reinsurance	591	0	39
Proportional income protection reinsurance	4,924	361	615
Proportional workers' compensation reinsurance	0	0	0
Proportional motor vehicle liability reinsurance	16,473	255	1,323
Other proportional motor reinsurance	5,977	80	952
Proportional marine, aviation and transport reinsurance	3,133	21	873
Proportional fire and other damage to property reinsurance	30,038	3,949	3,628
Proportional general liability reinsurance	5,820	259	606
Proportional credit and suretyship reinsurance	815	0	398
Proportional medical expense reinsurance	2	0	1
Proportional assistance reinsurance	0	0	0
Miscellaneous financial loss	542	219	290
Non-proportional health reinsurance	1,095	0	205
Non-proportional casualty reinsurance	15,942	7,698	1,428
Non-proportional marine, aviation and transport reinsurance	2,881	-34	1,008
Non-proportional property reinsurance	28,549	1,393	7,196
Total portfolio	**116,783**	**14,200**	**18,564**

Gross best estimates of provisions remained almost unchanged in 2017 (drop by €124 thousand), while certain effects were offset:

- The increase of €4.4 million relates to the rise in expected future payments for incurred and future claims of the existing portfolio (technical best estimate of provision). In this regard, the largest increase was in the technical provision for proportional fire and other damage to property reinsurance, in particular as the result of some major loss events that hit the Group portfolio and the technical provision of proportional and non-proportional marine, aviation and transport reinsurance, especially due to an unfavourable claims experience of the non-Group portfolio.
- The decline of €5.7 million is the result of the reclassification of higher not-past-due items (premium receivables less commission payables).
- The increase of €0.8 million relates to the change in discount rates also associated with the currency structure.
- The increase of €0.4 million relates to the increase by the amount of future expenses and minor future premium development or significant future commission development of the existing portfolio (especially future sliding scale commissions).

The main differences in the valuation of SII and IFRS technical provisions are (in the calculations of differences for IFRS provisions, we consider the sum of the claims provision and unearned premiums, less deferred commissions):

- The SII provisions are based on the cash flow principle, while the IFRS provisions are based on the principle of earned income less expenses. Thus, the SII provisions are reduced by not-past-due premium receivable (and increased by the associated not-past-due commission payables), which are in the IFRS balance sheet recorded under insurance receivables (or payables). As at 31 December 2017, a proportion of 58.9% (2016: 56.9%) of the difference between the gross SII and IFRS provisions related to the reclassification of not-past-due receivables and payables (without an effect on the amount of eligible own funds).
- SII best estimates of provisions are expected to suffice for the repayment of obligations merely in the case of the weighted average of all potential scenarios (random fluctuations should be partly covered by the risk margin), while the IFRS provisions should suffice in almost all cases. As at 31 December 2017, a proportion of 26.3% (2016: 29.1%) of the difference between gross IFRS and SII provisions related to the different levels of prudence used in making assumptions and to more detailed segmentation of the IFRS provision calculations.
- The assumptions for shares of claims considered in exposure, measured as premiums less commission, in the IFRS and the SII valuation of technical provisions, in the two most important lines of business, for the most recent underwriting year, which is subject to the greatest uncertainty due to unexpired coverage: for proportional reinsurance of fire and other damage to property, these shares total 91.4% in IFRS calculations and 81.5% in SII calculations (2016: IFRS 96.7%; SII 86.2%). For non-proportional property reinsurance, the IFRS share is 85.8%, while the SII share is 71.2% (2016: IFRS 85.6%; SII 75.1%).
- The SII provisions also include all future expected profits arising from the inward reinsurance portfolio. Future profits from accepted reinsurance that are already recognised in accordance with SII principles and reduce SII provisions account for 9.6% of the difference between the gross IFRS and SII provisions as at 31 December 2017 (2016: 9.4% of the difference)
- SII provisions take into account the time value of money, while the IFRS provisions are generally not discounted. As at 31 December 2017, 5.2% of the difference between IFRS and SII provisions related to discounting (2016: 4.6%).

D.2.2 Description of the level of uncertainty associated with the value of SII technical provisions

In sensitivity testing as at 31 December 2017 and 31 December 2016, the Company selected, from the impacts on the technical best estimate of provisions, the sensitivity to assumptions on the loss ratio. A 5% increase in the BF and paid loss ratios in the most recent underwriting year would result in a 4.2% increase in the 2017 gross best estimates of provisions (2016: 3.9%).

The Company also carried out a sensitivity test assuming a 10% reduction in written but not-past-due premiums and commission as part of premiums and commission; the gross best estimates of provisions would increase by 9.8% (2016: 9.1%), which, however, does not affect the change in eligible own funds (reclassification).

In addition, it also tested the sensitivity in case of a 50% increase in other considered expenses (excluding commissions, which are included directly); the gross best estimates of provisions would increase by 0.5% (2016: 0.5%).

Additionally, we report the effect of changes in interest rates for discounting. A downward shock in the standard formula would result in a 2.1% rise in the gross best estimate of provisions (2016: 1.6%); an upward shock in the standard formula would lead to 3.4% fall in gross best estimate of provisions (2016: 3.2%).

The Company identified no other areas of uncertainty. On the basis of the sensitivity calculations presented above, it is evident that the best estimates of provisions are moderately sensitive to the change in the assumptions on expected loss ratios and the change in the considered not-past-due items. Both changes result in approximately the same relative change in calculated provisions. Since costs net of provisions represent a relatively small portion of total expenses, the provisions are almost insensitive to a change in assumptions on these expenses. Provisions are also moderately sensitive to the applied risk-free interest rates used for discounting. In the current period of low interest rates, the prescribed standard shock is asymmetric (negative interest rates are not decreasing), which is why a decrease in provisions in case of an upward shock in interest rates outweighs the increase in provisions in case of a downward shock in interest rates.

The sensitivity analysis thus revealed no area or assumptions that would cause a major uncertainty of established best estimates of provisions.

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 in accordance with IAS 19 based on the ratio of the period of service in the Company. The Company does not defer the recognition of actuarial gains and losses (i.e. the corridor approach) for defined benefit plans.

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

D.3.2 Insurance and intermediaries payables

Insurance and intermediaries payables comprise payables for claims and commission relating to inward reinsurance contracts. In the IFRS balance sheet, these are recognised on the accrual basis by reference to reinsurance accounts. In the IFRS balance sheet, liabilities denominated in foreign currencies are revalued at the ECB exchange rate applicable as at the balance sheet date.

The Solvency II valuation of insurance and intermediaries payables does not differ from the IFRS valuation.

From this item, the Company eliminates not-past-due commission payables relating to inward reinsurance business as at the Solvency II balance sheet date.

The Company takes the item into account as future cash flows when calculating the gross best estimate of premium provisions where it is also reported as a reclassification.

D.3.3 Reinsurance and co-insurance payables

Reinsurance and co-insurance payables comprise premium payables for outward retrocession business. In the IFRS balance sheet, these are recognised on the accrual basis by reference to reinsurance accounts. In the IFRS balance sheet, liabilities denominated in foreign currencies are revalued at the ECB exchange rate applicable as at the balance sheet date.

The Solvency II valuation of reinsurance and co-insurance payables does not differ from the IFRS valuation.

The Company eliminates non-past-due retrocession premium payables from the reinsurance payables item as at the IFRS balance sheet date.

The Company takes the item into account as future cash flows when calculating the reinsurers' share of the best estimate of premium provisions where it is also disclosed as a reclassification.

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 SII balance sheet, nor are these items subject to reclassification based on SII requirements.

D.3.5 Any other liabilities, not elsewhere shown

Within the any other liabilities item, we value at zero any deferred commissions relating to accepted co-insurance and reinsurance, and other deferred income. The Solvency II valuation of other liabilities does not differ from the IFRS valuation.

D.4 Alternative methods for valuation

The Company periodically (every three years) obtains, from an independent external appraiser, market value appraisals of its property for own use and investment property assets. In the Company's estimate, these appraisals are most representative of the amount for which the appraised properties could be exchanged between knowledgeable parties in arm's length transactions.

For equity investments in subsidiary and associate insurance companies of Sava Re, the SII value is calculated for the purpose of the calculation of capital requirement in accordance with the standard formula on the basis of an adjusted equity method of valuation – the excess of an insurance company's assets over its liabilities. Where Sava Re holds less than a 100% interest in a subsidiary, proportionate adjustments are made.

Slovenian pension companies calculate capital adequacy in accordance with the Slovenian Insurance Act (ZZavar-1), but the calculation of the solvency capital requirement under SII is not, to date, mandatory for them. In the SII balance sheet, the interest is stated using the IFRS equity method in accordance with article 13(5) of Commission Delegated Regulation (EU) 2015/35. The value of goodwill and other intangible assets that would be valued at nil in accordance with the asset valuation methodology is deducted from the value of the interest in the pension company.

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

For calculating its capital requirements under Solvency II, the Company has developed a model for the valuation of deposits. It determines the market value of deposits with a contractual maturity. The valuation model is set out in detail in section D.1.4.

D.5 Any other information

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

E. Capital management

The Company's capital management is defined in the capital management policy of the Sava Re Group and Save Re, defining the goals and key activities related to capital management. Capital management is inseparable from the risk strategy, which defines the risk appetite.

The Company's capital management objectives are:

- solvency in the target/optimal range of capitalisation in the long term as defined in the 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 it 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 its own funds must be sufficient, at all times, at least to meet the statutory solvency capital requirement, as well as to satisfy the requirements of its target credit rating and other objectives.

An important input element of capital management and business planning is the risk strategy, including the risk appetite set out therein. With regard to capital and capital adequacy, the risk strategy determines the acceptable level of the solvency ratio. Acceptable ranges are first determined on the Sava Re Group level, and then on the level of individual Group companies, including Sava Re. The capital adequacy part of the risk strategy is designed in compliance with the Group's risk management strategy, statutory requirements, and taking into account the requirements of rating agencies.

Every year the Company prepares a financial plan for the next three-year period. The first phase of the annual verification of the potential for capital optimisation and additional allocation of capital (dividends, own shares, acquisitions, and such like) includes a review of the results of the last calculation of the amount and structure of eligible own funds and the SCR. A business 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 Company's solvency ratio. Calculations verify alignment with the risk appetite, whereupon adjustments to the business plan are made, if necessary. The planned use of capital duly includes capital consumption items, such as regular dividends, own shares and projects that require additional capital.

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

E.1 Own funds

As at 31 December 2017 the Company reported an excess of assets over liabilities of €493.2 million (31/12/2016: €424.9 million).

For the purposes of determining basic own funds, these are reduced by the total value of participations in other credit and financial institutions (excluding insurers) exceeding 10% of the Company's own-fund items (paid-up share capital plus capital reserves). As at 31 December 2017, the Company does not have any such participations in other financial or credit institutions.

The following is then deducted from basic own funds, i.e. the excess of the Company's assets over its liabilities:

- own shares of €27.2 million,
- foreseeable dividends of €12.4 million, i.e. the amount stated in the management and supervisory boards' proposed resolution for the general meeting,
- other items in accordance with the provisions of the ZZavar-1.

As at 31 December 2017, the Company did not report adjustments for other items in accordance with the ZZavar-1.

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

The table below shows the structure of the Company's own funds.

Structure of own funds

(€ thousand)	31/12/2017	31/12/2016
Ordinary share capital (gross of own shares)	71,856	71,856
Share premium account related to ordinary share capital	54,240	54,240
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0
Subordinated mutual member accounts	0	0
Surplus funds	0	0
Preference shares	0	0
Share premium account related to preference shares	0	0
Reconciliation reserve (= (1) – (2) – (3) – (4) – (5))	327,469	263,632
(1) Excess of assets over liabilities	*493,171*	*424,890*
(2) Own shares (held directly and indirectly)	*27,207*	*22,764*
(3) Adjustment for own-fund restricted items in respect of matching adjustment portfolios and ring-fenced funds	*0*	*0*
(4) Foreseeable dividends, distributions and charges	*12,398*	*12,398*
(5) Other basic own funds items	*126,096*	*126,096*
Subordinated liabilities	0	0
Amount equal to the value of net deferred tax assets	0	0
Total basic own funds after deductions	**453,565**	**389,728**

Total basic own funds after deductions were €63.8 million higher than as at 31 December 2016. The bulk of the increase relates to the change in the value of participations (€46.6 million, which is partly due to the change in the valuation methodology (€31.6 million). For equity investments in the insurance subsidiaries of Sava Re that are not listed in any regulated market, the market value was calculated for the purpose of the capital requirement calculation as at 31 December 2017 on the basis of an adjusted equity method of valuation – the excess of any insurance company's assets over its liabilities. Accordingly, no deductions for the foreseeable dividend to Sava Re have been made. By contrast, as at 31 December 2016, the value of individual unlisted insurance subsidiaries was determined using their eligible own funds less foreseeable dividends.

In addition, the Company's liabilities were also reduced because of the repayment of subordinated debt of €23.6 million[8].

The table below shows adjustments to IFRS equity for the SII valuation.

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

(€ thousand)	31/12/2017	31/12/2016
IFRS equity	**290,966**	**270,356**
Difference in the valuation of participations	147,582	102,799
Difference in the valuation of other assets	-82,116	-71,184
Difference in the valuation of the technical provisions	98,527	90,861
Difference in the valuation of other liabilities, not elsewhere shown	11,003	9,295
Foreseeable dividends, distributions and charges	-12,398	-12,398
Solvency II eligible own funds	**453,565**	**389,728**
Of which tier 1	*453,565*	*389,728*
Of which tier 2	*0*	*0*
Of which tier 3	*0*	0

As can be seen from the table, the main differences in assets relate to revaluations of participations in insurance companies, both EU and non-EU. The difference is larger than as at 31 December 2016, which is partly associated with the change in the valuation methodology for participations in insurance companies (detailed in this subsection). With liabilities, the largest difference is in the revaluation of technical provisions in line with Solvency II requirements. A detailed description of the valuation methodology used for technical provisions is provided in section D.2.

The Company covers the minimum capital requirement (hereinafter: MCR) and SCR by eligible own funds. The Solvency II legislation classifies own funds into three capital tiers based on both permanence and loss absorbency.

In accordance with the law, the Company is not permitted to use any own funds to meet its capital requirements. Thus tier 1 funds include own funds that mostly meet the conditions laid down in items one and two of article 196 (1) of the ZZavar-1; such items are available to absorb losses at all times (permanent availability) and in the event of the Company's winding-up they become available to the holder only after all of the Company'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.

[8] The Insurance Supervision Agency approved the Company's repayment of its subordinated liabilities of €23.6 million. While subordinated liabilities were repaid in 2017, the Company had not treated them as part of basic own funds in the calculation as at 31 December 2016, but they remained in the SII balance sheet as a liability.

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

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

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

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

The following table includes statutory restrictions as to how the SCR and MCR are to be met.

Restrictions for own funds designated to meet the SCR and MCR

	Tier 1	Tier 2	Tier 3
SCR	min 50%	no restrictions	max 15%
MCR	min 80%	max 20%	not eligible

The two tables below show the amounts of eligible own funds to meet the SCR and MCR. They are classified into the statutory tiers described above.

Eligible own funds to meet the SCR

(€ thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2017	453,565	453,565	0	0
As at 31/12/2016	389,728	389,728	0	0

Eligible own funds to meet the MCR

(€ thousand)	Total	Tier 1	Tier 2	Tier 3
As at 31/12/2017	453,565	453,565	0	-
As at 31/12/2016	389,728	389,728	0	-

As at 31 December 2017, all the Company's eligible own funds are tier one funds and do not include ancillary own funds. Among the disclosed eligible own funds, there are no items subject to transitional arrangements of the new legislation.

The Company has no eligible own-fund items of limited duration. Items do not have a subordinate status and they cannot be subject to advance repayment.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency capital requirement (SCR)

The Company calculates its SCR and MCR in accordance with the Solvency II standard formula.

For the SCR calculation as at 31 December 2017, we made some adjustments to the calculation methodology applied for the calculation as at 31 December 2016. These mostly include improvements that have no material effect on the level of the SCR. The only material effect on the SCR level is the changed valuation methodology (detailed in section E.1 "Own funds").

The table below shows the total amount of SCR, SCR by risk module, MCR and the Company's solvency ratio. Since we changed the methodology for the calculation of the Company's eligible own funds and SCR as at 31 December 2017, we provide figures as at 31 December 2017 restated using the methodology applied in the calculation as at 31 December 2016 in the table below for ease of comparison.

Solvency capital requirement by module

(€ thousand)	31/12/2017 (reported)	31/12/2017 (methodology as at 31/12/2016)	31/12/2016 (reported)
SCR	**160,073**	**155,563**	**147,655**
Adjustments for TP and DT	0	0	0
Operational risk	4,469	4,469	4,519
Basic solvency capital requirement (BSCR)	155,604	151,094	143,136
Sum of risk components	201,727	196,030	186,271
Diversification effect	-46,124	-44,936	-43,135
Market risk	98,476	92,788	85,337
Counterparty default risk	5,518	5,510	6,714
Life underwriting risk	0	0	0
Health underwriting risk	3,615	3,615	3,554
Non-life underwriting risk	94,118	94,118	90,666
Eligible own funds	**453,565**	**421,926**	**389,728**
Solvency ratio	**283%**	**271%**	**264%**

The largest share of the SCR as at 31 December 2017 arises out of market risk. However, non-life underwriting risk is also substantial. A large part of the capital requirements for market risk is associated with participations in subsidiaries. Compared to the calculation as at 31 December 2016, the capital requirement for market risks rose in 2017, primarily as the result of the higher level of participations in subsidiaries.

Due to the nature of the reinsurance business, the Company is limited mainly as regards input data for certain calculations and therefore has to make certain simplifications. As information is not available on all individual insurance contracts required to calculate the defined shock of the risk of insurance contract cancellations, a simplification has been used in the calculation.

The catastrophe risk module calculation requires assumptions about the scenarios on the basis of which calculations are made of the impact of the reinsurance programme.

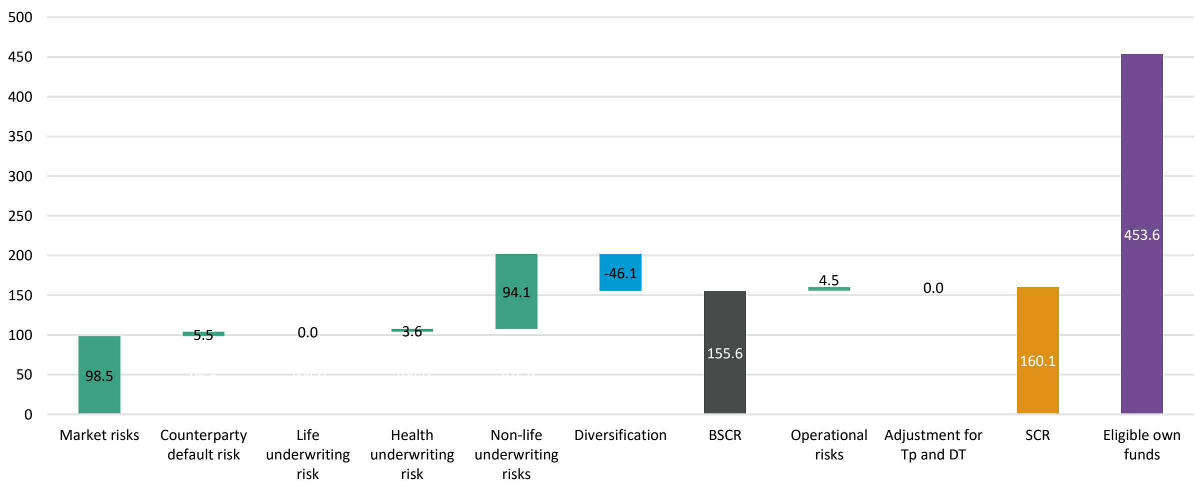
The Company also has a relatively small portfolio of accepted life reinsurance business shown under accepted health reinsurance business and calculates the SCR consistent with the rules for not-similar-to-life-technique health business. Such a method of calculation is consistent with the nature of reinsurance of life contracts. Nevertheless, the Company is considering a separate treatment of life insurance risk, although this will have no material impact on the level of the SCR.

The Company calculates its SCR without using the simplifications referred to in articles 88–112 of Commission Delegated Regulation (EU) 2015/35. Nor does the Company use undertaking-specific parameters in the calculation of the SCR for non-life and NSLT health business.

The Company has no SCR adjustments for deferred taxes.

The chart below shows the individual risk modules of the standard formula, the Company's SCR and its eligible own funds as at 31 December 2017.

Solvency capital requirement (SCR) by module as at 31 December 2017



As is evident from the figure above, the eligible own funds significantly exceed the SCR, as reflected in the Company's high solvency ratio of 283% as at 31 December 2017 (31/12/2016: 264%).

In the Sava Re Group risk strategy, a major criteria for determining the risk appetite is its solvency ratio.

The Company has a strategy embedded in its capital management policy of pursuing solvency, in the long term within the range of optimal capitalisation as per its risk strategy. In addition, to maintain its desired credit rating in line with its risk strategy, it maintains a level of capital that is required for an A-range credit rating. Since Sava Re is also the Group's controlling company, its strategy provides that it must have a sufficient level of eligible own funds to meet potential capital requirements of subsidiaries if a major stress scenario were to materialise in any of them. To this end, the Company keeps a certain amount of excess eligible own funds over the statutory minimum. In line with the risk strategy, the acceptable solvency ratio limit is therefore 180%, while the Company's optimum capitalisation is in the 220–260% range. Based on this, the Company's capitalisation is therefore good, also by internal criteria. In December 2017, the Company's supervisory board approved the business plan of the Company and the Sava Re Group, including financial projections and the calculation of eligible own funds, the SCR and the solvency ratio for the 2018–2020 period. In the 2018–2020 period, the Company's solvency ratio is planned at a level slightly above the optimal capitalisation as defined in the risk strategy.

E.2.2 Minimum capital requirement

Sava Re calculates the MCR in accordance with articles 248–251 of Commission Delegated Regulation (EU) 2015/35. Non-life MRC is calculated as the linear combination of written premiums after deduction of premiums for reinsurance contracts and technical provisions, net of the risk margin after deduction of amounts recoverable under reinsurance contracts. The linear combination captures all segments of non-life insurance. Calculation parameters are shown in the table below.

Input data for the Company's MCR calculation

31/12/2017 (€ thousand)	Net best estimate of technical provisions	Net premiums written
Medical expense insurance and proportional reinsurance	308	3,225
Income protection insurance and proportional reinsurance	3,783	5,537
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	15,854	12,571
Other motor insurance and proportional reinsurance	6,396	15,647
Marine, aviation and transport insurance and proportional reinsurance	3,715	7,811
Fire and other damage to property insurance and proportional reinsurance	28,780	49,152
General liability insurance and proportional reinsurance	5,858	5,612
Credit and suretyship insurance and proportional reinsurance	924	1,030
Legal expenses insurance and proportional reinsurance	0	10
Assistance insurance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	352	661
Non-proportional health reinsurance	1,202	286
Non-proportional casualty reinsurance	6,749	2,460
Non-proportional marine, aviation and transport reinsurance	4,264	3,167
Non-proportional property reinsurance	25,799	27,143

Input data for the Company's MCR calculation

31/12/2016 (€ thousand)	Net best estimate of technical provisions	Net premiums written
Medical expense insurance and proportional reinsurance	591	418
Income protection insurance and proportional reinsurance	4,564	4,673
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	16,218	10,684
Other motor insurance and proportional reinsurance	5,897	13,778
Marine, aviation and transport insurance and proportional reinsurance	3,112	5,459
Fire and other damage to property insurance and proportional reinsurance	26,090	55,065
General liability insurance and proportional reinsurance	5,561	4,660
Credit and suretyship insurance and proportional reinsurance	815	997
Legal expenses insurance and proportional reinsurance	2	9
Assistance insurance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	323	1,441
Non-proportional health reinsurance	1,095	390
Non-proportional casualty reinsurance	8,244	2,416
Non-proportional marine, aviation and transport reinsurance	2,915	4,084
Non-proportional property reinsurance	27,156	25,805

The table below shows the amount of the Company's minimum capital requirement.

Minimum capital requirement

(€ thousand)	31/12/2017	31/12/2016
Linear required MCR	27,274	26,774
Absolute MCR floor	3,600	3,600
Combined MCR	40,018	36,914
MCR	**40,018**	**36,914**
Eligible own funds to meet the MCR	453,565	389,728
MCR ratio	**1,133%**	**1,056%**

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 Company does not use the duration-based equity risk sub-module.

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

There are no differences between the standard formula and internal model, because the Company does 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)

As at 31 December 2017, the Company is compliant with the legislation, as its solvency ratio is higher than the statutory 100%. Furthermore, the Company has a major surplus of eligible own funds in excess of the minimum capital requirement.

Based on the projections of the solvency capital requirement and eligible own funds, we estimate that the Sava Re solvency ratio will remain above the statutory 100% during the entire strategic plan period, as required by law. Therefore, the Company does not expect any further steps or measures in terms of ensuring compliance with capital requirements.

E.6 Any other information

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

Appendix – Glossary of selected terms

Slovenian term	English term	Meaning
Vrednost enote premoženja – VEP	**Unit value**	The value of a unit or share is the worth of individual units of a sub-fund and is regularly published.
Osnovni zahtevani solventnostni kapital – BSCR	**Basic solvency capital requirement – 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.
Cena BVAL	**Bloomberg valuation**	Price obtained from the Bloomberg information system.
Načrt neprekinjenega delovanja	**Business continuity procedures**	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.
CAPM	**Capital asset pricing model**	Model describing the relationship between risk and expected return on assets.
Cena CBBT	**Composite Bloomberg bond trader**	Closing price published by the Bloomberg system based on binding bids.
EIOPA	**European insurance and occupational pensions authority**	European Insurance and Occupational Pensions Authority
MSRP	**IFRS**	International Financial Reporting Standards. EU-wide uniform set of rules governing the accounting of business transactions.
Ključna stopnja trajanja	**Key rate duration**	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.
Tržna vrednost	**Market value**	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.
Zahtevani minimalni kapital – MCR	**Minimum capital requirement – 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.
Modificirano trajanje	**Modified duration**	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.
Operativni limiti	**Operational limits**	Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. Underwriting limits or investment limits used by first line of defence staff in the day-to-day risk management process to keep a company within its set risk appetite range.
Trg OTC	**Over the counter**	A transaction in the OTC market is one between two parties in securities or other financial instruments outside a regulated market.
Primerni lastni viri sredstev	**Own funds**	Own funds eligible to cover the solvency capital requirement.

Lastna ocena tveganj in solventnosti – ORSA	**Own risk and solvency assessment – ORSA**	Own assessment of the risks associated with a company's business and strategic plan and assessment of the adequacy of own funds to cover risks.
Sedanja vrednost	**Present value**	The value of future cash flows recalculated to present-day values. This is done by discounting.
Največja verjetna škoda – PML	**Probable maximum loss – PML**	This is the maximum loss for a risk an insurer assesses could occur in one loss event. Normally, it is expressed as a percentage of the sum insured; in extreme cases, it equals the sum insured (PML is 100% of the sum insured).
Pripravljenost za prevzem tveganj	**Risk appetite**	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.
Sistem upravljanja tveganj	**Risk management system**	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.
Profil tveganj	**Risk profile**	All of the risks that a company is exposed to and the quantification of these exposures for all risk categories.
Register tveganj	**Risk Register**	List of all identified risks maintained and periodically updated by a company.
Meje dovoljenega tveganja	**Risk tolerance limits**	Limits for risk categories included in a company's risk profile and for risk measures monitored as part of day-to-day risk management. Set annually and aligned with the risk appetite as stated in the company's risk strategy and based on sensitivity analyses, stress tests and scenarios, or professional judgment.
Scenarijski test	**Scenario test**	Scenario-based tests seek to determine the impact of multiple changes in parameters, such as concurrent changes in different risks types affecting the insurance business, the value of financial assets and a change in interest rates.
Poročilo o solventnosti in finančnem položaju – PSFP	**Solvency and financial condition report – SFCR**	Insurance and reinsurance companies publish solvency and financial condition reports at least annually. The report includes a description of its business and operations, its governance system, risk profile, valuation for Solvency II purposes, structure and quality of own funds, and the level of the minimum and solvency capital requirement.
Zahtevani solventnostni kapital – SCR	**Solvency capital requirement – 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.
Solventnostni količnik	**Solvency ratio**	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.
Standardna formula	**Standard formula**	Set of calculations prescribed by Solvency II regulations used for generating the solvency capital requirement.
Stresni test	**Stress 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.
Kakovostni razredi kapitala	**Tiers**	Items of own funds are classified into three tiers based on certain criteria (such as duration and whether basic or ancillary).
Parametri, specifični za posamezno podjetje – USP	**Undertaking-specific parameters – 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.

Quantitative reporting templates

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

S.02.01.02 Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	3,951
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	3,361
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	591,276
Property (other than for own use)	**R0080**	8,473
Holdings in related undertakings, including participations	**R0090**	340,992
Equities	**R0100**	10,399
Equities – listed	**R0110**	6,820
Equities – unlisted	**R0120**	3,579
Bonds	**R0130**	225,422
Government Bonds	**R0140**	117,013
Corporate Bonds	**R0150**	108,409
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	2,862
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	3,127
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	0
Loans and mortgages	**R0230**	4,610
Loans on policies	**R0240**	0
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	4,610
Reinsurance recoverables from:	**R0270**	12,689
Non-life and health similar to non-life	**R0280**	12,689
Non-life excluding health	**R0290**	12,377
Health similar to non-life	**R0300**	312
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	0
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	0
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	5,832
Insurance and intermediaries receivables	**R0360**	15,328
Reinsurance receivables	**R0370**	2,397
Receivables (trade, not insurance)	**R0380**	232
Own shares (held directly)	**R0390**	27,207
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	6,678
Any other assets, not elsewhere shown	**R0420**	0
Total assets	**R0500**	673,560

Liabilities		Solvency II value C0010
Technical provisions – non-life	**R0510**	134,112
Technical provisions – non-life (excluding health)	**R0520**	127,995
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	111,055
Risk margin	**R0550**	16,940
Technical provisions – health (similar to non-life)	**R0560**	6,117
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	5,604
Risk margin	**R0590**	513
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	0
Technical provisions – health (similar to life)	**R0610**	0
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	0
Risk margin	**R0640**	0
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	0
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	0
Risk margin	**R0680**	0
Technical provisions – index-linked and unit-linked	**R0690**	0
Technical provisions calculated as a whole	**R0700**	0
Best Estimate	**R0710**	0
Risk margin	**R0720**	0
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	351
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	0
Deferred tax liabilities	**R0780**	9,142
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	91
Insurance & intermediaries payables	**R0820**	34,447
Reinsurance payables	**R0830**	117
Payables (trade, not insurance)	**R0840**	1,395
Subordinated liabilities	**R0850**	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	733
Total liabilities	**R0900**	180,389
Excess of assets over liabilities	**R1000**	493,171

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

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
Premiums written										
Gross – Direct Business	**R0110**									
Gross – Proportional reinsurance accepted	**R0120**	3,225	5,934		12,571	15,657	7,916	59,290	5,727	1,030
Gross – Non-proportional reinsurance accepted	**R0130**									
Reinsurers' share	**R0140**	0	397		0	10	105	10,138	115	0
Net	**R0200**	3,225	5,537		12,571	15,647	7,811	49,152	5,612	1,030
Premiums earned										
Gross – Direct Business	**R0210**									
Gross – Proportional reinsurance accepted	**R0220**	3,239	6,113		11,776	14,182	7,218	58,959	5,564	864
Gross – Non-proportional reinsurance accepted	**R0230**									
Reinsurers' share	**R0240**	0	403		0	9	123	9,782	113	0
Net	**R0300**	3,239	5,710		11,776	14,173	7,095	49,178	5,451	864
Claims incurred										
Gross – Direct Business	**R0310**									
Gross – Proportional reinsurance accepted	**R0320**	2,512	2,415		5,448	10,185	4,283	34,537	1,687	-1
Gross – Non-proportional reinsurance accepted	**R0330**									
Reinsurers' share	**R0340**	0	149		2	-2	62	5,334	7	0
Net	**R0400**	2,512	2,266		5,446	10,187	4,221	29,203	1,680	-1
Changes in other technical provisions										
Gross – Direct Business	**R0410**									
Gross – Proportional reinsurance accepted	**R0420**	-5	-2		8	5	145	-29	-6	-46
Gross – Non-proportional reinsurance accepted	**R0430**									
Reinsurers' share	**R0440**	0	0		0	0	0	0	0	0
Net	**R0500**	-5	-2		8	5	145	-29	-6	-46

Expenses incurred	**R0550**	1,121	623		649	616	2,076	12,027	1,063	130
Other expenses	**R1200**									
Total expenses	**R1300**									

Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**					Line of Business for: **accepted non-proportional reinsurance**				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written									
Gross – Direct Business	**R0110**				-	-	-	-	
Gross – Proportional reinsurance accepted	**R0120**	10	0	1,003	-	-	-	-	112,364
Gross – Non-proportional reinsurance accepted	**R0130**	-	-	-	286	3,742	3,736	33,093	40,856
Reinsurers' share	**R0140**	0	0	342	0	1,281	569	5,949	18,907
Net	**R0200**	10	0	661	286	2,460	3,167	27,143	134,312
Premiums earned									
Gross – Direct Business	**R0210**								
Gross – Proportional reinsurance accepted	**R0220**	9	0	982					108,906
Gross – Non-proportional reinsurance accepted	**R0230**				291	3,595	3,708	32,463	40,057
Reinsurers' share	**R0240**	0	0	326	0	1,091	497	5,755	18,098
Net	**R0300**	9	0	656	291	2,504	3,211	26,708	130,865
Claims incurred									
Gross – Direct Business	**R0310**								
Gross – Proportional reinsurance accepted	**R0320**	1	0	858					61,925
Gross – Non-proportional reinsurance accepted	**R0330**	-	-	-	153	1,692	4,852	17,005	23,703
Reinsurers' share	**R0340**	0	0	82	0	1,749	134	-475	7,043
Net	**R0400**	1	0	776	153	-57	4,718	17,480	78,584
Changes in other technical provisions									-
Gross – Direct Business	**R0410**								
Gross – Proportional reinsurance accepted	**R0420**	0	0	2					73
Gross – Non-proportional reinsurance accepted	**R0430**				0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	2	0	0	0	0	73
Expenses incurred	**R0550**	4	0	87	69	487	534	4,608	24,093
Other expenses	**R1200**								0
Total expenses	**R1300**								24,093

S.05.02.01 Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
		C0010						C0070
	R0010		CN	IN	KR	RU	US	
		C0080	China	India	Korea (Republic of)	Russian Federation	United States of America	C0140
Premiums written								
Gross – Direct Business	**R0110**	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	**R0120**	47,482	6,494	75	14,215	593	3,601	72,460
Gross – Non-proportional reinsurance accepted	**R0130**	5,462	2,766	3,299	1,353	4,132	0	17,012
Reinsurers' share	**R0140**	14,062	765	294	1,265	409	290	17,086
Net	**R0200**	38,882	8,495	3,080	14,303	4,316	3,310	72,386
Premiums earned								
Gross – Direct Business	**R0210**	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	**R0220**	45,997	6,633	73	13,666	629	3,510	70,508
Gross – Non-proportional reinsurance accepted	**R0230**	5,316	2,695	3,163	1,400	4,095	0	16,670
Reinsurers' share	**R0240**	13,656	752	289	1,243	402	286	16,628
Net	**R0300**	37,657	8,576	2,947	13,823	4,322	3,225	70,550
Claims incurred								
Gross – Direct Business	**R0310**	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	**R0320**	23,852	5,109	-52	7,285	-204	2,724	38,715
Gross – Non-proportional reinsurance accepted	**R0330**	2,374	941	1,198	1,917	6,783	0	13,213
Reinsurers' share	**R0340**	6,389	371	143	613	198	141	7,855
Net	**R0400**	19,837	5,679	1,004	8,589	6,381	2,583	44,073
Changes in other technical provisions								
Gross – Direct Business	**R0410**	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	**R0420**	-86	4	0	9	0	2	-71
Gross – Non-proportional reinsurance accepted	**R0430**	0	0	0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0
Net	**R0500**	-86	4	0	9	0	2	-71
Expenses incurred	**R0550**	12,299	2,534	398	4,379	790	1,235	21,637
Other expenses	**R1200**							0
Total expenses	**R1300**							21,637

S.17.01.02 Non-life Technical Provisions

		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0020	C0030	C0040	C0050	C0060	C0070
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Premium provisions							
Gross	**R0060**	-4	-30	0	1,739	2,174	-1,306
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	3	0	-2	-6	-55
Net Best Estimate of Premium Provisions	**R0150**	-4	-33	0	1,741	2,180	-1,251
Claims provisions							
Gross	**R0160**	312	4,123	0	14,270	4,225	5,021
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	307	0	157	9	54
Net Best Estimate of Claims Provisions	**R0250**	312	3,816	0	14,113	4,216	4,966
Total Best estimate – gross	**R0260**	307	4,093	0	16,009	6,399	3,715
Total Best estimate – net	**R0270**	308	3,783	0	15,854	6,396	3,715
Risk margin	**R0280**	81	313	0	768	609	630
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0
Technical provisions – total							
Technical provisions – total	**R0320**	388	4,406	0	16,777	7,008	4,345
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	0	310	0	155	3	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	389	4,096	0	16,622	7,005	4,345

		Direct business and accepted proportional reinsurance					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Premium provisions							
Gross	**R0060**	-9,946	-642	550	-12	0	-295
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	16	-16	0	0	0	-33
Net Best Estimate of Premium Provisions	**R0150**	-9,962	-626	550	-12	0	-262
Claims provisions							
Gross	**R0160**	42,248	6,729	374	-1	0	664
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	3,506	245	0	0	0	50
Net Best Estimate of Claims Provisions	**R0250**	38,742	6,484	374	-1	0	614
Total Best estimate – gross	**R0260**	32,302	6,087	924	-13	0	369
Total Best estimate – net	**R0270**	28,780	5,858	924	-13	0	352
Risk margin	**R0280**	3,604	1,153	217	0	0	137
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0
Technical provisions – total							
Technical provisions – total	**R0320**	35,906	7,241	1,141	-12	0	505
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	3,522	230	0	0	0	17
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	32,384	7,011	1,141	-12	0	489

		Accepted non-proportional reinsurance				Total Non-Life obligation
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM						
Best Estimate						
Premium provisions						
Gross	**R0060**	-207	-1,378	-2,297	-14,339	-25,994
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	-1	-176	-18	-618	-905
Net Best Estimate of Premium Provisions	**R0150**	-205	-1,202	-2,279	-13,721	-25,088
Claims provisions						
Gross	**R0160**	1,410	16,210	6,607	40,460	142,652
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	3	8,258	64	940	13,594
Net Best Estimate of Claims Provisions	**R0250**	1,407	7,951	6,543	39,520	129,058
Total Best estimate – gross	**R0260**	1,204	14,832	4,310	26,121	116,659
Total Best estimate – net	**R0270**	1,202	6,749	4,264	25,799	103,970
Risk margin	**R0280**	119	736	1,420	7,665	17,453
Amount of the transitional on Technical Provisions						
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0
Technical provisions – total						
Technical provisions – total	**R0320**	1,322	15,568	5,730	33,786	134,112
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	**R0330**	2	8,082	46	322	12,689
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	**R0340**	1,321	7,485	5,684	33,463	121,423

S.19.01.21 Non-life Insurance Claims Information

Accident year / underwriting year	Z0020	2

		Development year													
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											1,117	R0100	1,117	1,117
N – 9	R0160	60,419	53,407	9,494	4,145	1,925	850	763	489	163	164		R0160	164	131,818
N – 8	R0170	31,063	39,510	9,146	4,097	1,951	1,465	842	373	624			R0170	624	89,073
N – 7	R0180	19,217	37,076	14,202	5,757	2,609	-25	1,274	1,027				R0180	1,027	81,138
N – 6	R0190	16,672	36,952	15,465	5,416	2,160	1,594	815					R0190	815	79,073
N – 5	R0200	17,908	39,032	11,512	5,835	2,460	1,420						R0200	1,420	78,168
N – 4	R0210	14,830	29,319	13,345	6,486	2,325							R0210	2,325	66,306
N – 3	R0220	19,140	46,004	10,458	4,638								R0220	4,638	80,240
N – 2	R0230	20,423	42,986	12,717									R0230	12,717	76,126
N – 1	R0240	17,600	40,036										R0240	40,036	57,637
N	R0250	18,641											R0250	18,641	18,641

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	**R0100**											10,941
N – 9	**R0160**	0	0	0	0	0	0	0	2,785	1,854	1,439	
N – 8	**R0170**	0	0	0	0	0	0	3,409	2,604	1,849		
N – 7	**R0180**	0	0	0	0	0	5,017	3,771	2,965			
N – 6	**R0190**	0	0	0	0	5,111	3,844	3,104				
N – 5	**R0200**	0	0	0	7,047	4,948	5,121					
N – 4	**R0210**	0	0	17,363	8,040	5,378						
N – 3	**R0220**	0	28,087	10,912	6,595							
N – 2	**R0230**	46,577	28,857	14,399								
N – 1	**R0240**	60,818	29,078									
N	**R0250**	66,657										

		Year end (discounted data)
		C0360
	R0100	10,754
	R0160	1,390
	R0170	1,782
	R0180	2,839
	R0190	2,948
	R0200	4,948
	R0210	5,083
	R0220	6,303
	R0230	13,846
	R0240	28,083
	R0250	64,676
Total	**R0260**	142,652

S.23.01.01 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 as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	71,856	71,856		0	
Share premium account related to ordinary share capital	**R0030**	54,240	54,240		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**R0040**	0	0		0	
Subordinated mutual member accounts	**R0050**	0		0	0	0
Surplus funds	**R0070**	0	0			
Preference shares	**R0090**	0		0	0	0
Share premium account related to preference shares	**R0110**	0		0	0	0
Reconciliation reserve	**R0130**	327,469	327,469			
Subordinated liabilities	**R0140**	0		0	0	0
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	0				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0	0	0	0	0
Total basic own funds after deductions	**R0290**	453,565	453,565	0	0	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	**R0310**	0			0	
Unpaid and uncalled preference shares callable on demand	**R0320**	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0			0	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	0			0	0
Other ancillary own funds	**R0390**	0			0	0

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	453,565	453,565	0	0	0
Total available own funds to meet the MCR	**R0510**	453,565	453,565	0	0	
Total eligible own funds to meet the SCR	**R0540**	453,565	453,565	0	0	0
Total eligible own funds to meet the MCR	**R0550**	453,565	453,565	0	0	
SCR	**R0580**	160,073				
MCR	**R0600**	40,018				
Ratio of Eligible own funds to SCR	**R0620**	283%				
Ratio of Eligible own funds to MCR	**R0640**	1,133%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	493,171	-
Own shares (held directly and indirectly)	**R0710**	27,207	-
Foreseeable dividends, distributions and charges	**R0720**	12,398	-
Other basic own fund items	**R0730**	126,096	-
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	**R0740**	0	-
Reconciliation reserve	**R0760**	327,469	-
Expected profits			-
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	0	-
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	6,720	-
Total Expected profits included in future premiums (EPIFP)	**R0790**	6,720	-

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	98,476	-	-
Counterparty default risk	R0020	5,518	-	-
Life underwriting risk	R0030	0	None	
Health underwriting risk	R0040	3,615	None	-
Non-life underwriting risk	R0050	94,118	None	-
Diversification	R0060	-46,124	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	155,604	-	-

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	4,469
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	160,073
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	160,073
Other information on SCR		-
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for Article 304	R0440	0

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL result	R0010	27,274

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	308	3,225
Income protection insurance and proportional reinsurance	R0030	3,783	5,537
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	15,854	12,571
Other motor insurance and proportional reinsurance	R0060	6,396	15,647
Marine, aviation and transport insurance and proportional reinsurance	R0070	3,715	7,811
Fire and other damage to property insurance and proportional reinsurance	R0080	28,780	49,152
General liability insurance and proportional reinsurance	R0090	5,858	5,612
Credit and suretyship insurance and proportional reinsurance	R0100	924	1,030
Legal expenses insurance and proportional reinsurance	R0110	0	10
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	352	661
Non-proportional health reinsurance	R0140	1,202	286
Non-proportional casualty reinsurance	R0150	6,749	2,460
Non-proportional marine, aviation and transport reinsurance	R0160	4,264	3,167
Non-proportional property reinsurance	R0170	25,799	27,143

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL result	R0200	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
Obligations with profit participation – guaranteed benefits	**R0210**	0	
Obligations with profit participation – future discretionary benefits	**R0220**	0	
Index-linked and unit-linked insurance obligations	**R0230**	0	
Other life (re)insurance and health (re)insurance obligations	**R0240**	0	
Total capital at risk for all life (re)insurance obligations	**R0250**		0

Overall MCR calculation

		C0070
Linear MCR	**R0300**	27,274
SCR	**R0310**	160,073
MCR cap	**R0320**	72,033
MCR floor	**R0330**	40,018
Combined MCR	**R0340**	40,018
Absolute floor of the MCR	**R0350**	3,600
		C0070
Minimum Capital Requirement	**R0400**	40,018